

THE ENTERPRISE CULTURE: AN ACQUIRED TASTE?

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ABSTRACT

This thesis critically assesses the psychological and economic underpinnings and consequences of *enterprise culture* policies - public exhortations for individuals to start their own businesses, enterprise training (basic management skills training), relaxation of industrial relations legislation, reductions in income tax, etc. The argument unfolds from the economic macro level, drawing on aggregated quantitative data, through a consideration of sociological studies to the social psychological micro level. Economically, most human economic activity is seen as bounded and determined by the socio-economic structures in which groups of people find themselves at any given time and place. Sociologically, different groups of people share common attitudes, cultural assumptions and social representations of work in general and different occupations in particular, largely determined by their economic and historic circumstances. Psychologically, variations in individual abilities, attitudes, expectations and personalities are reflected in motivational and behavioural differences but occupational choice and economic expectations are seen as largely determined by structural and cultural factors.

The concept of the entrepreneur and the neoclassical assumptions of the enterprise culture model are considered in their political economic context then in the light of economic and psychological theory. Entrepreneurial small firm owners are contrasted with the wider sector of the self-employed. The main psychological variables identified in the literature (locus of control, achievement motivation and the need for independence) are analysed through a number of Small Business Research Trust (SBRT) postal surveys and two specific studies - 145 enterprise and non-enterprise trainees and 307 growth-oriented and growth-averse small firm owners - plus two repertory grid studies of enterprise trainees. The aim is not to provide a better socio-economic development model but an economic psychological assessment of enterprise culture policies.

Entrepreneurial behaviour is shown to be motivated by culturally determined expectations, not always economic in character and not so amenable to manipulation by public policies of the enterprise culture type. The empirical evidence presented strongly suggests that the foundations of enterprise culture policies are fatally flawed because their real policy targets are the least entrepreneurial elements of society and its stress on *individualism* runs counter to modern capitalist development. There is no support for the concept of a unique 'entrepreneurial personality' but rather the reverse - the identification of various 'non-entrepreneurial personalities' upon whom enterprise training appears to have negligible effects. The conclusion is that enterprise training, in its present form, has little prospect of contributing significantly to the creation of new entrepreneurs. Alternative policies for promoting more sustainable enterprising business behaviour need to focus on the social processes of business and support training should have the social skills required for flexible specialisation and networking as its central focus rather than the elementary management skills that dominate so much of current 'enterprise training'.

OBJECTIVES

This thesis has three main objectives which, in descending order of generality, are to:

1. demonstrate how psychological concepts can inform and improve our understanding of economic behaviour, and *vice versa*;
2. draw on material from different disciplines (primarily economics, sociology and psychology) to determine the characteristics, function and role of the *entrepreneur* as a social construct;
3. assess the effects of cultural and structural factors on the effectiveness of *enterprise training* as a policy instrument for creating a new class of entrepreneurs and new entrepreneurial businesses.

1. INTRODUCTION

1.1 Political-economic context.

Policies designed to promote pro-business attitudes and a stronger spirit of enterprise in Britain - in short, the creation of an *enterprise culture* - are the most recent of many attempts by successive post-war governments to stem Britain's relentless economic decline. That the comparative position of the British economy is currently slipping, and has been for most of this century, is an undeniable fact. The pattern of response has been that, as each set of policies failed to stem the slide, new sets of policies which rejected the old were introduced. Even many of the macro-economic monetarist policies of the first Thatcher government were thrust aside as Nigel Lawson and particularly David Young pursued a growth policy of encouraging 'enterprise'. What marks out *enterprise culture* policies as unique, however, is not the rejection of previous policies but the reliance on personal motivation, attitude shifts and behavioural change - strongly **psychological** concepts - as both instruments and targets of economic policy. In particular, enterprise culture policies explicitly envisage the regeneration of the British economy flowing from the creation of new, innovative commercial enterprises which are expected to perform two key economic roles: the improvement of economic efficiency and competitiveness and the attraction of inward capital investment (both resulting from a sustained supply of new advanced products and services). This provides clear **economic** criteria for determining the concept of the **entrepreneur** and the **psychological** factors of value to enterprise culture policy makers.

Because the role and determination of individual motivation and behaviour in the processes and structures of economic development is a matter of unresolved and intense debate, it is important first of all to place the issues in their appropriate social, economic, political and historic context. Given the different social, political, economic and cultural factors involved (as well as the different methodological approaches of economics, sociology and psychology), this is not a simple task but one overriding point of reference has to be stated from the start. All economic strategy in Britain this century, no matter which political party has held power, has been about improving the efficiency of the

capitalist system and no attempt to understand entrepreneurial development, the encouragement of entrepreneurs or the promotion of an enterprise culture can ignore this central point. It is also important to stress that accepting this point does not entail an acceptance of the currently prevailing *neo-classical* model of economic and individual behaviour. Once the arena for debate and analysis of the relevant issues has been established, the theoretical tools, concepts and assumptions will be outlined with a preview of key issues, leaving to the next section the all important task of bringing into precise focus the main thesis under discussion, the objectives of the study and the hypotheses to be tested. Finally, the particular structure of this dissertation and the methodologies employed are explained.

Although the various industrial and economic policies pursued by conservative British governments since 1979 have been wide-ranging and reflect a strong and fairly coherent ideological position, their main overall policy target 1983-91 - the fostering of a more entrepreneurial spirit in British business life (the *enterprise culture*) - has been more conspicuously linked to the growth of the small business sector rather than to the promotion of large enterprises. Since the publication of the Bolton Report (1971) - the official enquiry into the post-war weakness of Britain's small business sector - the role of small businesses in the national economy and public consciousness has grown, steadily during the 1970s and rather dramatically during the 1980s. However, as described in Chapter 3, this recent growth in Britain's small business sector has been extremely uneven, the economic consequences are unclear and the permanence of the political-economic changes remain uncertain. What does seem beyond dispute is that small business growth over the past decade reflects a genuine and fundamental socio-economic shift not only in Britain but also elsewhere in the industrialised world. The extent of this shift, its true beneficiaries and the exact nature of the economic mechanisms which brought it about are, however, matters for debate. Certainly, complaints have been voiced about Britain's industrial performance since the latter quarter of last century.

Britain has been a net exporter of capital since Victorian times and there are firm economic reasons for expecting an industrial decline as a result of falling investment yet the belief is often expressed that Victorian Britons were more enterprising than present day business owners. It is now clear, however, that the social and economic structure of eighteenth and nineteenth century Britain created the conditions for Britain's global dominance during the latter half of Victoria's reign rather than some special British 'entrepreneurial' quality which foreigners lacked. For instance, capitalism began to emerge from mercantilism at about the same time in Britain, France, Italy and Germany but countless wars and revolutions stunted its development on mainland Europe for the best part of 70 years, indicating that 'entrepreneurship' is not a *sufficient* condition for advanced economic development (lack of severe if not violent social disorder may be another equally important prior structural condition).

This is not to suggest that individual capitalists and adventurers had no role to play in Britain's success nor that they did not display qualities enabling them to succeed but more that the prevailing socio-economic structures gave rise to the opportunities and channels for certain active and enterprising people to express and satisfy themselves. A central theme of this thesis is that psychological characteristics are not independently a causal factor in economic development but that many individual expectations and behavioural patterns are themselves functions of (and contribute to) the social, economic and, therefore, cultural structures that open or constrict economic outlets for action by certain types of people. The further implication is that different characteristics or strengths will be at a premium during different stages of economic development. The personal qualities demanded of a successful Georgian or Victorian entrepreneur may be quite different from those of an entrepreneur in the latter quarter of the twentieth century (see next chapter).

This means that there are at least two reasons why it may be misleading to speak of 'entrepreneurial personalities' in the context of economic development even if, for the sake of the argument, it is conceded that it is possible to identify 'active and enterprising' behaviour as a personality trait. Firstly, it is apparent that some enterprising people from a bourgeois business and other backgrounds may well seek careers as independent business owners and be described as entrepreneurs yet equally enterprising people from the same backgrounds or say bourgeois academic, petty-bourgeois bureaucratic or industrial working class backgrounds are more likely to seek their occupational satisfactions through equally demanding careers more valid in their own eyes (and sometimes yielding higher financial rewards). David McClelland (1961), whose influential ideas that national economic development depends on the enterprising and achievement oriented attitudes in society, is seen as providing important psychological underpinning for enterprise culture policies. McClelland indicated that innovative managers with budget responsibilities in large firms could also be considered entrepreneurs. It is possible to distinguish entrepreneurial behaviour as a sub-set of enterprising behaviour in occupational but not in personality terms. Secondly, it appears that the socio-economic structures which foster entrepreneurial opportunities are created and maintained by fairly non-entrepreneurial people (for instance, administrators, planners and other bureaucrats). If so, economic development may be more a function of supposedly non-entrepreneurial behaviour with different business skills coming to the fore at different stages of economic development.

Entrepreneurship - in the sense of individual decision makers introducing successful innovations - may not even be a *necessary* condition for sustained economic development and is highly likely to require different personal qualities for success in different industries. It makes more sense to view individual business success in terms of skills and abilities necessary to achieve certain outcomes rather than in terms of behavioural personality traits. As mentioned above, it seems clear that notions of what constitutes entrepreneurial behaviour may need to be constantly adapted as economic development progresses.

During the closing stages of the Victorian era it was Britain's stranglehold over world shipping and insurance plus *de facto* protection in imperial markets which meant that the free trade policies advocated by British capital and pursued by successive British governments produced formidable economic benefits despite a declining industrial base. Foreign traders used British ships and insurance to facilitate their own trade with each other yet often found it difficult to penetrate the large internal trade of the British Empire. Who were the entrepreneurs: the risk-taking traders, who undoubtedly made more than adequate profits, or the secure custodians of world trade who accumulated fortunes?

It was not until two world wars and the disintegration of the Empire that Britain's economic performance began to mirror its industrial decline. In retrospect, it is now clear that the British economy was displaying all the symptoms of old age. Indeed, many economists and politicians at the time did begin to voice their concerns but there was a considerable lag before Britain's economic weakness penetrated public consciousness. To some extent, the political and economic dominance of the United States in the industrialised world for much of the post-second world war period obscured the internal causes of Britain's economic decline. Indeed, the United States was held up - and is held up today by some - as a role model of a successful economy. Over the past twenty to thirty years, however, new role models have emerged with the spectacular resurgence of the Japanese and German economies and the appearance of fast-growth Newly Industrialising Countries (NICs) in eastern Asia. During this period, global competition has intensified and Britain's economic weaknesses have been even more cruelly exposed. The first response in Britain, and elsewhere in Europe, was to see successful international competition as a function of size. The European solution was to expand existing European agreements controlling the iron, steel and coal industries into the Common Market. Caught in a post-imperial time lag and increasingly on its 'special relationship' with the United States, Britain first decided to go it alone and create its own mega-corporations.

The Industrial Reorganisation Corporation, the mergers that formed GEC, British Leyland, British Steel and a host of nationalised industries were all a result of the 'build it big' strategy. The creation of big national corporations, however, was not the solution to Britain's economic problems either in the short term or in the longer term. The glamour of the post-war US multinational began to wear thin as a role model for burnt-out Britain. Interest in Japan and Germany as successful economies increased from a broad impression of them as general role models to a more particular appreciation of the elements and processes that brought them success. This general change from fairly uncritical, impressionistic thinking to more analytic appraisal took two broad courses - both heavily infused with psychological concepts.

The first was an historical tendency which looked back to the qualities of the founders of the industrial revolution, the 'golden age' when Britain was at the forefront of

technological innovation and seen as the workshop of the world. Ideologically, this era tends to be lauded by proponents of the enterprise culture policies as the heyday of neo-classical ideas and 'proof' that a sturdy *individualism* lies at the heart of entrepreneurial innovation and national vigour. A second more competitive tendency wanted to identify and analyse the secret strengths of Britain's commercial rivals with the aim of emulating and then surpassing them. Consequently, great effort has been spent in demonstrating that, for one reason or another, the Japanese, Germans and Americans work harder or more efficiently than the British. Others have concentrated on how rivals *manage* their enterprises more efficiently. Better and more appropriate educational and training systems were - and are currently - another favourite. Yet, one feature that stood out in the late 1960s was that more successful economies had larger and better developed small business sectors than Britain's. The Committee of Enquiry set up by the Wilson government and chaired by John Bolton (1971) found that Britain's under-performance in the small business sector during the 1960s, perhaps partly a result of the prevailing 'big is best' policy, was broadly confirmed.

Table 1. International small business employment comparisons.

	% non-farm self-employed in workforce				% manuf. employees in all small firms			% in firms with <20 employees	
	1965	1975	1979	1988	1965	1975	1979	1973	1983
Britain	6	7	7	11	31	29	30	22	26
France	12	10	11	11	51	na	65	27	32
Germany	10	10	8	8	34	32	31	na	na
Italy	18	19	19	22	66	65	59	na	na
Japan	18	18	14	12	54	65	68	45	50
USA	9	7	7	8	39	38	39	24	26

(Sources: Ganguly, 1985; Storey and Johnson, 1987; Labour Market Quarterly Report, February 1991)

The data in the table refer to non-agricultural self-employment and to small manufacturers with fewer than 100 employees, except Germany where manufacturers with fewer than 20 employees were excluded. Growth in self-employment in Britain over the past 10-15 years has been impressive but it is also worth noting that major industrialised economies, particularly Italy, experienced greater increases in self-employment. The last two columns show that the proportion of employees working in the very small firms with under-20 employees is very significant though this is also an artefact of the collapse of large scale manufacturing in Britain. During the 1970s, the Wilson and Callaghan governments had already encouraged local government initiatives to support new small businesses and co-operatives in depressed regions and instituted national initiatives to create new high-technology businesses.

In 1979, the arrival of the first Thatcher government heralded a radical change of approach and a much more public role for small businesses. Various strands of thought - the nostalgic backward look to the 'bygone golden age'; the eclipse of the multinational as a model by the pioneering hi-tech firms; the part played by new small businesses in the

economic re-generation of the German, Japanese and Italian economies; the impressive dynamism of the Pacific Rim; plus, above all, the changing class consciousness of the upwardly socially mobile - coalesced as a potent political slogan and credo, the *enterprise culture*. More detailed aspects of the *enterprise culture* (and other rival economic development models) will be discussed in more depth in following chapters (especially chapter 2). The important point to note here is the sudden introduction to public consciousness, despite the existence of fairly widely accepted existing models of economic development (section 2.13), of the *entrepreneur* and an *enterprising spirit* as key positive elements in the establishment of the new enterprise culture. It is not unfair to say that, during the 1960s and early 1970s, business people and the *business ethic* were perceived negatively among large sections, if not a majority, of the population (Bolton, 1971; Weiner, 1981). Collectivism was generally regarded in a favourable light whereas self-interested individualism - even when it was not naked self-interest or greed - was frowned upon. The new values of the *enterprise culture* were inviting a reappraisal of social attitudes and individual values across the complete spectrum of society. A second point to note about the environment into which the *enterprise culture* was introduced is that it coincided - not by chance - with the widespread restructuring of economies throughout the industrialised world.

One of the main effects of global competition had been (and still is) the intensification of two related processes - *vertical disintegration* and *industrial concentration*. Corporations often grow in a fairly entrepreneurial way through the organic growth of their business into new territories or new products or through a process of *vertical integration* - the acquisition of other firms linked to their own main business, either suppliers (backwards integration) or customers/distributors (forwards integration). The opposite process, *vertical disintegration*, refers to the break-up, voluntary or otherwise, of large corporations vertically integrated along the length of their own particular chains of production and distribution (and often into other less obviously related fields). The process of vertical disintegration, which has seen corporations strip back to their most profitable core activities and sub-contract or hire the relevant services previously provided in-house as they are needed, has been one of the main factors behind the formation of new small firms during the 1980s. Services formerly provided internally (such as design, maintenance, personnel, security, transport and so on) became externalised - sometimes to the old units newly independent through management buy-outs or sometimes to existing specialist sub-contractors. Some of the founders of these new 'spin-off' firms were experienced business managers who started sound businesses and some even behaved in an entrepreneurial manner. Most were not in a position to provide well sought after specialist or *core* services and eventually joined a steady stream of other redundant workers, encouraged by enterprise policy self-employment promotion schemes, in a

growing *secondary* sector as precarious small firms or self-employed providing *peripheral* goods and services (Murray, 1989). Some found their way to other forms of employment.

The second process, *industrial concentration*, is one of re-integration whereby cash-rich, slimmed down corporations begin to expand within their core activities by acquiring other smaller and successful firms which operate in their own line of business or in a new business area which the predator wants to enter. The aim is to acquire a dominant market share and significant reductions in costs through economies of scale and scope, which usually involves 'rationalising' the new joint workforces and further increasing the size of the secondary sector of the labour market by making more workers and managers redundant. Both these processes require a reasonably compliant workforce - either crushed and dispirited or bought off through a share of the benefits of successful global competition - and both hold considerable implications for small business development and entrepreneurial opportunity. Although there were many domestic political reasons for the fall of the Callaghan government, there was no doubt that the new Thatcher government was elected not so much on a platform but more on a springboard of radical reforms in industrial relations (to deal with issues raised by the 1978-79 'winter of discontent').

Another major driving force behind worldwide economic restructuring is the advent of information technology which itself raises important questions about future patterns of employment, new small businesses, entrepreneurs and entrepreneurial competition. The invention, development and, above all, the application of new technologies opens many doors of capitalist opportunity to quick but educated entrepreneurs, offering well above average rates of profit to successful firms. Economists from Karl Marx, Alfred Marshall, John Maynard Keynes and Milton Friedman all agree that successful business growth depends on the use of capital (a point returned to in section 2.1.3) and that capital is irresistibly drawn to the highest rates of profit which are often linked to applications of new technologies. It may well be that the entrepreneurs of the future will be those founding new enterprises in the core spheres of the economy while non-entrepreneurial small firms and the self-employed become central elements of the secondary sector. Previously undreamt of new products and services are entering the market in increasing quantities. This represents a huge opportunity for certain technologically-oriented small businesses and certain enterprising business people but, ultimately, the large corporations which have pared themselves to the bone in anticipation of entering the new age will move in when they feel the time is ripe. The space for successful small and, especially, medium-sized enterprises may well begin to contract rapidly. Indeed, the tempo of takeover activities by larger firms of certain types of small and medium-sized enterprises (SMEs) has been increasing in recent years all across Europe as the integration of the Single Market intensifies. Even more to the point, there are even stronger signs that the 1980s tide of enterprise culture is on the ebb as the economic structure of global competition becomes more evident.

1.2 Theoretical framework.

1.2.1 Basic inputs.

The greater emphasis placed on individual effort and the remoulding of social attitudes implicit in enterprise culture policies raises, at various different levels, a number of economic, psychological, career choice and developmental issues. Firstly, at a philosophical level, the notions of personal identity, ideology, culture, perceptions, communications and attitude-change beg fundamental questions. At a more theoretical level, there are issues of psychological and economic significance that should be discussed such as those associated with the socio-ideological concepts of *economic rationality* and *individualism*. Finally, at a more practical level, there are basic developmental and economic issues that need to be resolved. Although the main focus of this thesis is theoretical and empirical, the philosophical underpinning should not be ignored.

Basically, the arguments and issues presented here reflect a *constructivist* position which presupposes the existence of a material world populated with material objects and beings but perceived, described and interpreted uniquely, though also collectively, by each and every individual. At the individual level, this is the approach of George Kelly's (1955) *personal construct psychology* which implies a continuing learning process as individuals construe and re-construe the external material and social world, and their own roles in it, according to their past perceptions, present realities and anticipations. Each individual behaves like a scientist in categorising their own experience into systems of constructs then continually testing and adapting their construct system in the light of subsequent experience (see Appendix E). This provides a powerful and useful model of self development and learning, not necessarily at odds with enterprise culture objectives.

In keeping with the generally individualist traditions of social psychology in the US, Kelly proposes that when individuals share similar 'construings' of events or phenomena there is scope for a type of 'social construction'. However, the historic and actual power of certain social relations (such as socio-political structures, ideology, institutions, culture, class, etc.) is too strong and persistent to be adequately explained by Kelly's social corollary (discussed more fully in section 4.1.4). Rather, the concept of *social representations*, as developed by Robert Farr, Serge Moscovici and others (1977, 1984; 1988) in the more sociological traditions of social psychology in Europe, reflects the power that certain relations and structures - scientific, political, economic, historic, social, cultural and so on - hold in shaping our perceptions and influencing our behaviour (section 4.3.3). As well as adding necessary elements of social process to the essentially individualist personal construct approach, the concept of social representations forms a useful bridge to structuralist theories of economics - particularly Marx's treatment of the processes of alienation and capital accumulation and *neo-institutionalists'* transactions costs analysis (see chapter 2). The concept, which springs from Emile Durkheim's (1898) contrast between *collective representations* and *individual representations*, also enables us to

examine the broad role that social phenomena and cultural assumptions, expectations and habits may play in the development of entrepreneurial behaviour.

In general, the broad field of this study - business behaviour and development - has been the province of economic theory at both the micro level within firms and the macro level within the economy. Psychology, sociology and anthropology, however, provide valuable theoretical tools from different methodological perspectives for examining more precisely what role the promotion of an enterprise culture may play in the development of entrepreneurial businesses or, conversely, what role cultural factors in modern Britain may play in limiting the business development of enterprise trainees. One of the pioneers of anthropology, Edward Tylor (1874) provides plenty of linkages with economics, sociology and psychology through a usefully broad definition of culture as:

"...that complex whole which includes knowledge, belief, art, morals, law, custom, and any other capabilities and habits acquired by man as a member of society." (Vol 1, page 1)

Tylor may not have been aware of Marx's analysis of class or Weber's of group identities both of which should be incorporated into this broad concept of culture. However, many current economic development models are grounded in neo-classical traditions - economic rationality, prices analysis, producer-orientation, profit-maximisation and so on - which not only resist inputs from other disciplines but also concede little space for notions of individual differences. Fortunately, there are a growing number of models based on behavioural or distributional economic theory (discussed more fully in chapter 2) drawing on other disciplines and attempting to model the real market behaviour of firms rather than dwell on artificial equilibrium analysis. These new models represent a reaction to the overly prescriptive and mathematical approaches of modern economics and a return to the more integrated traditions of political economy. They can also be seen as an evolution of the analytic rigour of formal mathematical economics away from unreal assumptions towards the complexities of real social and economic exchange.

There are many different definitions of the 'entrepreneur'. Chell and her colleagues (1991) cite Hebert and Link's (1988) list of a dozen different theoretical 'themes' that provide different definitions and others are discussed in chapter 2. However, it is Joseph Schumpeter's (1934) theories of economic development in the older political economic tradition which provide the operational definition of the entrepreneur and much of the theoretical basis for this thesis. Schumpeter's definition of an entrepreneur as a person who combines the factors of production in a new way to gain an advantage over the competition provides the most widely accepted (eg, Brockhaus, 1982; Kirzner, 1973, 1979; Silver, 1984), empirically usefully and theoretically grounded technical definition of the entrepreneur (see chapter 2). This definition highlights the creativity, novelty and high activity that characterise entrepreneurs in contrast to employees, the unemployed and most other small and large business managers (see sections 2.4, 3.1 and 3.2). The entrepreneur (as the source of the changes leading to economic growth and progress) is

placed at the centre of economic development in such a way as to provide useful criteria for analysing the impact of enterprise culture policies. It should be stressed once again, however, that different personal qualities may be required for successful innovation within different industries and at different stages of economic development.

Nevertheless, entrepreneurial behaviour can be operationalised and measured as that appropriate for the management of successful, competitive and growing businesses. This means that entrepreneurial behaviour must be regarded as directed and intentional. Profits, innovation and effective organisation can be treated as features of entrepreneurial businesses. Essentially, Schumpeter (1942) accepted Marx's analysis of capitalism but adopted the viewpoint of the capitalist rather than the proletariat. Agreeing with Marx that profits are the measure of capitalist success, Schumpeter was more sociological in holding that entrepreneurs were motivated to improve their social standing by using business success to enter or maintain their position in the dominant capitalist class. Consequently, Schumpeter recognised that skills in managing social relations are the key to business success and that entrepreneurs can have legitimate personal aims other than profit-maximisation. Psychological theory offers better prospects for investigating the economic behavioural implications of non-profit motivations in small business development and the motivational issues of entrepreneurial success.

It is not my intention to explain or to justify the use of these concepts at this point but to elaborate the setting for an examination of the political economy of entrepreneurship and the conditions likely to give rise to entrepreneurially managed small businesses. However, without straying into a Bishop Berkeley/John Locke type of debate on *idealism* versus *materialism* or a discourse on psycho-physical dualism (one of psychology's perennials - Valentine, 1982), it seems reasonable to point out that the belief that real objects, beings and phenomena actually exist in a concrete world (materialism) is widely accepted in our society and underpins most of our transactions in commerce, science, economics, psychology and everyday life. Yet, at the same time it is also widely agreed that the perceptions of these concrete 'facts', how they are classified, the relations between them (including apparent causal relations), their significance and the values they appear to represent fundamentally depend on shared meanings as much as on individual perceptions. Certain classes of these perceived or constructed 'facts' and relations evidently transcend the perceptions of any one given individual. This is particularly true of business and trade which are quintessentially social activities.

The power acquired by the more persistent and enduring social constructs - such as history, class, culture, ideology, ethnicity, and so on - renders them into phenomena that enjoy an almost objective reality as social representations somewhere between objective facts and subjective perceptions. Basically, they can be seen as Durkheim's (1898) 'social facts' that are so important to our family, cultural and working lives. The existence of

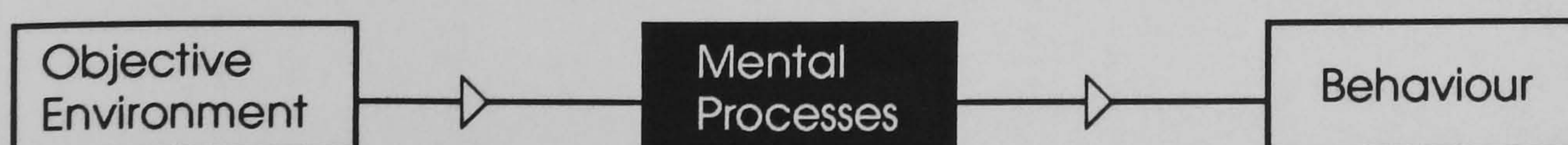
shared social representations are a necessary pre-condition for all commercial transactions and business behaviour. In fact, even fairly temporary social trends and fads can acquire this power of apparent independent 'existence' - a phenomenon that provides a living for a great many marketing advisers, researchers, economic forecasters and, of course, successful entrepreneurs. However, even though these pervasive social constructs are crucially important for communication and influential in determining individual behaviour and attitudes (including the concept of personal identity), they are also subject to the same effects of individual perception that filter concrete reality.

These links between individual perceptions, the construction of concepts and the social representations of overriding or mass *meta-constructs* can be seen constantly in everyday life. Reflect on the power of successive news stories 'of the day' or the 'latest' fashion or fad among bosses and workers, parents and children, men and women, scientists and poets, marketing executives and engineers, and so on - the very televisual Gulf War and disintegration of ex-Yugoslavia, famine in east Africa, the NHS, events in eastern Europe, opinion polls, political decisions and major sporting events are. Responses towards these different types of event can vary enormously but there is a broadly shared understanding of what the events are. A constructivist approach towards the conceptual elements of economic development and business behaviour, involving social representations and individual perceptions, provides the theoretical framework for taking into account the varying effects of socio-economic structure, culture and personal motivation.

1.2.2 Representational model.

Without entering into debate on the merits of behaviourism, it is clear from the theoretical points already discussed that a graphical representation of the *enterprise culture model* is more complex than simple S-R or S-O-R schema. Apart from the significant methodological problems of applying a model from one discipline and set of assumptions to another, there is a deeper problem of trying to map an individualist account of economic behaviour onto the aggregated behaviour of the market. Although the S-O-R model would indicate that a business behaviour *response* to an external economic, social or commercial *stimulus* is mediated through the organism (the entrepreneur), the organism is left as a 'black box' with no account taken of the processes, differences in perception or of psycho-dynamic and cultural affects, particularly motivation. George Katona's early (1964) model of economic psychological behaviour is of this simplistic type.

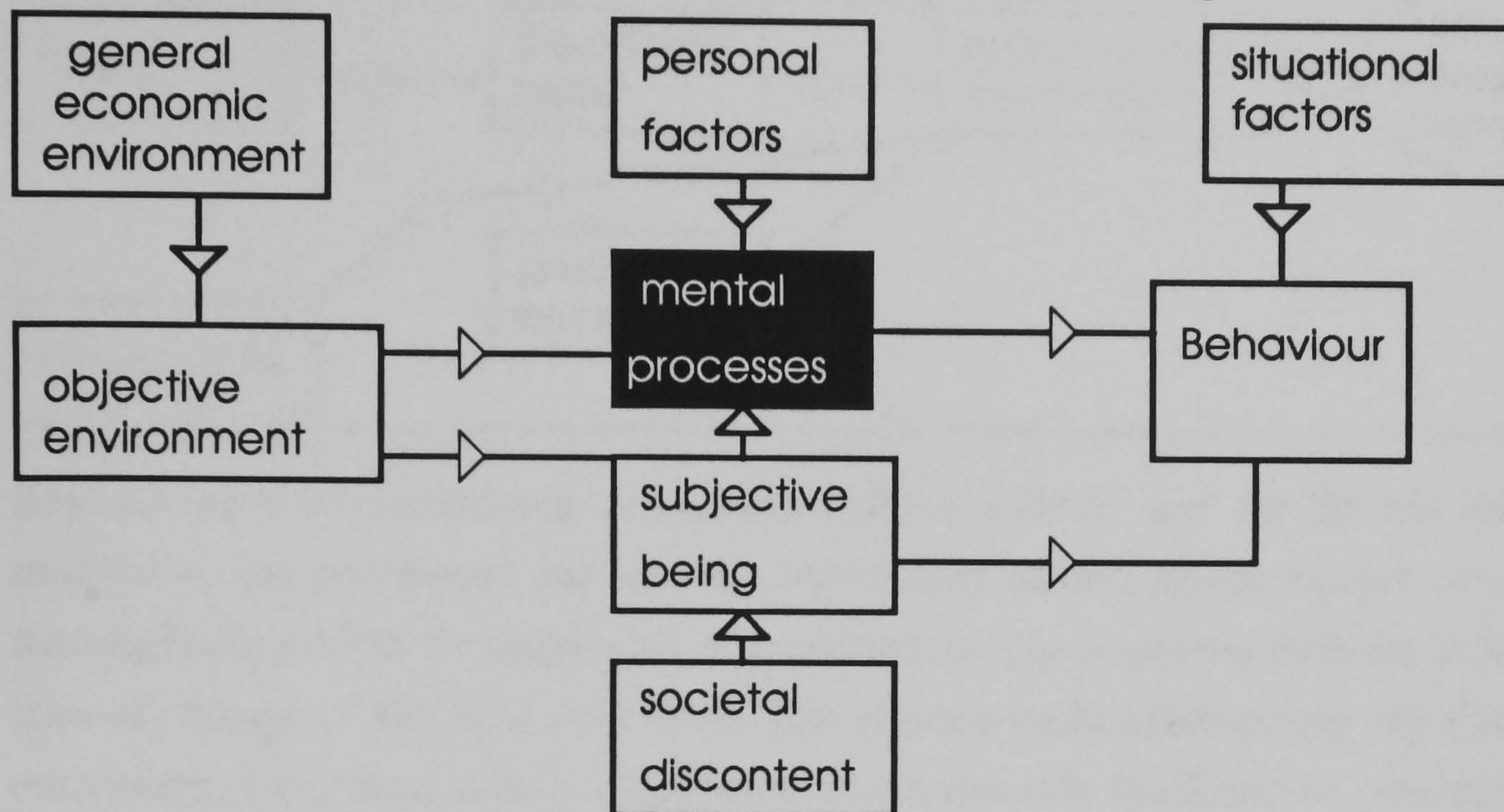
Diagram 1. Katona's basic psychological model of economic behaviour.



Obviously, the complex interactions between the various elements have been left out, rendering this simple behaviourist model empty of the texture and complexity of real human economic life. Also, this model begs the question of whether economic actors

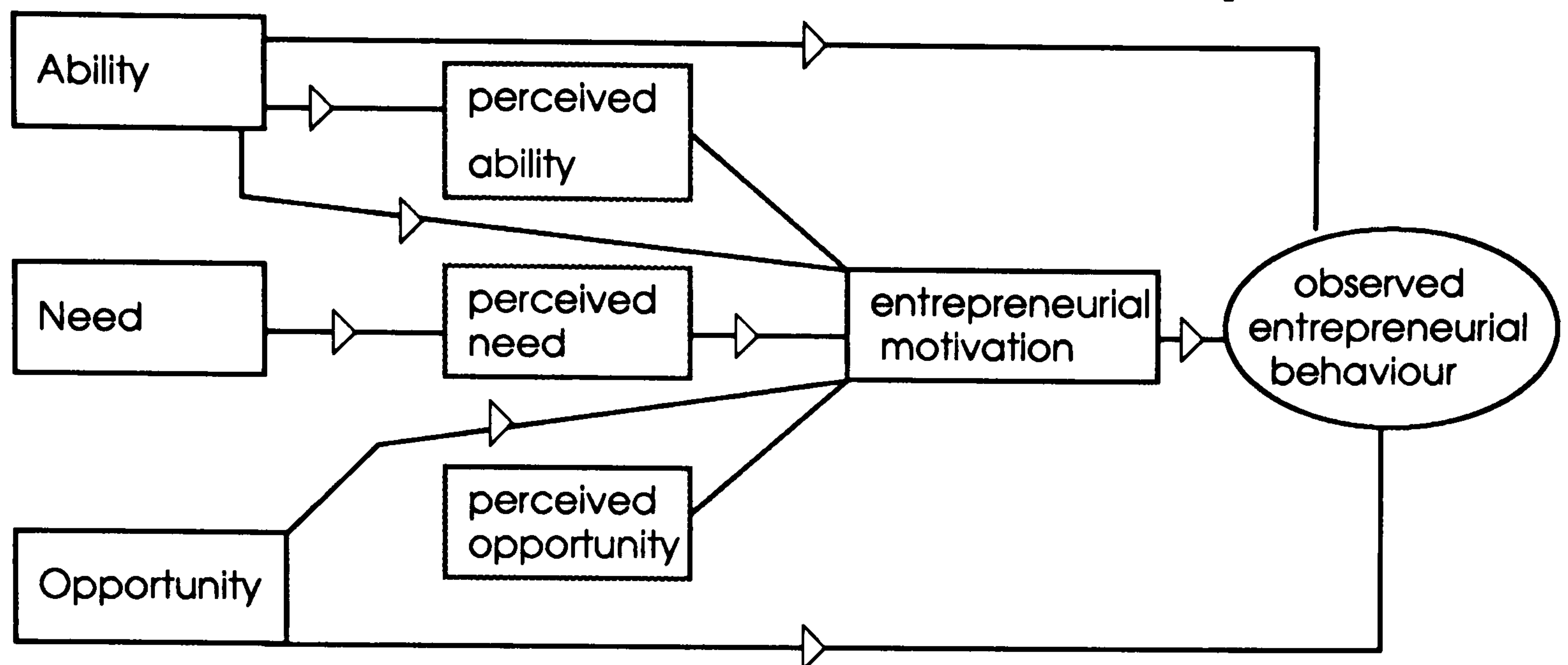
respond to 'objective' economic conditions or to their perceptions of external conditions. An attempt to elaborate Katona's model to include more personal and human factors was developed by Fred van Raaij (Antonides, 1981).

Diagram 2. Van Raaij's extended economic psychological model.



Although this model is evidently more complex, it does not address the perception-reality issue, motivation is reduced to a rather Benthamite 'personal well-being' and, as a consequence, the entrepreneur still remains hidden in a little black box marked 'mental processes'. A more functional model of entrepreneurial behaviour - based on George Katona's (1975) model of economic behaviour which takes into account perceived and real ability, opportunity and motivation - has been developed and tested by Per Davidsson of Stockholm Business School. As the main purpose here is to provide a descriptive framework rather than a fully testable model, Davidsson's model serves to outline the relationships between key determinants of entrepreneurial behaviour. Davidsson's intention, however, was to test the persistence of entrepreneurial motivation and behaviour rather than to analyse the development of entrepreneurial businesses. Nevertheless, despite certain criticisms of his study - mainly relating to his data and their interpretation (see book review by Gray in the *Journal of Economic Psychology*, volume 10, number 4, 1989, pp 593-596), his approach provides a useful model of entrepreneurial behaviour (see section 4.3.4 and Appendix D).

Diagram 3. Davidsson's model of continued entrepreneurship.



Key assumptions underlying *enterprise culture* policies are the beliefs that financial motivators are paramount and that the removal of certain labour market constraints will automatically lead to the expansion of entrepreneurship as people with the 'right aptitudes' take advantage of the new conditions. Davidsson's basic assumptions are that continued entrepreneurship must reflect a 'deliberate effort towards fulfilment of personal needs and wants' and that it is perceived needs, not objective needs directly, which 'direct motivated action' (Davidsson, 1989a). Perceived abilities - as they affect self-confidence and the belief that certain goals are attainable (often referred to as *valency*) - together with the perception of potential opportunities for satisfying perceived personal needs (often referred to as *expectancy*) largely determine motivation (discussed more fully in section 5.3). This is an adequate model of individual business behaviour - with entrepreneurial behaviour as a special sub-category - especially if the objectives and operational needs of the firm are included as perceived needs. However, the influence of the real constraints and opportunities of the actual socio-economic structure and environment are rather under-developed even though Davidsson accepted that individual behaviour will be constrained by objective needs, abilities and opportunities.

One important underlying assumption in the Katona/Davidsson model is that entrepreneurial acts are deliberate, positively-motivated actions requiring conscious volition. The beliefs that their own actions will produce desired outcomes (*internal locus of control, self-efficacy*) and that they are consciously in control of their own actions (*intentionality*) are central to the self-concepts of entrepreneurs (Deci and Ryan, 1985). Although the concept of entrepreneurship entails behaviour that is conscious, voluntary and directed, it is its exercise at the *individual* level rather than the *collective* (say in a firm or other organisation) that is an integral part of the enterprise culture model and a key teaching target of enterprise training. Intentionality is examined more thoroughly in the consideration of *locus of control* in section 4.1.2 and Appendix C but it is worth noting at this point that money or profits made as a result of entrepreneurial behaviour, by implication, excludes the effects of fortune and fate. Windfall profits or income from

investing in a lottery ticket, unanticipated benefits of a sudden oil price rise, accidentally purchasing a valuable antique and so on, would not reflect entrepreneurial behaviour. Allowing for the vagaries of the markets and reasonable errors of judgement, however, it should still be possible to characterise failed innovative attempts (say, Clive Sinclair's C-5, Eddie Shah's *Today* newspaper and so on) as entrepreneurial actions even though the outcome was not ultimately successful. Persistence is a key entrepreneurial characteristic (see section 4.1.1) and the failure of any given enterprise should not always be taken as a sign of non-entrepreneurial behaviour. Indeed, the setting up several businesses, including earlier failures, often distinguishes entrepreneurs from other small business owners (Bannock and Stanworth, 1990; Tables B14 and B15 in Appendix B4).

Because the role played by the *objective* parameters - ability, needs and opportunity - as part of the socio-economic *structure* is not articulated, the Katona/Davidsson model has only limited use as a model of the entrepreneurial function in economic development. Indeed, there is some confusion in the model about whether the 'objective' parameters represent external reality or just the individual's perceived reality ('opportunities' seem to be the former, 'needs' the latter). A general model of entrepreneurial behaviour would require that each of these objective elements reflect the full set of possibilities - a *social representation* not merely an *individual perception*. These objective elements place real constraints upon each individual's actions and determine each firm's production possibility set - the theoretical limit to all firms' production plans (see section 2.2.3 for a full discussion). Virtually all businesses operate at less than full efficiency within sub-optimal production possibility frontiers. Entrepreneurs are more adept than other business owners and managers at overcoming apparent informational and production limitations to approach the actual production possibility frontiers. Frey and Heggli (1989) argue that most businesses in fact only operate within an even more restricted set - the *ipsative* possibility set - the set of possibilities that owners deem to be relevant to their business. Of course, what is considered relevant is a matter of judgement reflecting their personal motivations and social representations of the world of business, of their specific industry and, indeed, of where their business fits alongside other matters of personal concern (see Appendix B). It is reasonable to argue - though difficult to test - that entrepreneurs display sharper judgement and closer congruence between perceptions and reality than other less successful or less entrepreneurial business managers.

Business judgement then becomes a matter of how closely an individual's perceived needs, abilities and opportunities correspond to their objective possibilities and the individual's objective ability (*competence*) to act upon that information. The question of competence, although not the subject of the present study (see next section), is extremely important. Just as levels of individual capability and levels of work effectiveness have been seen as key determinants of the structure and career-path opportunities of bureaucratic hierarchies (Jaques, 1976), similar factors determine career choice and relative performance within

the small business sector. This suggests that one obvious yet important distinguishing feature of entrepreneurs mentioned in the previous section is that they must be capable and competent as business managers - certainly much more so than most small business owners or managers.

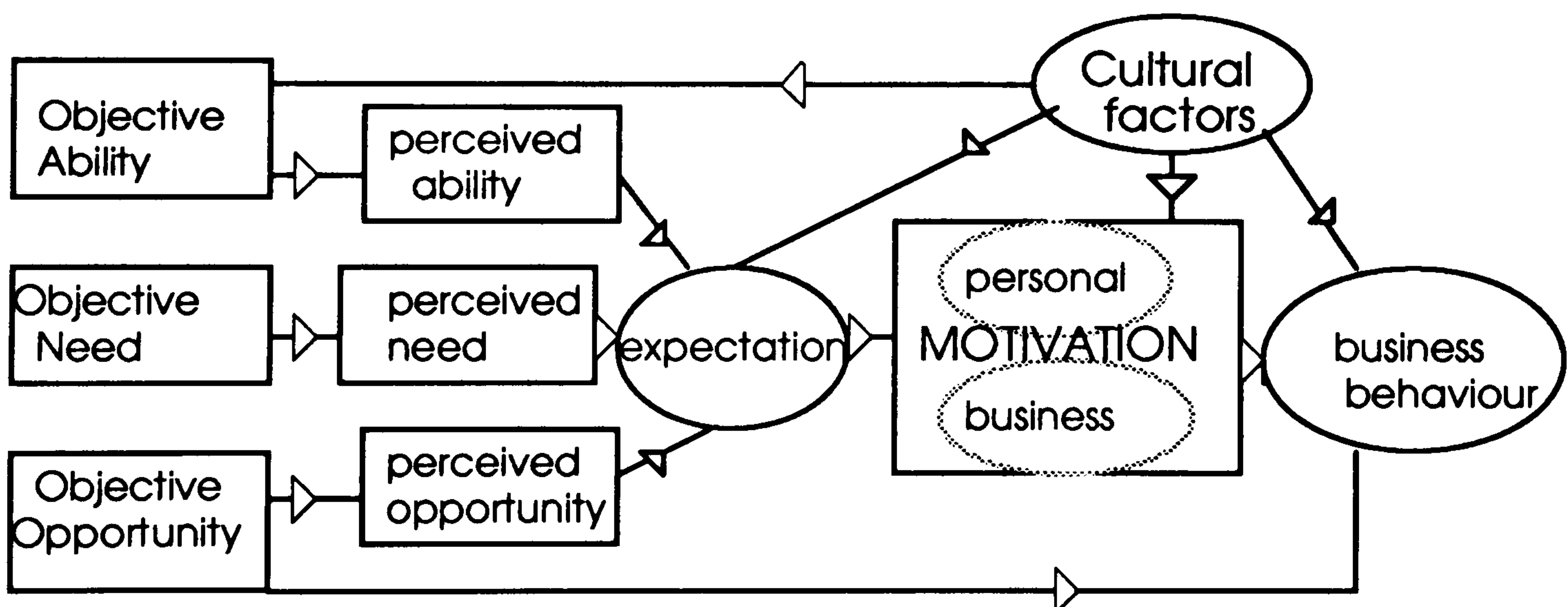
In essence, this is the rationale behind the strong emphasis on 'enterprise' training as a crucial element of *enterprise culture* policies. There may be strong doubts about the possibility of teaching 'entrepreneurial behaviour' but there is little doubt that basic business techniques can be taught. The important questions remain - indeed they are central concerns of this dissertation - whether the basic business techniques taught on most enterprise training programmes are sufficient to produce a skilled approach to business and whether their new skills and awareness are sufficient to transform naive business owners or non-business people into effective innovating entrepreneurs. Gary Becker's (1964) *human capital theory* provides the economic rationale for explaining why individuals might consider investing in training to effect a career shift of this type but there is little empirical evidence, as we shall reveal at various points throughout this thesis, that these economically rational considerations explain much recent small business or entrepreneurial development without taking into account certain strong social psychological effects. To expand the Katona/Davidsson model into a more general *business behaviour* model, the personal developmental and socio-economic factors that shape individual attitudes, preferences and ambitions have to be included as well the external objective factors. Less evidently though just as necessary, the actual abilities (educational levels, technical skills, experience, training, qualifications, competence standards and so on) and behaviour of other economic actors - customers, employees, partners and other businesses (including competitors) - have should be taken into account.

Finally, it is worth pointing out (and will be discussed in the next chapter) that, as socio-economic structures evolve, they tend to serve the needs and reflect the interests of dominant groups and classes. Consequently, although the broad class aim of dominant groups - namely, to retain pre-eminence and power - usually runs counter to the interests of subordinate groups, their values, ideologies and culture permeate most other groups in the system. It does not even require sophisticated psychoanalytic concepts such as identification, projection, transference or reaction-formation to realise that 'self-interest', the favourite motivator of classical economics, becomes very confused at subordinate levels. The dominant culture at the height of its power rejects elements - including technological as well as social developments - which might threaten the structure. Entrepreneurs rarely start as members of the top groups (discussed next chapter and section 3.3) so it is important, particularly if Weber's and Schumpeter's views on upward mobility are correct, that the 'objective' needs of the socio-economic structure and the entrepreneurs perceived personal needs do not diverge too much. The term 'business behaviour' is used here to include not only the behaviour associated with day-to-day

business operations but also operational marketing, organisational, financial and production activities and the implementation of longer-term strategic plans. Fundamental assumptions upon which this thesis is based (see next section, 1.3) are, firstly, that business behaviour reflects a complex and fluid synthesis of work and personal motivation and, secondly, that this synthesis is linked both to current material conditions and to a continuing processes of personal, social and vocational development (discussed more fully in chapters 3, 4 and 5). The Katona/Davidsson model would need additional elements such as the *self-concept*, *cultural factors* and *social representations* to account for the impact of socio-economic structure.

It is clear that perceived needs, opportunities, constraints and abilities will help to shape the goals and expectations of individual economic actors. However, the desirability of the outcome, the ultimate satisfaction and the choice of goals and expectations will also depend upon the values, attitudes, social position and hopes that individual entrepreneurs hold about themselves - their *self-concepts* - which reflect the broader *cultural* context - family, peer groups, social class, ethnic group, society and so on - from which they come. The cultural factors and self-concept elements which have been added to the model which now can serve as an outline model linking the key elements considered in this thesis. These social elements are very important because they determine not only the personal goals of business managers but also, in conjunction with perceived needs and objective opportunities, why they made their occupational choice.

Diagram 4. General model of business behaviour.



In this modified model, the objective parameters represent the universe relevant to business behaviour and performance while the perceived parameters directly determine the subject's behaviour - mainly reflecting his/her own needs and abilities but also the influential perceptions of others (peers, rivals, employees, family and so on). Given the fact that transactions between economic actors take place in markets where information is limited (Arrow, 1983; March, 1988), perceptions of opportunities, needs and abilities will strongly reflect - and sometimes contribute to - the social representations of these

elements, often in the form of 'market expectations' or 'business sentiment', rather than directly reflect underlying objective realities.

However, the objective parameters will directly impact upon business behaviour in the form of shortages or over-supply of goods and services, and , for smaller firms especially, wider gaps in information. Basically, the model under investigation is a descriptive framework of economic behaviour, not a specified econometric or psychometric model. Nevertheless, it is worth mentioning that Davidsson (1987, 1989a & b) did test the causal connections of his model (using a multivariate maximum likelihood program, LISREL). Although he identified some apparently contradictory links (not surprisingly, given the interactive connections between the variables, his non-random samples and the questionable proxies he chose for his experimental variables), his main findings were tenable and relevant. Davidsson found that most actual small firm growth was explained by the objective variables, that growth is positively connected with ability and that entrepreneurial growth is linked partly to achievement motivation (see section 4.3.4) but much more to the entrepreneur's personal and business expectations. How the model helps relate to findings reported in the Appendices to the problems of business development is discussed more fully in section 5.4.

At this point, it is more important to clarify some of the key psychological elements of the model. As mentioned above, the concept of occupational motivation needs to be decomposed into personal and work motivation which, in turn, depend of perceived personal and work-related needs. Perceived needs - and perceived abilities, opportunities and constraints - reflect both objective reality and the cultural, social and developmental processes that have shaped the individual's attitudes, values and ambitions. However, these processes are not simply unidirectionally causal because individuals are not merely passive recipients of signals and influences but also actively participate in the construction of their own concepts, categories and goals. An essential part of these processes, indeed the mediating mechanism through which individuals' construct their realities from the surrounding material and social world, are *social representations* (see section 4.4.3). In the sense that they are shared and often received constructs which define and distinguish social groups, these social representations are an integral part of and inseparable from cultural influence.

Certainly, social representations of occupations and economic phenomena exert a powerful influence on both career choice and business decisions. Marketing, in particular, is a business function which tests to destruction the power and validity of many social representations. Although there is plenty of empirical evidence for the power of social representations in the business world, however, there are two main theoretical purposes for introducing them to this model. Firstly, to emphasise the essentially social nature of business and commerce. Secondly, to provide conceptual underpinning for the fact that

business managers, whether they are aware of it or not, actually participate in the construction of the supposedly objective commercial forces that guide their actions. It is interesting to speculate that the internal locus of control associated with entrepreneurs may reflect their clearer conception of their own power to participate in the construction of relevant social representations rather than merely accept them as representing reality.

Summarising the position so far, the entrepreneur is basically an economic concept, is best defined in economic terms as the owner of an independent business who is able to organise other people in successfully pursuing a business venture. In these terms, success is usually measured in terms of profit-growth or the introduction of significant and profitable product, process or organisational innovations in terms of impact on relevant markets. Both of these criteria, particularly the second, would have the effect of boosting economic development and imply psychologically a positive orientation towards the efficient growth of the business. In addition, commitment to continued growth implies that the founder will also have the hope that the enterprise will continue independently after the founder has disengaged from the firm. This type of small firm owner is comparatively rare as the studies in Appendix B underline. This suggests an operational definition of entrepreneurs as growth-oriented owners of small businesses who are eager to establish control over their own lives and create something of enduring value which distinguishes them from most other self-employed and small business owners. Attempts to differentiate entrepreneurs from most other business managers are not new but, if valid (and the empirical evidence presented in this thesis and typologies discussed in section 3.3 suggest that they are), seriously undermine the foundations of enterprise culture policies. For instance, Carland et al. (1984) made the following distinction which strongly reflects the findings and approach of this thesis:

An entrepreneur is an individual who establishes and manages a business for the principal purpose of profit and growth. The entrepreneur is characterised by innovative behaviour and will employ strategic management practices in the business.

A small business owner is an individual who establishes and manages a business for the principal purpose of furthering personal goals. The business must be the primary source of income and will consume the ... majority of time and resources. (pp 354-359)

An important overall aim of this dissertation is to identify which factors, whether objective or perceived, are important in the development of growth-oriented small businesses and to explore whether these factors can be induced or nurtured where they were previously absent. As mentioned above, this implies that the owners or managers of such businesses have a conscious intention of using their abilities to start and expand their businesses, further implying that they consciously set appropriate commercial and strategic objectives for their businesses. To distinguish them from the vast majority of owners and managers who do not actively have such an intention, these growth-oriented owners and managers are termed *entrepreneurs*.

However, the main focus for the present purposes are not the links between perception and reality but the interactions between perceived needs, perceived opportunities, cultural factors and the self-concept in determining entrepreneurial motivation and entrepreneurial behaviour. The objective constraints and determinants - needs, opportunities and abilities - enter the frame mainly in the form of resource, capacity, industry, regional and size differences between firms (see Chapter 3). Economically, these differences affect the scope for entrepreneurial action in different situations but, psychologically, they may actually alter the nature of the business behaviour and the personal characteristics that can be termed entrepreneurial in various circumstances. The danger of not comparing like with like is always present in entrepreneurial research and adds to the problems of operationalising research so that the relationships in the model can be adequately explored. Consequently, the present main aim is not to test the validity of the whole model but to use it to explore in some depth the links between areas within the framework it describes. The model will be re-examined in the light of the main findings of the thesis and amended as necessary in the final chapter.

1.2.3 Structural outline of the thesis.

The material and evidence examined in this thesis are multi-disciplinary, mainly gathered to address the concerns of each discipline according to the methodologies appropriate for their purpose but not always directly comparable with each other. This means that the main issues raised in the thesis need to be considered within the context of each discipline before an effective integration can be achieved. Given the need to establish and explain the links (or the gaps) between the data from these different types of source, the thesis is not organised exactly in the conventional report format (namely - introduction, literature review, rationale, hypotheses, methodology, results/data, discussion, conclusions) although the method of enquiry did follow the classic stages of literature review (in many disciplines), preliminary studies, hypothesis formulation and, finally, testing the hypotheses against publicly available and special survey generated data. The surveys and studies conducted specifically for the thesis are summarised in the appendices at the back of this thesis and are presented individually in the conventional format. Stylistically, they are used as a sort of 'database' of findings introduced at appropriate places in the thesis. Consequently, there is no separate section on results and data in the main thesis and the literature review and subsequent discussion of key issues explicitly reflect discipline boundaries (mainly those of economics and psychology) before being integrated, in the final chapters containing the conclusions and policy recommendations.

The main background concerns plus previous research and writings - small business, management, economic, sociological, psychological - relevant to this thesis are discussed in the early chapters to establish the context and focus. The key issues of the thesis - growth-oriented small business owners as a distinct sub-set, the background developmental factors, the importance of the independence motive, the effects of business

success on achievement orientation, management training effects and so on - are then related in more detail to the hypotheses through a review of existing material and a series of qualitative and quantitative studies conducted specifically for this thesis. The data for the qualitative studies, which were designed to explore the motivations and attitudes of entrepreneurs and other small firm owners, were gathered from enterprise trainees, existing small business owners and the self-employed with control groups of academics, unemployed and personnel trainees (see Appendix A, especially Tables A1 - A6 which give gender, age occupational details of the sample and compare them with appropriate national data on the self-employed). More than 150 subjects completed three separate scales - (i) personal background plus items derived directly from locus of control theory and the achievement motivation questions used by Davidsson; (ii) Rotter's IE locus of control scale; (iii) an adaptation of Levinson's (1973) powerful others, chance and internal locus of control (IPC) scale.

The choice of instruments is often problematic and the two main criteria, apart from appropriateness to the thesis of the variables they purport to measure, were their face validity and the scope they gave for comparability with other studies. In these cases, other entrepreneurial studies which influenced the choice of research instruments were the earlier study conducted among enterprise trainees in London (Gray, 1986), which itself had been informed by an earlier study contrasting Australian small business owners with 'super-entrepreneurs' (Perry et al, 1985), and Per Davidsson's (1987, 1988, 1989a & b) studies on the phenomenon of continuing entrepreneurship. As the findings from these studies and the findings of the research conducted for this thesis show, none of these measures are completely robust or reliable but they are reasonably internally consistent. It is worth noting that the instruments used for the research studies of this thesis compare favourably with those covered by Sally Caird's (1993) later review of entrepreneurial research instruments. By contrast, preliminary use of the 16-PF revealed no significant within-group or between-group differences of research interest which confirmed the experience with the Myers-Brigg's personality indicators in the earlier study (Gray, 1986). Faced with time restrictions in administering the tests to a number of subject groups, these personality batteries were discarded. Similar considerations applied to the decision to not extend to other groups the early exploratory personal-construct studies on two sub-groups (graduate enterprise trainees and existing small business owners improving their business skills). These included personal interviews and repertory grids (appendix E) to explore the effects of family background, education and work experience on the concept of the entrepreneur and on the self-concept.

Several large-scale postal surveys were conducted among the 8,000 small business owners and managers in the Small Business Research Trust (SBRT) database as the main source of quantitative data is described in Appendix B. A survey of 4,017 small businesses in the SBRT Database (1,488 replies = response rate of 37 %) was conducted on small business

owners' attitudes towards management training during May 1988 (see section 5.2), supplemented by a question on the business skills training background of 933 respondents to the regular SBRT quarterly survey during the same period. The third quarter of 1989 SBRT survey contained questions on the family backgrounds and previous history of self-employment of 2,236 quarterly survey respondents. In the second quarter (April, May, June) of 1990, special questions on personal business motivation and business objectives attracted 1,344 responses and, in the third quarter of 1991, 1,718 respondents replied to questions on growth-orientation, confirming the existence of a separate sub-class of growth-oriented small businesses. Across all surveys, there was an overlap of 400-1,000 respondents common to each survey, allowing the actual growth of respondent firms to be tracked and an interesting typology to be developed. The large sample quantitative surveys were collected as a database and were analysed mainly as cross tabulations through the database program DbIII.

Finally, an adaptation of the three principal scales was mailed out to two contrasted sub-samples of SBRT quarterly survey respondents - growth-oriented expanding firms and growth-averse, declining or static firms - drawn from the samples of the larger-scale SBRT surveys. The data was mainly analysed through the PC version of SPSS (non-parametric tests for the qualitative studies except for a specially developed principal components factor analysis programme for the repertory grids and chi-square cross tabulations, t-tests and analyses of variance where appropriate for the quantitative studies). These studies are described in detail, and their findings discussed, in the relevant appendices and appropriate reference is made to them throughout the following chapters of this thesis. In particular, the rationale, methodology, sample details and findings of the qualitative studies are described in Appendix A and of the main SBRT quantitative studies in Appendix B while Appendix C presents the findings in relation to locus of control, Appendix D examines achievement motivation and Appendix E describes the studies based on repertory grids.

The first chapters set the context and outline the main issues of small business development. After analysing the main tenets of the economic and developmental model which underlies the *enterprise culture* by contrasting it with different development models (section 2.1) and defining precisely the term *entrepreneur* (section 2.2), the second chapter examines the role of the entrepreneur in various key economic theories (section 2.3) before looking at the managerial implications (section 2.4). The third chapter is mainly descriptive of recent patterns of growth of the small business sector in Britain including significant industry differences and regional effects (section 3.1). Over the past twenty years a great deal of entrepreneurial and small business research has been undertaken and many of the central issues have already been identified if not fully explored. Although many of these theories - for instance, *marginal man*, *dark personality*, *national propensity to entrepreneurship*, etc. - are often circular *ex post facto*

explanations of why certain selected groups and individuals differ from an assumed occupational norm and are usually difficult to verify, they raise background and cultural issues that require attention which will be discussed in section 3.3. Theories of career choice and learning will be examined for the light they cast on the processes of entrepreneurial development (see chapter 4). The different patterns of recent small business growth clearly demonstrate the diversity of the small business sector and suggest there is little empirical evidence for the existence of one single entrepreneurial personality. Indeed, as many of the studies outlined in the following chapters reveal, the varying economic and immediate commercial circumstances faced by small business owners in different industries and localities and their differing states of business development render personality characteristics fairly marginal and unstable as predictors of actual individual business success.

The psychology of small firm owners in general, and entrepreneurs in particular, are discussed in chapter 4, starting with a consideration of issues connected with the 'entrepreneurial personality' and a review of common entrepreneurial psychological features (section 4.1.1) and an examination of *locus of control* as a commonly identified 'entrepreneurial trait' (section 4.1.2 and Appendix C). Important insights from social and psycho-developmental approaches are addressed in section 4.1.3 and the constructivist approach, which is central to this thesis, is examined and discussed in section 4.1.4 and Appendix E. Next, there is an analysis of motivational issues, with reference to the motivational model developed by Vroom (1964) and, despite strong reservations about his hierarchical model, the notions of different levels of needs as developed by Maslow (1954), the intuitively popular model of motivation used in many business studies courses. This is followed by a more detailed assessment of the important personality-related concept *need for achievement* (section 4.2.3 and Appendix D) and the most commonly identified small business career motivator *need for autonomy or independence* (section 4.2.4 and Appendix B). Next, there is an attempt to apply this analysis through an examination of career, learning and personal development theory (section 4.3 and Appendices B and E) with particular reference to the roles of self-concept and social representations (section 4.3.3) in entrepreneurial development.

Chapter 5 builds on the socio-economic and psychological foundations to appraise the effectiveness of *enterprise culture* policies and to address the central concerns of this thesis. This includes an examination of publicly available evidence, the purpose of enterprise training and an evaluation of its effectiveness in encouraging economic and small business development. Amongst the conclusions are the suggestions that young graduates on enterprise training courses may be engaged more in career search activities than in acquiring new management skills for the purposes of necessarily applying them and that the 'serious' enterprise trainees were characterised by having more coherent aims and stronger motivation. Various structural enterprise policies, including the Enterprise

Allowance Scheme (EAS) and the role of industrial policy, are analysed to provide empirical evidence on the thesis that social policies can induce more generally entrepreneurial attitudes and behaviour (section 5.3). At the end of each chapter, the salient findings and important issues are summarised. The final conclusions presented in Chapter 6 are both a summary of the main findings and a return to the main aims of the dissertation: the existence of entrepreneurs as a distinct group of small business owners; how they can be distinguished and identified; and, the central issue, whether it is likely that enterprise culture policies can transform on a mass scale previously non-entrepreneurial people into successful, growth-oriented, small firm owners. The thesis concludes in Chapter 7 with a reflective assessment of how the main findings relate to the underlying model of business behaviour, how entrepreneurial business behaviour should be distinguished and Chapter 7 concludes with a consideration of what role enterprise might play in an alternative economic development model that better fits the thesis findings.

1.3 Objectives and hypotheses.

The main intentions of this thesis are to determine whether the mass public interventions of the type introduced under enterprise culture policies are capable of transforming previously non-entrepreneurial people (mostly unemployed) into entrepreneurial, growth-minded owners and managers of small businesses. Consequently, much of the enquiry will seek to explore the psychological determinants of the occupational behaviour of the owners of entrepreneurial small businesses. The entrepreneur's career-choice and work behaviour are seen as a sub-set of business behaviours which themselves are seen as a sub-set of more general occupational behaviour determined in the main part by family and cultural factors. The basic premise is that entrepreneurial small businesses are owned by people who are keen, for a variety of reasons (largely determined culturally or during the course of their early personal development), to be in control of their own affairs, to earn their living through running their own business and to expand their business into a significant enterprise. However, it seems reasonable to assume (an assumption strongly supported by the evidence outlined in the appendices) that most existing small business owners and potentially new entrepreneurial small business founders are unlikely to exhibit or develop a growth-oriented approach to business unless their own personal and social development mirrors, at least in reasonable part, that of existing growth-oriented small business owners. Consequently, an *a priori* assumption is that unless publicity campaigns and training programmes are directed towards the concerns of these potential 'quasi-entrepreneurs', they will not be effective in encouraging the creation and growth of new entrepreneurial small businesses.

Because the parameters outlined in the model described above are almost certainly non-independent and the linkages between them evidently inter-active, complex and non-linear, no attempt has been made to test the model psychometrically. Instead, the aim has been to examine, through a series of qualitative and quantitative studies (see Appendices A-E), the

main theoretical constructs which have been used to explain entrepreneurial business behaviour and to identify areas where policy interventions may be expected to encourage such behaviour. The thesis that growth-orientation in small businesses is a function of the personal and business goals of the owners operating within an actual and perceived socio-economic environment is based on a number of assumptions. The most important assumption is that the business behaviour of entrepreneurs reflects their desire and their competence to seek appropriate satisfaction for their personal and work goals. The second assumption is that the desire to satisfy these two different and sometimes conflicting goals combines as *occupational motivation* which reflects the cultural determinants of the business owners' own personal development both in choice of suitable targets and in preferred mode of attainment.

This implies that a seemingly obvious area for psychological enquiry, the 'entrepreneurial personality', is actually a cul-de-sac. To ascribe career-choice to a set of personality traits removes intentionality and the likelihood of there being any significant training effects. This line of enquiry is almost impossible to operationalise in research terms because it reduces to a rather meaningless search for the 'correct' bunch of traits or regular behavioural features and thereby diminishes most analyses of the processes that lead to the founding of entrepreneurial businesses. Just as the career-choice to seek a career in one of the professions can appeal to many different personalities without the need to insist there must be a 'medical personality' or a 'lawyers personality', so the factors leading to the career-choice to set up a successful small business are sidelined if the process is said to depend mainly on the personality of the founder even where certain behavioural features can be seen as beneficial to success in particular field. There are manifestly different management needs for different business from various industries, regions and sizes and it is difficult to accept the notion of one, identifiable entrepreneurial personality. Nevertheless, this thesis has as its main research focus the testing of the underlying assumptions of the enterprise culture model and one central assumption of the model is that political-economic constraints of the 'dependency culture' prevent people with the right aptitudes (by inference, those with 'entrepreneurial personalities' and appropriate skills) from maximising their economic gains through forming their own enterprises.

There are a number of assumptions that emerge from the above discussion that need to be taken into account in formulating testable hypotheses. The following propositions in relation to the enterprise culture model (see section 1.1) need to be considered :

Chapter 1 - Introduction

- (i) In general, people who start their own businesses display enterprise and may be termed entrepreneurs;
- (ii) Entrepreneurs are motivated individually to start their own businesses by the prospect of personal financial reward;
- (iii) Economic development depends on an increase in the number of people starting their own businesses and a consequent development of an 'enterprise culture' encouraging 'wealth creators' to emerge through the natural processes of competition;
- (iv) Provided the barriers of the 'dependency culture' are reduced through removing key elements in the system that supports it and offering basic enterprise training to formerly dependent workers, prospects of economic gain will ensure that large numbers of new entrepreneurs reject the 'dependency culture' and embrace the 'enterprise culture' by starting their own businesses.

However, it is already clear that there is strong empirical evidence for not accepting these assumptions as they stand (discussed in detail next chapter) and even stronger theoretical and research evidence for actually rejecting the claims and assumptions of the enterprise culture model of development. Consequently, a less extreme model which takes into account the essentially non-entrepreneurial characteristics of most self-employed yet still provides a rationale for policies aimed at promoting the emergence of entrepreneurial businesses will be considered (though not formally tested) when discussing the implications of the findings of this thesis for current enterprise culture policies. This model, which is introduced here in anticipation of the discussion in the concluding chapter and may be termed the 'entrepreneurial social development' model, rests on the following propositions:

- (i) Entrepreneurs are new, efficient capitalists and exist as a distinct sub-set of all small business owners;
- (ii) Although they set appropriate commercial objectives for their firms, entrepreneurs are personally motivated mainly by socio-cultural objectives reflecting their class and family backgrounds rather than by financial gain;
- (iii) Economic development will be affected significantly mainly through the quality rather than quantity of new entrepreneurs judged according to the extent to which they create economically significant organisations which contribute to a net capital accumulation and are capable of continued growth independent of the founders' own personal objectives and development;
- (iv) Given their mainly socio-cultural motivations, entrepreneurs are not likely to be attracted to enterprise training in significant numbers nor are enterprise culture attitudes likely to have a major effect on their occupational behaviour, though they may be drawn to training that matches their specific needs;
- (v) Enterprise training for non-entrepreneurs will remain ineffective unless it is targeted at more suitable groups and includes more thorough training in social skills and business culture.

More formally, through a review of recent theoretical and research literature plus a series of qualitative and quantitative studies - each one of which will address different aspects of the issues outlined in the above propositions and together should determine which model is more likely to promote economic development - the following hypotheses will be tested:

- H1. Entrepreneurs exist as a distinct growth-oriented sub-set of small business owners identified by their clear and positive attitudes towards business growth, success and personal control.
- H2. Existing and potential small businesses owners are mainly motivated to work because of the prospect of economic gain.
- H3 More individuals with the right entrepreneurial 'personalities' would start new businesses if anti-business political-economic, cultural and skills barriers were removed.

H4 Increasing the absolute numbers of people working on their own account, mainly through encouraging the unemployed to seek self-employment, will lead to an increase in the number of entrepreneurs and a consequent improvement in economic development.

Each of these hypotheses are individually testable and falsifiable. The acceptance of Hypothesis 1 does not invalidate the enterprise culture model but it does cloud its principal policy targets and undermines the political-economic foundations of the policies, calling into question their general applicability. Psychologically, however, rejection of Hypothesis 1 would virtually destroy any argument in favour of a distinct entrepreneurial personality or aptitude. The reverse, however, is not the case because acceptance of Hypothesis 1 does not logically entail the existence of a distinct entrepreneurial personality nor the validity of enterprise culture policies. Hypothesis 2 goes right to the psychological heart of enterprise culture policies and is central to the enquiry described in this thesis. Its acceptance would provide strong support for the economic development model upon which enterprise culture policies rest. Rejection of Hypothesis 2 would be serious and strongly entail a rejection of both the enterprise culture model and the primacy of the economic motive but would leave open the possibility of focusing industrial policy more tightly on entrepreneurial growth-minded small firm owners provided Hypothesis 1 is accepted. Rejection of Hypothesis 3 would imply that entrepreneurs cannot be 'created' from previously non-entrepreneurial human stock through the application of enterprise culture policies or enterprise training, destroying not only the psychological base of the model but also the likelihood of its attaining its economic objectives.

Hypothesis 4 is softer, in that its acceptance or rejection depends on the interpretation of external empirical evidence and not the more precise studies conducted for this thesis, but is required to complete the logical argument. Given the real increase in self-employment during the 1980s, rejection of Hypothesis 4, implies a fatal flaw in the enterprise culture development model, certainly economically and, by inference, psychologically. The underlying thesis that entrepreneurial small business owners display a different approach to business because of their existing background, upbringing and abilities - and the policy implication that enterprise management training will only be effective in developing a similar approach among people who already share some of these characteristics and expectations- rests on the acceptance of Hypothesis 1 and the rejection of both Hypothesis 2 and Hypothesis 3. These issues and the related marketing issue - that the best 'customers' for enterprise training courses are probably people already gainfully employed but keen to escape organisational constraints and take responsibility for their own business decisions - will be discussed in more detail in the final chapter.

2. THE POLITICAL-ECONOMY OF THE 'ENTERPRISE CULTURE'.

The aim of this chapter is to outline the basic tenets of the development model that underpins the 'enterprise policies' of recent years and to provide a critique of this model. The implications of this model and the economic role of the entrepreneur will be examined in relation to various strands of economic development theory. Having established a clear practical and theoretical definition of the entrepreneur and the entrepreneurial function in economic development, the rest of this chapter is concerned with tracing the actual patterns of recent economic development in Britain. Appropriate empirical data will be described and analysed with two main objectives in mind. The broad objective is to assess the economic effectiveness of *enterprise culture* concepts and the enterprise-led development model. The more specific objective will be to test Hypothesis 1 through determining whether entrepreneurs exist as a distinct growth-oriented sub-set of small business owners identified by their clear and positive attitudes towards business, growth, success and personal control.

2.1 The enterprise-led development model.

2.1.1 Background.

The British economy has seldom experienced a more turbulent period than that of the 1980s. Once renowned as the workshop of the world, Britain has seen more than 2 million jobs shed from the manufacturing workforce over the past ten years and unemployment hitting peaks estimated at more than 5 million people. Even relying on continuously 'adjusted' official unemployment statistics (a series of bureaucratic reclassifications managed to remove whole segments of people without jobs from the official tally yet still registered 3.5 million unemployed during the mid-1980s), it is clear that the British economy has not experienced such dislocation since the 1930s.

Critics naturally pointed to the hastily adopted monetarist policies of Margaret Thatcher's Conservative government as the chief cause but the government's supporters were able to hold up the sorry record of successive post-war governments in halting Britain's century-long economic decline and claim that the sharp crisis was really due to a number of rather nasty economic chickens coming home to roost from earlier periods. Whatever the truth, the strict macroeconomic policies of monetarism soon gave way to more psychologically inspired policies including massive increases in financial motivators to the business sector and a multi-million pound publicity campaign to improve public attitudes towards business. Unemployment declined during the late-1980s only to resume its upward spiral in 1990 as high interest rates slowed the economy without having an immediate impact on already high inflation. Throughout all the different swings of this ten-year economic cycle, the main government policy objective has been to free market constraints and encourage an *enterprise culture* - firstly as a general pro-business policy but eventually as an affirmative policy encouraging the formation of new small businesses.

Spearheaded by a series of fundamental changes to fiscal policy and industrial relations legislation, the development of an enterprise culture has been specifically linked to birth of new small firms and the enlargement of the private sector. Despite consistently strong evidence that the German, Japanese and Southeast Asian economic 'miracles' spring from cooperative working practices (if not always from collectivist social policies), enterprise culture policies have also been characterised by attempts to foster *individualism* as the dominant ideology in Britain. Apart from a fairly wide-ranging privatisation programme and the extension of the notion of the market into such areas as health and education, government policies have aimed at reducing so-called *supply-side* constraints in factor markets, promoting private competition in areas previously in the public sector and encouraging the unemployed and newly redundant to start their own businesses.

2.1.2 Basic assumptions.

According to the *enterprise culture* model, the public sector is inherently inefficient and private firms, spurred on by competition and the fear of failure, are not only more efficient in themselves but also boost overall economic development by enriching the range of products and services available. A stage model of development, whereby successful small firms grow into the large corporations of the future, is implicitly (and often explicitly - 'from acorns to oaks!') fundamental to the economic rationale of enterprise culture policies. Economic progress is said to depend on sharp, efficient and dynamic small firms providing a constant flow of new ideas and products, thus supplanting older moribund firms. However, previous policies are held to have placed an increasing number of barriers in the way of budding 'entrepreneurs' attaining satisfactory profits, the seeking of which is fervently believed to be the driving force of their innovative endeavours and a just reward for their efforts and the risks they take. Indeed, according to the proponents of the enterprise culture development model, earlier public policies had substituted government intervention and support for individual effort and thereby actually dampened the latent entrepreneurial drive which is an integral part of 'human nature'. The emphasis on *individualism* is fundamental. According to the logic of the enterprise culture model, this means that overly dependent attitudes (on the state or collective action) must be confronted, the profit motive actively encouraged and structural barriers to starting up profitable small firms removed. The validity of these policies in relation to sustainable economic development will be discussed but the main thrust of this thesis is to assess the psychological implications of these policies, particularly in relation to the underlying enterprise culture assumption that a latent entrepreneurial spirit is 'part of human nature' and that the profit motive is sufficient to ignite this spirit.

As mentioned in the Introduction, the rationale for placing the small firm at the centre of the new 'enterprise policy' can be traced back to the late 1960s, when it was realised that Britain had the smallest proportion of small firms among the leading industrialised economies. The subsequent official enquiry into the state of the small business sector in

Britain, chaired by John Bolton, confirmed both the weakness yet the relative importance of a viable small business to the British economy. The findings, which were published as the Bolton Report (1971), were influential in justifying some aspects of 'enterprise policy' during the early 1980s. For instance, Graham Bannock (1981), the research director of the Bolton Report, reported that the

'principle economic importance of small firms lies in their responsiveness to change and since change is what is required if economic growth is to be resumed, it is desirable that more rather than fewer resources should be channelled into small businesses'.

Despite two deep recessions directly connected with recent 'enterprise' policies and little convincing evidence supporting the underlying assumptions of the enterprise culture (section 2.14), the basic policy still has plenty of supporters. For instance, the very first paragraph of the executive summary of a recent report on the 'enterprise challenge' by the Advisory Council on Science and Technology (ACOST, 1990) sets the scene of their report by stating:

'A vibrant enterprise economy encourages business experimentation and the rapid growth of successful business experiments.....The growth of smaller firms is a vital element in the wealth creation process. Experimentation and growth are central mechanisms in a competitive enterprise economy, and it is for the government to ensure that small firms operate effectively and vigorously.'

Ignoring the rather paradoxical view of the scientists that government should play a central role despite repeatedly asserted government views to the contrary, the Cabinet Department welcomed the ACOST view of economic development by agreeing that small and medium-sized enterprises (SMEs)

' have a crucial role to play in bringing about a dynamic and competitive economy. They have a significant role in innovation, and are a major source of new competition and new employment opportunities....the minority which do grow rapidly have a particularly important role to play; among other things they have the potential to become the new large firms of tomorrow.'

These two statements neatly encapsulate the basic hopes and assumptions that underpin policies aimed at creating an enterprise culture. Enterprise culture policies have included a wide ranging privatisation programme, measures to encourage various people - especially the unemployed - to start their own businesses, fiscal measures including tax cuts for the 'wealth creators' and an advertising and publicity campaign partly aimed at drawing attention to various policy measures but, much more importantly, also aimed at transforming social perceptions and attitudes towards the world of business and self-employment. Consequently, it is entirely legitimate to view enterprise culture policies as an attempt at social engineering and, in this sense, the enterprise culture model has more in common with earlier more socially liberal models (see next section) which relied on the power of education than with its immediate predecessor - the *monetarist model*.

Large corporations have long recognised the motivation of both workforce and management as key factors in corporate success. Attempting to apply these lessons from the private sector to the task of reversing Britain's long term economic decline, policy

makers have spent much of the past decade attempting to create the so-called 'culture of enterprise' in Britain. Apart from a tendency to seek a 'market solution' to most social problems and a number of profound changes to industrial relations law, the main thrust of this policy has been the promotion of self-employment and new small businesses. The main thrust of policy, however, has been an attempt to motivate change through 'top-down' exhortations from leading politicians while opening certain doors of opportunity and blocking others. Perhaps the most succinct official government summary of enterprise culture policy objectives can be found in **Building Businesses ... not Barriers** (Employment Department, 1986), the important deregulation policy White Paper presented to Parliament by the Secretary of State for Employment in May 1986. On the back of the front cover, the prime aim of the Department of Employment was stated to be:

...to encourage the development of an enterprise economy. The way to reduce unemployment is through more businesses, more self-employment and greater wealth creation, all leading to more jobs.

The main policies for achieving these aims were listed under four key areas:

1. Promote enterprise and job creation in...small firms, self-employment and tourism.
2. Help businesses grow and jobs multiply by cutting "red tape";
3. Improve training arrangements....
4. Help the young and those out of work for some time to find work, training or opportunities....

The case for deregulation, a fundamental enterprise culture policy, was supported on the following grounds (p2, section 1.9):

Removing unnecessary burdens is particularly important for people starting new firms and taking on their first employees. They are faced by a formidable array of regulations on direct and indirect taxation, social security, health and safety, planning, consumer protection and trading standards. ...New business start-ups are the essential source of jobs in the future.

The first two of the assumptions of enterprise policy - (i) that self-employed small business managers are entrepreneurs and, (ii) that the absolute growth in number of these small firms will boost national economic performance - are contentious and, as subsequent sections reveal, the balance of evidence is against them. There is also a third implicit assumption in the application of the policies, which also appears to be without firm foundation - (iii) that exposure to basic management training will remove personal skills weaknesses and, as a consequence, lead to the formation of more entrepreneurial small firms. Yet even if theoretical and empirical support for the enterprise culture approach is found wanting, it is worth noting that the practical, theoretical and motivational issues of small business development raised by the model are extremely important. With the collapse of eastern Europe's command economies and as many as one third of western Europe's 18 million or so firms likely to disappear by the end of the century as a result of the Single Market, governments have been increasingly keen to produce innovative products, create demand and avoid a return to mass unemployment through the growth of dynamic small firms. In France and Italy, which have strong small firm populations and traditions, governments of all political persuasions have supported policies of direct

intervention to assist small family and artisanal firms and conservative Germany adopts similar policies in an effort to stem unemployment among large immigrant and eastern German populations. The emphasis, however, is less on the individual and more on social groups (family firms, ethnic or cultural sectors, depressed regions and so on) and on encouraging efforts through organisations such as Chambers of Artisanal Firms. In Britain, the Labour Party has now adopted 'social enterprise' policies like those prevalent in continental Europe, a position similar to that held by many Liberal Democrats.

There is now a consensus on small firm development as a policy target across Europe and within the European Commission. What distinguishes the enterprise culture approach is its strong rejection of public intervention in support of firms directly (usually on the grounds of avoiding market distortions) and the dominance of *individualism* in its underlying ideology with emphasis on the primacy of individual effort and success. Although the focus of this thesis is on the processes that are likely lead to entrepreneurial behaviour, the ultimate validity of the enterprise culture development model is clearly an important issue. If the enterprise culture model is based on false assumptions, resulting policies and strategies are also likely to be misconceived and provide a poor test of whether entrepreneurial behaviour can be encouraged and sustained through public policy. The enterprise culture model is extremely interesting theoretically because it is essentially a *psychological* model of economic development that views attitudinal change as the key to economic progress and economic liberalisation as the key to the desired attitudinal change. To help evaluate the model, the next section considers a number of alternative models. Even within the traditions of liberal economics, the enterprise culture model is only one of many different conceptions of the process of economic development and not the only one which would allot an important role to small firms.

2.1.3 Alternative models.

Basically, the concept of *development* from an economic viewpoint means the growth of goods and services in an economy, usually measured in both total and *per capita* terms as rates of growth in (total or *per capita*) Gross Domestic Product (GDP) or in Gross National Product (GNP) when nationally owned overseas goods and services are included. In advanced capitalist market economies such as Britain, policy objectives tend to be targeted on improved economic performance rather than development *per se*, usually in the form of direct interventions in one or more of the three principal factor markets - capital, labour and land. Although the enterprise culture model also relies on policies in these areas, it is worth repeating that its distinguishing purpose - certainly in relation to the central concerns of this thesis - seems to be socio-political rather than mainly economic. This can be seen mostly clearly by comparing the enterprise culture model with one of the best known psychologically based economic development models, David McClelland's (1961; 1968) achievement motivation model, where structural factors are

understated and the psychological determinants of economic behaviour are more strongly emphasised (1968, p 74):

'Some wealth or leisure may be essential to development in other fields - the arts, politics, science, or war - but we need not insist on it. However, the question why some countries develop rapidly in the economic sphere at certain times and not at others is in itself of great interest, whatever its relation to other types of cultural growth. Usually, rapid economic growth has been explained in terms of 'external' factors - favourable opportunities for trade, unusual natural resources, or conquests that have opened up new markets or produced internal political stability. But I am interested in the *internal* factors - in the values and motives men have that lead them to exploit opportunities, to take advantage of favourable trade conditions; in short, to shape their own destiny.'

McClelland's preferred entrepreneurial motivator, the *need for achievement* or nAch as it is usually abbreviated - 'a desire to do well, not so much for the sake of social recognition or prestige, but to attain an inner feeling of personal accomplishment' (1968, p 76) - is clearly a more purely psychologically-based theory and the motivational and behavioural implications of nAch will be discussed more fully in section 4.3.4 and Appendix D. McClelland himself summarised an alternative economic development theory as 'a society with a generally high level of n Achievement will produce more energetic entrepreneurs who, in turn, produce more rapid economic development' (1961, p 205). However, it is worth noting that the achievement motivation model actually springs from learning and psycho-social development theories of a social libertarian character rather than from the enterprise culture's overtly economically libertarian base. Indeed, referring to the stages of early capitalism when entrepreneurial activities were seen in perhaps their most dramatic form, McClelland is quite disparaging about the profit motive as the mainspring of entrepreneurial activity (1961, p233):

'Since businessmen had obviously shifted their concern from intrinsic worth to money worth, Marx and other economists endowed man with a psychological characteristic known as the 'profit motive'. The capitalist, at any rate, was pictured as being driven by greed, by the necessity of making money or keeping up his rate of profit.

That such an assumption is a typical oversimplification of rational or armchair psychology has recently begun to be realised by historians in particular who have studied the lives of actual business entrepreneurs in the nineteenth century. Oddly enough, many of these men did not seem to be motivated by a desire for money as such or by what it would buy.'

Clearly, the 'oversimplification' of the profit motive determining economic development has survived longer than McClelland believed and is a central pillar to enterprise culture ideology. The studies described in the appendices tend to support McClelland's views about the profit motive in relation to the behaviour of small firm owners in general and undermine one of the central supports of the enterprise culture model but they also provide little support for the achievement motivation model (see Appendix D in particular). McClelland's attack on the profit motive as the determining factor of entrepreneurial behaviour, however, also suggests that a purely psychological explanation of a primarily economic phenomenon has obvious limitations, some of which McClelland was not entirely unaware (1961, p63):

'...a high level of Achievement might predispose any society to vigorous activity. On the other hand, it may only do so in the West or under certain conditions such as free-enterprise capitalism, a certain type of open social structure or a relatively advanced level of technology.'

McClelland correctly pointed out the need for economists to include psychological factors in their explanations and models of development and he also exposed their inadequate treatment of the psychological determinants of economic behaviour. For instance, he easily demonstrated the psychologically inadequate list of 'human motives' and 'human propensities' proposed by Rostow (to develop science; accept innovations; consume; have children and, more closely aligned to the enterprise culture philosophy, to seek material advantage). McClelland was right to question most of these as psychological factors but failed to look more closely at many more interesting economic development theories for their psychological implications.

Apart from the *monetarist model* applied during the early 1980s, examples of recent direct capital market interventions include trade policies making use of exchange rates, tariffs and subsidies to support an explicit *export-led model* or even a more implicit pre-capitalist *mercantilist model*. Earlier *demand-led* and *public welfare models*, in the traditions of John Maynard Keynes (1936), usually also relied on interventions in the labour market (for example, the *high wage/high growth model* of the 1970s and found in Scandinavia) and in the land market mainly through public building and housing programmes. All these models laid heavy emphasis on macro-variables and a few even touched on the processes whereby the intervening micro and personal variables were to achieve the macro-objectives. In general, however, there has been little attempt to link policy to a broader underlying development theory. The enterprise culture model is much more explicit - though not necessarily correct in its assumptions - about these linkages.

Although GDP growth rates are frequently used to compare the performance of different economies, theories of economic development are applied mainly to developing countries. Nevertheless, a number of concepts developed for a third world context clearly had echoes among policy makers in more industrialised societies. For instance, the much-debated *stage development model* elaborated and criticised during the 1960s (Rostow, 1962; Cockcroft et al, 1972) contrasted different levels of underdevelopment in the third world with the 'mature' societies of the industrialised world. The details of Rostow's 5-stage model are not particularly relevant for our present purposes but certain key features of the model and its suggested strategies continue to strike a resonance today. The first - that the goal of third world development should be the introduction of an advanced capitalist economy - is eerily reflected in the fascination that Japan and Germany now hold for a wide range of British commentators and policy-makers. The second - that the most effective development strategy is to introduce pockets of advanced capitalist industry directly into the under-developed society to allow the benefits to 'trickle down' - is very similar to the rationale advanced in support of huge cuts in progressive income taxation and a switch to indirect taxation in Britain, a corner stone of the enterprise culture

'revolution'. Although they share similar aims such as a fondness for supposedly non-interventionist policies, the strategies and focus of these two approaches - the *exemplar model* and the *trickle down model* - are quite different from the enterprise culture approach.

In their non-interventionism, all three models differ markedly from many models mentioned above - the more *dirigiste* models pursued by previous post-war British (especially Labour), Scandinavian and French governments and the rather less overtly formal *corporatist* policies followed in Germany, Italy and Japan. In both cases, governments consciously pushed openly (*dirigiste*) or behind the scenes (*corporatist*) for a consensus with the private sector in pursuing particular industrial objectives. Where these industrial objectives embraced the promotion of new technologies (because of their overall modernising influence as well as their market importance), it may be more appropriate to talk of a *technology-led model* of economic development, such as that of the Wilson governments in Britain. Certain sections of the United States, the newly industrialised countries (NICs) of Hongkong, Singapore, South Korea and Taiwan and specialised countries like Switzerland and the Netherlands have included this model as part of their development strategies. Most of these countries as well as France have also included a related approach, which may be labelled the *infrastructure-improvement model*, in their development strategies. Although these alternative models are mostly interventionist and, therefore, philosophically distinct from the enterprise culture approach, they share the ultimate economic aim of improving the operation of the factor markets and may be considered to represent various aspects of conventional economics. They are also very structuralist and far less psychological in their approach than the enterprise culture model.

Leaving aside the now discredited *capital accumulation model* of the centrally-planned command economies (which is still influential in the third world despite the political-economic upheavals in eastern Europe), there is a variant of the *dirigiste* model which may be termed the *planned development model* often advocated by institutionalist or managerial economists. This model, long espoused by prominent economists such as J Kenneth Galbraith (1969) and Gunnar Myrdal (1970) and many European Social Democrats, suggests that resources and policy priorities - including planning for non-work and leisure - can be allocated rationally through debate, discussion and agreed decision. According to this model, which also embraces social engineering but is the complete antithesis to the enterprise culture model, innovation and the implementation of new technologies are now such socially complex processes that they cannot be left to the vagaries of the market and must be politically planned and directed. Advocates of the enterprise culture model claim that planned development has not been particularly successful in promoting economic development whatever its distributive merits in social development. Indeed, criticism of the planned approach has not only come from the right but also from many liberal and left critics who feel that development is rather too

evolutionary and complicated a process to be left to the decisions of small groups of people no matter how bright or how well-intentioned. However, the more liberal proponents of planned development, such as Galbraith, would argue that more democratic and open systems have to be developed to allow for more widely participative planning.

Supporters of Fritz Schumacher, the author of the influential and pre-Thatcherite pro-small business book *Small is Beautiful* (1973), would also claim to offer an alternative model in advocating a *people's skills model*. This model denies that development starts with goods and asserts that the crucial factors for development and the untapping of local resources are the education, organisation and discipline of people. It could be argued, however, that this is merely placing stronger emphasis on labour market policies and is similar to recent demands in Britain for more effective management and technological skills training. Indeed, with their emphasis on personal empowerment and self-management, currently popular *human resource management* and *total quality management* models appear to owe much to Schumacher. A stronger alternative model - the *social structuralist model* - is offered by the veteran Marxist development sociologist Andre Gunder Frank which views development as a function of the social and political structures and relationship of forces present in any particular society but also places emphasis on a planned approach emanating from the meeting of local needs and empowering people through collective actions.

In the modern world, the determining structures also reflect the influences of international forces which means that the development of small businesses in an advanced capitalist market economy will ultimately depend on the needs and requirements of the large, mainly multinational, providers and users of capital and not on the personal desires of individual 'entrepreneurs'. Frank trenchantly criticises the Rostow stage model (on conceptual and empirical grounds) and links the underdevelopment of third world countries to structures that facilitate a net export of capital from those countries to the developed economies, a situation that has worsened during the 1980s. No serious development model denies the importance of capital to development and entrepreneurial endeavour. Indeed, Rostow (1962) provides a useful technical definition of development: growth of industrialisation and level of national income sufficient to yield enough domestic savings to provide investment for future growth. In relation to the more immediate focus of this thesis, the encouragement of entrepreneurial behaviour in an advanced capitalist market economy, it has already been mentioned in the first section of the Introduction that Britain has been a net exporter of capital since late Victorian times. During the past decade, the export of capital from Britain has increased dramatically as has domestic debt while domestic savings have declined.

If a structuralist approach - not necessarily Frank's (many of the *dirigiste* or corporatist models have strong structuralist elements) - provides much of the explanation for

individual entrepreneurial success, the *enterprise culture* model of seeking to encourage entrepreneurial behaviour through altering personal career motivation will be seriously undermined. Needless to say, the enterprise culture model - with its emphasis on individual motivation and behaviour and its reliance on government cajoling to alter attitudes - is not in the least structuralist and completely rejects the notion that social structure influences economic behaviour ("there is not such thing as society, only individuals or families!").

This is not to say that government policy over the past decade ignored the socio-political structure of Britain - industrial relations legislation and monetarist policy had precisely that aim - but that the enterprise culture component of government policy is decidedly non-structuralist. The view that economic growth depends mainly on individual effort is not new. Weber's (1930) notion of the *protestant work ethic*, often applied with suitably watered down religious nuance to analysing the success of Japan and other economies, is essentially about a nation's economic prosperity being the reward of the sober hard toil of its citizens. McClelland (1961, 1968), who developed his achievement motivation model through analysing growth patterns of past societies, holds that societies favouring a spirit of independence produce citizens with strong desires to achieve success and that economic growth is the result of the accumulation of many individual business successes. It is significant that Frank explicitly criticises Joseph Schumpeter's emphasis on individual entrepreneurs (section 2.24) as well as David McClelland's achievement motivation model. Frank feels that the scope and complexities of socio-political development are too broad to be adequately explained by limited micro-theories, especially those that rely on individual motivations which have been mainly determined by previous (cultural and infantile) social realities (Cockcroft et al, 1972). In Frank's view, it is mainly *present* social reality that determines economic behaviour and development (Frank, 1978) though, Frank would not cavil with McClelland's view that lack of personal and political autonomy stifles development.

Other economic development models exist but the above brief review is sufficient to demonstrate that no one model offers uniquely guaranteed solutions to the problems of initial and continued socio-economic development. In developed economies the main economic concerns have more to do with economic efficiency than with the process of development. Even in Britain over the past decade several other models have vied with the enterprise culture model for favour among policy makers - generally different from each other but united in their rejection of the planned development model. These are important points because, if the enterprise culture model is seriously flawed, attempts to alter existing cultures by imposing elements of a supposedly pro-enterprise culture are likely to be doomed to failure. Thus, the additional purpose of the above review was to expose the key elements of the enterprise culture model that require examination as well as to demonstrate that there are a range of criteria against which these models can be assessed.

Indeed, it is worth noting that on the main economic criterion, growth in GDP, Britain's comparative performance against similar economies provides little support for enterprise culture policies. Although the rates of growth of GDP during the mid-1980s (when North Sea oil receipts accounted for a very high 7 % of GDP) in Britain were higher than the EC average, much of the rate of growth was explained by recovery back to the trend line rather than growth above it with industrial output only regaining 1979 levels in 1989 (Johnson, 1991). The following table clearly shows Britain's net economic weakness by the end of the 1980s.

Table 2. Comparative GDP growth rates during 1980s.

	1980	1985	1989
	(percentages)		
Britain	-2.0	3.8	2.1
France	1.6	1.9	3.7
Germany	1.5	1.9	4.0
Italy	4.2	2.6	3.2
EC average	1.5	2.4	3.5
USA	-0.2	3.4	3.0
Japan	4.3	4.8	4.9
OECD average	1.5	3.4	3.6

This decline has been not only in quantitative but also in qualitative output, the supposed domain of the small business entrepreneur. As one reasonably objective measure of the relative lack of overall entrepreneurial technological innovation, German firms registered 1.36 technological patents in the US for every one British patent 1963-68. By the period 1981-86 that ratio had more than doubled to 2.68:1 and there was not a single industry (indeed, in only 'drugs' and 'photography and photocopiers' did the ratio drop) where Britain registered more patents than Germany (Patel and Pavitt, 1989). Given the steady investment of capital in Germany since last century, compared with the steady outward flow from Britain, the social structuralists appear to have considerably more ammunition at their disposal than the proponents of the enterprise culture. Empirical evidence on the effectiveness of enterprise culture policies will be assessed fully in Chapter 5.

2.2 The entrepreneur in economic theory.

This section provides the framework and the basic criteria for assessing, firstly, the role of the entrepreneur in economic development and, secondly, what constitutes entrepreneurial behaviour. Taking as the point of departure Adam Smith, widely regarded as the father of modern economics and the founder of the classical political-economic tradition in economic theory, the contributions of Bentham, Mills and Say to a general understanding of the entrepreneur are considered. This is followed by a more detailed analysis of the process of capitalist economic development through a discussion of Marx's process of capital accumulation. In addition, concepts such *alienation*, *money relations* and the *social specialisation of labour* provide the basis for linking a small business typology and certain psychological issues to the process of economic development.

However, modern economics is often mathematically based and more concerned with formal analysis. More recent developments which have rejected many assumptions of neo-classical economics yet retained the analytic rigour are discussed. In particular, the concept of economic efficiency and the evident requirements that entrepreneurs need to be both business minded and economically efficient are demonstrated (the practical implications of this are discussed in the following section). The earlier consideration of the classical political-economists and Marx sets the scene for examining Schumpeter's equally rigorous theories of economic development, innovation and the entrepreneur. With earlier conceptions of the entrepreneur - and later theories influenced by these conceptions - reflecting their historical epoch, Schumpeter's concept represents the best operational definition of the modern concept of the entrepreneur.

2.2.1 The entrepreneur in economic history.

Strictly speaking, the term *entrepreneur*, which derives from the French words *entre* (between) and *prendre* (to take), refers to someone who acts as an intermediary in undertaking to do something. The term was apparently originally used to describe the activities of what today we might call an *impresario*. The entrepreneur first made an appearance as a distinct economic concept in France, twenty years before Smith published his *Wealth of Nations*. Richard Cantillon (1756), an Irishman living in France, suggested that the entrepreneur was someone prepared to bear uncertainty in engaging in risky arbitrage - buying goods and services at a *certain* (fixed) prices to be sold elsewhere or at another time for *uncertain* future prices. This concept is clearly influenced by the dominance of trade as the chief means for accumulating new wealth and capital.

This earlier notion of the risk-taking trader, however, began to be challenged by the view of the entrepreneur as an adventurous self-employed manager capable of combining, to personal advantage, capital and labour. It is interesting to note that in France today the entrepreneur is a more generic term mainly referring to small property developers and owners of small construction firms. It would be wrong to state that the element of risk-bearing has completely disappeared from the modern concept of the entrepreneur but it does seem true that a swift perception of opportunities and the ability to coordinate the activities of others emerge as the more central skills of the modern entrepreneur. This shift is clearly demonstrated in the virtual absence of risk-taking as an important construct among the enterprise trainees construals of the entrepreneur reported in Table E5 of Appendix E even though there was broad agreement among the individual trainees that entrepreneurs are basically determined and experienced business people with good organisational abilities.

Yet, although the entrepreneur has long been recognised as an interesting character in the economic landscape, economic theory has virtually ignored the importance of the attitudes, values, abilities and personality of owners and managers on the firm's economic

behaviour. Economic 'agents' or 'actors' are treated in neo-classical economics as abstractions rather than individuals. Nevertheless, speculation on the motivation of business owners in general was quite common in the earlier tradition of political economy. For instance, Adam Smith (1776), widely regarded as the father of economics, wrote about the greedy nature of business owners and their tendency to conspire, with the aim of increasing their own accumulation of wealth, against consumers whenever they grouped together. However, one century later a more abstract analysis of markets came to the fore and economics was dominated by the mathematical equilibrium analyses of Alfred Marshall (1920) which, according to Silver (1984), has no place for such an awkward concept as the entrepreneur.

Smith's central thesis was that the pursuit of individual self-interest, bound by the imperatives of commercial competition, produced the greater specialisation and diversity of products and services which ultimately led to the betterment of society. Smith believed that humans had an inherent 'propensity to truck, barter and exchange one thing for another' and that it was this *propensity to exchange* (in the labour market as well as the goods market) that gave rise to the division of labour. He also claimed socially beneficial impersonal effects for competition and the pursuit of personal self-interest (hence his famous throwaway line 'the invisible hand of competition'). Although Smith drew no distinction between entrepreneurial and non-entrepreneurial business owners, nor between small and big (perhaps they were all smallish and entrepreneurial in the eighteenth century), he saw the accumulation of wealth as the sign of success and the attainment of high rates of profit as the sure path to that success. For him, it appears that all capitalists, as a newly emerging class, were entrepreneurs.

Anticipating Schumpeter's views on entrepreneurial motivation (section 2.2.4) and the stage model of personal development (section 5.4.2), Smith implicitly recognised that motivations change with circumstance and that circumstances change as people become more wealthy. Indeed, he regarded rich successful merchants as the best defenders of society against the worst 'anti-environmental' effects of unbridled competition because of their altered priorities due to their recently improved station in life. It is important to note, however, that Smith was writing at the time capitalism was only just emerging from its infancy and the role of managers and entrepreneurs was quite different from today. As capitalism grew and developed, the central issues which concerned political-economists - Smith, Ricardo, Say, Bentham, Mill and so on - were the 'laws of human nature'. In this, they tried to parallel the methods of natural science, which was also developing rapidly, in describing how their 'laws of human nature' were manifest in everyday commercial life and in society at large.

In the early nineteenth century, the French political economist Jean-Baptiste Say (1817), an early theoriser on the economic function of the entrepreneur, conceptualised the three

factors of production - land, labour and capital. Say conceived the much debated nostrum that 'supply creates its own demand' which was described and attacked from different perspectives by both Karl Marx (1867) and John Maynard Keynes (1936) in their respective criticisms of the classical political-economists. Ironically, Say's 'law' is a direct repudiation of Smith, the 'father' of classical political-economy, who believed that the economic focus of a well run business should be on satisfying its consumers not on its own production as an end in itself:

'Consumption is the sole end and purpose of all production; and the interest of the producer ought to be attended to, only so far as it may be necessary for promoting that of the consumer. The maxim is so self-evident that it would be absurd to attempt to prove it. But in the mercantile system, the interest of the consumer is almost constantly sacrificed to that of the producer; and it seems to consider production, and not consumption, as the ultimate end and object of all industry and commerce.' *Wealth of Nations* (1776)

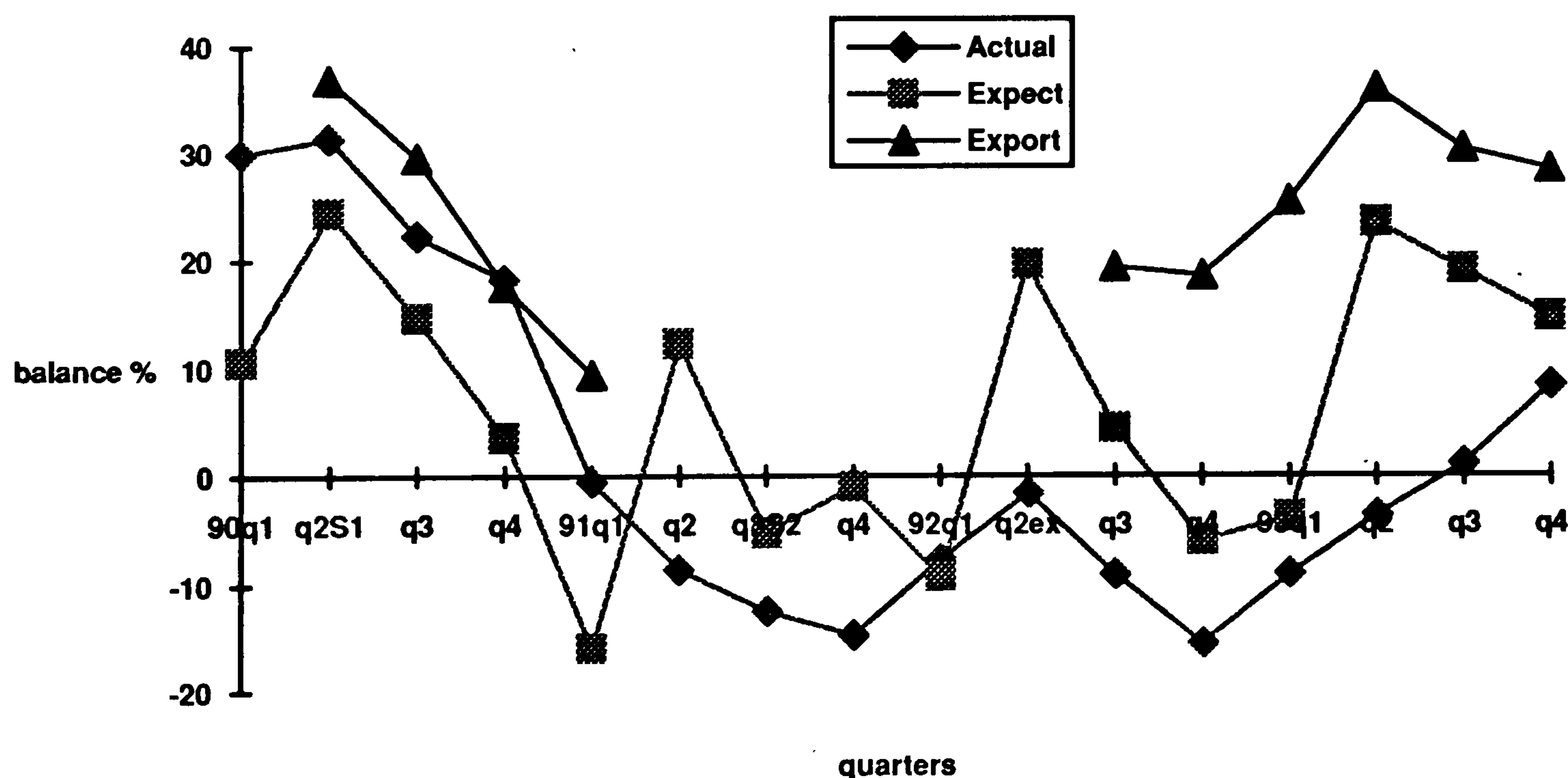
This difference in emphasis between the relative importance of *supply* (the producers' interests) and *demand* (the consumers' interests) reflects fundamental differences in approach towards political and economic issues which persist to the present day. The stress that modern marketing and quality theory place on satisfying customer needs as the key to business success suggests that, although most self-employed and small business owners do appear to be 'product driven', entrepreneurs may be more alert to 'demand-side' issues (discussed in more detail in sections 3.3.3 and 4.3.1). Indeed, the debate over Say's Law goes right to the political and psychological centre of enterprise culture policies in that, despite the introduction of 'citizens charters' and 'internal markets' within public services, the unambiguous aim of the policies is to increase the absolute number of small scale producers. Whether or not this is likely to produce more entrepreneurial business behaviour is the key issue addressed in this thesis (and tested as Hypothesis 4).

Basically, Say's Law holds that it is the increased tempo of production and exchange which creates wealth, increases demand and leads to growth. This belief in a widespread and undifferentiated increase in the 'supply side' as the motor of economic development is, as discussed in the Introduction, an important part of the philosophical underpinning of the enterprise culture but sits uncomfortably with concepts like social specialisation and modern marketing and quality practice. The 'supply-siders' apparent belief that it is mainly constraints and imperfections in the land, labour and capital markets that prevent economic growth flies in the face of empirical evidence (periodic cycles of over-production, Britain exporting capital during times of labour and land glut, etc.) but does explain why proponents of the enterprise culture policies pay so much attention to such psychological variables as attitudes and 'confidence'. By contrast, structuralists and Keynesian demand-management economists argue that business people are aware of the current economic structure and that their perceptions and expectations are psychological responses to actual business and economic conditions. Generally, 'demand-siders' believe in direct intervention in the various factor markets. Typical demand-side interventions

include stimulating demand for goods and services through public works programmes and, as a direct comparison with enterprise training, improving the quality and flexibility of the labour market through targeted skills-development training initiatives and, sometimes, subsidised employment support schemes.

As the next chapters make clear, the small business sector is so heterogeneous that both approaches can find some support. However, the central argument of this thesis would suggest that entrepreneurs actively seek to improve their own business conditions through understanding their customers and are characterised by realism rather than nebulous feelings of 'optimism'. Indeed, wishful optimism rather than genuine entrepreneurial calculation may well be one of the more obvious effects of enterprise culture policies as the effects of the current recession suggest. Taking exporting as a reasonable proxy for entrepreneurial activity in small firms, the following graph charts the balances (percentage of respondents reporting increases less the percentage reporting decreases) of actual small business sales, current expected sales and actual annual exports of respondents to SBRT quarterly surveys (see Appendix B) shows the impotence and instability of 'optimism' as a predictor among all small firms contrasted with the steady and superior performance of the small exporters.

Chart 1. Actual, anticipated and export sales balances, small firms 1990-93.



The predictive power of expectations was reasonably accurate until the small firm sector slid into recession in the first quarter of 1991. Thereafter, expectations fluctuated wildly, resembling wishful thinking rather than accurate projections, which suggests that few of the small firms have realistic expectations or else have a poor understanding of their own socio-economic reality. However, a more detailed analysis of the responses revealed that the few firms whose expectations were later realised (including many exporters) displayed a markedly superior per capita sales performance (often reflecting static sales but reduced staff). This demonstrates that, even in recession, some small firms remain entrepreneurial

and recognise that 'supply-side' overproduction would be a fairly suicidal strategy. Despite the fact that his 'law' reflects decidedly non-entrepreneurial business practice, in a definition that has resonance today, Say described the entrepreneur as a sort of problem-solver, an agent whose function was to coordinate and combine the factors of production. Say's definition influenced John Stuart Mill (1848) and Joseph Schumpeter (1934), except that Mill was also drawn to the concept of risk as the defining characteristic which distinguished entrepreneurs from managers on their willingness to accept risk.

However, it is important to note that the early political-economists were writing during the transition of *mercantilism* (trade based economy) into early capitalism. Many new entrepreneurial opportunities were connected with trade where physical risks were rarely absent. Apart from commerce in items of clothing and staple foods, the enormous profits of the mercantile age came from trade in high value, luxury goods where the risk of theft or natural damage was always high. Founders of new businesses had to battle and shoulder certain risks to break into an economy dominated by a relatively small number of wealthy landowners and large merchants - in other words, the socio-economic structure was such that virtually all newcomers to business had to be risk-taking entrepreneurs in order to survive and prosper. Even during the previous economic era of *feudalism*, as Europe struggled to escape the 'dark ages' (and, in so doing, sowed the seeds of mercantilism), the Belgian economic historian Henri Pirenne (1937) has identified two types of contrasting entrepreneur drawn from the rootless class of people who took the risk of escaping from their feudal bonds to seek freedom in the newly emerging towns. The first type of entrepreneur to emerge he termed *craftsmen-entrepreneurs*, who sold their artisanal products direct to their local consumers and cherished their independence. The second type to emerge were the *trader-entrepreneurs* who were prepared to accept the risks of foreign travel to exchange their local goods for rare goods from abroad.

The individualism of the first type, whom Pirenne describes as 'non-capitalist' early *petit bourgeois*, eventually led them to establishing non-entrepreneurial, risk-averse guilds as a protection against newcomers, the aristocracy and the growing power of the merchants. In China, the pervasive influence of the ancestor-related clan system diverted otherwise enterprising merchants away from forming wider entrepreneurial networks (Weber, 1984). This essentially non-entrepreneurial behaviour of many people in business was remarked on by Adam Smith (1776) in his well known observation that, when business people meet together, they generally 'conspire' against the interests of consumers and competitors. The same theme was picked up by Schumpeter (1934) who observed that early seemingly entrepreneurial behaviour can quickly give way to non-entrepreneurial behaviour once a certain level of satisfaction has been reached. Basically, the evidence presented in this thesis suggests that the average level of satisfaction among new firms of the enterprise culture years is very low, not much above personal or family survival levels. The essentially non-entrepreneurial expectations of most present day small firm owners in

Britain was highlighted in the survey reported in Appendix B4 which asked 1,718 small business owners about their growth intentions (marked as 91:q3S2 on the base axis of Chart 1 above). Of the 38% who expressed any intentions to expand their firms (a key enterprise culture policy target), only a few were able to quantify their projected growth but most of these were limited in their ambitions as can be seen in the following table.

Table 3. Growth targets of growth-oriented SMEs

Target employee- size	Current employee-size							Total
	1-2	3-4	5-9	10-14	15-24	25-49	50+	
1-2	5	0	0	0	0	0	0	5
3-4	17	5	1	0	0	0	0	23
5-9	25	29	17	0	0	0	0	71
10-14	8	13	28	1	0	1	0	51
15-24	4	6	24	20	6	0	0	60
25-49	2	1	2	13	13	11	0	42
50+	0	0	1	1	5	13	10	30
Total	61	54	73	35	24	25	10	281

Even among this 16% of the sample, who apparently take a planned approach to the growth of their enterprises, few intend to move beyond the next employee-size band. This means that, after a decade of enterprise culture policies, only 5% of small firm owners planned to continue to expand significantly their enterprises. As we saw above, Davidsson (1989a) considered this intention to continue to develop as the sign of the 'true' or 'economically significant' entrepreneur but, as Davidsson also found, it is clear from the survey evidence of this thesis (see Table 10 in section 4.2.4 and Table B7 in Appendix B3) that most of today's small firm owners are more strongly motivated to seek their own individual independence, as their medieval forerunners were. It was the activities of the much smaller group of active *trader-entrepreneurs*, and their financiers, which led Europe out of the Middle Ages into the era of mercantilism and, eventually, to capitalism. We shall meet these types again (section 3.3). The important point to note here is that the concept of the entrepreneur and what constitutes entrepreneurial behaviour is very much bound up in the socio-economic cultures and developments of the time. Weber (1984) in analysing medieval Chinese society makes the point that, although the Chinese were very enterprising and motivated to accumulate wealth, neither capitalism nor a sturdy, independent merchant venturer class took root there. Another important point to note is that brave and risky behaviour cannot be reduced simply to a psychological propensity to take risks. Pirenne provides convincing evidence that most of the early trader-entrepreneurs, though undoubtedly energetic and motivated by the prospects of good profits, did not risk losing much because disease, war and family pressures had uprooted them from their homes with few options other than those of artisanal worker or bonded peasant. In their case, a more rugged, self-sufficient individualism appears to characterise their behaviour though it seems clear that they were not risk-averse (problems of risk as a defining entrepreneurial personality trait are discussed in section 4.2.5).

Both types are reflected in the classical tradition developed from Smith through Jeremy Bentham, David Ricardo and John Stuart Mill which emphasised the view that economic behaviour springs from individual self-interest. These ideas were refined by Jeremy Bentham as the theory of utilitarianism - the prime human motivation is the pursuit of happiness and the main role of government is to maximise the sum of happiness for the greatest number of individuals. Psychologically, utilitarian theory places non-economic behaviour in business strongly on the agenda (section 5.3) and raises the notion of entrepreneurs being individuals who gain their greatest pleasure from running their own organisations or engaging in new projects. The studies reported in Appendix B provide some support for this approach but mainly in relation to individuals for whom business is *psychologically central* and who are keen to expand their businesses. The Benthamite approach, however, leaves the door open to the notion that pleasure may be gained through pursuing non-economic goals. It offers a partial explanation for why people motivated to maintain their independence may not find business growth or innovation personally rewarding and may find more satisfaction in maintaining a preferred lifestyle through their own efforts.

Economically, Bentham's most influential contribution was to propose that the value of a good depends on the demand for it (that is, the *utility* to the customer) and its price will be determined by its *marginal* utility. Bentham's approach is a direct repudiation of Say and has strong links to modern motivation theory (see section 4.3). As already mentioned, the switch from a *production costs* view of the value of goods to a *demand* perspective is reflected in today's consumer and marketing centred approaches but the introduction of marginal utility analysis also led directly to the more mathematical approach to economics. Curiously, theories which started from an idealised notion of individual behaviour led to extremely analytic approaches, abstracted individual behaviour and little place for non-economic motivation in their economic calculus. Ironically, Marx's materialist approach, which stands in stark contrast to the idealised individualism of the classical political-economists, does not even recognise such a particular concept as the entrepreneur yet provides a far more useful framework and analysis for understanding the behaviour of small firm owners and development of the small firm sector in present day Britain. The important conclusion to draw from this summary of early political-economic analysis of the role of the entrepreneur, apart from its implications for casting light on present day enterprise culture policies, is that the entrepreneur as a concept is very much a product of its times and the current state of economic development which shifts as the economic structure evolves. The linkage of socio-economic constructs to the social relations obtaining during any particular stages of economic development owes a great deal to nineteenth century social political-economist, Karl Marx.

2.2.2 Marx and the entrepreneur.

Marx's central concerns were the social processes through which capital is accumulated rather than the role that individuals play in economic development. Despite his powerful structuralist approach, more interested in the actual workings of capitalism than individualistic explanations of economic phenomena, Marx's analysis of social process introduces far more psychological perspective into economic development than individual self-interest - the central concern of classical economists, the intellectual parents of the enterprise culture. This is not to say that Marx did not recognise the importance of individual motivation or the power of self-interest even though he explicitly concerned himself with social phenomena. As mentioned in the previous section, he shared with marketing theorists and advertising executives (and most modern economists) the belief that it is *consumption* driven by the needs of individuals that not only defines the *use* of goods and services but also 'creates the need for *new* production...Consumption creates the motive for production' (Marx, 1973, p. 91). In a view that strikes a note with Maslow's *hierarchy of needs*, Marx felt that human beings value their own independence and that workers were motivated to give up their personal independence and to sell their labour to capitalists only in order to satisfy their basic need for survival. Capitalists are in a position to pursue their own self-interests independently though, to be successful, they will need to meet consumers' needs more effectively than their competitors. Despite its central importance to a proper understanding of human behaviour, however, individual self-interest is almost impossible to specify psychologically (subjective or objective? conscious or unconscious? long term or immediate?).

It is his insights into the social processes of production which produce *alienation*, *property rights* and *class consciousness* that of interest. These are essentially psychological, the collective result of social forces on individual development, and explain many of the features of recent small business growth. Marx, with his aim of revealing the general determining laws and consequences of capital accumulation, had no place in his analysis for particular phenomena such as individual entrepreneurs responding to unique situations though he occasionally used the term to apply to situations where the relationship between the capitalist and workers was direct and personal and sometimes in the French usage as *impresario* (Marx, 1969). Nevertheless, despite Marx's avoidance of individualistic explanations, his description of the skills deployed by successful capitalists in extracting *surplus value* goes straight to the heart of entrepreneurial business behaviour. Indeed, in outlining the 'counteracting influences' successful capitalists use to delay the full effects of inevitable crises of overproduction, Marx provides a brilliant model for ideal entrepreneurial behaviour. Schumpeter (1934, 1942), in his pioneering analysis of the entrepreneurial function, was particularly influenced by Marx's description of the role of 'technology advances' and the tendency for capital to seek more efficient extractors of surplus value.

Although Marx clearly stated that his prime analytic focus was *capital* and its accumulation, he was equally clear that capital has no power without human direction even though it need not attach to any particular individual. Neither capital nor labour should be idealised and Marx hinted that he did not fully agree with the old socialist adage 'we need capital but not the capitalist'. The following quotation from *Grundrisse* (1973, p303) is very important because it plainly emphasises the point that, while the analysis of the process of capital accumulation requires generalised constructs, individuals were free, or could be forced by circumstances, to change their roles in that process.

'I may well separate capital from a given individual capitalist, and it can be transferred to another. But, in losing capital, he loses the quality of being a capitalist. Thus capital is indeed separable from an individual capitalist, but not from *the* capitalist, who, as such, confronts *the* worker. Thus also the individual worker can cease to be the [representation] of labour; he may inherit or steal money etc. But then he ceases to be a *worker*.'

Apart from the basic message that capital and labour are not separate *things* but derive their economic significance through social relations, this quotation also highlights three very significant points. Firstly, Marx felt that human actions are determined more by personal circumstances and the immediate situation rather than by idealised almost permanent traits or personality characteristics. However, his recognition that changes in individuals respond with conscious intention to the ups and downs of capitalist development and to their own economic circumstances also refutes the notion that he was a simple *social determinist*. The second point is that occupational behaviour will flow from the individual's role in the capital accumulation process rather than specific individual qualities. Capital is seen not only as the material basis of production but also as the source of power and choice. The third point which flows from the first two is that social class is underpinned by the social relations of work and that social mobility depends greatly on an individual's relationship to capital (a notion to which Schumpeter was drawn as the prime motivator of the entrepreneur).

Generally, the political-economists' concept of capital was broader than today's rather narrower concept of equipment and investment finance. For instance, Ricardo included food, clothing, shelter, premises, tools and raw materials as well as finance in his definition of capital. In addition to these material aspects of capital, Marx saw *property* as fundamental to the concept of capital and *property relations* as lying at the heart of the capitalists' power to exploit labour and accumulate capital. Property as a broad concept springing initially from the ownership individuals feel over the products they create from nature widening to include the relations between community and individual rights and control over territory and products. Private property was seen as a special case alongside though eventually superseding more communal forms of property. A key element of enterprise culture policies was the drive to encourage wider ownership of private property and of capital in the form of shares.

Marx's concepts of property and property relations has had a huge influence, perhaps mainly indirectly through sociology, on modern *behavioural* and *neo-institutional economics* (see section 2.24). He discussed the tools employed by the successful capitalist, such as power based on *property relations* (a technical term referring to individuals' rights to make use of all their resources - not just land or premises - in any legal way), access to capital, an eye for profitable or emerging markets and an ability to organise other people. Marx defined growth in terms of capital accumulation and placed great emphasis on the tendency for surplus value (profits derived from surplus labour power) to accrue to capital. However, Marx also believed - a point noted by Schumpeter - that the tendency of capital to flow to new areas giving the better returns on capital would continuously create crises for older firms and opportunities for new firms. As the above quotation suggests, this implies at the micro level of individual capitalists, especially in smaller enterprises, continual movement in and out of the capitalist classes and a great deal of social uncertainty.

The aim of the capitalist is to accumulate capital which represents not only wealth but also *power* - not a mystic concept but derived from the property rights attached to capital. As capital accumulates through the extraction of surplus value as profits (or rent, interest and dividends), Marx clearly endorsed the view that profit-maximisation should be the goal of successful business owners (which can be taken to include entrepreneurs). Indeed, he defines Smith's concept of productive labour as that which augments capital (1973, p 307n). It is this process of extraction of surplus value - essentially the product of surplus labour - that defines the capitalist mode of production. The key to the process - and to the social development of capitalism - lies in the property rights attached to capital giving the owner of capital the right to control and organise work patterns. Psychologically, this implies well developed social skills on the part of successful capitalists (entrepreneurs). Although generally hostile to Marxist concepts, this was recognised by leading post-war entrepreneurial theorists in the United States. Norman Smith (1967), whose entrepreneurial typologies are discussed in section 3.3.3, based his definition of the entrepreneur on economic historian Arthur Cole's (1949) conception of the entrepreneur as 'an individual who initiates, maintains and aggrandises a social institution which produces economic goods and has, as its manifest goal, profit making'.

Marx recognised the sense of property, independence and personal satisfaction (*a la* Bentham) in *handicraft labour* (1964, p98) but argued strongly that self-exploitation or earning a living through selling a personal skill as an individual is quite different from capitalist exploitation or accumulation. His comparison of piano players with piano makers (1973, p305), a Milton labouring for love to write *Paradise Lost* with 'hacks employed to write penny-dreadfuls or popular encyclopaedia' (1969, Part I, p401), makes it clear he would have regarded most of Britain's new self-employed as *economically non-productive* workers, exchanging their labour for revenue without reproducing capital.

Productive labour is used to create capital but traders selling commodities or skilled trades people selling their own labour as commodities are merely receiving revenue for the use of the goods or services - often at a fixed price. However, as the following quotation from *Theories of Surplus Value* (1969, p 401) makes clear, when another small business owner buys their labour rather than a specific product of their labour, the relationship is transformed.

'A singer who sells her song for her own account is an *unproductive labourer*. But the same singer commissioned by an entrepreneur to sing in order to make money for him is a *productive labourer*; for she produces capital.'

The distinction is crucial because the bulk of the self-employed are engaged in self-rewarding but economically non-productive labour and only a minority exploit productive labour and even fewer, the entrepreneurial self-employed, are efficient exploiters of productive labour. Consequently, even though recession and alienation produce a constant stream of new self-employed, these new recruits to the class of artisans, non-productive individual labour and small units of family production (generally classified as part of the *petit bourgeoisie* but fundamentally different from clerical and supervisory workers who also attract the same label) do not provide a good breeding ground for new entrepreneurs. Those that survive will join the existing stock of pre-capitalist groupings with their own traditions of independence - artisans, skilled crafts workers, hawkers, stall traders, small farmers, itinerant labourers and so on - who are likely to be repelled as much by the threat to their property rights posed by capitalism as by proletarian collectivism. They are unlikely to be a fertile source of new entrepreneurial capitalists.

Two of Adam Smith's concepts greatly influenced Marx - the shift from pre-capitalist exchanges of services to capitalist *money relations* and the *division of labour* whereby production can be broken down into increasingly specialised tasks (Smith started the *Wealth of Nations* with a description of how the already specialised production of a pin involves 18 separate operations - each one of which can be allocated to an individual worker or group of workers). Writing at the dawn of capitalism while the age of *mercantilism* was in full flourish, Smith noticed that money as a medium of exchange was extending beyond tradable goods to services which had previously been exchanged directly for other services or goods. He observed that this represented a fundamental structural shift in the economy with respect to the workers providing those services and how they could be organised. Smith went on to explore these two phenomena through analysing and describing mass production, economies of scale, trade between nations, personal and economic liberalism, capital accumulation and a number of other issues still of interest today.

Although Smith is regarded as the intellectual father of the enterprise culture ideology because of his extolling of the virtues of the 'free market', it is these two phenomena - *money relations* and the *social specialisation of labour* - as refined through Marx's

concept of property relations which provide the tools for achieving a proper understanding of the process of enterprise development and the role that psychology plays. Marx (1964, p112) praised Smith's observation as a point 'neatly made' about the essential antecedents of capitalism and fundamental elements in its continued development. The following outline of Marx's analysis of the workings of capitalism make it clear that the *entrepreneurs* which enterprise culture policies are seeking to encourage are in fact *fresh capitalists* who act as poles for new capital investment. The stated aim of the policies, and perhaps the understanding of policy administrators and many voters, is an enterprise culture with newly opened doors for *individual* opportunity but the real political-economic aim is reinvigorated capitalism - a contradiction which may be difficult to resolve despite the centrality of *individualism* to the capitalist ideology. Enterprise culture policies appear to be designed more for sustaining capitalism's 'reserve army of labour' (pre-capitalist remnants, blue collar unemployed and the *lumpen proletariat*) and the distressed 'petit bourgeoisie' (the self-employed, white collar unemployed and small business owners) than for encouraging new capitalists (see chapter 3).

In essence, capitalism started with workers selling their labour to a capitalist as the owner of capital (premises, equipment, money) in exchange for a daily money wage sufficient to cover their daily needs. Smith, who regarded wages, profits and rent as the appropriate monetary rewards for the three factors of production (labour, capital and land), had shown that the division of labour enables capitalists to improve productivity markedly and take their return on capital as profits. Marx agreed that the division of labour would boost productivity and profits but felt that Smith's description of profit as the monetary reward for capital ignored the power of property relations. Money - the earliest form of *commercial capital* as the means of exchange and wealth storage - becomes the 'material representation of general wealth' (1973, p233) and the means for realising (*valorising*) surplus value as capital to be re-invested in accumulating further capital, a circulation of capital accumulation and deployment (investment as fixed capital or financial capital).

Because of the power of property relations, the capitalist need pay labour no more than their 'costs of reproduction' yet can impose further divisions in labour (termed *social specialisation of labour* by Marx). In effect, this means that the fraction of the working day needed to cover the workers' costs of reproduction becomes progressively smaller and the remainder is deployed by the capitalist as surplus labour. By this process labour power is transformed into additional capital. The fruits of boosted productivity derived from surplus labour accrue to the capitalist as accumulated capital - money, machines, premises and, in part, supervisors and administrators - increasing the potential for further boosting the rate of capital accumulation through organisational improvements and extending the social specialisation of labour.

As capitalism develops, the process of social specialisation of labour and extraction of surplus value is intensified in existing areas (leading to increased competition between capitalists) and extended to areas previously untouched by capitalist modes of production (ie, entrepreneurial opportunity). The process of capital accumulation, however, is neither inevitable nor continuous. As more machines are bought, the labour from which the surplus value is extracted falls as a proportion of the total labour-capital mix so that the overall return on total (expanded) capital falls. At the same time, competition between capitalists leads to the use of increasingly efficient machines and organisational methods. Efficient capitalists attract capital away from the less efficient who nevertheless continue to produce until their costs rise above market prices or the market is flooded with unsold goods (crisis of overproduction).

This process gives rise to two phenomena which are extremely helpful in analysing the growth of the small business sector in Britain today - the *proletarianisation of workers* and the *intensification of capitalist competition*. However, it should be stated that Marx himself saw capitalism as essentially a big business phenomenon. Apart from pre-capitalist formations and unorganised artisanal modes of work (roughly corresponding to today's self-employed skilled tradesmen), Marx had virtually nothing to say about small businesses or entrepreneurs. He believed - incorrectly as it has turned out so far - that fierce competition and the tendency towards concentration among larger firms would eventually leave no space for small firms.

Evidently, it was true and remains true today that investment capital leaves declining industries in favour of the new because of prospects of higher returns on capital over longer periods of time. However, Marx's focus on large scale industries and their problems of over-production and non-valorisation of goods obscures the fact that there were and still are many smaller firms 'protected' from over-production by capacity constraints or limited, but usually specialised, markets. Also, many formerly large firms will have accumulated sufficient capital to survive independently of outside investor capital albeit in a suitably scaled-down form. Many of these smaller firms will, of course, eventually succumb to the generalised crises but others will remain as traditional or family firms, exerting their property relations not only internally against their workforce but also externally against larger concentrations of capital.

Fundamental to Marxism, the process of *proletarianisation* refers to the removal of workers from their own property, their declining access to alternative modes of production (usually this refers to the uprooting or migration of peasants from their plots of land) and their increasing reliance on wages for survival. Of course, as workers lose their own property rights, this process further accentuates the unevenness of social relations between capital and labour. Workers feel increasingly *alienated* from their own product and from the system of social relations in which they work, as the real social

relations between capital and labour are hidden. The alienating power of the social representations of *capital* and capitalism (or business) to workers is plainly outlined in *Theories of Surplus Value* (1969, pp 390-391)):

'...the *general* form of capitalist production, which is common both to its less developed stage and to its more developed stage - the means of production...- do not appear as subsumed to the labourer, but the labourer appears as subsumed to them. He does not make use of them, but they make use of him. And it is this that makes them capital. Capital *employs* labour.

Already in its simple form this relation is an inversion - personification of the thing and materialisation of the person;...the capitalist does not rule over the labourer through any personal qualities he may have, but only insofar as he is 'capital'; his domination is only that of materialised labour over living labour, of the labourers' product over the labourer himself.

...the forms of socially developed labour - cooperation, manufacture (as a form of division of labour), the factory (as a form of social labour organised on machinery as its material basis - all these appear as *forms of the development of capital*, and therefore the productive powers of labour built on these forms of social labour - consequently also science and the forces of nature - appear as *productive powers of capital*.

The social forms of their own labour or the forms of their own social labour are relations that have been formed quite independently of the individual labourers; the labourers as subsumed under capital, become elements of these social formations - but these social formations do not belong to them.'

The concept of *alienation* is very powerful, the starting point for workers to develop a separate class consciousness, the basis for much of Marx's political analysis. The concept has been further developed in modern times to explain, amongst other things, absenteeism, poor productivity, opting out of 'the system' and the marginalisation of certain groups. However, alienation is not a sufficient condition to develop a working class consciousness and must be linked to the power of the dominant capitalist ideology and to the extent to which new collective workers' rights can substitute for the lack of individual worker's property rights. Clearly, even among fully proletarianised workers, individual class consciousness will vary from worker to worker - a tendency even more pronounced among other classes where individualism holds greater sway.

Yet, as the following quotation from *Pre-capitalist Economic Formations* (1964, p132) shows, the social construction of the *class*, especially the dominant class, gives it enormous and apparently independent power.

'The bourgeoisie....develops only gradually, splits according to the division of labour into various factions and finally absorbs all earlier possessing classes (while it develops the majority of the earlier non-possessing, and a part of the possessing, class into a new class, the proletariat) in the measure to which all earlier property is transformed into industrial or commercial capital. The separate individuals form a class only in so far as they have to carry on a common battle against another class; otherwise they are on hostile terms with each other as competitors. On the other hand, the class in its turn achieves an independent existence over against the individuals, so that the latter find their conditions of existence predestined, and hence their position in life and their personal development assigned to them by their class, become subsumed under it. [T]his subsuming of individuals under the class brings with it their subjection to all kinds of ideas etc.'

Marx did not invent the concept of classes and saw them as only historical if rather long term social formations reflecting dominant modes of production. Consequently, although collectivism may be the hallmark of working class consciousness, individualism and anti-

collectivist tendencies will always be present - especially among non-production workers or in situations where the process of proletarianisation is incomplete (new industries, first generation workers, etc.). Faced with a dominant individualistic capitalist class ideology, self-employment could provide a reasonable voluntary exit route from alienation for capable individual workers, technical and white-collar workers or those with property links not yet severed by capitalism (or, more likely in times of capitalist crises, an involuntary route).

In the main, workers reacting against alienation would be driven towards re-establishing their own property rights (*independence*) and covering their own 'costs of reproduction' but not necessarily towards using property relations to accumulate capital through the exploitation of surplus labour (see Table B27). In fact, alienation is more likely to produce a strong rejection of the capitalist mode of production and an avoidance of capitalist production relations. As already mentioned, this is reflected in the strength of independence (Tables B4, B7, B11, B14, B25, B27) as the main career motivator in the studies reported in Appendix B and the dominance of non-commercial objectives set for their firms by the self-employed and small business respondents (Tables B5, B6, B12, B15, B21, B26) and the strong tendencies for self-employment to run in families (Chapter 4 and Table B20). More than 80 % of Britain's 1,248,000 new self-employed during 1981-89 were mainly individual crafts or labour-only sub-contractors with no employees and half of the new entrants came directly from employment while only one third who left self-employment returned to working as employees (Daly, 1991). This is persuasive if not conclusive evidence of the effects of alienation. The growth of alternative lifestyle communities, workers co-operatives and even some advanced workers participation schemes may be seen as products of the same forces.

If the effects of proletarianisation are unlikely to create many entrepreneurs, the intensification of capitalist competition is a better candidate for creating entrepreneurial opportunities. As already mentioned, Marx felt that the twin effects of competition and concentration would, through economies of scale, eventually squeeze out smaller firms. However, he also felt that the same pressures would lead to periodic crises of overproduction which would result in widespread restructuring with capital flowing from older areas of the economy towards newer areas where returns on capital would be much higher. This cyclic process inevitably creates fresh entrepreneurial opportunities for new or previously small capitalists to expand, or for failed capitalists to start a fresh. Consequently, apart from technological innovation and the application of capitalist methods to new areas, entrepreneurial scope must also exist in new methods of organisation to facilitate the extraction of surplus value.

Marx rejected the argument that the capitalists' profits were their due 'wages' for accepting risk and organising labour and capital on the grounds of the unequal relations between

workers and capitalists. Indeed, this inequality is compounded by the fact that a part of the workers' surplus labour appropriated by the capitalist pays for supervisors, administrators and internal support services (representing both transformed capital and another source of surplus labour). However, organisational skills are now to the fore with technology allowing far more social specialisation of labour than in Marx's day. There has been a steady increase in the rate at which internal service relations within firms are being transformed into external money relations. This has led to two distinct but related phenomena. On one hand, large, older capitalist formations have been able to sell off areas of their operations where the return on capital was below average. At one stroke, they have improved the return on capital of the parent organisation while exchanging the dead fixed capital in the sold operation for liquid investment capital (again, at higher than average rates of return). On the other hand, other capitalists see some of the sold off operations as representing an even better opportunity for capital investment (management buyouts were by far the largest area of investment for British venture capitalists over the past 5 years).

These trends, plus the need for the capitalist class to reproduce itself as a class against the pressures of concentration, highlight the importance for the structural development of capitalism of capital investment and the entry of innovative new firms (entrepreneurs). There is a strong case for arguing that this is the position the British economy finds itself in today. In Marxist terms, therefore, there is little support for the basic tenets or policy thrust of enterprise culture policies as a capitalist development strategy. From the perspective of this thesis, however, a useful picture of the dynamic, social and uneven nature of the process of capital accumulation and a number of interesting points emerge from the above thumbnail sketch of Marxist theory. Perhaps the most interesting is that entrepreneur's power to employ productive labour and accumulate capital ultimately derives from the ownership of property which implies that entrepreneurs are likely to come from or to have become part of the property owning classes. However, even armed with the power of property in their capital, successful capitalists - especially entrepreneurs starting with comparatively little capital - must have an above average technical awareness of the product or service they intend to offer plus strong skills to control the forces created by the process: marketing skills to introduce competitive products and methods to new markets; financial skills to recognise the new areas yielding higher returns on capital investment and, in particular, organisational skills to combine labour and capital so as to extract surplus value with maximum efficiency. Marx's analysis of capitalism provides clear criteria for assessing the performance of entrepreneurs as successful capitalists.

The importance of the socio-economic structure at both the psychological and practical levels is apparent. Marx's dictum that 'men know society because they produce it', anticipates the *social constructivist* approach- social relations, culture, class and so on spring from agreed understandings of social realities which shape subsequent

understanding and interpretation of everyday events. Fine (1975, p15) remarked that Marx believed that 'far from man's consciousness dominating his life and existence, it was man himself who determined his consciousness'. However, individual and social consciousness can only be understood 'in relation to man's historical, social and material situation'. From this position, therefore, the whole notion of attempting to graft an idealised 'enterprise culture' onto an existing material situation and economic structure becomes an absurdity.

Marx's focus on general rules reflecting current material reality to explain economic behaviour rather than individualistic explanations has supplied far more useful concepts - property relations, social specialisation of labour, alienation and so on - for analysing small business and entrepreneurial behaviour than the uni-dimensional (but operationally loose) concept of self-interest. As far as his belief that history was against small business, it is well to be reminded that Marx insisted that analysis be grounded in its appropriate historical epoch. Marx was writing during the period of developing capitalism when large scale enterprises were beginning to dominate all sectors of the economy. His lack of enthusiasm for small business may be no more than a reflection of the dominant trends in capitalist development at that time. It is worth noting, however, that there is still little evidence to suggest small firms have taken over as the most efficient accumulators of capital nor that the rate of concentration has slowed down. After the initial crisis of restructuring in Britain, Europe and elsewhere in the industrialised world, the 1980s saw near record numbers of mergers, acquisitions and take-overs mainly seeking to increase market-share, a classic example of Marx's overproduction-crisis-renovation-concentration cycle (Amin and Dietrich, 1990). However, as emphasised in the previous section, it is clear that the nature and techniques of capital accumulation have evolved considerably since last century and that the socio-economic role of the neo-capitalists which enterprise culture policies are attempting to foster need not necessarily resemble in appearance, or even in the precise content of their role, the new capitalists of Marx's day.

2.2.3 The entrepreneur in neo-classical economics.

Modern mathematical approaches to economics, which developed from the late 19th century economists such as Jevons, Walras and Marshall, also avoided individualistic explanations of economic phenomena and were more concerned about the general rules of economics as a science than as an empirical study of economic reality. As Silver (1984) has observed, neo-classical emphasis on equilibrium analysis in the factor markets actually makes it difficult to include a concept such as the 'entrepreneur' in the analysis. Neo-classical economics are more concerned about the market behaviour of firms (as abstract entities) than about their owners. The size of the firm holds no particular importance except where the comparative efficiency of small business usage of the factors of production or questions of economies of scale in relation to larger firms is of interest. Yet, even though the different motivation or even business efficiency of the owners of firms receives little attention, the neo-classical approach, in outlining models of optimal

behaviour in certain situations (for example, under monopoly, oligopoly and other forms of imperfect competition) or in establishing a theory of the ideal firm, can offer a series of additional criteria for assessing business behaviour.

For instance, taking the firm's production to be the way it combines inputs to produce its output of goods and services, a firm's production performance can be assessed against the managers' stated expectations. Economists often talk in terms of production (or business) plans instead of expectations even though such plans are a rarity in most small businesses (perhaps less so in entrepreneurial businesses). Indeed, this is how accountants, bankers and investors usually do monitor a firm's performance. There is little evidence that many small firms either produce or, even less likely, use formal plans to guide their operations but, where they are used, the firms tend to be larger and more professionally managed suggesting that growth is connected with more 'businesslike' behaviour.

As mentioned in section 1.2, modern neo-classical analysis of the firm, usually called *microeconomic* analysis, tends to consist of an examination of the firm's production possibility set. In essence, the firm is said to have the aim of maximising its profits subject to *technological* and *market constraints*. The market constraints are external - imposed by consumers, suppliers, competitors and so on - while the technological constraints are internal to the firm and concern the feasibility of its production plan. Firms produce outputs from various combinations of inputs but only certain combinations are feasible. It is this set of feasible combinations, the complete description of the technological possibilities facing the firm, that forms its production possibility set (Varian, 1978). It seems reasonable to conjecture that these physical and economic constraints will have their psychological counterparts in that constraints will only affect business behaviour when they are perceived as constraints.

Obviously, not all feasible production plans are desirable and, for most firms, there will be a narrow band of feasible production plans which approximate to profit-maximising optimality. Also, economists usually draw a distinction between production plans which are *immediately* feasible and those which may be *eventually* feasible. With technological and market possibilities in a constant state of flux, a reasonable neo-classical definition of the entrepreneur may be a business owner who is able to recognise and implement an immediately, optimal profit-maximising production plan more accurately and swiftly than the average firm owner. Such a definition is, however, extremely difficult to operationalise because 'optimal profit-maximisation' can usually only be known in retrospect. A closer examination of the psychological implications strongly suggests that uncertainty over correctly assessing the 'optimal position' is likely to start much earlier with most managers either underestimating or overestimating the economic and technological constraints. It is significant that most modern neo-classical economists now prefer to relate 'typical'

behaviour of the firm to 'limited information' or 'bounded rationality' models rather than to the idealised firm of the perfect competition model.

Indeed, even with the full benefit of hindsight it is virtually impossible to know whether an actual production plan was closer to the optimum than other options. In practice, proxies such as growth of absolute profits, profit-rate, return on capital and market share are commonly used as indicators of business success but it remains generally true that the application or development of new technology in attaining that success can only be assessed historically. Poor performance is usually due to external market changes, specific inefficiencies in the use of resources and the factors of production or non-specific inefficiencies in the internal organisation of the firm known as *x-inefficiency* (Leibenstein, 1976). Philip Vale and Martin Binks (1990) make imaginative use of the Leibenstein's *x-inefficiency* concept in evolving a 'post neoclassical' theory of entrepreneurship. Their theory, which is strongly structuralist and deliberately steps back from an individualistic analysis of the entrepreneur, will be examined in more detail later in section 2.3.2.

For the moment, it is worth mentioning that the fairly universal presence of allocative inefficiency and *x-inefficiency* means that virtually all firms are operating well within the frontiers of their production possibility sets. Leibenstein suggests that *x-efficiency* is a function of personal motivation and points to similar firms operating similar production plans with wide variations in unit costs. Strangely enough, few economists take this extremely pertinent everyday empirical observation as evidence that personal differences between managers is a factor that cannot be ignored in explaining micro-economic behaviour. In these terms, entrepreneurs can be viewed as owners who have the ability to spot outward shifts in the frontiers of their production possibility sets and to make effective reductions to the *x-inefficiency* of their firms. This strongly implies that the psychological centrality of their business life will be a common feature of successful business managers, including entrepreneurs. To the extent that *x-inefficiency* is related to worker alienation, this approach provides new insights into the workings of capitalist competition and the importance of social skills to effective management.

This moves the discussion a long way from traditional neo-classical analysis where the only other strand of thought concerning the entrepreneur was directed towards risk analysis. The problems of *risk* as a concept in entrepreneurial research have already been discussed (section 1.2) but it is worth noting that followers of the classical economists such as the Austrian School (next section) and Frank Knight (1921) have viewed the entrepreneurial function as the antidote to risk-aversion and an essential element in the process of efficient re-allocation of resources. Even here, however, the entrepreneur remains treated as an abstract concept rather than an individual. Indeed, although the entrepreneur had clearly been a creature of fascination for many economists since the earlier classical and political-economic writings, it was not until after the First World War

that any seriously rigorous attempt was made to examine the entrepreneur's economic function. As already mentioned, the main explanation for this rather paradoxical state of affairs according to Silver (1984) may have been the extreme difficulty of fitting unmeasurable entrepreneurs into mathematically dominated 'factor market' models.

2.2.4 Schumpeter's theory of the entrepreneur.

Undeterred by the demands of classical economists for neat orderly models, the Austrian economist Joseph Schumpeter (1934) placed the entrepreneur at the centre of his theory of economic development. Following the earlier concept introduced by Say, Schumpeter defined the entrepreneur simply as someone who acts as an agent of change by bringing into existence a '*new* combination of the means of production'. New combinations include process, product and organisational innovations. The means of production includes capital, equipment, premises, raw materials, labour and presumably, in recent times, information. The act of combining the means of production implies both organisational skills and intentionality as well as, by implication, the ability to spot more efficient combinations from the production possibility set.

Apart from accepting a determining role for individual motivation and behaviour in the process of economic development, Schumpeter very clearly departed from neo-classical economics in assigning the central role in economic development to the entrepreneurial function. According to his model, technological changes are transmitted into and transformed the economy basically through individual entrepreneurs perceiving new production and market opportunities mainly as a result of some new application of technology. Overall, the pattern of economic development would follow a Kondratieff-type cycle of new technological development - jerky at first followed by seemingly smooth growth and finally a smaller number of mainly minor changes. Modern management theory tends to be in favour of incremental changes but Schumpeter believed that changes were bound to be discontinuous and uneven because they are based on individual entrepreneurial perceptions and implementation (Vale and Binks, 1990). The discontinuity of these changes has the effect of pushing the economy into disequilibrium thus creating opportunities for entrepreneurs with swift and flexible reactions but making it difficult for other entrepreneurs to plan future innovations (Bellofiore, 1985). The motivation for both types of entrepreneur to overcome the barriers of economic pressure and uncertainty, according to Schumpeter, were the prospects of upward social mobility into the capitalist class. However, it was not for their supposed social ambitions but for their role in introducing innovations and for improving overall economic efficiency that Schumpeter placed entrepreneurs at the centre of economic development. He felt that there were basically five types of innovation:

- (i) The introduction of new products or services;
- (ii) New methods of production;
- (iii) Developing new markets;
- (iv) Identifying new sources of supply;
- (v) New forms of organisation.

Nowadays, new methods of gathering market information, financing and distribution would also be regarded as innovations. Obviously, Schumpeter's conception of the entrepreneur process is also social in that it involves the combining of the means of production, which includes labour, but the central feature is that it is the vehicle for the diffusion of technology through innovation. Therefore, mere growth - which could passively reflect altered external circumstances or chance - would not be sufficient to count as entrepreneurial. An entrepreneurial growth in profits has to result from intended actions on the part of the entrepreneur's in response to a new perception of the production possibility set.

Schumpeter's model provides a precise role for the entrepreneur and clear criteria for assessing entrepreneurial behaviour. Although it is sometimes difficult to decide in practice whether some production plan combinations are actually new (many firms replicate similar combinations in new environments, some adopt only minor changes, some adopt a new management style without changing the input-output combinations very radically and others grow because of external or chance factors), intentional growth is a more than reasonable proxy. Certainly, Schumpeter's approach has provided a valuable theoretical footing for subsequent entrepreneurial research. For instance, fellow Austrian Israel Kirzner (1973) also emphasised the superior ability of the entrepreneur to perceive new possibilities for re-combining the factors of production. Later, Kirzner (1982) suggested that entrepreneurs excel at identifying market opportunities and at producing new economic ideas. Baumol (1968), on the other hand, stressed the need for the entrepreneur to gain control over the productive inputs necessary to implement new production plans. The influential Science Policy Research Unit at Sussex University consciously pursued a Schumpeterian technological-cycle model of innovation (Freeman, 1974). More recently, Davidsson (1989b), having conducted a review of definitions, concluded that the entrepreneur is one who takes active steps to seek change even though other people may create the ideas or bear the financial risk.

To return briefly to earlier discussions on risk, it is interesting to note that the propensity to take risks is not a necessary entrepreneurial characteristic according to Schumpeter. Instead, capitalists provide capital for the means of production and credit (including risk-capital) and assume the role of primary risk-takers. Kirzner (1973) also emphasised the difference between the roles of the entrepreneur and the capitalist by asserting that entrepreneurs did not need to own capital in order to make productive use of it. This split between the entrepreneurial function and the source of capital (as investment finance seeking higher returns on capital) follows the distinction made earlier by Marx and reflects

current agency theory (see next section) where managers can occupy similar positions to entrepreneurs in relation to capital.

However, there is nothing to preclude the entrepreneur from also being a venture capitalist and occupying two roles. Indeed, founders are also key or sole investors in most new small enterprises although the risk is often actually held by a bank. The crucial point is that it is the entrepreneur as innovator, constantly seeking benefits through change and therefore constantly seeking change, who is the key to economic progress. It is very important to note that Schumpeter did not consider line or even top managers who combine the means of production in a routine fashion on a regular basis to be entrepreneurs. He was prepared to accept that they may have been entrepreneurial earlier in their careers but he remarked that it was quite common for entrepreneurs to settle for a more routine life once they had attained their original goals. Some support for his view has been found in subsequent psychological and sociological research (Brockhaus, 1980; Chell, 1985).

Schumpeter's model provides clear criteria for identifying entrepreneurial behaviour, highlights the importance of personal motivation and introduces the idea that personal motivations can change over time or as original objectives are satisfied. His overall development model also expands some of Marx's more useful concepts and analyses. In particular, the notion that entrepreneurs are often motivated to enter the capitalist class from more dominated or alienated classes adds support to the earlier typological analysis of the small business sector using Marx's concepts (section 2.2). This implicitly links the cycle or stage-development model of technological diffusion to the area of career or personal development offering a valuable human and dynamic approach in contrast to the overly formal and rigid approach implicit in the accepted theory of the firm during the 1930s.

2.3 The theory of the firm.

2.3.1 Traditional economists' view.

The absence of a role for the entrepreneur in neo-classical theory has already been discussed earlier this chapter. Even though modern economic theory distances itself from the basic neo-classical model, much present day economic analysis still tends to follow neo-classical techniques and use the firm as the unit of analysis. As a point of reference, the main tenets of neo-classical theory of the firm have been usefully summarised by Curwen (1976) under the following seven assumptions of *perfect competition*:

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- (i). The unit of production is a small firm, owned and managed by an entrepreneur, and no single firm has a significant market share for any given product;
- (ii) The products supplied by each firm to any given market are regarded by customers as close substitutes;
- (iii) Firms are passive price-takers and any individual firm can alter its output volume without affecting the market price;
- (iv) Each industry displays freedom of entry and exit in that there are no impediments on the entry of new firms or the exit of existing firms;
- (v) The sole objective of the firm is to maximise profits;
- (vi) Profit maximisation is achieved through balancing marginal costs against marginal revenues;
- (vii) Both firms and customers have full relevant information on which to make decisions.

In fact, the entrepreneur referred to is not an individual but actually the idealised firm itself and bears no resemblance to the various definitions of entrepreneur discussed above and would find few defenders in this form today as a representation of reality. Before turning to some economists who have tried to introduce real-life behaviour into the model, however, it is worth considering *workable competition* as a weaker version of perfect competition. The following summary, which was adapted by Curwen (1976) from Scherer (1970), is very useful because it outlines some of the structural features of workable competition as well as criteria on how firms should conduct themselves and how their performance should be assessed in terms that are compatible with enterprise culture policies.

1. The *structural* features include:

- (i) number of firms to be at least as many as scale economies permit;
- (ii) no artificial impediments on mobility and entry;
- (iii) moderate but price-sensitive quality differentials between products.

2. The conditions governing competitive *conduct* between firms would include:

- (i) uncertainty over rival pricing strategies;
- (ii) firms to achieve their aims independently without collusion;
- (iii) no unfair, exclusionary, predatory or coercive tactics;
- (iv) no protection for inefficient suppliers and customers;
- (v) no misleading sales promotion;
- (vi) no persistently harmful price discrimination.

3. There are a number of *performance criteria*:

- (i) efficiency of production operations;
- (ii) non-excessive promotional expenses;
- (iii) profits just sufficient to cover investment, efficiency and innovation;
- (iv) output levels and quality range responsive to consumer demands;
- (v) exploitation of opportunities to introduce technically superior new products and processes;
- (vi) prices not to intensify cyclical instability;
- (vii) success due to meeting consumer wants.

Scherer himself admitted that the assumptions beg a large number of questions. The most pertinent point is that even 'workable' neo-classical competition does not fit comfortably with the notion of active, innovative entrepreneurs continuously testing their production possibility frontiers. Few real-world entrepreneurs would consent to being fettered by the conditions of conduct outlined in these models. Indeed, the whole notion of there being a need to remove barriers to entry for entrepreneurial firms seems questionable. Rather, it is the non-entrepreneurial firms that generally need help in overcoming barriers to entry.

Despite this seemingly obvious point, it is interesting to see how the Department of Employment 1986 White Paper mentioned in section 2.12, a seminal enterprise culture policy document, is dedicated to the aim of implementing workable competition as the following quotation clearly shows (p2, section 1.10).

Regulations and licences tend to build up a cosy industry insulated from outside competition. The difficulty and costs of entry for new firms may be high for new firms and the stimulus of competition may be lacking. Indeed that explains why some firms take a relaxed attitude to regulations: they may even benefit from an entrenched position. But new growth is stifled and the consumer suffers. So lack of concern within an uncompetitive industry is no sign that all is well. State control breeds corpulent firms.

As this quotation and those in section 2.1.2 clearly demonstrate, it is no exaggeration to assert that the adapted neo-classical assumptions of *workable competition* lie at the theoretical heart of enterprise culture policies. Consequently, the comment above about the lack of any obvious need to protect entrepreneurs from barriers to entry becomes highly significant. The policy target of the enterprise culture model is to encourage the development of more entrepreneurial firms and a more entrepreneurial approach within existing firms. Yet, if enterprise culture policies have the net effect of encouraging the growth of non-entrepreneurial firms, the model is deeply flawed both theoretically and empirically and support for Hypothesis 3 is severely weakened. The validity of enterprise training in particular rests on how likely it is that initially non-entrepreneurial people, the people who have been discarded from the 'cosy' industries mentioned in the quotation, can be exhorted, prodded and 'trained' into exhibiting entrepreneurial business behaviour. From the evidence already presented and discussed more fully in Chapter 5, it is clear that these expectations were very wide of the mark. Indeed, it seems that the apparent success of some enterprise policy programmes in attracting large numbers of people has been because most participants have sought the relative 'cosiness' of the programmes in preference to the immediate uncossiness of unemployment. The limitations of neo-classical theory and its mainly mathematical and economically rational approach, so central to enterprise culture ideology, have become increasingly apparent. Fresher ideas from managerial, institutional and behavioural economics, which take into account various personal and structural issues, need to be considered.

2.3.2 Behavioural theories of the firm.

Most earlier criticisms of the neo-classical model, especially those from within mainstream economics, tended to attack the assumptions of perfect knowledge, rational choice and marginal cost decision-making while retaining the basic factor markets supply, demand, costs and prices approach to analysis. In arguing the case for *neo-institutional economics* (rejecting the neo-classical notions of rational-choice and equilibrium analysis in favour of an analysis of the constraints imposed by the social, political and economic *structure* plus awareness of the contractual forms and transaction costs governing business *behaviour*), Eggertsson (1990) highlights three common criticisms: individual preferences are unstable,

choices are often non-transitive and people are not capable of instant calculations based on complete information. These areas also fall into the realm of psychology and will be returned to later.

In particular, the profit-maximisation assumption also came under early fire from the influential critic Herbert Simon (1957) who attacked the fundamental concept of *optimisation* itself. Accepting that human rationality is bounded, he suggested that individuals do not require full information to attain their levels of aspiration. Instead of applying marginal analysis in their decision-making as maximisers, they are *satisficers* and are usually content with limited but sufficient information. Basically, this means that business owners may seek satisfactory profits based on average costs and revenues rather than theoretically maximum profits calculated on marginal costs. As well as challenging cherished neo-classical beliefs, Simon's views also place individual motivations, perceptions and cognitions on the agenda of economic research. Another influential critic of the neo-classical model, George Stigler (1961) also attacked the assumption that information is freely available and distributed fully to buyers and sellers. Stigler drew attention to the undisputed fact that there are costs associated with the acquisition of information - the costs of researching and gathering information plus the costs of education and experience - and that neither information nor access to it is distributed equally between buyers and sellers (Curwen, 1976).

This has led to a fruitful analysis of the impact of *informational asymmetries* on business and economic behaviour and the relative importance of *transaction costs* - the initial costs of arranging exchange between parties plus the costs of monitoring and enforcing eventual contracts - and *production costs* in making business decisions (Stigler, 1961; Williamson, 1985; March, 1988; Binks and Vale, 1990; Eggertsson, 1990). Transactions costs analysis provides an explanation for *vertical disintegration* (the major change to the socio-economic structure in recent years, mentioned in section 1.1). Fixed internal transactions costs, often governed by rigid employment contracts, have risen while the external variable costs of the same transactions, governed by flexible services contracts, have fallen. This is a powerful structural reason - an elaboration from a different perspective of the capitalist development process in section 2.2.2 - for the rise in small businesses and offers a useful method for developing an economic concept of entrepreneurial opportunity. Transactions costs include information costs and are clearly important to modern capitalist competition and the efficient accumulation of capital. It can be hypothesised that entrepreneurs have a deeper comprehension of these costs than non-entrepreneurs.

Indeed, Ronald Coase (1937) had already suggested that the economic role of the entrepreneur was to handle the uncertainty of transaction costs when the costs of relying on the (neo-classical) price mechanism was high due to expensive information costs,

complex contract arrangements or government-induced distortions. Coase also saw transactions costs as the clue to understanding the entrepreneur's approach to business growth. He argued that entrepreneurial firms would grow or contract in size depending on whether or not internal transaction costs equalled external market or contracted-out transaction costs. In a sense, the Coase view of the entrepreneur's role is that of a troubleshooter, lubricator or even high-pressure valve to the normal economic process and the entrepreneur's abilities as an organiser and coordinator are clearly the key qualities required to discharge that role well. Coase's insights into the entrepreneur's economic function - an addition to Schumpeter's innovative or developmental functions - also highlighted the firm's capacity, as an organisation, to offer an alternative internal system of resource allocation to that provided externally by the market. This view was fairly heretical according to neo-classical thinking which held that factor market prices were determined by the independent decisions of countless small individual firms as suppliers and customers (Marshall, 1920; Knight, 1921). However, it was clear even during the heyday of neo-classical thought that all but the most specialist of small firms are generally *price takers* not *price determiners* which reinforces the notion that entrepreneurs may be distinguished from other small business owners on their keener awareness of prices and costs.

Neo-classical economists attempted to paper over the cracks in their perfect competition model by introducing models of monopolistic (single large suppliers and strong cartels) and oligopolistic (looser alliances of suppliers) competition were introduced but found little empirical support. (Curwen, 1976). Coase's arguments that, faced with the organisational and administrative market distortions, firms have to take transactions costs into account if their decisions are to be economic, appears to have found favour with modern economists - providing an interesting tool to analyse such economic phenomena as *x-inefficiency* (mentioned in section 2.2.3) and the economies of scale enjoyed by larger firms - and influenced management theory (see next section). Indeed, the growth of large firms and the increased awareness of how contractual relationships govern business behaviour within and between various economic institutions has led behavioural economists to draw an interesting distinction between the *owners* and the *managers* of enterprises. This split between the owners and their agents, the managers, really operates in the interests of the agents because they control all the flows of information and is consequently known as *agency theory*. Under agency theory, decisions in large firms are taken by managers driven by administrative or status needs rather than owners principally concerned about their earnings and returns on investments in the form of profits. *Informational asymmetries* work against the owners because it is the managers who control and monitor the flow and processing of information relevant to the performance of the business.

If, for example, managers feel their own status or power interests are served by the absolute growth of the firm, they may well ignore the logic of reducing the firm's transactions costs by contracting out and instead build the firm's internal capacities even though to do so may be non-economic. Neo-institutional economists believe that when owners are in a strong position to enforce contracts these problems are minimised but, as the size of firm grows and the ownership is dispersed, the transactions costs involved in monitoring managerial performance clearly becomes prohibitive. It is interesting to note that this issue lies at the heart of many disputes between large accountancy auditing practices and their corporate clients and between institutional investors and the managers of the large firms in which they have holdings and is widely held to be one of the advantages that efficient small firms have over larger firms. In general, however, agency theory is more likely to apply to big businesses because small firm owner-managers combine both functions and enforcement becomes a matter of self-motivation (except perhaps during periods of growth). On reflection, it is clear that the problem small firm owners have in delegating authority is a restatement of the same problem and can be usefully analysed in agency theory terms as the transaction costs of monitoring performance (or, in Marx's terms, maintaining and enforcing the capitalist's property rights).

In many ways, this whole area of transaction costs analysis, agency theory and the existence of informational assymetries offers a much more flexible avenue for economic ideas to be applied to the study of entrepreneurial behaviour than the usual emphasis on factor markets. For instance, it seems clear that the transaction costs involved in personally acquiring information for effective control makes most small business owners poor small business managers. The next step is to explore whether the entrepreneurial behavior may be best characterised economically as a superior ability to exploit informational assymetries internally in relation to the workforce and externally with respect to customers and competitors. This approach fits in with some of the theoretical points raised by economists originally by Stigler (1961) and Simon (1955, 1956, 1957) but more in relation to small firms by Frey and Heggli (1989) and Binks and Vale (1984, 1990). This highlights the need for entrepreneurs to have highly developed social skills in organising, motivating and directing others plus sound financial judgement in assessing the costs of transactions and the value of information. These are all areas where psychological concepts and methods of enquiry have a strong role to play though the research focus and methodology of this thesis will not enable them all to be discussed fully here. The increased desire for and ability to use information does seem to be defining entrepreneurial characteristic which could be investigated psychologically with an appropriate research design. It is reassuring to note David Storey's (1990) findings that, as the entrepreneurial firms which sought finance through the Unlisted Security Market (USM) grew, their entrepreneurial owner's desire to develop further their social and communications skills

(already well-developed) and acquire more information also grew compared with a matched sample of non-USM firms. These issues concerning information capacity and information processing ability (as well as the judgmental issues concerning the significance and interpretation of information) are extremely interesting but, unfortunately, fall outside the research scope and methodology of this thesis.

Before moving on, it is worth observing that the *satisficing* behaviour which results from having to confront transactions costs is the progenitor to Binks and Vale's general and Frey's *ipsative* production set analysis (sections 1.2.2 and 2.2.3) of entrepreneurial economic behaviour. Satisficing (the rather non-Benthamite acceptance of sub-maximal levels of satisfaction when the marginal cost of gaining the remaining satisfaction is higher than the extra satisfaction involved) is concerned with the perceptions and informational needs of owners as decision-makers operating well within their theoretically attainable profit-maximum capacities. The transactions costs involved in obtaining full profit-maximising information are much higher than those required for 'satisfactory' profits and it is impossible to anticipate all future transactions (Simon, 1957). Even though most of the supporting empirical evidence comes from larger firms, satisficing behaviour is clearly a strong feature of small firms. A similar concept was identified as a separate factor in the achievement motivation analysis reported in Tables D5 and D13 of Appendix D, where the growth-averse small firm owners replying to the surveys for this thesis were more likely to view the attainment of satisfaction as a legitimate alternative to continuous striving for business growth and success.

In the findings reported in Appendix D, the 'satisfaction' measure discriminated significantly between enterprise trainees wishing to remain self-employed and those keen to become company directors and between growth-averse and growth oriented small business owners. This reflects the generally higher transactions costs in obtaining information in small firms (Curwen, 1976; Eggertsson, 1990). The further satisficing behaviour is from the theoretical optimum, the less efficient will firms be in allocating resources which implies that many small firms are likely to be inefficient. In addition to these allocative inefficiencies, satisficing behaviour plus the constant internal conflict inherent in agency theory and Leibenstein's (1976) inert areas, in which there is insufficient motivation to take maximising action, are responsible for the *x-inefficiencies* which Frey and Heggli (1989) and Binks and Vale (1990) feel leads to most firms operating well within their production possibility frontiers.

Clearly, the *ipsative* set of a business-minded individual (those options personally *relevant* which is more restricted than those *perceived* and much more restricted than those theoretically *possible*) will be more extensive than that of an individual more concerned about home or leisure while the *ipsative* set of a *growth-oriented*, business-minded individual will be again even more extensive. It is also clear that the existence of a

widespread but not universal reduction in production possibility frontiers obviously presents opportunities to the individuals who are least restricted. In keeping with economic tradition, Binks and Vale (1990) prefer to refer to the entrepreneurial opportunities opened up by this situation as events rather than focus on the behaviour of individual entrepreneurs. They identify three entrepreneurial events - *catalytic*, *allocating* and *refining* - which are argued to play quite different roles in economic development.

The catalytic event is seen as an entirely new combination of resources which represents a quantum shift from previous operations including the radical redirection of the existing workforce, existing processes, existing products existing services and existing designs. The event opens the possibility of additional entrepreneurial activity into the economy but its potential will not be realised unless accepted by the marketplace (basically Marx's notion of *valorisation* - the conversion of surplus labour into capital through the social transaction of the sale). The catalytic event essentially represents Schumpeter's concept of the entrepreneur organising new combinations and when successful is described by Vale and Binks (1990) as a 'commercial metamorphosis'. Clearly, such an event redefines the production possibility set for more firms than just that of the instigating entrepreneur. The allocating event is a response to a dynamic economy and the shifts thrown up by restructuring. Economic growth and technological progress, including that promoted through catalytic events, continuously alters the use and value of different resources thus creating entrepreneurial opportunities, in many ways like the inherently unstable picture of capitalism presented by Marx which sees capital in constant search for new outlets and higher but temporary rates of return as entrepreneurs rush to fill the gaps. The opportunities for high 'monopoly' profits exist until the market is flooded and the next crisis of overcapacity begins. This type of event does not necessarily require new combinations of resources but does require that they be directed rapidly towards new opportunities when they arise. It is the type of event likely to be favoured by most alert businesses and *opportunistic entrepreneurs* (see section 3.3.3 on small business typologies).

The refining event is that of steady progress which exploits the potential for reducing inefficiency. The sources of inefficiency mentioned above - satisficing behaviour, the agency problem, Leibenstein's inert areas - are ever-present in the economy and always give rise to opportunities although it is often a case of applying better management to existing areas (see next section). The x-inefficiencies of larger firms frequently provide such opportunities for smaller specialist firms. Vale and Binks (1990) point out that the recent economic restructuring in Britain, in shedding skilled labour and making available relatively cheap plant and premises, provide the opportunity for recombining all these factors of production in new ways. This type of event - a special type of refining event they call the *omega* event - only lasts while these features of restructuring are present. Binks and Vale (1984) describe economic development as expansions in the production

possibility frontier of the total economy springing from endogenously or exogeneously induced shocks. Exogenous shocks could be linked to sudden shifts in the balance of trade, key commodity prices (e.g., oil), the international political situation (including wars) and government policy. Endogeneous shocks usually result from far reaching catalytic events such as the first introduction of a revolutionary technology or the commercial acceptance of an important new combination of resources. Therefore, Binks and Vale agree with Schumpeter in accepting catalytic entrepreneurial events as the driving force of economic development but they assign allocating and refining events to the adjustment process.

In the absence of such shocks, normal economic activity would shift production plans back and forth along the production possibility (or actually the ipsative possibility) frontier and there would be no pressure to produce new combinations of resources (factors of production). However, there also has to be pressure and the capacity to exploit the opportunities opened up through exogeneous shocks and endogeneous catalytic events. Without allocative and refining entrepreneurial activities, the full potential of endogeneous catalytic events will not be realised. Obviously, this process can be both dynamic and disruptive especially if the 'enterprise package' of policies non-entrepreneurial events at the expense of the various types of entrepreneurial event. The conclusion arrived at by Binks and Vale (1984, 1990) is that public policy has to encourage the right mix of all types of entrepreneurial events to promote economic development but should not expect entrepreneurship to deliver non-economic goals.

The question whether entrepreneurs might be the small segment of business owners whose satisficing behaviour reflects more efficient information processing, more awareness of information and production possibilities (experience) and a keener ability to calculate transactions costs and maximal profit opportunities is left open. The main thrust of the behavioural approach lies in demonstrating how necessarily imperfect information must bound the concept of rational choice and, consequently, how important the identification of actual informational needs, the access to that information and the efficiency of information processing is to business and economic performance. Individual perceptions and abilities, therefore, assume a crucial importance. The psychological and practical policy implications of this chapter are presented in the next section and the broader issues of central interest to this thesis will be re-examined from a more psychological perspective in chapter 5.

2.4 Theoretical and practical implications.

2.4.1 Psychological implications.

The first point to emphasise is that none of the various economic models suggest that entrepreneurs should have special personalities although there is a strong implication that entrepreneurs are not risk-averse, in the sense that they need to be competitive

(achievement oriented), and that they are reasonably able at calculating the relative costs and success-probabilities of various options. If risk-taking were a key feature of entrepreneurial activities during the early stages of capitalism, it is quite clear from the economic and management literature that successful innovative capitalists (entrepreneurs) need to be skilled at off-setting risk rather than allowing it to settle on their shoulders. Also, there is a hint in most economic theories of the judgemental ability, persistence, self-confidence and social control generally found in many psychological studies of entrepreneurial characteristics (see chapters 4 and 5). These qualities are, for the most part, implicit and not central to the concerns of political-economic theory. The most evident issue of psychological importance raised by this review of economic and development models concerns entrepreneurial motivation. The basically financial motivations advanced by proponents of the enterprise culture and others - *make money, maximise profits, become wealthy* and other similar motivations (including enterprise culture critics' *greed* and, ironically, Marx's *accumulation of capital*) - are challenged by other less obvious business motives such as Smith's *propensity to trade*, Bentham's *maximise personal happiness*, Schumpeter's *social mobility* and an implied managerial *desire to control*.

Faced with such a broad range of psychological motives, it seems reasonable to conclude that economic behaviour reflects a variety of motivations as the modified Katona/Davidsson model in section 1.2 outlined. These issues will be elaborated further in section 5.1 but one important point to emerge from this chapter is that motivation and business behaviour cannot be simply separated from class and cultural positions in the current socio-economic structure. The concepts of property relations, alienation, productive labour, social division of labour and social mobility are useful tools for analysing the complex mix of personal, cultural, class and economic needs. It is not hard to see why Maslow's hierarchy of needs has retained its popularity in spite of an almost total lack of supporting evidence (Antonides, 1991). In fact, the implication is that most self-employed and small firm owners will be more concerned about having some personal property in the fruits of their own labour. Therefore, if the profit motive remains as the hallmark of the efficient business, this explains why so many businesses are either not true businesses or else destined to remain inefficient and is a central theme of this thesis. Indeed, one important conclusion of this review of economic development theories is that the pace and mechanisms of innovation and economic development means that economically productive firms are likely to be relatively rare, a finding that appears to be strongly supported by empirical evidence.

2.4.2. Management theory.

Management theory mainly flows from two intellectual sources and a great deal of empirical practice. The two main intellectual strands are, firstly, the adapted neo-classical workable competition model outlined above and, secondly, organisational theory which

can be regarded as a fusion of psychological, sociological and systems theories. The insights and adaptations to the neo-classical model offered by behavioural and managerial economists were, in many ways, part of the evolution of management theory and, as mentioned in the previous section, reflect business life in large organisations. Historically, management theory has evolved away from espousing an almost Marxist view of the role of management as embodied in Taylor's (1910) concept of *scientific management* with its techniques of work measurement and management by objectives. This type of approach (which actually did appeal to Stalin) implies a strong hierarchical organisation and is associated with large-scale mass production of the type pioneered by Henry Ford. In the post-war era *fordist* organisational and management practices have fallen from favour and, currently, more emphasis is placed on the operation of smaller groups and self-management. In particular, recent interest in *total quality management* has elevated the satisfaction of external customers of organisations and internal 'customers' within organisations as the central concern of management - a clear repudiation of Say's Law and an interesting reaffirmation of Marx's recognition of the importance of the consumer.

The evolution of management concepts or even their empirical validity are beyond the scope of this thesis except that business success - for all types of firm big, small and entrepreneurial - ultimately depends on effective management, the essentials of which may give some clues to entrepreneurial success. Entrepreneurs must manage their firms relatively efficiently in that objectives will be set according to perceptions of opportunity and need (external and internal), competition policy in response to perceived abilities and constraints (owner's, staff and external) and the business managed to meet the set objectives and the owner's perception of staff and personal ability. This provides criteria for assessing the efficiency of a firm and whether the owner's objective abilities are up to a certain standard. In fact, one of the key findings of the Bolton committee (see Table 4 below) was the identification of management weaknesses among small firm owners - often a failing they share with the managers of larger firms (Constable and McCormick, 1987; Handy, 1987).

Small firm weaknesses in management skills are often reflected in the owners failure or inability to form independent judgements of business situations. A sort of 'herd instinct' compounded by a fear of losing personal control characterises the behaviour of many non-entrepreneurial businesses (especially in the financial services and certain sectors of manufacturing) and regularly leads to crises of over-production, under-capitalisation and cashflow mismanagement. Recent reviews of management training in Britain make it clear that virtually all firms should improve their training of managerial skills. Taken as a whole, Britain's 2.75 million managers spend an average of only one day per year on formal training (Constable and McCormick, 1987; Handy, 1987). This falls well below the standards set in most other major industrialised countries and cannot be blamed on low awareness or poor provision of training facilities. Private employers spend an estimated

14.4 billion a year on training and the Department of Employment a further 3 billion, representing 7.8 % of Gross Domestic Product (GDP) - about average for Britain's competitors (Training Commission, 1988). The challenge is not merely to provide more training but to ensure that management training is both appropriate and cost-effective.

As the size of the firm diminishes, the need for even basic management training increases and the problem of designing suitable training becomes more acute (Mangham and Silver, 1986). Around 80 % of big companies (those employing more than 5,000) do provide management training but only one quarter of companies employing less than 1,000 people make provision for such training (Mangham and Silver, 1986; Handy, 1987). The proportion shrinks to 18 % for small firms with fewer than 10 employees and even less for the self-employed (SBRT vol. 4, no.1, 1988). A Gallup survey of 2,500 self-employed, most of whom employ no other people, revealed that no more than 8 % had received any form of management training from either public or private sources (Legal and General, 1985). As Chart 4 in Chapter 3 clearly shows, this means the vast majority of firms in Britain are under-trained in management skills.

One major reason why small firm owners have been unresponsive to the wide range of training programmes that have been developed in order to help them survive, manage themselves more professionally, grow successfully, market their products and a whole host of other worthy objectives is that most small business managers are not entrepreneurial and few of them wish to do anything other than earn a living (to cover their 'costs of reproduction' according to the analysis elaborated in section 2.2.2). It is a common mistake among certain policy-makers and training providers to assume that all small firms actually want to expand or are keen to improve their management skills. Instead, as tables B4, B7 and B17 in the Appendices indicate clearly, the most common small business ambition is for independence and autonomy rather than profits or growth, a finding completely consistent with other research studies (Bolton, 1971; Stanworth and Curran, 1973; Bechhofer and Elliott, 1976; Gray and Stanworth, 1986; Curran, 1988).

Widely used stage models of successful small firm development usually suggest roughly five management stages - start-up (extension of the entrepreneur), survival (personal control), take-off (more formalised control), consolidation of the expansion (formal structures) and - in the absence of new product development - decline. Although only a minority of firms actually grow and each process of growth produces a different curve, the life-stage model provides a useful description of the process of growth. It also clearly outlines the need to introduce more professional management structures as the business expands. Indeed, failure to introduce appropriate management systems is one major reason why expanding firms fail and fall off the growth curve (Churchill and Lewis, 1983).

The poor judgement of many small firm owners is often seen in their failure to distinguish over-optimistic perceptions of their customers wants from real, underlying demand

(needs). Rash and ill-considered ventures - common among failed small non-entrepreneurial businesses - often reflect over-optimistic perceptions of opportunities, constraints and abilities. This highlights the importance to business success not only of a close congruence between perceptions and reality but also of the need for basic business skills. Basic marketing, accounting and organisational techniques provide the foundation for analysing business situations and the information upon which reasonable business judgements can be made.

At first sight, it may seem that management theory has little extra to offer. Indeed, management 'theory' is often criticised for being non-theoretical, non-scientific, over-simplistic and overly concerned with practice (Lee, 1987; Hughes, 1988). However, it is not so much the practice (discussed in more detail in chapter 4) which is of interest here but the skills expected of the *pro-active* manager. Apart from any technical skills required for a particular industry, management training programmes usually divide their courses into three functional areas - financial, marketing and organisational. In large organisations, managers generally specialise in one area while small business owners have to combine all three functions until their firms grow to a size where some form of divisionalised management becomes necessary. There is plenty evidence presented so far, and more to be presented in succeeding sections, that relatively few small business owners are particularly competent in any one functional area let alone all three together. This, of course, will inhibit growth and limit the scope of many small firms to contribute meaningfully to the economic development process. On the other hand, successful entrepreneurs can be expected to have a reasonable competence in all three areas and high skills in at least one. The list of small business management weaknesses compiled by John Bolton's committee of inquiry into the state of Britain's small firms in 1971 has stood the test of time (and has apparently proved resistant to the best efforts of Britain's enterprise trainers). The criteria used by Bolton (1971) were focused on the limitations to growth:

TABLE 4. Small business problems identified by Bolton 1971.

i. Raising and using finance	v. Information use and retrieval
ii. Costing and control information	vi. Personnel management
iii. Organisation and delegation	vii. Technological change
iv. Marketing	viii. Production scheduling and purchase control.

Although the management and business needs of small businesses will be discussed in sections 4.2.1 and 5.1.1 (where the durability of these enterprise training needs will also be demonstrated), it is worth noting that the top three general small business management weaknesses concerned financial and organisational skills - the very skills identified in the previous section that distinguish entrepreneurs. Indeed, the ability to handle financial stress is a key factor in the success of small, innovative technology-based firms (Oakey, 1987) and lack of appropriate access to finance for these firms was identified as a structural fault in the British economy by ACOST (1990). This does not imply that

entrepreneurs should necessarily be professionally competent in accounting, customer service or administrative skills because specialists are widely available to be hired or employed. However, to remain in control of their business affairs they need to possess at least average competence in these areas.

Business survival depends on the ability to control costs and business success may well depend on the ability to assess internal and external transactions costs reasonably accurately. To match any of the roles discussed in the previous sections, the entrepreneur must be expected to possess more than minimal financial and judgemental skills. It is interesting that the Bolton committee identified information use and retrieval as well as technological change as long ago as 1971, some time before the full impact of information-technology. If anything, the need to manage efficiently in these areas has increased and, in the light of discussions in the previous section, must represent areas of entrepreneurial management competence. Similarly, most small firms operate in known environments but entrepreneurs must be alert to new possibilities in the market, indeed even be aware of new markets, so their marketing skills must be above average.

Management theorist Henry Mintzberg (1979) mentions that typical entrepreneurial firms have simple structures and are small, organic and innovative. This implies a flexibility towards the market yet he feels the entrepreneur will try to maintain tight, personal control. However, Vickery links an 'entrepreneurial' approach to equity finance as being more concerned about access to appropriate finance and *de facto* decision-making control than about fear of loss of ownership control (a common small business fear). Once again, this raises the issues of delegation, entrepreneurial management styles (discussed in section 4.23) and the well recognised reluctance on the part of most small business owners to part with equity in their firms (Bolton, 1971; Wilson, 1979; Hutchinson and Ray, 1986; Vickery, 1989). The fact that business is a social process suggest again that it is the entrepreneurs well-developed social skills which are of prime importance. Most definitions of the entrepreneur (from Cantillon to Schumpeter) stress the ability to organise and combine as the key feature. This conclusion is supported by the influential management writer Peter Drucker (1985) who maintains that innovation no longer results from chance activities but is managed - whether in a big or small firm - as an organised and systematic process. Indeed, there is some evidence from the management literature that entrepreneurs do not feel the need to seek help for organisational problems while they are open to receiving outside help for marketing or financial problems (Flamholtz, 1986).

To some degree, the implication is that the era of the highly individual entrepreneur as a key economic actor may have come to an end as more cooperative or social forms of enterprise emerge (which would be ironic as 'the entrepreneur' is only now being recognised as an independent factor in economic development). Indeed, there is a growing body of evidence that modern entrepreneurial businesses succeed because of their social

skills not only in obtaining a high performance from their employees inside the firm but also in networking externally with other firms (Amin et al, 1986; Bamford, 1987; Lazerson, 1988; Cooke and Morgan, 1991; Curran and Blackburn, 1991). Certainly, successful entrepreneurs themselves identify their own social skills, their general power to communicate, as a key factor in their success (1991). The important implication of entrepreneurs excelling in the directed use of their own social and organisational skills is that, as the ultimate aim of the enterprise culture is to promote successful entrepreneurs, the social skills side of enterprise training should not be - but usually is - ignored.

2.5 Summary.

It is clear that, although entrepreneurial business behaviour is not likely to be common, there are sufficient theoretical and empirical grounds for treating the entrepreneur as a separate and useful economic concept and accepting Hypothesis 1.

H1. entrepreneurs exist as a distinct growth-oriented sub-set of small business owners identified by their clear and positive attitudes towards business, growth, success and personal control.

More evidence supporting the rejection of the first two propositions of the enterprise culture model and of Hypotheses 2 and 3 have been presented. It has been established that entrepreneurs as new, efficient capitalists are a distinct sub-set of all small business owners and that economic development will be affected significantly by entrepreneurial behaviour only to the extent that entrepreneurs create long-lasting economically significant organisations which contribute to a net capital accumulation. The entrepreneurial sub-set is relatively small and, on the analysis presented above, it seems unlikely that economic expectations of enterprise policies can be applied to many other elements of the full set of small firm owners. This suggests that support for Hypotheses 2, 3 and 4 is extremely weak. Indeed, the key element of Hypothesis 2 (that economic rationality may be a defining quality of entrepreneurs as opposed to small business owners and the self-employed, in general) receives some support from this review of political-economic theory though the notion of a unique entrepreneurial personality does not. The flawed nature of enterprise culture policies was discussed in sections 2.1.4 and 2.3.1 and implied little support for Hypothesis 3 in suggesting that the skills and attitudes necessary for producing entrepreneurial behaviour cannot be acquired easily.

The underlying economic aim of enterprise culture policies is to encourage the emergence of fresh capitalist formations capable of attracting new investment capital and boosting the rate of capital accumulation. To achieve the underlying aim of the policies, the new capitalists must be able to extract surplus value more efficiently than existing capitalist organisations. This will depend on how effectively they are organised and managed. It is also clear that the objectives of efficient businesses are economic - to maximise profits and minimise transaction costs. Actual performance may fall short of the theoretical objective but the performance of an efficient firm will be significantly above average. A firm will be entrepreneurial if it is already relatively efficient, seeking to improve its efficiency and

capable of growing. The owner of such a firm will display above average competence in marketing, financial and, particularly, organisational skills. Having considered the changing role of the entrepreneur through the evolution of capitalism, the definitions of the entrepreneur adopted in the Introduction (section 1.2.1: *a person who combines the factors of production in a new way to gain an advantage over the competition*, and section 1.3: *the owner of an independent business who is both able to organise other people in creating a business venture and keen to ensure that the venture is successful*) are confirmed as accurate and the useful operational definition of entrepreneurs adopted in section 1.3 - **growth-oriented owners of small businesses who are eager and capable of establishing positive control over their own lives and over their own business behaviour** - is reinforced as the valid focus of this thesis.

Evidence gathered from the qualitative and quantitative studies described in the appendices and discussed in subsequent chapters will support these conclusions. The main points to emerge from the material and ideas covered in this chapter were:

- (i) a solid theoretical political-economic bedrock for subsequent psychological analysis and assessment of the hypotheses;
- (ii) a testable definition of the entrepreneur;
- (iii) the enterprise culture model is seriously flawed theoretically and empirically;
- (iv) strong grounds for accepting Hypothesis 1 (entrepreneurs are a distinct small firm sub-set);
- (v) an implied rejection Hypothesis 2 (economic motivation as sole source of entrepreneurial drive) and Hypothesis 3 (removal of barriers creates entrepreneurs).

It remains to be determined whether the empirical failure of the enterprise culture model was due to the misapplication of the policies and whether, with appropriate targets and policies, apparently non-entrepreneurial people can be exhorted and prodded into exhibiting entrepreneurial business behaviour. The effects of applying these types of social engineering policies without due regard to economic structural realities also needs to be examined. Further supporting empirical evidence that entrepreneurs are essentially new successful capitalists will be presented next chapter but, building on the theoretical framework established so far, the main immediate task will be to describe in finer detail the structure of the small business sector in Britain.

3. THE SMALL BUSINESS SOCIO-ECONOMIC ENVIRONMENT

Having established the importance of socio-economic structural factors to the development of the small business sector, the aim of this chapter is to describe the various industry, regional and size-of-firm patterns in the recent growth of the small business sector in Britain in order to construct a relatively simple yet multi-dimensional picture of how the small business sector is currently structured. It will be demonstrated that the concepts of business development and entrepreneurship must take on different forms in these different contexts even if the underlying processes are similar. Making use of these empirical data and the theoretical concepts elaborated so far, the small business sector will then be segmented in an attempt distinguish evidently non-entrepreneurial firms from those under consideration and to further refine the concept of entrepreneurial behaviour. The empirical effects of enterprise culture policies will also be discussed.

3.1 Recent patterns of small business growth.

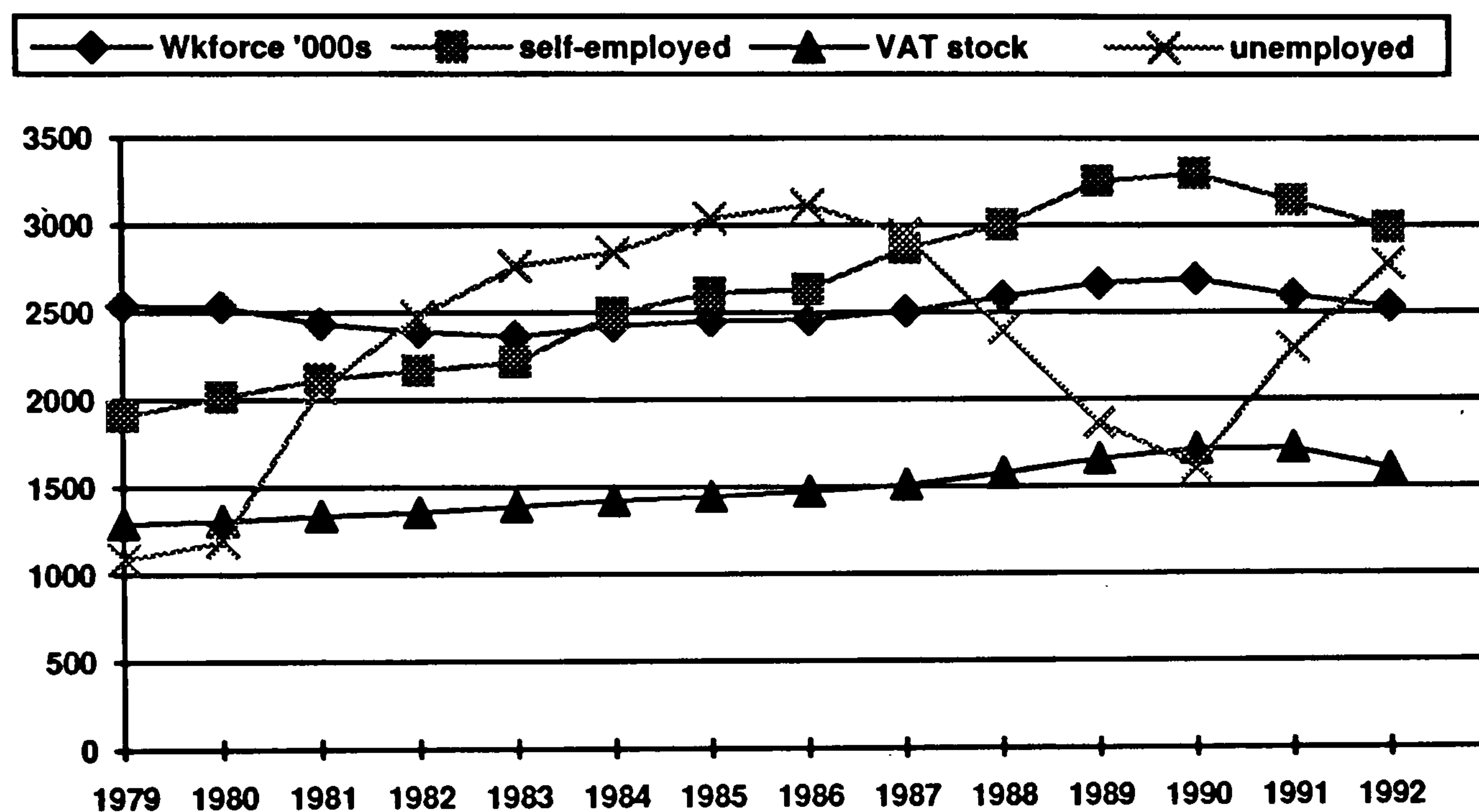
3.1.1 Growth of the small business sector.

The most accurate official statistics on patterns of growth in the small firm sector are derived from registrations and de-registrations to Value Added Tax (VAT) registers operated by the Department of Customs and Excise and from the (now) annual Labour Force Surveys conducted by the Department of Employment. Even though it is not strictly accurate to treat VAT deregistration rates as an exact equivalence of small business failure rates (only around 60 % of all firms register for VAT), VAT registration-deregistration analysis provides the most accessible estimate of business formation and failure rates. Certain industries (food, printed materials, charities, baby clothes, etc.) are currently not required to register for VAT and firms may deregister for reasons other than failure. In practice, many smaller self-employed firms, including 15-20 % of respondents to SBRT surveys, operate below VAT thresholds and these smallest firms have higher deregistration and failure rates (Ganguly, 1985; Doyle and Gallagher, 1986; Gallagher, 1991). Analyses of labour market movements among the self-employed and unemployed confirm the increased turbulence revealed in VAT registrations analysis (which is partially evident in Charts 1 and 2 below).

Since 1979, these sources show almost uninterrupted increases in the number of self-employed and in the net number of VAT registrations up to 1990/91. From 1979 to 1989 overall net growth in VAT registrations was around 30 percent from 1.3 million to 1.7 million and that the growth in self-employment was an even more impressive 73 percent from 1.9 million to 3.3 million (Ganguly, 1985; Employment Department, LMQR, August 1990). As already noted in the Introduction (section 1.1), however, the apparent smoothness of this steady expansion of the small business sector is deceptive. By the end of 1990, more people were leaving self-employment than those entering and during 1991 there was a net decline in self-employment (Daly, 1991). Furthermore, there are wide

variations between the types of businesses started and their prospects not only for future growth but also for mere survival. Even though the following Chart shows the uneven state of total employment in the workforce (measured in '0,000s), the rise and decline in self-employment and registered unemployment (measured in '000s) and the steady rise in VAT stock (also measured in '000s), these aggregated numbers hide an increasing turbulence and a variety of sometimes conflicting underlying trends.

Chart 2. Growth in workforce, self-employment and VAT stock 1979-1992



Changes in policy and VAT registration requirements can have significant effects on registration and deregistration rates. For instance, following a sudden relaxation of monetary policy (the 'Lawson boom'), there was a net increase of 64,000 VAT registrations in 1988 due to a sudden leap in new registrations to 230,000 while deregistrations held to their 5-year trend of the past five years at around 165,000. By 1990, however, new VAT registrations slowed down while bankruptcies, firm insolvencies and VAT deregistrations hit record levels. An earlier analysis of 1974-82 VAT registrations and deregistrations (see table 5, next section) identified the first 18 months as the period of high vulnerability for new firms (more than 40 percent of all deregistrations) leading to deregistration rates of around 40 percent within 5 years of formation, tapering off to around 60 percent within 10 years (Ganguly, 1985). By the mid-1980s, despite record small business growth, the DTI's British Business magazine (April 3, 1987) reported that deregistration rates had worsened to 50 percent within 5 years and virtually 70 percent by 10 years.

The rapid growth in self-employment conceals similar underlying trends which do not seem particularly entrepreneurial, including large increases in part-time self-employment and in female self-employment (Employment Department, LMQR, November 1989; Gray, 1989). Three-quarters of Britain's 3.3 million self-employed are men, accounting for around 16 percent of the total male workforce, but the 7 percent (c.800,000) of self-

employed women in the total female workforce represents a 140 percent increase since 1979. This trend is projected to continue (Gray, 1989; Employment Department, LMQR, August 1990). More than half of the one million women new entrants to the workforce during 1984-88 were more than 25 years old and had been occupied at home immediately prior to re-entering the labour market. One in five of female entrants to the labour force - around 200,000 - sought the opportunity to work for themselves as self-employed. However, many female 'self-employed' are often part-workers operating from their own homes for a single employer. It is difficult to distinguish between labour-only sub-contracting 'self-employed' and casual part-time employees. Around 10 % of the self-employed work less than 16 hours per week rising to one quarter (which includes 52 % of self-employed women) working less than 30 hours a week. The confusion is compounded because most agency and temporary workers do not see themselves as self-employed but continue to regard themselves as dependent employees despite a number of industrial tribunal rulings to the contrary. In 1984, there were 1.5 million temporary workers in various industries of whom only 15 % regarded themselves as self-employed. As with the self-employed, there were interesting industry differences (see next section). Only in the business services sector did a majority - 60 % of the small group of 'professional and related scientific' agency workers (including computer programmers) - count themselves self-employed, contrasting with 6 % of the 120,000 seasonal, temporary and casual workers in the hotels and catering sector (Casey and Creigh, 1988).

The picture described above is of dynamic but extremely varied development. It is clear that many firms come in and out of business each year and have a fairly short lifespan. The positioning of most self-employed very clearly in the secondary sector and the fact that fewer than 30 % employ other people strongly support Hypothesis 1 while the earning levels of most self-employed undermines Hypothesis 2. It is clear that successful entrepreneurial businesses are few and far between, virtually swamped by floods of the non-entrepreneurial self-employed. In fact, there is plenty of evidence to support this impression - some already mentioned and more to be presented in later sections. There is one last point to make about the recent patterns of small firm growth in Britain which has a bearing on the impact of *enterprise culture* policies. As the numbers of small firms have grown their average size has decreased, suggesting that the proportion of entrepreneurial small firms in Britain has been declining despite overall impressive growth in the sector. This already marks a clear rejection of the second proposition of the enterprise culture model and Hypothesis 4 but there are more than just size differences to take into account. Patterns of growth and decline vary widely between industries. After the heady successes of the 1980s a decline had set in with the recession of the late 1980s and early 1990s.

As Chart 2 indicates, after several years of falling unemployment (attributed by its supporters to the enterprise culture), confirmed redundancies to the Department of Employment jumped around 9 percent during 1989 and another 9 percent during 1990 (to

just under 130,000). By February 1991, official unemployment had topped 2 million once again, with the biggest monthly jump (150,000) in ten years, and 1993 saw the 3 million mark passed. The early 1980s recession had mainly hit blue-collar jobs but the late 1980s it was the turn of the middle classes, the largest source of entrepreneurs (see chapter 3). Mortgage repossession of homes - as collateral and the basis of secured loans, the most important source of capital for new businesses - experienced a record rise during 1990 to 40,000 (up from 13,740 in 1989 and nearly double the previous record of 23,000 in 1987) and white-collar jobs in the business services were dropping by 70,000 a month (Observer, 3.2.91). The British Venture Capital Association confirmed that the investments by British venture capitalists had fallen 20-30 percent from 1989 levels by the end of 1991.

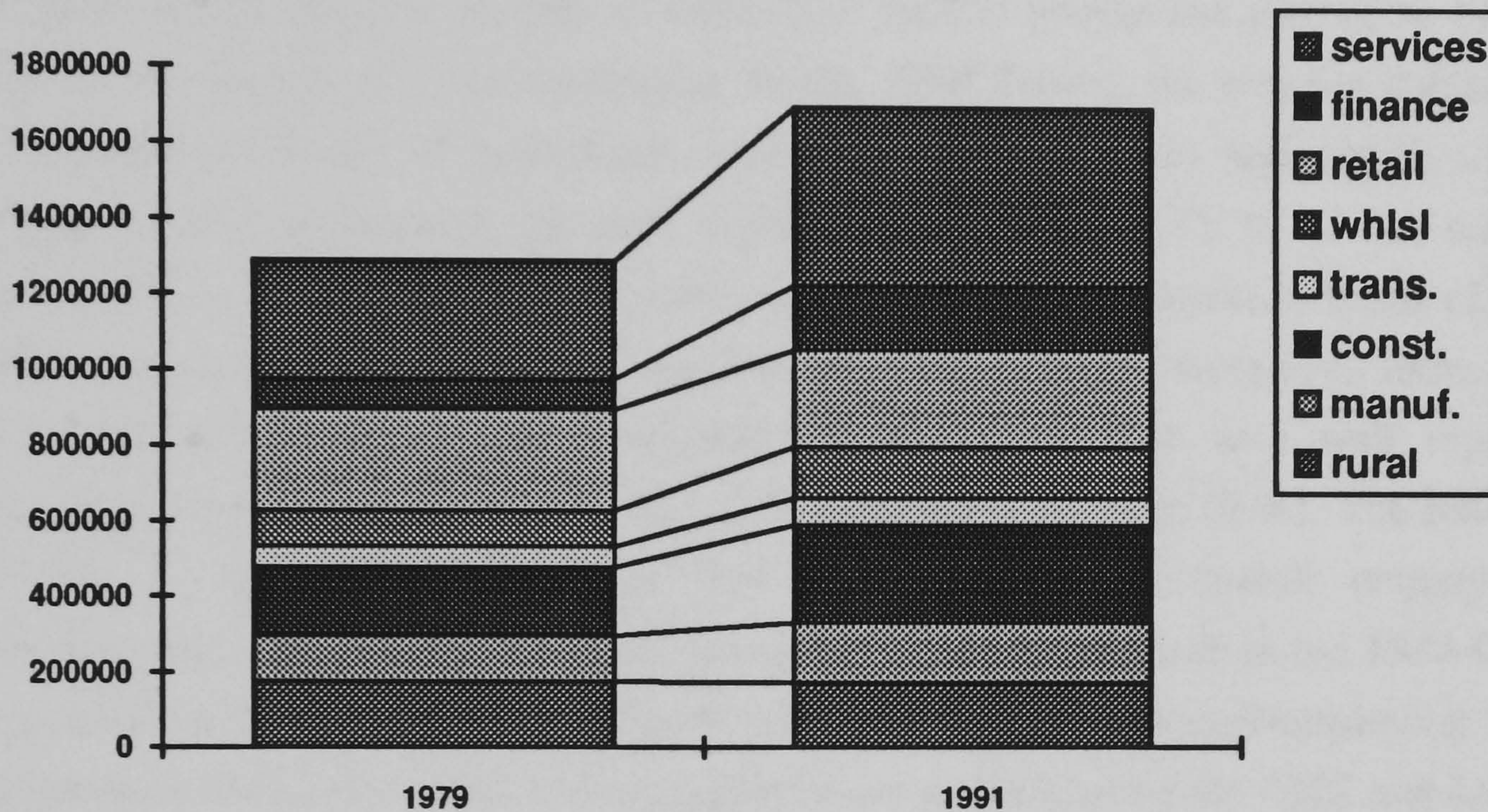
By 1989, the all-party House of Commons Public Accounts Committee was already expressing concern that almost half the businesses set up under the half-billion pound Enterprise Allowance Scheme (central to *enterprise culture* policies - see chapter 5, especially section 5.32) had failed. By the end of 1990, one of Britain's largest accountancy firms - Peat Marwick McLintock - noted that company receiverships were up 120 percent on 1989 (Financial Times, 7.1.91) and another large firm of accountants - Touche Ross - revealed that company failures had increased 160 percent from 1989 to 1990 (Guardian, 19.1.91). The credit-rating agency, Dun and Bradstreet, reported a record 24,442 failures of all types of business during 1990 and accountants Coopers & Lybrand Deloitte's predicted a further 40,000 insolvencies during 1991 (Observer, 13.1.91). With this scenario in mind, critics see the *enterprise culture* as a temporary phenomenon which has stolen some of the clothes of a more generalised process of global economic change though it has also helped prepare the ground for that change in Britain.

3.1.2 Industrial and regional effects.

The most notable feature of the growth in the self-employment as recorded in Labour Force Surveys has been the huge increase in services - general and financial - which accounted for 38 % of the 959,000 net increase in self-employment 1979-1987. Miscellaneous - which also includes some services, technology related businesses, transport, motor trades, repairers and so on - rose by 31 % while the structural change to employment relations in the construction industries was reflected in a 21 % net increase in self-employed building workers. As the following chart shows, self-employed manufacturers only represented around 11 % of the net increase in self-employment over 1979-1991 but that meant an increase of around 80 % self-employed in the manufacturing industries (Employment Gazette, 1991). In terms of net new business formations (basically VAT registrations), the two most dynamic growth sectors during 1980-87 were the service industries (including financial, business and central office services), with a 47 % increase in the number of firms, and the financial services (including property and professional services) with a 40 % increase (Business Monitor, 1987). The 23 % increase in the number of wholesalers and dealers was also substantial. By contrast, a broad

miscellaneous sector, including transport, motor trades, retailing, catering and so on, registered a less than 2 % net increase in the number of firms while the number of manufacturing businesses grew by 10 % and construction firms by 13 %. The relative growth of the whole business sector and of each industry is more clearly seen in Chart 3 which compares the stock of VAT registrations in 1981 with 1991.

Chart 3. Distribution of VAT stock by industry (1979-1991).



The key industries for the self-employed and small businesses are distribution, construction and manufacturing, although the self-employed and small business tend to occupy different segments of these industries. For instance, in retailing the self-employed would include a large number of stallholders and small corner or village stores. Unless they can find a local niche which offers protection but usually limited prospects for growth, the self-employed and small business retailers face savage competition. Although the broad distributive/catering sector has grown steadily, small retailers have been disappearing for most of this decade (VAT registrations down from 21 % of all firms in 1979 to 15 % in 1991). Despite a high failure rate of nearly 50 % within 5 years, low barriers to entry mean a constant inflow of new entrants and the sector remains overcrowded (Ganguly, 1985; Curran et al., 1987).

As mentioned in the previous section, there are significant segment differences between the self-employed and small businesses in the construction and manufacturing industries. Most of the self-employed in the construction industry are labour-only sub-contractors. Sometimes, skilled and semi-skilled craftsmen offer their skills as self-employed and, at other times, they form small businesses, often hiring other skilled workers. It seems fairly clear that the major cause behind these impressive increases has more to do with structural shifts in the economy than with an upsurge of entrepreneurialism. The increase in manufacturing self-employment, for instance, must be compared with the massive 2,063,000 drop in manufacturing employees, mainly from big firms, over the same period.

In the construction sector, more people shifted from employee to self-employed status and the shift was more balanced with 217,000 employees being replaced by 199,000 self-employed, a net 58 % increase of construction self-employed. In services, virtually one third of the record 2 million new jobs during the enterprise culture boom years of 1979-87 were self-employed, a net increase of 52 % (Employment Gazette, 1988).

Although it is not designed as a business survey, the General Household Survey (GHS), with its annual national sample of more than 10,000 people has proved to be a valuable source of national small business data. In the 1980 Survey, the two big industries for the self-employed heads of household were construction (28 %) and distribution (27 %). Financial and professional services together accounted for 12 % of the self-employed heads of household but only 5 % were in manufacturing. By contrast, heads of households who were small business owners employing up to 25 people were even more likely to be in distribution (30 %) and manufacturing (11 %) though also well represented in construction (20 %) and the financial and professional services (9 %). The following table (Table 5) summarises the shifts that have occurred in overall employment, self-employment and VAT registrations between 1981 and 1991 and in the 1984 GHS survey (contrasting sole trading self-employed with small business owners employing 1-25 people apart from the owner). Direct comparisons are complicated by the GHS and Labour Force Survey aggregating the wholesale, retail and catering industries slightly differently (which has also been done for VAT distributions with the wholesalers and retailers shown separately in brackets).

Table 5. Distributions of small firms by industry.

Industrial Sector.	GHS(1984) Survey 1984		VAT registrations		Self- employment		UK employees	
	S/E	25+	1981	1991	1981	1989	1981	1990
		(column percentages)						
Agriculture	5	3	13	10	13	8	2	1
Manufacturing	9	10	9	9	8	9	32	24
Construction	28	20	14	15	20	24	5	4
(Wholesale +			(8)	(8)			(5)	(5)
Retail) +			(20)	(15)			(10)	(10)
Catering =	23	47	37	30	32	25	19	20
Transport	6	6	4	4	5	5	5	4
Financial serv.	9	4	6	10	9	12	8	12
General serv.	19	11	10	16	13	16	14	16

(Sources: Curran and Burrows, 1988; Employment Gazette, March 1991; SBRT, December 1992)

The overall though declining importance of small retailers (the bulk of the distribution sector), building firms and various services is immediately apparent although prevalence of family stores in retailing and labour-only sub-contractors in construction is also clear. As already mentioned, small firms with fewer than 20 employees account for the vast bulk of all firms (some 96 %) and certainly accounted for most of these shifts in distribution between 1981-91 but the very smallest firms founded during the enterprise culture decade

are disproportionately spread among certain industries. In fact, only 2 % of the self-employed employ more than 25 people. Of those self-employed that do employ other people, the most popular industries were 'distribution, hotels, catering and repairs' (42 %) followed by construction (13 %) and business and financial services (12 %) but only 7 % in manufacturing (Creigh et al., 1986). The already mentioned trend towards self-employed status in the building industry certain business and technical professionals strongly suggests that entrepreneurship must vary in its technical, and perhaps psychological, requirements from one sector to another. Indeed, if overall employment relations are changing on a sector basis as Table 5 indicates, this means that the mere act of opting for self-employment cannot be taken as particularly strong evidence of entrepreneurial behaviour. In fact, evidence presented in the appendices and in the rest of this chapter suggests that small manufacturers, in being more business and growth minded, tend to be more promising candidates as entrepreneurs but many of them would not be captured by self-employment figures because they are attracted to the protection of limited liability through incorporation. The uncertain interaction between regulation and the demands of the marketplace certainly varies between industries but it also obscures the behaviour of entrepreneurial firms at an early stage in their existence behind the hurly-burly of business life in the small firm sector.

For instance, there is some evidence that innovative small to medium-sized manufacturers are better than average job generators (discussed next section) though their role may be obscured by the shedding of more than 2 million employees since 1979 by larger scale manufacturing (Storey, 1986b; Keeble, 1987). Annual net new firm formation rates, however, bear no statistical relationship to annual real rates of growth of GDP. Aggregated net new firm formation rates reveal little information on the velocity of business births and deaths, the average size of firm in each sector (discussed in the following sub-section) or, most significantly, the quality and flair of management. The overall figures say very little about the entrepreneurial nature, or otherwise, of individual firms. Also, the industrial sectors are defined so broadly that high performances by, for instance, technology-based firms tend to be swamped by the often more stodgy performance of more traditional firms. Analyses of VAT registrations and deregistrations during 1974-82 reveal the following wide variation in percentage failure rates across the industrial sectors mentioned above, within the first year of trading and within three years.

Table 6. Average VAT de-registration rates 1974-82 and 1989-91 by industry

<u>Industrial sector.</u>	(1974-82)		(1989-91)	
	Within 1 year	3 years	1 year	3 years
	(percentages of total industry)			
manufacturing	10	28	12	34
general services	11	30	15	42
financial services	8	25	10	29
retail	11	33	12	37
wholesale	12	30	14	39
construction	11	30	13	34
transport	14	35	14	41
motor trades	13	32	11	31
catering	10	31	15	45

(Source: Ganguly, 1985; SBRT, 1992)

Many of these variations are a function of firm-size with larger firms having more resources to weather economic storms and more room for manoeuvre. The higher risk and lower security associated with the distribution sector - transport (many single-lorry or single-motorcycle self-employed drivers), motor trades businesses, wholesalers and retailers - compared with financial services and manufacturers is evident and partly explains some of the differences in regional net new firm formation rates. There are wide regional variations in economic performance across Britain (and elsewhere in Europe) which may be explained partly by local environmental and natural endowment factors but mainly by differences in industrial composition and concentration as well as differential access to capital (Mason, 1989). Regional economies with different economic structures can have quite different industrial profiles. The differences are most obviously highlighted in the concentration of old, heavy 'rust-belt' industries in the northern regions of England and south Wales compared with the growth of financial and professional services in the South East.

Regions with higher concentrations of industries at risk - such as haulage and retailing - are clearly at a disadvantage compared with regions that attract the higher growth industries - advanced manufacturing and business services - and they will, in general, present fewer entrepreneurial opportunities (especially if a 'like attracts like' influence is at work). If a strong growth in wholesalers, transport firms and associated services is an indication of healthy trading opportunities, then the southern half of England clearly offered attractive pastures for budding entrepreneurs. Although there is currently a severe slump in the building trades, the growth of construction in those southern regions during the past decade is also a clear sign of prosperity. By contrast, the northern English regions - even though Hull and Newcastle should be benefiting from increased trade with Europe - offer far fewer apparent entrepreneurial opportunities. The 'Celtic fringe' seems to have had fairly average growth during the 1980s although the manufacturing sector in Wales looks very robust (there was a lot of Japanese and Welsh Development Agency investment) and the Scottish financial sector has enjoyed spectacular growth.

Although each local economy has its unique structure, the four southern regions - South East, South West, East Anglia and West Midlands - seem to form a distinct and privileged group during the mid-1980s boom. For instance, the new firm formation rate between 1980-1983 was 17 per 1,000 employees in Greater London, 12 per 1,000 in the rest of South East, 11 per thousand in East Anglia, 10 per 1,000 in the South West and 8 per thousand in the West Midlands, compared with Yorkshire's 6 per 1,000 and 5 per thousand in both Northern England and Scotland 5 (Ganguly, 1985). On average, 9 % of households have a self-employed head but during 1979-86 self-employment leapt 90 % in the South West (where 12 % of household heads are now self-employed), 61 % in East Anglia and 58 % in the South East, which accounts for 36 % of Britain's self-employed (Regional Trends, 1988). By 1985, the four southern regions contained 56 % of all businesses, 57 % of the self-employed and a higher rate of growth in terms of new firm formations and GDP (55 % of the UK total). A survey of the 1,000 fastest growing unquoted businesses in the Britain found that 44 % were in London and the South East (Mason, 1989). During 1987, the four southern regions increased their employment by almost 400,000 (78 % of the total UK increase in 1987), the only regions to exceed the UK average. In terms of seasonally adjusted unemployment rates by the end of 1987, South East's 5.7 % and East Anglia's 5.4 % were less than half Scotland's 11.9 % and Northern England's 12.7 %.

These net changes in different industries across the different regions reflect the broader structural changes taking place not only in the British economy but also more globally. The deregistration of older, less-efficient businesses from the VAT registers will have been even more severe than the above table reveals but there is no way of knowing from these data whether the new registrations represent more modern and efficient firms. Nor is there any way of gauging any cultural differences between regions that may impact upon new firm formation rates (such as an historic reliance on large-scale heavy industry in the north and a stronger link with commerce in the south). Cultural and motivational factors will be considered in chapter 5. However, it is worth pointing out that the above patterns of growth aggregate all small firms and self-employed and that entrepreneurial firms may exhibit different patterns of development. The important point to note from the perspective of this thesis and of entrepreneurial development, however, is the weakness of the industries - retailing, catering and transport - which are popular as new self-employed and small businesses because of their low barriers to entry (low initial capital, no entry qualifications, minimal workforce, etc.). Also there are plenty of models of existing businesses in these industries for newcomers to imitate. For these reasons, and the previously mentioned high failure rates, it seems clear that the mere act of starting a new businesses is often very risky but not necessarily entrepreneurial. Indeed, patterns of growth in Britain's small firms sector lead to the unavoidable conclusion that structural factors have been much more influential than subjective motivational factors in explaining

recent trends (though not necessarily individual behaviour). As recent growth occurred mainly in industries where barriers to entry have always been comparatively low and not in the more innovative sectors, there seems to be little support for one of the main underpinnings of enterprise culture policies and one of the key elements in Hypothesis 3 (that more individuals with the right entrepreneurial 'personalities' would start new businesses if anti-business political-economic, cultural and skills barriers were removed). By implication, there is also little support for Hypothesis 4 (that increasing the absolute numbers of small firms will lead to an increase in the number of entrepreneurs and a consequent improvement in economic development). Indeed, on the actual pattern of economic performance across most, if not all, industrial sectors, it looks likely that Hypothesis 4 should also be rejected.

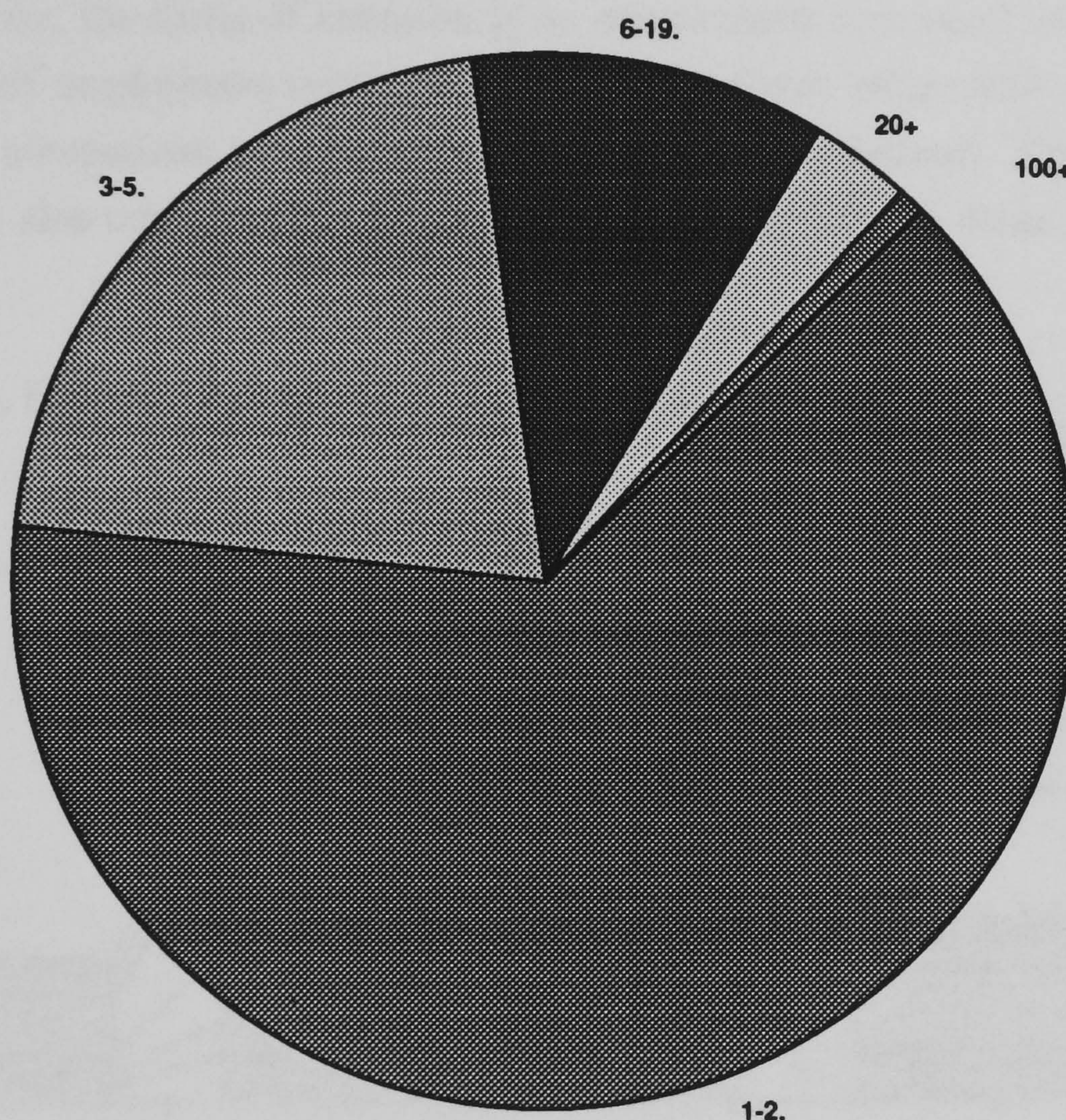
3.1.3 Size effects.

Moving the analysis to a lower level of aggregation - namely, the effects of workforce size in bands of full-time employee equivalents on organisational behaviour and performance - the pattern of turbulence and change at the industrial and regional level intensifies. Indeed, it becomes clear that many of the effects that are identified as industry or regional effects actually reflect enormous differences in business behaviour, capability and performance directly connected to the size of the organisation. In attempting to define the 'small firm', Bolton (1971) explicitly recognised that there are different size norms in different industries and that the very small firms, say 1-4 employees - are essentially different organisations from the larger small firms, say 50-100 employees. SBRT studies confirm the fact of the average size differences (manufacturers: average size 15; retailers 3) and, of central importance to this thesis, the fundamental differences in attitudes and business behaviour at much finer degrees of size difference than those identified by Bolton. Indeed, much of the analysis supporting this thesis (as should be clear from the discussion in sections 2.3.2 and 2.4.2) flows from the implications of these size differences and the attitudes and expectations associated with them (though this section will be mainly confined to a description of the size distribution of small firms in Britain).

There are around 2.5-3 million individual firms in Britain and the most striking feature of the distribution of firms by employee-size is the overwhelming numbers of very small firms. People who are not familiar with the small firm sector as an element in the economy are usually astonished to learn that more than 96 % of all firms in Britain employ fewer than 20 people. However, a glance at official statistics in most Member States of the European Community (EC) will reveal that this high predominance of small firms is a feature of most west European economies. Unfortunately, exact data on small firms is difficult to find in most EC members (not the least due to the high volatility of the sector) but, as already mentioned above, is particularly difficult in Britain because of incompatibilities between VAT and Labour Force Survey data. For instance, VAT registrations do not ask for numbers of employees and LFS relies on self report and tends

to aggregate the full-time and 'spare-time' self-employed (though the survey has begun to distinguish between them). Each of these data sources yield valuable and interesting information (see Chart 2 above) but, to obtain a clearer picture of the small firm sector in Britain, the Department of Employment commissioned Graham Bannock and Partners (who also conduct the SBRT surveys) to estimate the total number of firms in Britain from these two sources and other sources such as Inland Revenue data. Chart 4 clearly demonstrates the size of the small firm sector as a segment of Britain's 2,696,000 businesses in 1991 (SBRT, *NatWest Review of Small Business Trends*, 1993).

Chart 4. Distribution of firms in Britain by employee-size 1991.

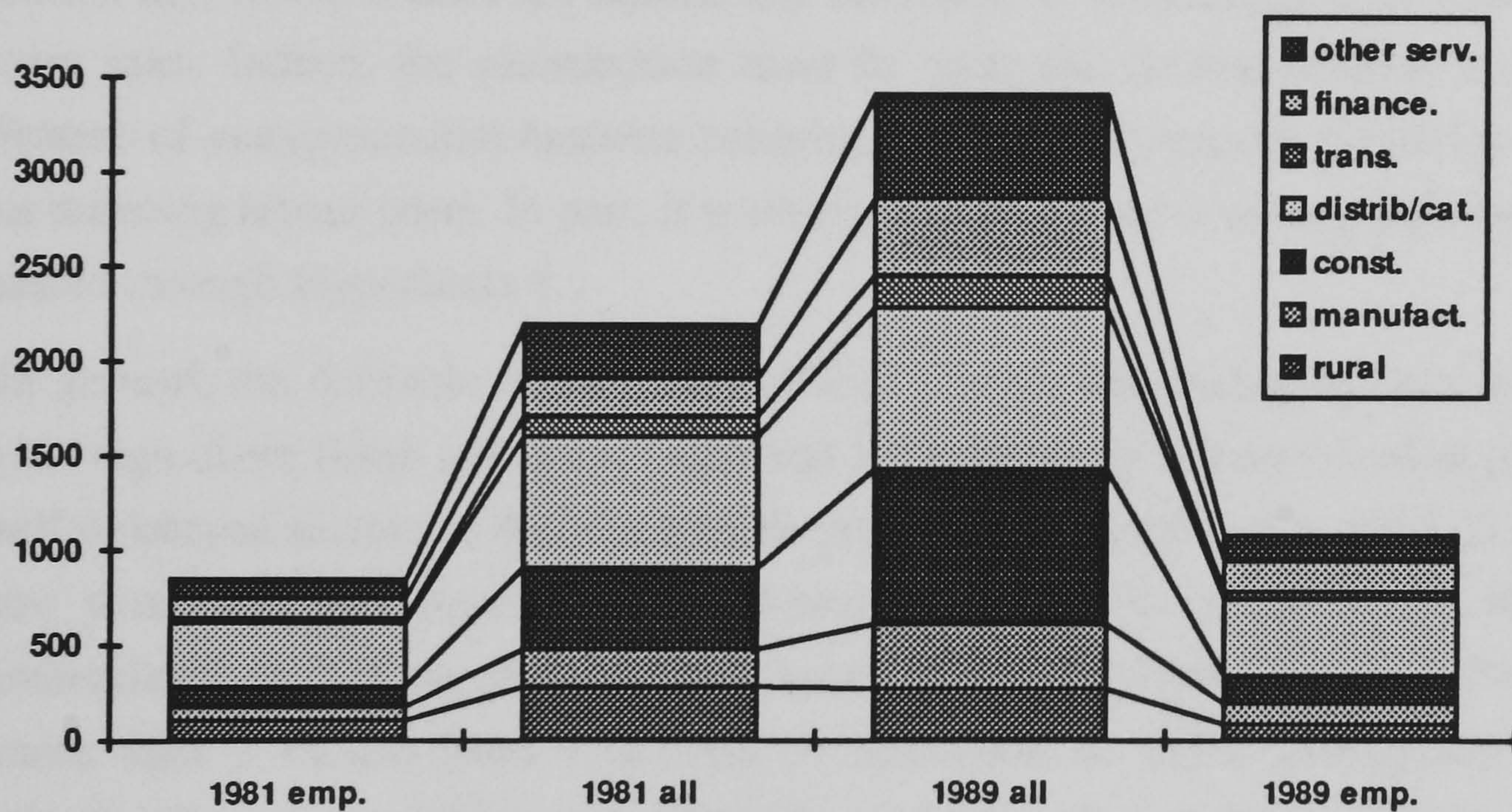


The first point to note about the above distribution is that it is not tenable to use the original Bolton definition of small (manufacturing) firm as one with fewer than 200 employees (plus some ownership and market share criteria) because these firms account for 99.7 % of all firms making meaningful discrimination between firms of different sizes quite impossible. Using the EC definition of small firms as one with fewer than 100 employees does not improve matters much because they still account for 99.3 % of all firms. For a number of reasons which will become apparent during the course of later discussion in this thesis and because most EC members relax industrial relations and fiscal reporting rules for firms below 20 employees, the working definition of 'small firms' for present purposes (and increasingly accepted by small firm researchers in Britain and elsewhere) will be firms

with fewer than 20 employees. On Graham Bannock's figures (SBRT, 1993), these account for one-third (34.6 %) of all employment in Britain and about one-half of non-public sector employment.

The second point to make, which should be clear from the discussion in the two previous sections, is that there are significant differences in size distributions across industries and regions. Table 5 gives some indication of the higher concentrations of the very small firms (the two-thirds - 66.4 % - employing 1-2 people) in construction and retailing where labour-only sub-contracting in the first and 'mom and pop' shops in the second, are very common. One of the key conclusions of this thesis is that few of these types of business are entrepreneurial yet seem to represent the main 'successes' of enterprise culture policies. Because, the focus of attention is on encouraging new small start-up firms, the LFS data on self-employment (virtually all the 1-2 employee 'micro-firm' sector) provides an interesting comparison with Chart 3 (shifts in VAT distribution). This is captured in Chart 5 which also compares the sole-trading self-employed with those who do employ others.

Chart 5. Industry distributions among the self-employed.



(Source: Employment Gazette, March 1991)

Once again, the rise of labour-only sub-contractors in the construction industry and prevalence of single-lorry drivers (or single-motorcycle couriers) in the transport sector is immediately apparent. It is not surprising that small shops and restaurants dominate as self-employed with employees but it should be borne in mind that the VAT registration-deregistration rates (a proxy for the birth and death rates or the 'churn' rate) are very high for these sectors and that growth expectations are generally low. It should also be apparent from the chart that small firms with employees had not increased significantly by 1989 (before the onset of recession - see Chart 6) even though the overall numbers of self-employed had increased fairly dramatically. To some extent this will reflect the employment 'norms' common to 'easy-access' industries but it is worth noting that the

modern innovative industries - technology-based manufacturers and service firms and new business services - almost invariably employ other people. In fact, the percentage of self-employed without employees increased from 60 % to 70 % over the enterprise culture decade which again strongly suggests that Hypothesis 4 (that increasing the absolute numbers of small firms will lead to an increase in the number of entrepreneurs and a consequent improvement in economic development) should be rejected on the grounds that very little new firm growth is entrepreneurial (indeed, only a small fraction would meet the criteria mentioned in the summary of Chapter 2). Even allowing for the fact that entrepreneurship will take a different form in different industries, small firms do not appear to be the engine of economic recovery and prosperity (though they appear to have a considerable role as consumers and as providers of services).

3.2 Economic potential of entrepreneurial small businesses.

3.2.1 Source of new jobs.

One of the most frequently stated objectives of enterprise culture policy, and certainly its most obvious political *raison d'être*, has been the reduction of mass unemployment (see section 2.1) even though there is nothing in any theory of entrepreneurship to support the notion that entrepreneurs are intrinsically interested in recruiting a large workforce for its own sake. Indeed, the presumption must be quite the reverse because a distinguishing feature of entrepreneurial business behaviour is the entrepreneur's creativity in containing or reducing labour costs. In part, it is this claim for enterprise culture policies that is being tested through Hypothesis 4.

In general, the dramatic rise in both self-employment and unemployment in recent years plus high churn (birth and death rates) and low propensity to employ other people in most self-employed sectors as discussed in the previous section (Chart 6 and 3.1) suggest there are some linkages between the self-employed and the unemployed. Manufacturing industries have seen the most dramatic increase in unemployment since 1979 slumping by more than 2 million from 7,107,000 to 5,055,000 in 1990. During the same period construction firms shed some 200,000 workers and transport industry employment dropped half a million but employees in the financial services and miscellaneous services increased by around 1,200,000 each. Over the decade up to 1988, there were 1,322,000 net job losses in paid employment which was partly countered by a gain in 959,000 self-employed, leaving a net loss of 363,000 jobs (Employment Gazette, 1988, 1991). The more serious longer term problem of youth unemployment, however, was highlighted by the fact that more than 2 million of the 3,431,000 total population of 16-19 year olds in 1987, did not have a job (LMQR, July 1988).

As mentioned in the Introduction and in the previous section during discussion around Chart 3, there has been a spectacular growth in self-employment (from 1.9 million in 1979 to 3.3 million 1991) and a noticeable improvement in the relative importance of small

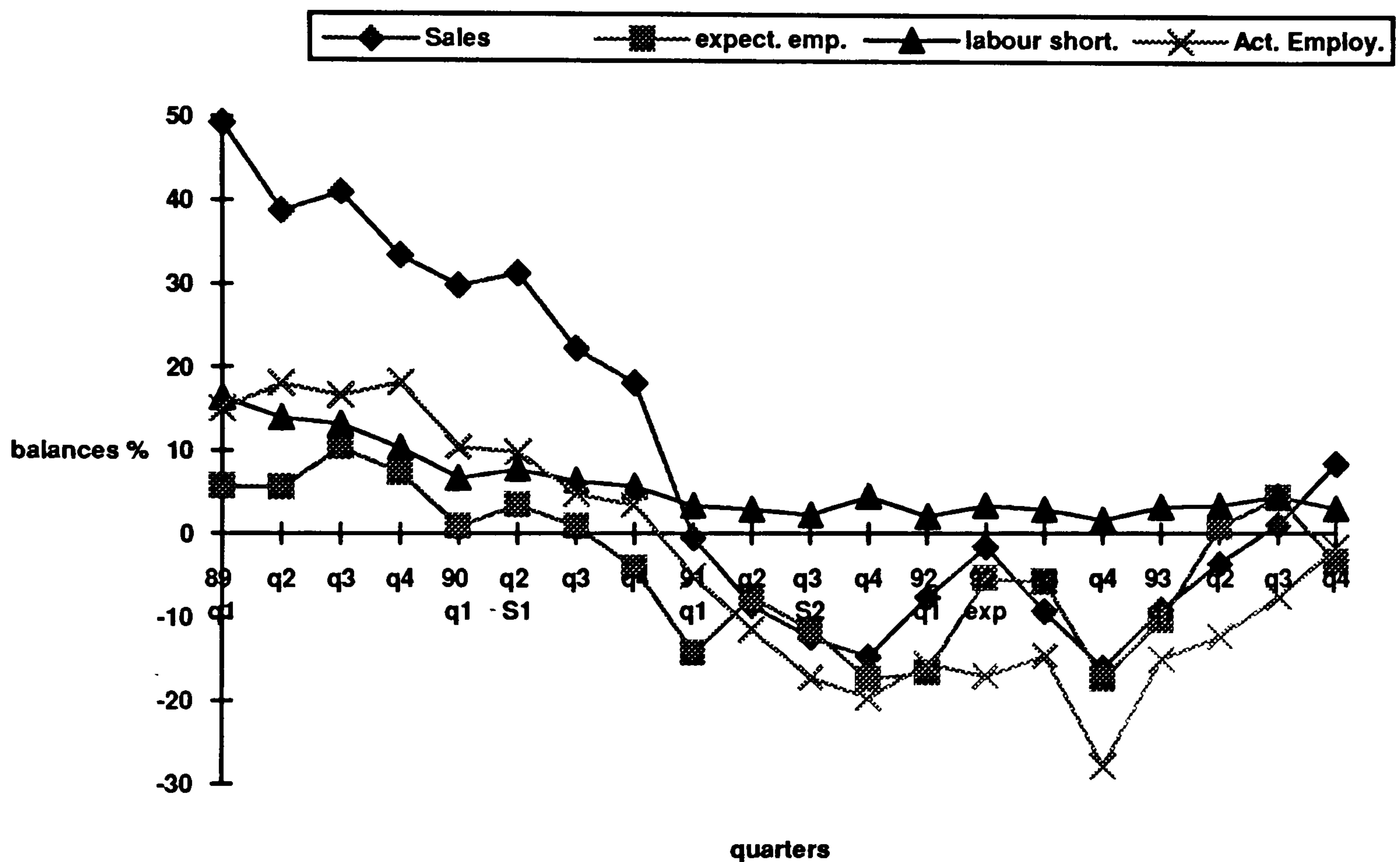
businesses in the economy (Bannock and Daly, 1990). Other authoritative studies have also demonstrated convincingly that small firms created more than half a million new jobs during the enterprise culture 'boom' (1987-89), slightly more than larger firms though from a much smaller base. There was no evidence, however, that these growing firms either employed many unemployed or were founded from them (Gallagher, 1991). Indeed, the aggregated unemployment figures hide a more complex picture. For instance, many young first-job seekers are included but other previously economically inactive people - such as women entering or re-entering the labour market, immigrants, and so on - who would like a job are often not. Also, there are major differences between the short-term and long-term unemployed. More than 70 % of all unemployed find work within 6 months. However, the longer term unemployed (in April 1988 at the height of the enterprise culture 'boom', roughly 650,000 had been unemployed for more than two years) tend to be older and find it harder to obtain work (LMQR, July 1988). The vast bulk of confirmed redundancies occurred more than 5 years previously, during 1980-81, mainly in the manufacturing industries. In 1980, more than 80 % of the 493,700 confirmed redundancies were in manufacturing and in the peak year 1981, three quarters of the 532,000 confirmed redundancies were in manufacturing (Stanworth and Barker, 1988), leaving 300,000 or so people unemployed for more than 5 years.

These potential 'entrepreneurs' were mainly middle-aged, male, semi or unskilled workers from heavy industries who are neither inclined nor suited to self-employment. Clearly, transforming the work potential of these types of unemployed is beyond the powers of enterprise training. For them, casual work and part-time work represent two alternative low-level employment options to self-employment although the distinction is so blurred as to be meaningless. Indeed, Labour Force Surveys reveal that part-time work, including part-time self-employment, boomed during the mid-1980s. However, with most of the longer term unemployed male, it seems clear that it was mainly their wives who took up these short time jobs. Home workers and other similar forms of casual labour account for much of the recent rise in female self-employment, roughly 20 % in the total growth in self-employment during 1981-84 (Casey and Creigh, 1988). Whether as casual, part-time, temporary or self-employed worker, it is clear that the enterprise culture offers only limited and insecure employment options to the unemployed.

After the massive recession of the early 1980s during which most of these large job losses occurred, there followed a period of recovery which saw relatively high rates of growth and was hailed by enterprise culture *aficionados* as the 'boom' that proved the validity of their policies. In fact, 1979-1981 had seen the British economy fall well below its expected trend line of growth which was not reached again until 1990 (Johnson, 1991). The growth of self-employment without employees during this 'enterprise decade' has already been mentioned in the previous section when discussing Chart 5. In the Cleveland study comparing a 1979 cohort of local small firms with a 1990 cohort (which included

the 1979 survivors), it is interesting to note that the average size of small firm had dropped from 26 employees to just under 9. There is no doubt that the self-employed and new small firms can absorb significant numbers of self-employed but, as Chart 6 makes very clear, the job-security of this form of employment is extremely vulnerable. Chart 6 tracks the balances (percentage of respondents reporting increases less those reporting decreases) as reported in SBRT quarterly surveys (see Appendix B and Chart 1) for actual annual performance in sales and employment, expected employment in the coming quarter and the percentage reporting difficulties in attracting skilled labour:

Chart 6. Actual employment and sales, expected employment balances and skilled labour shortages (%) among SBRT SMEs 1989-93



(Source: NatWest/SBRT Quarterly Surveys of Small Business in Britain)

As in Chart 1, the effects of recession, as measured by falling sales, on expectations and on employment are immediately obvious. The 'boom' had peaked for small firms by the end of 1988 (confirmed by subsequent official statistics) with negative balances for employment occurring before the slump of sales turnover into negative balances and has remained lower ever since. These surveys do not include firms which have failed in the meantime so it must be assumed that the shedding of labour by small firms and the precariousness of employment within them is more severe than the graph indicates. Indeed, it is clear that the recent increase in sales and emergence from the depths of recession has not boosted employment while firms make use of slack capacity (though it is interesting that a residual demand for skilled labour continued during the recession and looks likely to leap once spare capacity is used up and general unemployment begins to drop). In fact, the large growth in self-employment during the 1980s took place in parallel

with an even larger growth in unemployment (see Chart 2) which suggests that both phenomena may have common causes - socio-economic structural changes within Britain's economy and society.

Although self-employment does not appear to offer an effective answer to unemployment, especially longer term core unemployment and youth unemployment, the enterprise culture claims for small business as net creators of new jobs may have more substance. The services sector is now showing the fastest economic growth in terms of new firms but there is some evidence, including the training needs survey reported in Appendix B2, that small firms in the manufacturing and construction industries respond more positively to training and, proportionately, create more jobs (Gray and Stanworth, 1985; SBRT, No.4, 1986). However, there is some debate about this because it is very difficult sometimes to draw the line between some services and some manufacturing processes. Economists are increasingly drawing a distinction between services which are not portable but depend very much on being locally based and those which are like manufacturing in that they can move and be relocated virtually anywhere. For example, personal services like haircuts and car repairs cannot be telephoned to the client but financial services, marketing and even transport can be transacted anywhere.

In the broader manufacturing sector, which includes a relatively large proportion of growing small firms, evidence suggests that the most dynamic firms employ between one and two dozen people (SBRT, No.4, 1986). The best job creators of firms which sought enterprise agency support were those employing 11-20 people (BiC, 1987). Analysis of credit rating agency, Dun and Bradstreet, data in Britain indicates that, while firms employing 11-19 are very active, very few are likely to grow into the 20-49 employee size band (Doyle and Gallagher, 1986). These findings were broadly confirmed by studies of manufacturing firms in Cleveland which revealed that, over the years 1965-76, only 14 % of small single plant firms registered any significant growth. However, this study suggests that the barrier to growth for small manufacturers may be slightly higher than 20 employees. Almost one in five of firms with 10-24 employees registered growth and these firms had the lowest death rates. Just 8 % of firms with 25-49 employees grew while only 7 % of firms with 50-99 employees grew and they registered the highest failure rates (Storey, 1986b).

A similar pattern emerged from a special SBRT quarterly survey which looked at changes in employment. Despite continued small business growth in the London region (16.8 % increase in employment), the small 1-4 employee band and the 50-99 band both registered net declines of 4 % and 25 % respectively. The main job expanders were firms employing 5-9 employees (37 %) and, particularly, 10-14 employees (65 % - SBRT, 1987). A similar picture emerged in the US where an analysis of Small Business Administration data,

involving thousands of small firms, indicated that young firms of less than 6 years old employing fewer than 20 employees displayed the most dramatic growth (Evans, 1987b).

Findings from the Cleveland manufacturing firms and from similar studies indicate that it is these dynamic small firms themselves which spawn other successful new firms. The founders of surviving small firms are more likely to have previously worked in another small firm than in a large firm. As much of the unemployment has been fed by redundancies from large firms, this implies that policies which promote redundant workers as a source of successful new firms are likely to fail (Storey, 1986 b; Storey and Strange, 1992). Indeed, doubts have been expressed on the type of new firms being founded by the unemployed (see section 2.41) and their destructive impact on existing local firms (Gray and Stanworth, 1986; Binks and Jennings, 1986). The strong suggestion is that training resources should be concentrated mainly on encouraging dynamism and efficiency in existing firms rather than spread thinly in frequently vain attempts to nurture start-ups.

There is a growing body of evidence - including the findings of the postal surveys conducted for this dissertation - that very few of Britain's millions of self-employed and small business owners should really be described as entrepreneurs in the sense of their being innovative or even being interested in growth. As various Employment Gazettes (1986, 1991) have revealed (and Chart 4 demonstrates graphically), less than one third of the self-employed employ any other people. A similar pattern was observed during the recession of the 1930s, suggesting that the move into self-employment was not an entirely voluntary career-choice for many of Britain's new business owners (Binks and Jennings, 1986). This may help to explain why so few smaller firms seem willing to grow (Doyle and Gallagher, 1986; Gray, 1989; Gallagher, 1991).

Analyses of data from the 200,000 or so firms covered by the credit-rating company Dun and Bradstreet have suggested that many firms employing 10-20 employees expand rapidly but that few small firms are likely to pass beyond a 20 employee 'barrier' (Doyle and Gallagher, 1986). Indeed, other studies confirm that firms with up to 20 employees have different patterns of development and that those of say 15-25 employees are very active but that very few will expand (CBI, 1986; Storey and Johnson, 1987). These findings, which are discussed more fully in section 5.1.1, have been recently confirmed by separate analyses of Dun and Bradstreet data which revealed that firms employing between 5-19 employees generated some 290,000 new jobs between 1985-87 while those employing 20-49 people actually shed some 80,000 jobs (Gallagher, 1991).

Motivational issues are discussed in section 5.3 but it is worth mentioning one suggestion to account for this phenomenon. There may be a natural barrier - a span of control - to delegation of responsibilities as opposed to routine tasks. Many small business owners do not want to relinquish control or cede any of their personal 'independence' to other people either inside their firm or outside. Another factor that could account for small business

reluctance to grow is that many of the new self-employed feel that they have been pushed reluctantly into running their own firms. Demographic changes, the demoralisation that accompanies long term unemployment (predominantly a male phenomenon) and the desire for women to return to the workforce after rearing a family (which may also explain the marked increase in female part-time self-employment) have been put forward as potential 'push factors'. Policy makers, however, prefer to stress the positive 'pull factors' that incline certain people towards setting up on their own account.

The experiences of the central enterprise policy instrument for encouraging self-employment among the unemployed - the Enterprise Allowance Scheme (EAS)- will be assessed in chapter 5 but it is worth mentioning now that even fewer EAS firms take on staff, failure rates among them are even higher and the vast majority of EAS businesses operate in the non-entrepreneurial secondary sector, often in the same industries which employ large numbers of outworkers. Indeed, many of the more successful artisanal EAS firms actually also rely on this type of casual labour (Gray and Stanworth, 1986). At the other end of the scale, it is difficult to distinguish between labour-only sub-contracting 'self-employed' and casual part-time employees. Once again, the precarious nature of employment in the self-employed sector is apparent. Around 10 % of the self-employed work less than 16 hours per week rising to one quarter working less than 30 hours a week, including a staggering 52 % of self-employed women. It must be concluded that enterprise policy expectations of the small firm, especially the very small firm and self-employed, as an unemployment regulator are severely misplaced and that entrepreneurial behaviour is very much the exception.

3.2.2 Source of new industries.

The second main promise of small firm economic potential held out by the enterprise culture model lies in the development and diffusion of new technological innovations in products and processes and, therefore, as a source of the growth industries of the future. New technology is expected by many to revolutionise both productive capacity and productivity and there is an underlying assumption that the growth of dynamic small high-technology manufacturers will boost new technological applications by other small and medium-sized firms. Certainly, manufacturers and business services connected with microelectronics, information technology and bio-technology appear to enjoy the best potential for growth and provide the most exciting environment for the blossoming of entrepreneurial talent. Against the background of industrial decline in traditional industries described in previous sections, small new technology manufacturers have been net providers of new jobs in Britain with more the 11,000 new jobs created during 1980-84 in firms employing less than 50 people swamping the 4,000 jobs lost in firms employing more than 1,000 people. In 1981, 11.5 % of the workforce was employed in high technology manufacturing and by 1986 this proportion had crept up to 13 % (Keeble, 1987).

However, there is a widely held view that new technology, which permits small batch production and lower staff levels, actually benefits bigger firms much more than it does small manufacturers. Technologically innovative firms tend to be either very small or very big (Rothwell and Zegveld, 1982). Also, small high-technology manufacturers can be rather vulnerable, relying on a single product, while the larger innovating firms tend to have more heterogeneous product lines (Javanovic and Rob, 1987). However, these firms may be more receptive to training initiatives. New high technology entrepreneurs tend to have a high educational level and they give way to management teams as their innovative firms grow from small specialist firms to larger enterprises (Oakey, 1987). So far, there is little evidence that small high technology firms are better job creators than other small manufacturing firms (Storey et al., 1987). Indeed, there is strong evidence that British technology-based firms invest far less on research than their European rivals and are losing out in global markets, as measured by patents registered in the United States, to Germany where investment among firms of all sizes is many times higher (Patel and Pavitt, 1989). This suggests that successful entrepreneurs have more developed management skills and a stronger understanding of capital requirements.

Moving more broadly beyond the technology-based industries to examine the role of small firms as the acorns from which tomorrow's industrial oak trees will spring, there is again little cause for optimism. It has already been noted that often even entrepreneurial small business owners are only entrepreneurial during the initial start-up phase of their enterprise, preferring to restrict further growth so as to preserve their autonomy. This suggests a life-stage model of small business development with different types of business clustering at the different stages. Implicitly, stage models share certain conceptual features with the life-stage career and personal development models discussed in section 4.2 and product life-cycle models. They vary in complexity from simple 2- or 3-stage models to models involving as many as one dozen successive stages through which successfully growing firms pass. In general, these models share an underlying assumption that the ultimate goal of a growing small firm owner is to develop the business into a large, multi-functional corporation and that progression, if not inevitable, is usually linear. These assumptions, which are consonant with stage models based on neo-classical economic and development theories such as Walter Rostow's (1962) stage development model discussed in Chapter 2, influenced McGuire's (1963) 5-stage 'small business' development model:

- | | | | | | | |
|-------|--------------------------------------------------------------------------------------------------|-------|--------------|-------------|-----|---------|
| (i) | traditional | small | company, | | | |
| (ii) | planning | for | growth, | | | |
| (iii) | take-off | from | existing | conditions, | | |
| (iv) | drive | to | professional | management, | and | finally |
| (v) | mass production marked by a 'diffusion of objectives and an interest in the welfare of society'. | | | | | |

As in the case of the broader theory, many critics doubt that this type of positivist approach can be applied to such a fluid area as business growth and development. Without

analysing this model in any detail, it is fairly evident that each stage is riddled with unsupported assumptions, starting with the idea that most small firms are incorporated, that 'traditional' firms are likely candidates for entrepreneurial growth and ending with mass production and social welfare as desired targets. As pointed out in the previous chapter and earlier, most small firms are services organised as sole-traders or partnerships with limited or no growth objectives (which certainly do not include a social welfare role). The latest (1991) Labour Force Survey revealed not only that there had been a 4 % decline in self-employment during 1991 but also that 70 % of the 3,282,000 self-employed employed only themselves and that only 1.5 % had grown from sole-trader status to employing more than two other people over the year, in many cases family members rather than externally recruited employees (Campbell and Daly, 1992). Stage (i) firms are, therefore, fairly rare and the take-off in stage (iii) even rarer with not much activity taking place in stage (ii). Furthermore, as will be discussed in the next sections, stages (ii) and (iv) - planning for growth and drive to professional management - represent the greatest, as yet unresolved, challenges to professional enterprise trainers and policy-makers.

One evident weakness of this type of stage model lies in its fundamental neo-classical economic assumptions which ignore the reality of small business management and entrepreneurial development. It is assumed that a management learning process occurs but, by and large, these models do not provide an explanation of why the firm was founded in the first place and what relation there is between the founding motivations and objectives and subsequent developments. A similar 4-stage development model devised by Eric Flamholtz (1986) - (i) new venture, (ii) expansion, (iii) professionally managed business and finally, (iv) consolidation - at least suggests that the firm's transition from stage (ii) to stage (iii) could well involve a change in owners. However, stage development models of growth are much more models of firm growth rather than models of individual entrepreneurial or even small firm manager development. Whether stated explicitly or not, they are based on two dimensions - size of firm (usually defined in terms of workforce) and relative maturity (usually defined in terms of management structure complexity).

In economic theory, it is assumed that firm growth is independent of firm size although this 'law' may only apply to firms that have attained the level of minimum efficiency. In an econometric study of 20,000 firms in the US, Evans (1987a & b) found strong evidence to support the counter proposition that firm growth decreases with the age of firm. Economic theory was not supported as growth decreased with firm-size even though Evans found that the growth-size relationship is highly non-linear because it varies over the size distribution of firms. These findings are reflected in the studies reported in Appendix B where there is strong evidence that managers' attitudes towards growth could be a powerful intervening variable. This contrasts with the removal of the owner or manager, except as a descriptive device, from most earlier stage models. The lack of

relevance of stage models to smaller firms has also drawn criticism. The samples upon which their generalisations are based are usually tiny, they often rely not on longitudinal data (which would seem to be essential) but on retrospective single point observations and they are insufficiently linked to other studies (such as thorough econometric studies of the type mentioned above).

It is clear that entrepreneurs are relatively rare in new start-up firms. This is not to suggest that there are no new entrepreneurs but rather that they are swamped in a sea of new non-entrepreneurial small businesses. This points to two clues for those who seek to know more about the workings of entrepreneurs in Britain. Firstly, only existing firms will provide a sufficient concentration of entrepreneurs to permit serious study. Not all existing firms are entrepreneurial but, in the face of intensifying competition, it must be assumed that entrepreneurs will have a stronger propensity to survive and grow. Secondly, as the evidence presented in section 3.1.2 indicates, the regional pattern of development in Britain cannot be ignored. In general, entrepreneurs are attracted to areas where there are already a lot of existing entrepreneurs. Whether this is because of some social imperative - a sort of entrepreneurial herd instinct - or because they are all drawn to the same economic and environmental attractions, this phenomenon is a feature of high growth areas in Britain, Italy and the United States (Amin et al., 1986; Keeble, 1987). Networking and the grouping together of complementary businesses seems to be a particular developmental pattern of successful technology-based firms. More importantly, Mason and Harrison (1991) have demonstrated a clear link between successful start-up and growth rates and the local provision of capital from formal and informal (non-institutional sources such as private investors) sources, particularly in south east England.

This link between certain entrepreneurial firms, technology and capital (which is often used for technological investment) goes beyond firms providing high-technology products and services. An interesting feature of the financial and business services sector as a whole is the widespread use of new technological applications especially in the use of information technology. The use of new technology is also a feature of modern, entrepreneurial manufacturers and distribution firms in non-technology sectors. Because technological awareness reflects exposure to education, this strongly implies that growth-oriented entrepreneurial and innovative firms should have higher educational levels, certainly in technical and engineering skills but also, for services in particular, in academic skills than most self-employed and probably most employees. The general importance of education in the socio-economic developmental process has already been discussed and this suggested more precise link with active or entrepreneurial small business development is confirmed next section (see Table 8 and section 3.3.3), in Chapter 4 and in the studies reported in Appendix E.

The openness to networking also suggests fairly well developed social skills and it is interesting that new manufacturers are twice as likely to be small companies with employees rather than sole-trading self-employed (Curran, 1986). The main problems of these firms (see chapter 5) are connected with growth: finding markets, the right employees, appropriate forms of finance, and so on. These fundamental differences and the regional, industrial and size variations above indicate that not only is the small firm sector extremely heterogeneous but also that there is little point in seeking a single 'entrepreneurial personality' as the main explanation of entrepreneurial behaviour because such behaviour is likely to vary from one situation to the next and from one 'type' of small firm manager to another. Indeed, as the following section makes clear, there are many different types of entrepreneur.

3.3 Segmenting the small business sector.

3.3.1 The sociology of small businesses.

So far, the structural sources of differences between small firms - historic period, external economic environment, region, industry and size effects - have been discussed and clearly demonstrated. These factors mainly affect the distribution and function of different types of small firm in the economy and, therefore, their business behaviour (including any growth strategy). However, non-structural factors, particularly those relating to the expectations of owners, managers and workforce, appear to have a greater influence on business behaviour. Sociologists have provided the most useful studies of these factors but their studies have mainly been descriptive. Ever since Weber (1930), one of the pioneers of sociology, the marginal origins of many entrepreneurs have been identified and the success of immigrants and 'outsider' sub-groups - such as Huguenots, Quakers, Jews, non-conformists, in the past, and East African Asians, Cypriots, Overseas Chinese, more recently - has been extensively studied. Certainly, much higher proportions of certain ethnic minorities are self-employed than the 12.6% national average in - 21.2% Indian and 22.3% Pakistani/Bangladeshi but only 6.7% Caribbean according to the 1989 Labour Force Survey (Employment Gazette, March 1991).

The same data also suggest that groups originating in the Indian sub-continent are much more likely to employ other people (48% of Pakistani self-employed and 42 % of Indians were employers compared with only 19% of Caribbeans). However, caution has to be adopted in interpreting this data because it should not be ignored that the vast majority of the labour force in all groups are neither self-employed nor small firm owners. Also, unemployment rates are much higher among ethnic minorities but the family networks and support structures among Asian families appear much tighter than in the white or Caribbean communities. Many Asian businesses are in fact low income family concerns in the non-entrepreneurial convenience food or CTN (confectionery, tobacco and newsagency) sectors. Although there is some empirical and theoretical support for the notion that some entrepreneurs seek their business careers because other desired career

paths are blocked, the 'marginal group' theory fails to explain why only a small proportion of people within the 'outsider' group start their own businesses and why most do not.

The 'marginal group' approach also does not explain the success of small business founders who come from more mainstream groups though Curran and Stanworth (1981) did find that certain entrepreneurs (mainly in the electronics and printing industries) started their own businesses out of frustration at not achieving promotion or due status, often because of a lack of formal qualifications. This strongly implies that other cultural or social factors, as well as blocked expected career trajectories, are needed to explain the career-choice of self-employment in general and the successful attainment of a career as an entrepreneur, in particular. Indeed, the fact that the phenomenon needs to be explained across different ethnic groups suggests that general social forces other than ethnicity must be at work. Other powerful sociological concepts with strong cultural overtones are those of family influences and of class, closely reflecting the political-economic analysis in section 2.2.2 on the role of the entrepreneur in the discussion on Marx (another important pioneer of sociology). The implication of that analysis was that the self-employed and small business sector would be composed of different segments - the largest, a collection of various pre-capitalist mainly self-employed occupations; the next biggest, petit-bourgeois retailers and small businesses attempting to survive the squeeze between capital and organised labour; the smallest, elements of the bourgeoisie seeking to maintain their class position and some to accumulate capital at an extraordinary rate. Below them all and merging with the largest group is the so-called reserve army of labour, the dispossessed proletarians now termed the *secondary* sector.

While the concepts of family and class are quite separate, they are sociologically and empirically intertwined and their effects on entrepreneurial (and non-entrepreneurial) development are likely to be strongly inter-related. It is significant, therefore, that General Household Surveys (see Table 8 in the next section) and other studies have found that there is a significantly higher than expected tendency for the parents or close relatives of the self-employed to be also self-employed and for small firm owners to have parents who were managers - either in small businesses or in larger organisations (Bolton, 1971; Curran and Burrows, 1988; Bannock and Stanworth, 1990; and Tables A7-A10, B20, E7). The distinction based on Marx's categories between the self-employed and small business owners, similar to that made by Carland et al. (1984) in section 1.2.2 about small business owners and entrepreneurs, is strongly supported by the sociological evidence presented in this section. It is evident from preceding discussions (especially section 3.1.1) that small business owners are not merely the self-employed who have taken on more staff. Table A6 in Appendix A and Table B18 in Appendix B reveal a strong reluctance among both enterprise trainees and experienced business owners to shift from self-employment to small business management and vice versa. This may be a function partly of age because small business owners tend to be older with a median age in the 35-45 year

age band but appears to be linked to culture. Also, there are a growing number of part-time female self-employed who are more interested in managing conflicting work and family pressures than in growing a business. Catharine Hakim (1988) has pointed out that low income secondary sector self-employment for women are displacing low skilled (unemployed) males as chief breadwinners in many working class families in economically decayed regions.

Hakim (1988) also pointed to confusion in the secondary sector where the low skilled self-employed overlap with temporary, often seasonal, workers. Temporary workers rarely report themselves as self-employed to Labour Force Surveys yet industrial tribunals hold that to be their status. Indeed, to repeat a point made in section 3.1.1, of 1.5 million temporary workers in 1984 only 15% regarded themselves as self-employed (the main exception being highly skilled information technology specialists in the *core* sector where 60% reported themselves as self-employed) which gives a clear indication of the force of self-concept and (mis)perceptions (Casey and Creigh, 1988). It is clear from even a superficial analysis of the data on new firm formation in Britain that most of the recent growth in self-employment and small business is not particularly entrepreneurial in the commonly accepted sense of the term. Recognising the force of sociological evidence, the focus of policy research has now shifted to explaining why certain founders of new firms survive and flourish and why others stagnate or fail. In enterprise training terms, the emphasis becomes one of encouraging the potential expanders and seeking to identify likely successes and likely failures rather than boosting the absolute numbers of self-employed. Although the onset of deep recession in 1989 and the fragmentation of centralised research into meeting the varying requirements of 82 Training and Enterprise Councils (TECs) in England and Wales and 24 Local Enterprise Companies (LECs) in Scotland means that there is little to show empirically for this late switch in public policy interest, the cultural background factors offer the most fruitful line of enquiry into the potential of enterprise promotion policies.

3.3.2 Background factors

Given the importance of class to Marx's analysis of the role of new entrepreneurs in capitalist development and in the formation of cultural attitudes, it would be useful to start by considering how useful class might be in predicting entrepreneurial success and in assessing the effectiveness of enterprise culture policies. Goldthorpe et al. (1987) and *Social Attitudes in Britain* (1990) suggest that mobility between classes and class-based attitudes have changed far less in recent years than is often imagined. The process of socialisation and acculturation described by anthropologist Anthony Wallace (1970) as the manipulation of an infant cohort 'at the hands of a preceding cohort that has undergone the same transformation (p. 154)' which he claims is 'logically comparable to models of genetic copying in biological reproduction' suggests that class influences will be persist over time and be highly influential in the determination of attitudes and values (and, by

implication, career expectations). Psychological studies reveal a weak to moderate positive relationship between social class and self-esteem, an important characteristic of entrepreneurs and top managers (see next Chapter), but the relationship becomes much more significant among people for whom work is psychologically central (Gecas and Seff, 1990). Work is likely to be more psychologically-central for people with power to make their own decisions - top managers and small business owners certainly but also many artisanal firms and self-employed who exist further down the social scale.

Unfortunately, class has become a rather sociologically and politically impure concept and presents certain methodological difficulties though it does open up interesting psychological issues concerning attribution theory and the self-concept. For instance, Gecas and Seff (1990), in their study on the effects of the psychological centrality of work compared with home, found that the stronger self-esteem associated with higher social class could not be transferred to occupational status without taking into account the importance of work in self-evaluation. Using a basically occupational definition of class, they found that people for whom work is psychologically central are more influenced by class effects. They found that generally 'contexts that permit greater self-direction, personal agency and discretion are more likely to be important to one's self-definition because they give more information about oneself' (p. 166). Conversely, Marx's concept of alienation is confirmed because 'the degree to which work is routinized and supervised [is] related negatively to self-esteem' (p. 165). Higher self-esteem also has the effect of producing a tendency towards more positive self-attribution whereby the causal agency for positive and favourable outcomes is attributed to the self (in a similar way to the *internal* locus of control beliefs discussed in the next chapter). These findings have obvious implications for the occupational patterns in Table 7 below and, in general, for career choice and work performance as does Farr's (1977) critique of Herzberg's work motivational theory (another business studies favourite discussed more fully in section 4.2.1 of the next chapter) also on the methodological grounds that it mainly reflects attributional effects and should not be used to make statements about situational effects.

These comments raise a note of caution about interpreting studies in the small business field which often use self-report techniques (including most of the studies for this thesis, reported in the appendices) and a further note of caution needs to be added where class is a variable because of problems of definition and comparability. Market researchers and advertisers adopt an almost purely income-related definition. The structural socio-economic changes discussed at various points in this thesis mean that the industrial working class is shrinking. However, sociological studies in this field are also influenced by the fact that a growing number of service workers often do not describe themselves as working class even though the basic power relations and mechanisms for the extraction of surplus value remain in place, and political parties deliberately obscure the boundaries in their search for national votes. This means there is little consistent empirical data and that

occupational definitions or even family backgrounds, although still impure, offer the best proxy for the concept described in section 2.2.2. As mentioned in the pervious section and Appendices A, B and E, strong family intergenerational occupational patterns among the self-employed and small business owners were recognised by Bolton (1971) though there does not seem to be great crossover between the two over time, suggesting once again that they should be distinguished (Cooper and Dunkelberg, 1987; Bannock and Stanworth 1990 and Tables A7-A10, B20, E7). Indeed, most findings reflect stronger influences, typically 35-40% of self-employed with self-employed parents, than these from the General Household Survey 1984.

Table 7. Family occupational backgrounds 1984: self-employed, small business owners and employees.

Father's work.	Self-employed (no employees)		Small business (1-25 employees)		All employees	
	Male	Female	Male	Female	Male	Female
	(column percentages)					
employer/manager	16	28	28	33	15	16
professional	4	6	2	4	3	4
self-employed	10	3	7	4	4	5
clerical/super.	17	14	18	16	17	14
skilled manual	24	22	19	22	30	31
unskilled manual	18	14	9	8	20	21

(Source: Curran and Burrows, 1988)

Two interesting features clearly stand out. Firstly, a significantly higher proportion of small business owners (and the female self-employed) come from families where the father held a managerial position. Secondly, that significantly fewer had fathers who were unskilled although this is not true of a sizeable proportion of the male self-employed, many of whom are in low skilled industries (see Chart 5 and Tables 4 and 7). This lends further support to the conclusion that there are several categories of self-employed and that self-employed careers may have different meanings for different socio-economic classes. This family link as a factor in the choice of self-employment as a career (Bolton, 1971; Curran and Burrows, 1988; Hakim, 1988) again suggests there is little in terms of family or educational backgrounds to suggest that the longer term unemployed should be a fertile source of new self-employed. Small firm owners are generally more poorly educated than other sectors of the population of similar positions of responsibility (Bolton, 1971) except high-technology entrepreneurs who tend to be highly educated (Litvak and Maule, 1973). Analyses of the General Household Surveys 1981-84 reveal some interesting differences between the educational backgrounds of the self-employed, all business owners (up to 25 employees) and the general working population while Labour Force Surveys show the relative decline in the self-employed without qualifications from 1981 to 1989.

Table 8. Educational levels 1984: self-employed, small business owners and employees.

Qualifications	GHS 1984				LFS					
	Self-employed (no employees)		Small firms (1-25 employees)		All employees		Self-employed 1981	Self-employed 1989	Small firms 1981	Small firms 1989
	Male	Fem.	Male	Fem.	Male	Fem.				
	(column percentages)									
Degree	4	8	4	3	10	5	14	15	20	19
A level	11	8	10	3	11	6	32	36	31	35
O level	17	27	15	32	18	23	9	13	10	14
Other	30	17	34	10	27	16	7	10	6	9
No qual's	38	32	36	46	35	41	40	28	36	25

(Source: General Household Survey 1984 analysed in Curran and Burrows, 1988; Employment Department, Labour Force Surveys, 1981 & 1989)

There are clear differences between the two surveys and variations within each. Apart from methodological differences, the LFS includes professional and some foreign qualifications under 'degrees' but they are included under 'others' in the GHS. The most consistent features concern gender differences and the stronger propensity for higher educated people to employ others. There seems to be a shift away from low skilled male self-employment towards self-employed women with relatively high educational levels compared with the relatively low level for self-employed men and also compared with female employees. Relatively few male self-employed and female small business owners have degrees or technical qualifications and many of them have no qualifications at all. The proportion of people with foreign qualifications is not large (5% for self-employed and small businesses, 3% for all employees) and is included in 'other' but provides some slight support for the 'outsider' or marginal groups theory of entrepreneurial development mentioned in the previous section.

However, it is worth repeating that the founders of high-technology small businesses and those in the financial and business services tend to be well educated as do self-employed professionals and technical consultants. There has been a tremendous growth in these areas but, as Chart 5 in section 3.1 graphically illustrates, these more advanced sectors are still swamped by the more numerous traditional self-employed and small businesses in retailing, distribution and, particularly, construction, many of which are low skill occupations. Once again, the patterns revealed here are linked to class and cultural factors. Occupational and developmental psychologists have long recognised that education is the primary agent for occupational and social mobility but have also found that educational decisions among lower level occupations are often made casually even though they affect future job prospects. The middle-classes, including the petit bourgeoisie, are keen to use education for family advancement while working class parents often remain outside the educational system (Osipow, 1983), which implies that enterprise training is extremely unlikely to be capable of transforming the industrial unemployed into self-employed let alone into entrepreneurs (discussed in Chapter 5).

These deep differences are reflected in the many different types of enterprises and organisations set up by people who work on their own account.

3.3.3 Small business typologies.

Firstly, it is worth repeating the distinction that has been made at several points in this thesis already between the self-employed, small business managers and entrepreneurs. Frequently, they are referred to as if they were synonymous but very few self-employed or small business managers are truly entrepreneurial in any of the ways outlined in section 2.2. Entrepreneurs accumulate profits and capital through innovation - whether of product, process, organisation or marketing - but few small businesses and even fewer self-employed can claim to be genuinely innovative. Few small firms and even fewer self-employed are seriously interested in growth. There is abundant evidence, both empirical and qualitative, that few small businesses are economically efficient in their use of the economic factors of production. Most self-employed actually employ a minimum of external capital or labour and can be rejected on solid theoretical grounds as entrepreneurs (see section 3.3). Their primary motives are not financial but to retain their autonomy and independence (Gray, 1988). Roughly three-quarters of the self-employed, many of them extremely energetic, function as atomised individuals never developing into more complex organisations. Their main business problems are usually connected with survival. By contrast, successful small businesses often face challenges in the efficient management of social relations and scarce or costly physical resources and in their ability to resolve business problems effectively.

Small businesses can be classified, however, not only by differences in size and industry as discussed in section 3.1 but also by differences in organisation, management style and objectives. These distinctions offer more scope for psychological explanations of entrepreneurial and non-entrepreneurial business behaviour such as why some business owners intend to grow while some do not, why some are keen to be modern and some others struggle to remain traditional, why some seem keen to work with other people and others resist, etc.. As the discussion in the previous section indicates, many of these differences are clearly linked to cultural factors and it is evident that even the differences between the self-employed and small business owner-managers go beyond variations in workforce size. Some of the more interesting differences lie in social origins, age, gender, types of industry and levels of education. Attempts at establishing a typology for the self-employed are fairly recent but various small businesses typologies have been established for some time.

An early two-way classification of small manufacturing firms, which reflects the distinction made in section 2.2.1 by Henri Pirenne (1937) about mediaeval 'entrepreneurs', divided them into *jobbers* - those with technical production skills, producing on specific demand from customers - and *marketeers* - competitive, entrepreneurial firms. A later

two-way classification emphasised the distinction identified by Schumpeter by contrasting *entrepreneurs* with paid managers in organisations, termed *hierarchs* (Collins et al., 1964). Using the same data source of mainly manufacturing owner-managers, a similar dual classification was adopted by Norman Smith (1967) who contrasted the *craftsman-entrepreneur* (technically inclined, product driven, low education, socially isolated) with the *opportunistic-entrepreneur* (better educated, socially adept) and suggested that only the latter had true growth potential. All these dual-typologies highlight the essentially active, acquisitive nature of the 'true' entrepreneur though it is interesting that Smith links this to social class with the *craftsman* seen as 'blue-collar' (it is not clear whether this is working class or petit bourgeois) and the *opportunist* as middle-class. Smith also made it clear that industry, sector and management style differences made it inconceivable that there could be one entrepreneurial 'type'.

Returning to Marx's analysis of capitalism and the entrepreneurial function as outlined in section 2.2.2, it is tempting to recast these distinctions into the self-employed and small businesses operating in pre-capitalists sectors as one group, petty or nascent capitalist and mercantile enterprises as another group and career managers as an important element in the bourgeoisie as a third group. Empirical studies have suggested that dual classifications are overly simple and, as is clear from the examples mentioned above, were mainly developed with manufacturing firms in mind. A Marxist type of analysis has led to more widely used three-way and four-way classifications. Paralleling the approach taken in this thesis (see section 4.2 and Appendices B3, B4 and B5), a psychologically based model based on a factor analysis of career motivation (see next chapter for a fuller treatment of these topics) split some 1,800 small firm owners into the *growth/change* oriented, *independence* oriented and the *craftsman* oriented (Dunkelberg and Cooper, 1982). A more sociological approach divided small firm managers into *artisans* possessing technical skills and strongly involved in their products, *classic entrepreneurs* with well-developed marketing skills and *managers* relying on administrative skills (Stanworth and Curran, 1973). This model was later extended to include *survivors* - people with survival skills who have turned to working on their own account as a result of redundancy, career blockage or lack of alternative opportunities (Gray and Stanworth, 1986). The self-employed tend to be non-entrepreneurial artisans or survivors, mainly operating in the pre-capitalist sector. Most entrepreneurs are small business owners but even those who begin as entrepreneurs through founding their own firm frequently lose their entrepreneurial qualities when they achieve relative stability through accumulating sufficient capital (Schumpeter, 1934; Davidsson, 1989a).

One interesting finding from the survey reported in Appendix B1 was the identification of two distinct types of dynamic small business - one characterised by marketing and selling skills, the other interested in improving the skills of finance and control as part of a process of evolving a professional management structure. These two 'types' correspond to

existing, widely-used typologies of dynamic businesses- the *classic-entrepreneur* and the *manager* (Stanworth and Curran, 1973,) - and contrast with the majority of small firms with high product-orientation but low growth-orientation. This was reflected not only in the differences between the total sample and the target 5-50 employee firms, especially those actually expanding where the organisational and social skills were particularly valued. Organisational and social issues may be more likely to be identified and taken seriously in larger firms but the increase in interest with firm-size in attaining and assuring quality suggests that awareness of organisational matters may be a mark of more pro-active firms. US entrepreneurial researcher Karl Vespers (1980) linked small business types to their behavioural response to underlying socio-economic conditions and produced an eleven category typology, some of which should be familiar:

- | | |
|----------------------------------|-----------------------------------|
| (i) self-employed; | (vii) acquirers; |
| (ii) team builders; | (viii) buy-sell artists; |
| (iii) independent innovators; | (ix) conglomerators; |
| (iv) pattern multipliers; | (x) speculators; |
| (v) economy of scale exploiters; | (xi) apparent value manipulators. |
| (vi) capital aggregators; | |

Whatever the merits of these distinctions, one strong point should be clear - it is impossible to imagine that one personality trait or collection of common traits could account for the business behaviour of these different types of entrepreneurs.

Skills-based typologies were not the only basis for classification. For instance, the social development model proposed by Gibb and Ritchie (1981), uses life-stages (see Chapter 5) to provide a useful typology of small businesses - *improvisers* in the early stages, *revisionists* going through their mid-career switch, *superseders* in a second career) and *reverters* attempting a retired post-career business. On closer inspection, however, this scheme seems to be as much about organisational differences as about the different motivations of the founders or the different types of business. As stage theories of growth, whether personal or business, go right to the heart of the enterprise culture model and beg a number of psychological and economic questions, they will be discussed in more detail in sections 4.4 (personal) and 5.1 (business) after the psychological implications of the type of social engineering implicit in enterprise culture have been addressed in the next chapter.

3.4 Summary.

It is clear that the growth of Britain's small business sector, especially during the second half of the 1980s, is a genuine phenomenon, not merely a consequence of mass unemployment nor an advertising agent's artifice. However, it is equally clear that small business growth in Britain has been extremely patchy with wide variations across industries, regions, different sized firms and different types of small business founders, owners and managers. Industry and regional variations have been discussed above but size differences and, in particular, individual differences between various types of small

business managers need to be examined in greater detail but the psychological implication must be that it is absurd to postulate a single personality trait or bundle of traits could account for a significant part of the success of these many different types of entrepreneur. This is not to reject psychological influences which, in fact, appear to be considerable. The studies and findings described in this chapter indicate strongly that educational, class and cultural effects do influence the decisions to start, manage and, entrepreneurially, steer to success both small firms and the individual career of self-employment. Whether these factors or their effects can be induced through the policy instruments employed through enterprise culture policies remains an open question at this point but appears unlikely. More formally, the evidence presented above supports Hypothesis 1:

H1. Entrepreneurs exist as a distinct growth-oriented sub-set of small business owners identified by their clear and positive attitudes towards business growth, success and personal control.

Small firms with employees are fewer but apparently more active on the whole than the self-employed working alone. Having employees implies different attitudes towards business growth and the control of others. However, the strong tendency of small firm owners to remain in the same industries and the reluctance to employ more than a couple of other people, plus the strong family links to career choice, imply that financial motivation beyond survival is not as strong as other more personal goals. Most small firms appear to have well defined financial peaks of satisfaction which implies a rejection of Hypothesis 2:

H2. Existing and potential small businesses owners are mainly motivated to work because of the prospect of economic gain.

Uncertainties in the socio-economic environment appeared to have pushed issues of financial security and survival to the fore but not large numbers of small firms seeking financial gain. This also suggests, a finding supported by the rich patterns of change revealed in this chapter, that structural factors rather than personality determine a great part of business behaviour. It seems more likely that certain cultural sub-groups enter fairly low-skilled self-employment or switch from one form of self-employment to another as a function of the prevailing economic climate while another type of more qualified professional or manager ejected from larger organisations will start on their own in the absence of alternative work. There is little support for Hypothesis 3:

H3 More individuals with the right entrepreneurial 'personalities' would start new businesses if anti-business political-economic, cultural and skills barriers were removed.

Finally, the charts and tables above indicate that there is little movement from unemployment to starting a small business employing other people and that most of the growth in self-employment has occurred in industries with low barriers to entry where low paid part-time employment is rife. The poor quality of the new self-employed and the manifest lack of significant economic improvement (indeed the reverse, with many small

firms going under in the recession rather than buoying it up) strongly implies a rejection of Hypothesis 4.

H4 Increasing the absolute numbers of people working on their own account, mainly through encouraging the unemployed to seek self-employment, will lead to an increase in the number of entrepreneurs and a consequent improved economic development.

The mainly external empirical evidence from public sources suggests there is little basis for enterprise culture policies. However, to conclude the investigation and provide an explanation, an examination of the psychological issues, particularly those relating to personal motivation and expectations but also to the learning effectiveness of enterprise training, is needed. Also, the nagging question of whether it was the policy itself or the policy instruments used which failed to produce the expected results remains. These issues are covered in the next chapter.

4. THE PSYCHOLOGY OF THE ENTREPRENEUR.

In a formal and stylistic sense, this chapter is the centrepiece of this thesis where the elements of the representational model outlined in Diagram 4 (section 1.2.2) are examined in more detail. Up to this point, apart from highlighting features of psychological importance, discussion has been mainly about the external world of the entrepreneur, the socio-economic structure and business context in which the entrepreneur lives and works. The psychological implications of important findings or insights derived from the thesis surveys and publicly available empirical data have been discussed but the inner workings and expectations of entrepreneurs as individuals, the alteration of which is apparently the objective of enterprise culture policies, has not been discussed except in relation to political-economic theory. However, it is these psychological questions, especially those relating to the attitudes and motivations of small business owners and managers, which have to be answered in order to determine whether the policy objectives of enterprise culture policies are attainable. These questions will be tackled by firstly examining what role personality may be expected to play then broadening the analysis to examine motivational issues before turning to examine how the psychology of the entrepreneur applies to career choice and learning theory.

4.1 The entrepreneurial personality?

If the problem of definition with respect to the 'entrepreneur' is problematic, uncertainty over a clear definition of 'personality' is almost overwhelming. In outlining the fundamentals of personal construct psychology (see section 4.4), Don Bannister and Fay Fransella (1986) admit that George Kelly (see section 4.4.4), who seems to have never been at a loss for words, did not have a precise definition but point out that Allport (1937) had already identified 50 different meanings more than 50 years ago. The current situation remained unchanged and that there appears to be no generally accepted definition. Bannister and Fransella inferred that Kelly's definition of personality would be 'our way of construing and experimenting with our personal world' (p44, 1986). Adrian Furnham (1992) in his overview of the place of psychology at work managed to avoid giving a definition while still giving a thorough account of relevant personality theories and a review of research findings relating to personality at work (including small firms). Similarly, Elizabeth Chell and her colleagues (1991) in their analysis of the entrepreneurial personality also manage to discuss the main personality theories relevant to their enquiry without providing an overall definition. Indeed, when they are provided, definitions are usually so general as to border on the banal such as Gerrit Antonides (1991) in his review on business psychology: 'Relatively stable and distinctive patterns of behaviour that characterise an individual and his reactions to the environment' (p 317).

The clue to the confusion lies in the fact that although 'personality' is often treated as an independent variable when discussing behaviour, when it is in the spotlight of discussion

itself, it is generally treated as a dependent variable determined by influences that reflect a diversity of approaches and many conflicting theories. This is why Allport found at least 50 different meanings and why there would be many more today. Referring back to the broader traditions of psychological theory, Elizabeth Chell (1985; 1986) identified three broad approaches to personality theory (*trait* or typological, *psychodynamic* and *social developmental*). Chell (1991), with Jean Howarth and Sally Brearley, later broadened the focus of discussion to consider the *interactionist* approach, which explicitly accepts the 'influence of social contexts on behaviour' (p 30), before turning to Susan Hampson's (1986) constructivist approach which is in the same tradition as Kelly's personal construct theory and concedes a role for individual intentionality and the self-concept. Furnham (1990, 1992) agrees with Chell that personality theory (especially in entrepreneurial research) has been mainly driven by the trait approach, which has sought relatively durable and predictive characteristics or features of an individual's 'normal' behaviour, and agrees that this approach is fundamentally flawed. The main traits associated with entrepreneurial research and the criticisms levelled at the trait approach by Mischel (1973), Hampson (1988), Chell (1985; 1986; et al. 1991) and Furnham (1992) will be discussed in more detail in the next section. This will be followed by a detailed discussion on the social developmental and constructivist approaches before considering motivational, career and learning theories.

4.1.1 Trait and typological approaches.

The discussion in the previous chapter strongly indicated that there is little empirical evidence to support the notion that a single trait or collection of traits can explain the business behaviour of many widely different entrepreneurs. However, psychologists interested in entrepreneurial research have often seized on particular psychological characteristics and traits as being likely to be distributed more widely or to a stronger degree among entrepreneurs. Also, researchers into entrepreneurship who tend to use the trait approach, such as Timmons (et al. 1977; 1989), generally point out that they do not expect entrepreneurs to exhibit all the supposedly defining traits, just a fair proportion of them. Whether even this looser approach is valid or aids understanding of phenomena such as entrepreneurship or enterprise training is part of a broader debate of concern to the discipline of psychology (which should have a major role to play in understanding the dynamics of the enterprise culture and in evaluating the learning effectiveness of enterprise training). After considering the trait approach in general in this section and the specific *locus of control* trait next section, following sections examine in some detail other key psychological approaches and contributions to the understanding of small business mentality.

Psychologists have long displayed an interest in the entrepreneur though significant studies have been sparse. Indeed, much of enterprise culture has its roots, perhaps unconsciously, in the early attitude and personality studies conducted in the United States. For example,

the Allport-Vernon-Lindzey scale (1951), specifically includes a business/practical value as one of its six fundamental values to be used in distinguishing between groups. Early factor analytic research by Thurstone (1931), which was used to help identify people with an interest in business, led to later studies in attitude change and McClelland's (1961) influential studies on achievement motivation may be said to belong to this tradition albeit using a completely different methodology. Yet, even though business and work have been legitimate areas of psychological interest for most of this century, small business owners and the self-employed, which are not seen as interesting as the entrepreneur (though they are treated as synonymous by many psychological researchers), have been tucked away in a forgotten corner. Indeed, psychological studies of the entrepreneur have tended to fall into the broader categories of work or occupational psychology.

The typological approach - which includes many who use factor analysis but can be split between the biological inheritance and psycho-development schools - attempts to classify entrepreneurial attitudes and behaviour into traits, factors and types. Jung, Cattell, Eysenck, McClelland, Rotter, Atkinson and many others fall into this camp. *Types* are broad descriptive patterns used to identify sub-groups in a given population so that they can be meaningfully compared with each other. The basis for classifying the different types can be physical, sociological, economic psychological or some combination of these. Usually the specific psychological elements of behaviour used in classifying types are called *traits* which can be used individually to describe aspects of human behaviour. A good example of a type theory based on factor analysis is that of Hans Eysenck with his two basic modal types - extrovert/introvert and neuroticism. Eysenck draws a distinction between behavioural extroversion, an impulsive preference for doing rather than thinking about action, and social extroversion, a preference for social situations and social contact. In a study of 1,500 businessmen, he found a stronger than expected incidence of general extroversion, which increased as the business function became more entrepreneurial (Eysenck, 1967). It is interesting to note that extroversion, both social and behavioural, has been used to describe entrepreneurs, often without much hard evidence in the case of behavioural extroversion, by a number of small business researchers.

Although typologies based on empirical observations can be useful for descriptive and theoretical purposes because they facilitate the analysis and interpretation of complex processes and data, they can also be dangerous - like most stereotypes - if they are misconceived or are based on false distinctions. Indeed, type theory is open to the criticism that it is relatively easy to find specific instances of any given type but virtually impossible to classify most people precisely into one type or another. Some type theorists attempt to overcome this problem by employing a number of different types in flexible combinations but then there is a danger that the types can become indistinguishable from descriptive traits. For example the type system of Carl Jung (1953) proposes four functions (thinker, feeler, senser, intuiter) plus two attitudes (extrovert, introvert) and

Myers-Briggs scales to measure Jung's types in a personality inventory produced 16 different type profiles. The types are described as distinct collections of traits but they actually each just describe a few central traits so the distinction between traits and type profiles is considerably weakened. For instance, a commonly quoted empirical and desk research study of new enterprises conducted through the Massachusetts Institute of Technology by Jeffry Timmons and colleagues (1977) identified as many as 14 important entrepreneurial characteristics which resemble traits.

Table 9. Behavioural characteristics of entrepreneurs.

i. drive and energy	viii. low fear of failure
ii. self-confidence	ix. use of feedback
iii. long-term involvement	x. high initiative and personal responsibility
iv. money as a measure not merely an end	xi. use of resources
v. continuous pragmatic problem solving	xii. self-imposed standards
vi. clear goal setting	xiii. internal locus of control
vii. moderate risk taking	xiv. tolerance of ambiguity

Timmons admitted that few entrepreneurs would possess all traits but felt that strengths in one might compensate for weaknesses in others. This obvious lack of priority, order or centrality conceptually weakens claims that these are defining traits of the entrepreneur rather than a list of characteristics of successful small business owners. Many of these characteristics are self-explanatory (such as high personal drive and energy, self-confidence and setting clear goals) and some appear to be linked (which would mean that Timmon's compensation principle would break down if there were weaknesses in linked traits). Despite their obvious softness as defining variables, however, these traits, including the less evident such as successful small firm owners using profits as a measure of personal success rather than as an end in itself or the ability to bounce back after business setbacks or failure, appear consistently in entrepreneurial research studies. For example, in a study of Irish entrepreneurs (Cromie and Johns, 1983) identified achievement, persistence and self-confidence as general successful business characteristics and internal locus of control and commitment to the business, as the characteristics peculiar to entrepreneurs. Timmons also recognised that successful small firm owners give almost everything to their businesses, especially in the early years, and that this commitment may be at the expense of family (family influences were discussed in section 3.3.2 and are expanded in section 4.1.3)

Research has, however, not been able to identify any set of traits as central and it seems reasonable to assume, therefore, that more than one factor or trait accounts for or is descriptive of entrepreneurial behaviour. Trait models tend to focus on the descriptive elements of an individual's behaviour and address issues of predictability and success. Perhaps the best known specific trait associated with entrepreneurial research is that of *locus of control* (LoC) - the extent to which people believe they control their own destinies - which was originally conceived as a learned behavioural response not a

genetically determined trait (Rotter, 1966) and is discussed in the next section (4.1.2). Another widely used concept in entrepreneurial research, which is often treated as a single trait but is perhaps more correctly linked to motivation, is need-achievement (nAch) described by McClelland (1961) as 'a desire to do well for the sake of inner feeling of personal accomplishment' (see section 4.2.3). Although both these concepts will be discussed in more detail and have generated many of the tables in the appendices, it is worth noting here that there is plenty of empirical evidence that entrepreneurs and small business managers in general do tend to score highly on various tests designed to measure both nAch and LoC when compared with many other groups of employees or non-business populations. However, as the findings reported in Appendices C and D reveal, there has been far less success in distinguishing successful entrepreneurs from unsuccessful small business owners. Certainly, their value as predictors of behaviour - the key operational function of traits - is questionable.

The main interest in both nAch and LoC as concepts in this thesis is less for their supposed power as predictive traits and more for their conceptual value within the development theories from which they spring. There are strong grounds for suggesting that they represent states of mind or sets of attitudes linked to current or anticipated situations rather than immutable traits. This should offer scope for their alteration through training or other means. Indeed, Caird (1990) has tried to push the question of individual traits to one side and refer not so much to entrepreneurs but to 'enterprising behaviour' as being the appropriate focus of enterprise training. However, sticking to the central issue of this section, there appear to be strong theoretical grounds for doubting the value of traits as concepts that can help us understand, as opposed to describe, human behaviour. Any attempt to differentiate entrepreneurs on the basis of traits must not only face the problem of identifying appropriate characteristics but also meet the general criticisms usually levelled at personality trait theory, including low correlations between trait-assessed and actual behaviour, imprecise physiological definition of traits, failure of trait theory to account for human behavioural inconsistencies and an inadequate account of situational effects on behaviour (Chell, 1985). Also Chell, Haworth and Brearley (1991), following Mischel's earlier criticism (1968), point out that trait theory often rests on the unlikely assumption that human behaviour is consistent across time and circumstance. By contrast, they are drawn to the constructivist approach discussed in section 4.1.4, a position which fits more neatly with the shift in the concept of the entrepreneur over time which we have already discussed.

Even at the individual level, this key assumption of trait theory seems to be particularly inappropriate when discussing entrepreneurial behaviour which is often characterised by a non-conventional and unpredictable approach to business. Certainly, there is no one single, dominating characteristic revealed in any of the studies in the Appendices which reflects stable underlying traits that distinguish successful small firm owners from the

unsuccessful or the growth-oriented from the growth-averse (though, as we shall see, there are some 'tendencies' in support of LoC and nAch). To further complicate the issue, it seems clear that certain traits are determined by or reflect cultural differences (McClelland, 1961; Osipow, 1983; Lynn 1969, 1991). It is reasonable to speculate that, say, a Japanese entrepreneur may exhibit different traits from an English or Scottish entrepreneur or an entrepreneur of working-class origins from one of a more privileged background. As a result of these and other criticisms, modern occupational and personality psychology theory now explicitly recognises an interaction between personality and situational variables, an approach which is more rooted in the humanist tradition. Before discussing this more developmental approach in section 4.1.3, a closer examination of one of the most commonly mentioned entrepreneurial traits, internal LoC, may add extra emphasis to these criticisms.

4.1.2 Locus of control.

Locus of control (LoC) - the extent to which people believe they control their own behaviour and influence their destinies (see Appendix C) - features fairly prominently in most lists of the defining psychological characteristics of entrepreneurs. As Timmons et al (1977) identified in Table 9 above, successful small business owners are said to have high *internal* locus of control which means that they believe that their behaviour determines what happens to them and that they can control their own behaviour. It is not surprisingly that LoC has featured fairly consistently in studies on the psychological characteristics of entrepreneurs and other business populations though the concept has always had a broader frame of reference than just work-related behaviour. Indeed, it is clear that Julian Rotter (1966) believed that individuals tended to exhibit similar LoC beliefs and behaviour across a range of circumstances. Essentially, the concept implies three separate beliefs on the part of individuals:

- (i) that the outcome of events and situations are susceptible to intervention;
- (ii) that individuals can intervene and influence the outcome of situations positively from their perspective;
- (iii) that they themselves have the skills and capacity to intervene effectively in certain situations or to influence certain events.

The self-confidence, energy, flexibility and opportunism associated with entrepreneurial behaviour suggests that entrepreneurs are individuals who are accustomed to getting involved and that they expect positive results from their involvement. In other words, they are prepared to expend energy and mental effort because they expect and often receive appropriate or, in their terms, valuable rewards. Also, they are flexible and opportunistic because they believe they have the capacity to become involved across a broad range of situations. It is clear that internal LoC beliefs are likely to form a central core of the entrepreneur's self-concept. Bandura (1989), in demonstrating the link between the related concept of perceived self-efficacy and higher performance attainments, states that there

are no beliefs more central or pervasive in relation to successful self-generated behaviour than those 'about their capabilities to exercise control over events that affect their lives' (p411).

However, it is equally clear that entrepreneurs will not be the only people sharing internal LoC beliefs. Most reasonably successful students at all levels realise that their own efforts in studying have a lot to do with passing exams (even though 'rogue' questions can throw them off track). Most people for whom sport is more than just an occasional leisure activity know the value of expending their own efforts on training and the importance of self-confidence. And in business, more significantly for current purposes, most reasonably able mid-level to senior managers will be accustomed to obtaining positive responses from their personal interventions. It becomes evident that internal LoC can be exhibited across a range of situations and that, in many cases, it is likely to be a function of success itself. Rotter recognised that, in certain situations, individuals would recognise that they actually had very little control over events but he maintained that people who believed that outcomes basically depended on their own behaviour and that they could control their own behaviour would generally, in most circumstances, believe that the control of events of importance to them ultimately rested internally in themselves. Rotter's own definition of internal and external LoC, heavily influenced by the behaviourist concepts of B. F. Skinner (1957) though Rotter took a more motivational and goal-directed approach, emphasised the origins of the concept as a learned response. External LoC, according to Rotter, was learned when:

'...a reinforcement is perceived by the subject a following some action of his own but not being entirely contingent on his action...it is typically perceived as the result of luck, chance, fate, as under the control of powerful others, or as unpredictable because of great complexity of the forces surrounding him... we have labelled this a belief in *external control*. If the person perceives that the event is contingent upon his own behavior or his own relatively permanent characteristics, we have termed this a belief in *internal control*' (Rotter, 1966, p.1).

In other words, events are largely unpredictable because their occurrence is due to luck, fate or the decisions of other powerful people. By contrast, internal LoC is exhibited by people who believe events are contingent upon their own behaviour. However, their effective interventions may spring mainly from their confidence in manipulating their own systems and, depending on how risk-averse they are, they may be reluctant to transfer themselves to other equally challenging situations. In general, if the situation lies within their control and open to their manipulation, internals exert more effort for skill-demanding tasks rather than those depending on chance while externals do not differentiate between the two types of task. Also, internals tend to be more open to information, take more initiatives, assume more responsibility and be more creative (Antonides, 1991). Given Rotter's mainly behaviourist approach, the implication seems to be that the internality or externality of LoC is capable of being manipulated by appropriate external stimuli though not by internal self-awareness. Whether or not this is so is of

fundamental significance to the validity of enterprise training as a policy instrument and this point will be picked up in section 4.3.3 when the psychological and learning theory aspects of enterprise training are discussed.

The most widely used instrument for measuring LoC beliefs is Rotter's 29-item Internal-External (IE) scale which includes a 6-item 'lie-scale' and is discussed in more detail in the descriptions of the studies reported in Appendix C. In introducing his IE scale in 1966, Rotter reported several validation studies, including one involving 400 US college students, which found strong evidence for a general LoC factor which Rotter interpreted as strong evidence supporting a unidimensional construct. However, its claims for universality as a single behavioural trait have attracted strong criticism (Wolk and Ducette, 1973; Phares, 1976). Critics would have to acknowledge, however, that the LoC concept has stood the test of time and that, together with similar concepts such as the origin-pawn model of deCharms (et al. 1965), self-efficacy (Deci and Ryan, 1985; Bandura, 1991) and locus of causality (Deci and Ryan, 1985), suggest that the concept is a useful and valid tool in social and economic psychological research.

The classification of entrepreneurs as internals is not in doubt but the central developmental question is whether entrepreneurial behaviour primarily depends on an early and fairly fundamental acquisition of internal LoC beliefs and associated behaviour or whether later circumstances or training can develop a more widely transferable set of LoC beliefs and behavioural patterns. Proponents of the enterprise culture would clearly like to think that such later development is feasible but it seems likely that LoC beliefs (sometimes also termed *self-efficacy*) are influenced by situational variables. This poses a methodological problem for enterprise trainers who may well induce increased self-confidence and internal LoC behaviour during their courses but discover that the internal LoC behaviour does not transfer to the tougher environment of real business. The Rotters IE has been used frequently in studies involving entrepreneurs (Rotter, 1966; Lefcourt, 1966; Phares, 1976; Jennings & Zeithnal, 1983) but it is often criticised because, as mentioned above, although LoC does predict success well, it does not distinguish clearly between entrepreneurs and non-entrepreneurs. Successful corporate managers, who apparently display administrative rather than entrepreneurial skills, also exhibit high internal LoC (Brockhaus, 1982). However, this criticism itself may be misplaced because there are no logical grounds for excluding entrepreneurial activity from big corporations. Also, these results may be an artefact of the sampling procedures. Indeed, current management practice often aims at encouraging entrepreneurial behaviour inside big organisations in the form of 'intrapreneurship' or management buy-outs. In any case, it is to be expected that senior managers and chief executives with considerable responsibility and discretionary powers over their own budgets should exhibit high internal LoC.

A more fundamental problem stemming directly from attribution theory, however, can arise in relation to the measurement of LoC when self-report or questionnaire scales are used. As already mentioned in section , Farr's (1977) critique of Herzberg's two-factor work motivation theory (discussed in section 4.2.1) shows clearly how attributional effects (the cause of positive outcomes ascribed to self and negative outcomes to others) can distort the findings. Rotter tried to evade this problem through using paired forced-choice questions but other scales, including the self-report scales constructed for this thesis (reported in Appendix C), may be measuring notions of self-efficacy rather than real underlying LoC (the results reported in this thesis are always clearly marked as 'self reports'). Entrepreneurial researchers need to go deeper and enquire whether internal LoC beliefs about personal business effectiveness that rest mainly on a structured, controlled and methodical approach are essentially different from a more fundamental and general belief that individuals create their own 'luck' in the sense of having the power to produce their own opportunities and the capacity to turn most events towards a desired outcome. It is clear that Rotter himself tended towards the second description. The fundamental internal LoC beliefs and behavioural patterns were said to have been learned in early childhood as a result of similar psycho-dynamic processes that McClelland believed, for different reasons, led to high nAch. Rotter recognised that learning can be a continual process, with the possibility of internal LoC beliefs being acquired through later experiences in response to external stimuli. He would have surmised that successful business careers appear to encourage stronger internal LoC beliefs in corporate executives as Robert Brockhaus (1977) has reported.

In fact, Rotter's development of the LoC concept was part of a wider learning theory which seems at times, to represent a fusion of behaviourist language and a more constructivist approach (such as that underpinning the work of Kelly, McClelland and Hampson, discussed in the next section). As mentioned previously, Rotter's is a goal-directed motivational theory of learning. Behaviour is seen as dependent on the expectancy that it will lead to a particular outcome (the attainment of which provides reinforcement) and that the outcome is desirable (c.f., Vroom's *valency* discussed in section 4.2). Drawing on their experience across a variety of situations, people develop *generalised* expectancies and norms concerning behaviour and its outcomes. This is similar to Kelly's (1955) description of the 'scientific man' (see section 4.1.4) or Heider's (1958) 'naive scientist' and is grounded in similar assumptions about human behaviour reflecting an interaction between people and relevant environments. According to this view, learning is a continuing process with aspects of personality capable of being learned or modified at any stage of development. Personality is rooted in an interaction between a real world and the environment as constructed by the learner. Consequently, the lack of reinforcement will not necessarily extinguish an internal LoC set of beliefs because

internals will have learned the ability to estimate the connection (or will have attributed causal links) between their own behaviour and the occurrence of the desired outcome.

Rotter related the development of internal LoC to stable and supportive early development and verbalisation of the origins of causality as well as the linkages between certain behaviour and certain outcomes (in other words explaining things to the growing child). Studies reported by deCharms et al. (1965) and Lefcourt (1976) suggested that training in personal causation may support the later development of internal LoC beliefs but that peer pressure and socio-economic realities may cause other ('chance' or 'powerful others') general expectancies to be learned. It is worth noting, especially to the issues raised in Chapters 2 and 3, that the development of internal LoC has been linked to upbringing, education, economic status and social class (Antonides, 1991). Given the low status that some ethnic groups hold in US and British society, it is not surprising that ethnic group differences have been reported (Wright, 1975; Lefcourt, 1966, 1976). To some extent, the tendency to attribute unpleasant situations or circumstances to external causes is a feature of those who suffer them and it may be speculated that internals may prefer to define themselves out of situations over which they actually have little control (and possibly for externals to have not learned stable patterns of causal attribution). Thus, even if LoC beliefs reflect generalised tendencies there is plenty of scope in any given situation to mask the internality or externality of any individual's behaviour in response to particular socio-economic conditions.

Weiner's (1985) findings that there is a general tendency among business people to attribute successful transactions to internal causes but unsuccessful transactions or outcomes to external causes, represents an extension of attribution theory (see also Farr, 1977) familiar to many small business researchers but does not invalidate Rotter's more general approach. Weiner found that causes of business outcomes were basically ascribed by business people to four key sources - their own skills, their efforts, the difficulty of the task and luck. Clearly, the first two are internal and the second two external. Weiner added another bi-polar dimension - the stability or instability of the cause and demonstrated that business people are more likely to alter their strategy if they attribute the cause of certain outcomes to perceived stable causes rather than simply if their prior expectations have not been met. It seems reasonable to hypothesise that entrepreneurs are more likely to also seek stable causes as explanations rather than unstable, non-predictive causes and respond accordingly. Indeed, an early recognition in the shifts in stability in the socio-economic structure and a belief in having the capacity to respond (internal LoC) seem ideal entrepreneurial psychological attributes. Whether these attributes are amenable to encouragement by training or whether enterprise training is the most appropriate training for achieving these ends, must, for the moment, remain an open question although the indications in relation to enterprise training are not particularly encouraging.

4.1.3 Psycho and social developmental approaches.

Contrasting with the trait approach, the developmental approach includes the psychodynamic and social developmental approaches. As with career choice theory (see section 4.3) , the psychodynamic approaches - influenced by Freud and neo-Freudian theorists -view an individual's personality as the outcome of the personal development process since infancy. A later development in the same broad tradition is the humanist approach which holds some similar views to the social development school but places greater stress on the notion of self concept, self awareness, development and context. One key distinction between the trait and typology approaches and the more humanist, social developmental approaches is that the former basically represents an attempt to identify external descriptors, which - like commercial labels or brands - can be used as a convenient shorthand when making decisions involving some degree of psychological information. The latter represents more of an attempt to describe the processes that produce the relevant behaviour, attitudes and values. Clearly, the accurate identification of certain traits relevant to personnel and marketing problems can have immense commercial value. However, for a proper understanding of economic and organisational processes and outcomes, it is the latter approach which is more likely to yield genuinely useful information in the longer term.

Individual personalities, including those of entrepreneurs, are often explained as the outcome of personal development processes and experiences since infancy with differences between psychodynamic and social developmental theories broadly reflecting the basic nature-nurture split in personality theory. Psycho developmental approaches in the Freudian tradition would also expect little change to basic personality after a fairly young age while social developmental approaches would usually accept that learning from experience continues beyond infancy and adolescence. A psychodynamic model of the entrepreneur is that of Manfred Kets de Vries (1977; 1980) which states that the entrepreneurial personality is shaped by parental behaviour along two dimensions: high-low control and acceptance-rejection. The father exhibits low control plus rejection while the mother displays high control plus rejection producing a somewhat deviant personality. Incapable of functioning effectively inside large organisations, entrepreneurs feel compelled to start their own businesses. To an extent, the repertory grid experiments reported in Appendix E provide some support in showing a low identification with parental views among some enterprise trainers (though others were the opposite). Also, sociological studies have identified certain entrepreneurs who lack formal qualifications and have started their own businesses out of frustration at not achieving promotion or due status (Curran & Stanworth, 1981).

According to the General Household Survey data which is reported in Tables 6 and 7, most self-employed and most small firm managers are married males, work longer hours than employees and tend to devote much of their time to their business (Curran, 1986;

Curran and Burrows, 1988). This fits in with the 'commitment to business' characteristic described in section 4.1.1. As fathers, the self-employed are likely to have relatively little time for their families or to exert much control at home. This appears to lend some support to Kets de Vries' theory which provides an explanation additional to the role-model theory for the high tendency for the self-employed to have parents who were also self-employed or managers (Gray and Stanworth, 1985; Curran and Burrows, 1988). There is also some anthropological support for the view that cultural changes most resistant to change are 'learned early in life (such as kinship terminology and certain basic values). Change in the areas of culture that are learned early in life...required the presence of a different parental model in the child's early experience' (Wallace, 1970, pp 160-161). However, the Kets de Vries type of psychodynamic models is open to the criticism that it is not valid for all types of small business and fails to explain why only some of the people who share similar formative experiences eventually become entrepreneurs. It seems reasonable to assume that entrepreneurial behaviour is not uni-dimensional and that there is more than one entrepreneurial personality, just as there are many different types of small business and many types of small business owner.

Social developmental theories move away from the search for the right personality mix and take the development of the self-concept as their starting point. For instance, Super (1980) sees individuals as developing their self-concept by trying to enter an occupation which is likely to further self-expression instead of seeking a compatible work environment. Super believes that childhood experiences are important in developing a self-concept and offers a stage-model of occupational behaviour which will be discussed in more detail in section 4.3. As the self-concept forms, the young begin adopting work role models mainly through identification with their parents but later, as the self-concept develops, with other people. It is interesting to note that this process runs counter to that of Kets de Vries where future entrepreneurs are said to be rejected by their fathers and form their businesses almost as a refuge from authority figures ('to be independent'). However, it is difficult to research Kets de Vries' assumptions empirically and most research on the economic *search theory* of employment lends support to Super. Similar to Becker's (1964) human capital theory, in that the prospects of economic gain from search and acquiring necessary qualifications have to exceed the search costs, search theory and the more psychological career-choice theory have very little application to the secondary sector where most small firms are located and where employment shifts are often involuntary. Indeed, for many people during the search stage, feedback produced as a result of exploratory behaviour can often clash with expectations.

It has been found that people who can tolerate ambiguity, uncertainty, tension and frustration - common entrepreneurial characteristics according to the list identified by Timmons et al (1977) as Table 9 here - can deal with this cognitive dissonance by adjusting their concepts appropriately. This is more likely to happen if they actively

explore real, external options rather than mentally speculate about outcomes (Lofquist and Dawis, 1969). This active, exploratory behaviour - and, incidentally, high nAch and low fear of failure - has been linked to the presence of a supportive family structure (Atkinson, 1957). This contrasts with the behaviour of defensive, unrealistic people who find it hard to handle cognitive dissonance, seek to rationalise contradictory experience and do not gain from exploratory behaviour. It has been suggested that self-employment may offer the line of least resistance to these people which may explain why so many non-entrepreneurial self-employed are reactive rather than pro-active (Osipow, 1983). Also, through the process of identification, the inheritance of occupation can play a role, especially where the parents work in a state of isolation from other people - either physical isolation or psychological. Osipow mentions farmers, fishing, medicine and the military but the self-employed and very small businesses must also qualify because their own personal isolation is one of their biggest complaints (Gray and Stanworth, 1986).

The humanist approach ascribes more influence to individuals' self-awareness as continuing influences on their own behaviour throughout their adulthood. Individuals have a concept of themselves as actors in their own lives (economists often use the same term to describe the participants in economic transactions). Carl Rogers is a well known theorist in this field and the work of Abraham Maslow - with its five categories of human need, culminating in self-actualisation - is widely used in managerial research. During the past twenty years, however, the personal construct theory of George Kelly and his repertory grid techniques have been expanded for use in a range of social contexts including the fields of business and work (Stewart and Stewart, 1981). Before discussing the contributions that the constructivist approach may offer in understanding entrepreneurial behaviour and the likely effects of enterprise training, it is worth summarising the main implication of this section as suggesting that early personal development appears to play a large role in later entrepreneurial behaviour which is unlikely to be replicated in skills-oriented enterprise training sessions.

4.1.4 Constructivist approaches

Essentially, constructivist approaches to personality and personal psychology differ from the previously mentioned approaches in placing the individual much more at the centre as an active participant. Each individual is assumed to play an active part in interpreting and responding to the world they perceive. This implies a continuous lifelong process though with wide differences between individuals and at various stages within any one individual's lifetime. The pioneer of this approach, George Kelly believed that individuals - as they perceive, interpret and anticipate future experience - construct hierarchical systems of constructs to make a personal sense of what they perceive, which they continually arrange and rearrange in response to feedback from their external reality. He called the process of developing constructs, 'construing' and developed his personal construct theory (PCT) originally in a clinical context where emphasis was placed on revealing an individual's

construct system. Although Kelly is firmly rooted in the US ideological traditions of *individualism* (as discussed in the Introduction) and developed his system to explore the construct systems of individuals, he also recognised the importance of social dimensions and shared construals to human existence and communication (Fransella, 1984). Kelly's approach seems to fit the entrepreneur and offers an extremely effective technique for exploring the entrepreneur's individual attitude and value systems. Indeed, during the past twenty years, the theories of George Kelly and the techniques he designed have been expanded for use in more social contexts including many applications in the fields of business and work (Stewart and Stewart, 1981).

According to Kelly, each person interprets the world in a unique fashion based on both past experience and future anticipation. We approach an objective reality as subjective scientists, sifting past experience to anticipate the future, defining our own view of the world by a linked pattern of bi-polar concepts called constructs (which are defined by an individual not only by what they are but also by what they are not). Each individual's construct system is ordered in a complex hierarchy or pyramid with the most fundamental constructs - those applicable to a broad range of situations and events - dominating the system and other more situation-specific constructs playing a less central role (Kelly, 1955). Kelly's fundamental postulate - that our processes are psychologically 'channelised' by the way we anticipate events - might almost have been written with the entrepreneur in mind. It provides theoretical support for placing strong emphasis on expectations as the key element in work motivation in general and entrepreneurial motivation in particular, as discussed in the opening chapter of this thesis. Experiences in dealing with small firm owners and many of the findings of this thesis suggest that Kelly's approach may be useful when researching entrepreneurs. David Storey's (1990) matched study of ordinary small firm owners and those who obtained finance through the Unlisted Securities Market revealed the more entrepreneurial owners to exhibit something closely approaching Kelly's 'active scientist' approach.

To extend the applicability of his theory, Kelly expanded this basic postulate through a series of qualifying 'corollaries' which elaborate the constructivist approach very clearly. Given the essentially individualistic and pro-active behaviour of many entrepreneurs (see next section 4.2 and Appendices B3, B5 and E2), his emphasis on personal meaning through his *construction* corollary 'a person anticipates events by construing their replication' is a strong affirmation that behaviour derives not as a response to external stimuli but to what individuals actively interpret the stimuli to be (Bannister and Fransella, 1986, p.10). This is a strong swipe at the behaviourist position which treats the individual as a 'black box', virtually denying a role for cognition or self-awareness. Kelly's approach is made even more applicable to entrepreneurial behaviour through his *individuality* and *organisation* corollaries which state that individuals differ from each other in their construction of events through evolving their own unique hierarchical (or ordinal) systems

of constructs to enable themselves to anticipate events. Furthermore, the potential for change and adaptation as a result of changing perceptions or self-awareness is always present because constructs are not seen as immutable. The *experience* corollary states that a person's construction system varies as they successively construe the replication of events. However, there are certain core constructs, some of which could be construed as modal personality traits perhaps, which are considered to be fundamental or central to a rich, well-developed system and, consequently, are less likely to change.

As Gecas and Seff (1990) have pointed out in their analysis of the *psychological centrality* of work or non-work, an individual is less likely to develop a strongly integrated system about situations, people or events which are of peripheral personal importance. A system without much focus, unclearly structured or not psychologically central is described in personal construct theory terms as *loose*. Systems which are well developed are generally *tight* with clear central constructs and a well defined hierarchy. The tightness or looseness of a construct system, however, need not necessarily be an impediment to the communication of information or understanding. Communication is based more on the extent to which different people share each others perceptions and evaluations of a given situation, event or phenomenon. Because of the importance of communication to the concept and practice of the 'entrepreneur' and because enterprise culture policies are essentially social policies, it is important to repeat two more of Kelly's corollaries. The *commonality* corollary states that to the extent that an individual constructs experience in a similar way to another, their processes are psychologically similar. This provides a clear psychological target for enterprise training though whether the goal of influencing non-entrepreneurial people to adopt construction systems more akin to those of entrepreneurial people is attainable (and whether entrepreneurs even share identifiable construal systems) is another matter.

The *sociality* corollary follows on - to the extent that individuals construe the construction processes of another, they may play a role in a social process involving that other person - and has clear implications for communication, organisation, training and even marketing. However, it is important to note that the mere fact that people have experienced a situation or event together, such as an enterprise training course, is no indication that they have construed that experience in the same way. Indeed, the sociality corollary does not soften Kelly's essentially individualistic approach and is both a less powerful and less flexible concept than social representations which allows for different individual constrictings or reactions to collectively 'construed' events or social facts. This is clearly seen in Appendix E where similar constrictings of the 'entrepreneur' reflect quite different attitudes and apparently different reactions to the attractions of entrepreneurship. At a practical level, however, the effectiveness of training can be measured by whether any construct 'tightening' takes place in the area of training focus over the life of the course or shortly thereafter. An example of how the theory has been applied to management training

research, involving the use of repertory grids to reveal the construct systems of postgraduate management students in southern Italy (Gray, 1987a), is described in Appendix E1. Finally, this leaves open the question that Kelly's approach may be appropriate to describe and analyse entrepreneurial type behaviour but not apply to other less pro-active or 'scientific' populations.

Kelly's attention to the process of sifting external experience, the active categorisation of that experience and interpretation by the individual has steadily gained ground as a fruitful and valid area for research and explanation of behaviour. However, Chell and her colleagues (1991) point out that Rosch's (1978) approach to categorisation highlights the fluidity of and lack of boundaries of many categories (as often becomes apparent in trying to elicit constructs from subjects for whom the research task is not central). As Kelly held, personal behavioural constructs or categories are individual so some degree of ambiguity and mismatching must occur but this does stand in the way of drawing useful generalisations. Clearly the Kelly approach will work best when the elements being considered are significant to the subject even to the point of being , in Rosch's (1978) terms, prototypical (in other words, defining examples). Chell points to the work of Hampson (1988) as addressing these issues in the constructivist tradition but broadening the approach beyond Kelly's essentially individualistic approach. Recognising that people are not especially consistent in their expression or concept of personality, Hampson sees personality at three different levels - the theoretical where categories and traits are often imposed by the researcher, to lay level where 'commonsense' views prevail and the level of the self where an individuals self-concept must be taken into account. This approach is more socially constructivist compared with Kelly's more individualist approach and makes it much easier to take into account the effects of situation and circumstance which are often ignored as too awkward (as the discussion in Appendix E makes clear). Certainly, any study of the enterprise culture must take into account public or lay perceptions as well as that of individual small firm owners.

Finally, it is worth mentioning something about the technique developed by Kelly to reveal an individual's construct system, the repertory grid. As the two different studies in Appendix E show, grids can be used to provide both qualitative and quantitative data about an individual's construct system. Their underlying rationale is fairly simple (Fransella and Bannister, 1977). The field of research interest or the focus of study with an individual subject is described in terms of fundamental elements - people, objects, events, situations or other similar categories - which can be compared with each other. Through a triadic process of selecting the odd one out from a group of any three elements and explaining what characteristics or qualities differentiate it from the other two a list of concepts is generated in the individual's own language. In a similar way to generating semantic differentials, the subjects are also asked to further define each concept by supplying its opposite in the context of the study. Once the list of bi-polar concepts is

exhausted, each element is rated or ranked on each concept as a bi-polar scale. The scores are then factor analysed to produce the underlying construct map (with the emerging factors treated as higher order more central constructs). which form the field under investigation are termed 'elements'. It does not matter what form the elements take but it is essential that they can be validly compared with each other and that, in comparing the elements, subjects use their own terms and language to describe the similarities and differences.

Within its own frame of reference, the repertory grid technique is extremely effective and yields very rich information. In the first repertory grid study, reported in Appendix E1, the elements compared were the modules of the enterprise training programme with the aim of exploring how southern Italian enterprise trainees construed the course. As Appendix E1 describes, students fell into two broad camps which match almost exactly those found in organisational theory - the task-oriented and the socially-oriented. Trainees were also distinguished on whether their construct systems were tight or loose. From tutors' comments and ratings of each trainee at the time and a subsequent follow up three years later in 1990 on the actual progress of trainees, it was clear that the first distinction correlated strongly with job choice while the second was a good predictor of job success and performance. It was interesting, however, that the objectives of that enterprise training course were not fulfilled because none of the trainees obtained management jobs in southern Italy and none founded their own business. The second repertory grid study, reported in Appendix E2, was more psychological in application with the aim being to determine who influenced British enterprise trainees in their career choice and in their construal of the entrepreneur. The elements were people likely to be important influences including parents, existing entrepreneurs, self and an idealised self. Again, the looseness-tightness distinction was reasonably predictive of subsequent business behaviour according to a subsequent follow-up interview with the course director in 1992.

The two studies, however, also underlined an important methodological weakness of the use of repertory grids for this type of social research. Both studies revealed extremely interesting construct systems among individual enterprise trainees which did help explain subsequent performance and behaviour but it was not so easy or valid to extrapolate from these individual grids to arrive at more general statements (apart from the effects of the task-social and loose-tight distinctions just discussed). Yet, some valuable conclusions were possible which indicate that repertory grids do have a role to play in entrepreneurial research. For instance, clear and significant differences in psychogenic motivators between graduate start-up business and existing non-graduate small firm owners and self-employed, especially in relation to achievement motivation, the construal of power relations and the need for sociability (see section 4.2.3), were revealed which provided an interesting psychological profile on the effects of alienation and power relations as discussed in section 2.2.2. Also the effects of parental influence provided interesting,

though very individualistic, psychological input into the discussion on parental influence in career choice (see sections 3.3.2 and 4.3). Although there are clear limitations on how these types of data can be used, the studies reported in Appendix E and the above discussion have given new insights into what enterprise training could be and how it should be evaluated which will be discussed more fully in section 4.4 and next chapter.

The route to more generalised use of this type of data lies in developing Kelly's commonality and sociability corollaries and Hampson's multi-layered approach which, in many ways, is a task already well underway in work on the role of social representations as discussed later in section 4.4.2. The final point to make about the constructivist approach is that it explicitly allows for the way individual's priorities are always shifting. Kelly's notion that constructs are more or less fundamental depending on their range and focus of convenience (in other words, what is important to the individual at any given time) and Hampson's contribution on the importance of recognising that there are several different valid perspectives to most situations ties in with Gecas and Seff's (1990) ideas that individuals generally respond to events and circumstances that are psychologically central to them. This clearly explains a lot of small business behaviour and a valuable conclusion from this discussion of the constructivist approach is that business constructs must be central to entrepreneurs (see Table B21, Appendix B5.2). With reference to section 2.2.2, the extraction of surplus labour from others is very likely construed in positive terms by most capitalists, especially new start-up entrepreneurs. Put conversely, people for whom business constructs are not central or for whom the power relations of business are disturbing will find it extremely hard to behave entrepreneurially (Gecas and Seff, 1990; Gray, 1989). Why anyone in such a position should undergo enterprise training (and many seem to) raises questions about the contrasting motivations of entrepreneurs and non-entrepreneurs.

4.2 Entrepreneurial motivation.

4.2.1 Motivation at work.

Early debates in psychology over whether motivation springs from an internal driving force (termed variously *drives* or *needs*) or the conscious striving towards external *goals* have been replaced by a more dynamic synthesis which, developing earlier work by Kurt Lewin (1938) on social learning and the positive or negative attraction of goals (*valence*), takes into account not only the valence but also the relative importance of goals (*value*) and the power of needs but also the degree of expectation (*expectancy*) that certain behaviours or outcomes will actually lead to an attainment of a desired goal and the satisfaction of a need (Vroom, 1964; Atkinson and Feather, 1966; Schein, 1981) or, as the findings reported in Appendix D suggest, the earlier and less challenging *satisficing* of a need (Simon, 1957). This model starts from a similar provenance to the constructivists in that the individual is central and assumed to have a fairly complex set of preferences and goals. Faced with and making many choices (even if only by default), the individual is

assumed to be an active participant. Earlier models (which include Freud's pioneering psychoanalytic model) were very deterministic generally emphasising a *push* process with the drives or needs providing the impetus. By the 1960s, following an analogous path to the constructivist psychologists, the notion of active individual choice in goal seeking challenged the earlier deterministic model so that Rokeach (1968) in commenting on the changes over the previous twenty years could state that an individual was 'seen to be not only a *rationalizing* but also a *rational* creature - curious, exploratory, and receptive to new ideas' (p 168).

The contrast between the two approaches can be seen through a comparison of Murray's (1938) list of psychogenic needs and Maslow's attempts to classify needs according to different levels of satisfaction or urgency without specifying any particular universal needs or goals. After a number of studies, Murray identified 20 separate needs which he believed impelled action on the part of individuals as a means of reducing tension caused by the unsatisfied need. Murray drew a distinction between physiological needs, which he termed *viscerogenic*, and affective or cognitive needs termed *psychogenic*. As the following list in alphabetical order of Murray's psychogenic needs reveals, however, not all the needs (signified by the prefix *n*) are evidently independent of each other:

nAbasement	submit passively to external force;	nHarm avoidance	avoid pain, take precautions;
nAchievement	accomplish something difficult, surpass others;	nInfavoidance	avoid humiliation and acts thru fear of failure
nAffiliation	enjoy cooperating, win affection	nNurturance	console and support others, give comfort;
nAggression	beat foes forcefully, fight, revenge;	nOrder	organise, achieve order neatness, cleanliness,
nAutonomy	free from commitment and restraint, independence;	nPlay	laugh, make jokes, fun for its own sake;
nCounteraction	overcome, persist, make up for failure by striving again;	nRejection	expel, exclude, snub dislike others;
nDefendance	resist assault, criticism, blame, vindicate the ego;	nSentience	enjoy sensual pleasure;
nDeference	admire superiors, praise, conform, be subordinate;	nSex	enjoy sexual pleasure;
nDominance	control and command other, persuade	nSuccorance	be nursed, supported, protected, consoled;
nExhibition	create an impression, be seen and heard;	nUnderstanding	interest in theory, seek answers, analyse events, logic.

Furnham (1992) points out that, although these 20 needs are actually descriptive labels and not very helpful in understanding the dynamics of how and when a need is activated, a number of other researchers have been influenced by Murray's treatment and taxonomy of needs. The most obvious example is David McClelland and other researchers of the achievement motive (*nAchievement* or *nAch* as it is usually abbreviated) which is discussed in section 4.2.3 and Appendix D. McClelland was also interested in *nAffiliation* (*nAff*) and *nDominance* (which he slightly redefined and retitled *nPower*) and it is clear from the discussion in section 4.1 on entrepreneurial characteristics that *nCounteraction*

and nUnderstanding are also worthy of attention. Also, the findings of this thesis (as described in Appendices B3, B4, B5 and E2 and discussed in section 4.2.5) highlight the significance of nAutonomy for all small business and entrepreneurial research. Murray's work on motivation has clearly provided a useful springboard. However, another criticism is that not only are some of the needs fairly similar and could, perhaps, be subsumed under a broader 'meta-need' (or Kelly-style super constructs) but also, in many cases, needs in the list appear to be just the opposite poles of other needs (for instance, nAggression - nAbasement; nAchievement - nInfavoidance; nDominance - nDeference; nNurturance - nSuccorance). This bi-polar approach is deal with more effectively by Kelly's personal construct theory. Indeed, McClelland's colleagues, John Atkinson, and Norman Feather (1966) branched off in a very interesting direction by considering *fear of failure* as the mirror image of nAch but producing behaviour that much more closely describes the business behaviour of most self-employed and growth-averse small business owners (discussed in section 4.2.4).

Almost 20 years after Murray published his lists of psychogenic needs, Abraham Maslow (1954) published his 'hierarchy of motives' theory which introduced the notion of individual choice and preference into Murray's essentially deterministic framework. Maslow also elaborated Murray's *viscerogenic-psychogenic* dichotomy into a five stage model reflecting different levels and types of psychological needs, which has become widely used in management and business literature. Essentially, Maslow describes a process whereby people move from needing to satisfy primary drives through increasingly more complex secondary needs until they reach a stage of needing to arrive at full self-awareness or self-actualisation. Maslow viewed the process as a hierarchy or pyramid (he published his theory only one year before Kelly who was also drawn to pyramids and hierarchies) consisting of the following five stages of needs:

physiological needs from primary or viscerogenic drives such as hunger, thirst, sex, physical activity, etc.;
safety needs including physical security, shelter, clothing as well as protection from emotional and psychological deprivation;
social and emotional needs including belongingness, love, affection, company, etc.;
esteem needs including (respect, self-esteem, appreciation, etc;
self-actualisation needs which draw together all the other needs in an integrated desire for self-realisation and fulfilment of the individual's total capacities.

Maslow saw these different types of needs as being arranged in an upward progression with lower level stages always dominating and requiring satisfaction before the next level becomes a strong motivator. Although there is little empirical evidence that people actually do pass sequentially from one level to another, the notion that there are different levels or broad types of motives and needs seems reasonable and, in business schools, has stood the test of time as an instructional model. For purposes of analysis, however, it has

not been found to be too difficult to reduce Maslow's five categories to three broad types - basic primary needs (hunger, thirst, sex, safety, physical security, shelter), 'social transactional needs (love, affection, appreciation, company, esteem, respect, power, etc.) and personal development needs (self-actualisation, creativity, altruism and, possibly, need for achievement) - and actually improve their explanatory power (Gray, 1989). Furnham (1992) refers to the first three stages as deficiency needs and the last two stages as growth needs which has a resonance with Herzberg's (1966) two-factor 'hygiene theory' which introduces the very useful idea that there can also be negative effects from occupational de-motivators and that the absence of an expected level of work conditions or 'hygiene factors' can be as powerful a spur to action as need satisfaction.

The Herzberg two-factor work motivation theory is interesting from the viewpoint of career choice because it fits in with (and may partly explain) the line developed by Stanworth and Curran (1973) from Weber's (1930) concept of the 'outsider', that many people turn to self-employment because they find working in large organisations too onerous. However, both Antonides (1991) and Furnham (1992) emphasise the lack of convincing empirical support for these models, the low correlation between satisfaction and work performance and lack of precision about what actually triggers behaviour in response to the motivators or de-motivators. Even more devastating is Farr's (1977) methodological critique on the strong attributional effects present in Herzberg's studies. In effect, Herzberg's subjects were ascribing positive outcomes to their own actions and expectations but the negative outcomes were externalised as being 'caused' by their firms or working conditions. Herzberg conducted interesting studies into his subjects' attitudes towards their work and workplaces but was not entitled to draw his strong conclusions about the actual effects on performance or behaviour of his supposed 'hygiene factors'. This highlights a profound methodological challenge for all researchers attempting to investigate work motivation and any effects such motivation may have on actual performance. It is worth striking another cautionary note about the self-reported scales used for this thesis and the dangers of drawing too strong a link between, say, independence motivation (or economic motivation) and small business survival, growth or general performance.

Despite their limitations, Maslow's and Herzberg's models raise interesting questions in relation to small business behaviour. It is not too difficult to see how different career choices could result from different Maslow-level 'triggers'. For instance, it is clear that a large proportion of the self-employed, pushed into self-employment by the fear of unemployment, are mainly satisfying their more basic, lower-level needs for psychological and material security. Their principal business objective is usually survival rather than growth as Appendices B3, B4 and B5 indicate. People keen and able to network or work in organisations may well be motivated primarily by the second-level needs which most self-employed would find hard to satisfy through their work. At the top end of Maslow's

pyramid, it could be argued that, while self-actualisation is a worthy human goal, the higher level needs may actually represent a shift away from entrepreneurial goals except for the entrepreneurs who feel a need to start new firms continuously one after the other.

Returning to the basic *expectancy* model of motivation mentioned at the beginning of this section, it can be seen that the model is an advance on the rather static models just described. Incorporating Herzberg's (1966) insights if not his methodology, the expectancy model also allows for goals having negative valency and the motivation relating not to need-satisfaction but to anxiety-reduction. Yet, although there is plenty of debate - certainly in management literature - on the links between motivation, satisfaction and performance, there is little on how these elements of the basic motivational model actually apply to entrepreneurial behaviour. As there has never been a serious suggestion that business or entrepreneurial success is due to an innate 'business drive', however, studies and theories of motivation in the present context are usually more concerned with socially learned needs. This approach is clearly most relevant when discussing the possibility of enterprise training encouraging entrepreneurial behaviour and will be discussed in section 4.4. Before moving on to consider how these concepts on motivation apply to business behaviour, it is worth noting one important distinction between socially learned needs which reflect inner, psychological desires such as status or social esteem (the satisfaction of which is said to be *intrinsic*) and the attainment of external goals such as money (*extrinsic* satisfaction). This basic psychological debate over whether motivation reflects inner drives and needs or the conscious striving towards external goals is very important when business motivation, including the effects of incentives, is considered.

4.2.2 Motivation in business.

Economists' notions of main business motivations were considered in section 2.2 where it was seen that the rationally economic profit motive may be dominant but not unique. Even in the classical tradition there are others such as Adam Smith's (1776) emphasis on self-interest (wealth maximisation) as well as a 'human propensity to barter and trade', the Benthamites's pursuit of happiness (utility maximisation) and John Stuart Mill's (1848) tendency of firms to concentrate (the maximisation of power or control). In the non-classical tradition of political economy, Marx (1867) stressed accumulation of capital as the prime business motivation, Schumpeter (1934) linked economic motivation and growth to the need to innovate and the desire to improve social status while Keynes (1936) - not completely outside the neo-classical framework - identified the fear of lost opportunities (eg, liquidity trap, investment preferences, etc) which induce business owners to keep their options open. Other issues connected with business motivation are also important - such as the differences in self-interest between owners and their managers or the differences in market power between big and small firms.

The distinction made by Carland et al. (1984) between entrepreneurs in particular and small business owners in general (section 1.2.2) highlights another important distinction between personal motivation and the target objectives set for the business. As the findings summarised in Appendix B3 indicates, this distinction does not discount the possibility that entrepreneurs may treat their businesses instrumentally as the means to enable them to achieve non-business goals (such as status, life-style, etc.) but modern management experts are agreed in linking business success - the ultimate goal of the entrepreneur - to the setting of clear, measurable and appropriate business objectives. Indeed, there is evidence to suggest that entrepreneurs actually enjoy business and that their firms are central to their lives (Timmons et al, 1977; Stanworth and Curran, 1973; Brockhaus and Horwitz, 1986). It is also clear that many self-employed and the owners of smaller businesses, especially those who seeking to avoid unemployment or failure in larger organisations, do not view their business as central to their lives and their eventual lack of success may be due to this lack of focus. The study reported in Appendix B3 addresses the split between personal motives and business objectives and casts some further light upon the significance of intrinsic motivational factors (status, life-style, securing the future, etc.) compared with the most common extrinsic motivator, money.

Various research studies suggest another important distinction between those who are in business for active reasons - to grow, accumulate capital, attain an expected status, as a measure of personal achievement, and so on - and those who are reactive in the face of such adversities as recent or imminent redundancy, economic survival, poor employment prospects and so on (Gray and Stanworth, 1986). In Appendices B4 and B5, this active-reactive dimension is operationalised as growth-orientation and tested against the presence or absence of actual business growth (measured according to employment, turnover or profit). These studies show clear links between growth-orientation and actual performance but the causal direction is not clearly specified. The studies also provide empirical support for Schumpeter's view that entrepreneurs would lose their character 'as soon as they build up (their) business and settle down to running it as other people run their businesses'. Many small business owners are only entrepreneurial during the initial start-up phase of their enterprise, preferring to restrict further growth so as to preserve their autonomy which, as mentioned already, emerges from virtually all studies in this area as the prime small business career motivator (and is discussed in section 4.2.5). The attainment of their objectives (sometimes based on rather modest levels of aspiration) is frequently sufficient to produce a reduction in motivation and entrepreneurial behaviour (Davidsson, 1989b). This links growth expectations to the psychological and sociological qualities of the entrepreneur discussed in section 4.1 - persistence, controlled risk-taking, viewing turmoil as a source of opportunity, and so on - and to the idea that business must be psychologically central to successful business people, including entrepreneurs. It also highlights the importance of accurately framing the subjects' situation when conducting

research of this type because, as Kahneman and Tversky (1982) found when analysing risk-perception (discussed in section 4.2.6), subjects will have a quite different set of expectations and preferences depending on their objective situation.

Indeed, despite the importance of setting appropriate goals to business success, it is the entrepreneurs' needs and expectations which is of most interest psychologically. Although there is still plenty of scope for more focused psychological studies of the entrepreneur, a number of key elements in the entrepreneurial profile have been identified in section 4.1- internal locus of control, need for achievement, controlled risk-taking, setting attainable goals, money as measure of success, persistence, keen problem solvers, etc (Timmons et al, 1977; Chell, 1985; Brockhaus and Horwitz, 1986). At first sight, most of these features are more descriptive of attitudes and behaviour than of psychological needs but, especially in the context of work, psychological needs reflect a variety of situations. Despite the overwhelming evidence confirming the importance such a non-economic motive as independence (see section 4.2.3), economists still seem to rely on theories of the firm and research models based on neo-classical profit-maximising assumptions (albeit with some or all of the more rigorous assumptions considerably relaxed). There seem to be three main reasons for this rather widespread economic myopia. Firstly, despite the size of the small firm sector, economists tend to be interested mainly in larger firms where interest in their findings and supporting evidence for their models is stronger. Secondly, it is difficult to model non-economic behaviour in an econometric model (except, in certain cases as constraints). The third reason, which is the main concern of this paper, is that many economists quite rightly feel that many non-economic motivators - such as independence - are too imprecise to allow for accurate modelling and rigorous testing. Morris Silver (1984) explains the economists reluctance to include behavioural variables in their analysis on the grounds that it is hard to fit non-quantifiable elements into factor-market models.

It would be difficult not to feel some sympathy for these objections were it not for the fact that management literature is riddled with references to the importance of intrinsic motivators - those that satisfy inner, personal needs, such as the desire for independence - over the more obvious extrinsic, economic and financial motivators (those satisfying external, material needs). Indeed, some prominent economists have recognised the economic importance of intrinsic motivators such as status, income relativities and social recognition (Duesenberry, 1949; Hirsch, 1977)). However, it is not the purpose of this thesis to provide an econometric, or even psychometric, model of the small firm but rather to analyse the concept of work motivation from a small business perspective with the aim of distinguishing the areas amenable to economic analysis and policy from the areas where more creative work needs to be done to incorporate essentially non-economic behaviour into an economic framework. Studies of small business owner-managers from many different industrial sectors have found consistently that their reasons for starting their businesses are more likely to be a desire for independence, autonomy, self-awareness, self-

actualisation and a sense of achievement rather than any of the more traditional economic business motivations (Bolton, 1971; Stanworth and Curran, 1973; Curran and Stanworth, 1981; Gray and Stanworth, 1986). Furthermore, it is equally clear that the traditional ideas of business motivation - such as growth, wealth, accumulation of capital or the maximisation of profits - have very little influence, even in a peripheral sense on many small businesses (especially the self-employed).

Even in micro-economics with its extensive literature on the theory of the firm, analysis tends to be mathematical, relying on abstracted assumptions rather than real business behaviour. For instance, many economists tend to 'explain' small firm behaviour by reference to models of oligopoly competition (a few firms that know each other) rather than perfect competition (many firms unknown to each other) or monopoly competition (dominant supplier). While each of these models assumes economic rationality, oligopolistic firms are said to base their price and volume decisions on the behaviour of their rivals which would be impossible under perfect competition (too diffused) or monopoly competition (small firms are price takers). Leaving aside the fact that there is little evidence that business managers' behaviour in general is economically rational (profit-maximising behaviour, prices discounting market information, the ability to calculate current marginal breakeven points, etc.), the reality of small business competition suggests a world far removed from these micro-economic models, even the more sophisticated versions (Curwen, 1976). Virtually all smaller businesses operate under conditions of severely limited information (not merely 'imperfect'), the majority are price takers and many - especially the newer businesses and certain self-employed - eventually fail because they over-compete on prices. Indeed, in these terms, the entrepreneurial small businesses are those that would register non-typical curves on any of these three models because of their ability to gain informational or cost advantages over their rivals.

Timmons (1977) and his co-workers suggested that entrepreneurs are not so much interested in money for its own sake but more as a measure of their success over business competitors. This is in keeping with the treatment by certain economists of intrinsic motivators - in particular Dusenberry's (1949) 'keeping up with the neighbours' effects on consumer behaviour and Hirsch's (1977) 'positional goods' argument that economic growth can never produce total satisfaction. This casts a fresh light on the survey findings reported in Appendix B but introduces another element to consider when interpreting the true significance of responses to questions about business objectives such as 'lifestyle', 'continued growth' 'make money and so on. However, the fact that many small businesses do not appear to be economically rational does not mean that profit-maximisation is irrelevant as a business motive. In fact, if entrepreneurs, as owners of relatively new small businesses, have continued to grow successfully (in turnover, profits and/or employment), it is likely that they measure their success in terms of increased profits because, as Timmons et al. (1977) suggested, profits are the best measure of business efficiency and

personal success. Accepting the motivational significance of profits to small business owners and the use of business performance measures as evidence of entrepreneurial motivation, enables the concept of entrepreneurship to be operationalised. It also provides a yardstick for measuring business achievement though other measures such as growth in market share, perceived quality image and positioning in the market could also provide valid measures. For the present purposes a stated preference for profit-growth as the main business objective will be taken to imply an entrepreneurial approach. The attainment of sales without increase in labour costs is a reasonable proxy for successful achievement. Psychologically, it is important to establish that this type of achievement is the hallmark of the entrepreneur and a valid target for enterprise training.

4.2.3 Need for Achievement.

It is difficult to mention the psychology of the entrepreneur or entrepreneurial motivation without some reference to *need-for-achievement* (nAch), as developed by David McClelland and other researchers. As already mentioned in section 4.2.1, nAch was considered with two other of Murray's (1938) psychogenic needs - the need for social contact or affiliation (nAff, a third level need in Maslow's terms) and the need for dominance or power, nPow (third or fourth level). Entrepreneurs and top managers are distinguished -in big firms as well as small - by their strong nAch and comparatively higher nPow and lower nAff (Murray, 1938; Atkinson and Feather, 1966; McClelland, 1961; McClelland and Winter, 1971; Davidsson, 1989a). As discussed in Appendix E, nPow constructs predominate not only among both top and bottom level managers but also among many small firm owners while nAff constructs characterise non-entrepreneurial mid-level managers (Stewart and Stewart, 1981). Earlier work by McClelland (1961) on achievement motivation produced some interesting results which had an impact on course selection and skill training, especially in India. Indeed, one of the strengths of the nAch concept has been its apparent applicability across cultural boundaries (Wainer & Rubin, 1969).

Critics, however, have cast doubt on the validity of the work and have suggested that achievement-straining only touches surface behaviour and that the effects are usually temporary (Fineman, 1979; Brockhaus, 1982; Gasse, 1982). Also, achievement is usually measured by Thematic Apperception Tests (TAT) which are often criticised on the grounds of subjectivity and lack of consistency. Furthermore, a number of studies have suggested that nAch is not one single need but is, in fact, multidimensional with as many as seven different factors (Cassidy and Lynn, 1989). Although there are grounds for doubting that the seven factors - work ethic (pleasure from hard work), pursuit of excellence (performing to the best of one's ability), status aspiration (social status and respect), dominance (need to be dominant), competitiveness (desire to compete with others), acquisitiveness (low Maslow-level, material rewards) and mastery (overcoming difficult problems) - are independent, there is little doubt that nAch is a fairly complex

construct, likely to reflect different processes of development in different individuals. The findings reported in Appendix D suggest that there are at least two different aspects of nAch, the first of which does relate to continued striving for success but the second to the fall off in motivation with the satisfaction or satisficing of goals. It seems reasonable to assume that individual or even aggregated levels of satisfaction will be affected by many different factors. Therefore, even though it may be meaningful to use nAch as a broad construct to examine entrepreneurial behaviour, its complexity poses the operational problem of completely separating the small business owner's extrinsic goals (business objectives) from the intrinsic goals. Furthermore, the identification of an opposite but separate concept to nAch, fear of failure, suggests that the other psychogenic needs may also be multi- or bi-dimensional (see next section).

Before discussing the applicability of these theory to small business development in Britain, it is instructive to examine McClelland's social learning theory that underpins it. This will be discussed also in more detail in section 4.4.1 as a learning theory but it is of interest here for the light that it casts on the process of acquiring strong achievement motivation. McClelland's methodology is fascinating and he managed to tap an incredibly rich vein of social data mainly through a structured content analysis of children's stories, myths and legends as well as employing a more direct clinical approach through thematic apperception tests. As mentioned in sections 1.1 and 2.1.3 , he was mainly concerned to elaborate a psychologically rooted theory of economic development which basically holds that economic development is a function of the entrepreneurial spirit in a society as revealed through the average or aggregate nAch among its citizens. This he established to his own satisfaction even though others may remain not quite so convinced. At the same time he discovered interesting phenomena such as the pattern of high nPow and low nAff in the children's stories of countries where dictatorial regimes were to come to power (which he called a psychological index of ruthlessness). At the individual level he demonstrated that the profit motive accounted for comparatively little small business behaviour and reaffirmed the Timmons et al. (1977) finding that 'money served as a ready quantitative index of how well [entrepreneurs] were doing' (McClelland, 1968, p 85). This plus knowledge, judgement and skill which inform decision-making are explicitly linked to nAch in that a justified decision can give the entrepreneur 'a sense of personal achievement from having made a successful move' (p 86).

It is easy to see how McClelland's work provided the platform for a lot of subsequent entrepreneurial research and nowhere is this clearer than his discussion on how high nAch is acquired. According to McClelland, high nAch is acquired fairly early in life 'say, by the age of eight or ten, as a result of the way his parents brought him up'. He manifestly links this to class influences which provides some interesting meat on the Marxist bones of the arguments presented in section 2.2.2. Drawing on Weber's marginal man theory, McClelland states that, by contrast with underdeveloped countries where the educated

elite secure privileged jobs in the professions, in successful developed economies business has a higher status which a 'constant "natural" flow of entrepreneurial talent from the middle classes [providing] economic leadership of the highest talent' (p 90). He demolishes the argument that entrepreneurial talent could be hereditary (on the grounds that changes in nAch are too rapid) and points to the fact that parents of high nAch children set higher levels of aspiration for a variety of tasks for their offspring than the parents of low nAch children. The high nAch parents also provided much more positive feedback to their children on their performance though high nAch mothers tended to be rather domineering (and the fathers far less domineering). Although this contrasts with the pattern described by Kets de Vries, the psychodynamic development process is very similar though using different parental behavioural inputs. McClelland is extremely clear that 'the family is the key formative influence' in developing high nAch but that because of this the general levels of nAch 'are very hard to change on a really large scale' (p 93). This reaffirms both the patterns described in sections 3.3.2 and 4.1.3 and Appendices D and E2 and the real challenge facing enterprise culture policies.

The importance of nAch for this thesis rests on two pillars - the fact that it does seem to distinguish between growth-oriented entrepreneurs and other growth-averse small firm owners according to the results reported in Appendix D and the claim discussed above that it may be amenable to being encouraged through appropriate training. The studies in Appendix D were based on work conducted by Per Davidsson (1989b) in Sweden where he found that his 4-item nAch scale did distinguish between small firms on the increase in profits but not increase in workforce which represents the best objective combination indicator of entrepreneurial business behaviour. Moreover, Davidsson found the nAch and business growth relationship was strongest among those whose primary business objectives were stated in financial terms rather than personal development or lifestyle terms. This was also a key finding of the studies produced for this thesis as can be seen clearly in Tables D9, D10 and D11 which reaffirmed the higher achievement motivation of growth-oriented firms and of small firms which actually did grow during the recession. The following items in the scales also distinguished between groups and provide support for including achievement motivation training as part of enterprise training:

D4 - comparing graduate enterprise trainees with other groups on the 'desire to succeed' item of Davidsson's scale;

D5 - comparing current small firm managers with a control group of employees;

D6. - comparing subjects intending to be self-employed with those intending to be employees;

D7 - comparing those intending to be small firm managers with those intending to be self-employed;

Although this looks promising, two caveats need to be introduced at this stage. Firstly, as will be made clear in the last section of this chapter (section 4.4.3), current enterprise training does not generally include achievement motivation training. Secondly, there are strong signs that these significant differences actually reflect a Kahneman and Tversky framing effect (or what economists refer to as an endowment effect) related to the stage

of personal life cycle development of the respondents and a higher perception of risk among those who have something to lose. The scores of both studies were factor analysed separately and both yielded two factors - 'achievement' and 'satisfaction'. As Table D13 reveals, it was the second factor, *satisfaction*, which had the greatest discriminatory power comparing the more enterprising groups with other groups which may partly explain the reported age effects and suggests that nAch may taper off when sufficient satisfaction has been attained, fitting Schumpeter's predictions and rather undermining the economic case for enterprise culture policies.

However, the real clue to small business behaviour may not lie with achievement motivation but with its opposite, *fear of failure*. Individuals with high nAch also have a low fear of failure and tend to take calculated risks rather than gamble (though they are not risk-averse). People with high fear of failure set themselves tasks with either too high or too low levels of aspiration, contrasting strongly with successful entrepreneurs who tend to set themselves high but attainable goals (Atkinson, 1957; Brockhaus, 1980). Atkinson and Feather (1966) summarised the sort of upbringing that people strongly motivated to avoid failure are likely to have experienced. They are more likely to have been punished for failures (and more heavily for failing easier tasks) than rewarded for achievements and their mothers, who are likely to be 'anxious and avoidant', are likely to encourage them to play safe or to fantasise but not encourage realistic expectations. This pattern of behaviour is similar to that described by Kets de Vries and fits current patterns of small business behaviour in Britain. With few exceptions, low levels of growth and high failure rates characterise Britain's small business sector (see chapter 3).

Very few small business failures admit that they set their sights too high or too low and virtually none - apart from certain self-employed who had previously been unemployed - state that they are motivated by a fear of failure. However, analyses of small business failure point to unrealistic targets and a failure to match their finances to their expectations (LBS, 1987). The patterns of occupational choice among the self-employed into low barrier to entry industries (see Chart 5) reflects the findings reported by Atkinson and Feather (1966) that fear of failure people tend to 'choose occupations only remotely related to the kinds of gratifications that they desire and expect to find in their vocations' often because the fearful person may be expected to lack information concerning his own ability and that required for his choice of occupation' (p170). This will be reflected in avoidance of realistic and mildly challenging choices in favour of easy tasks or absurdly high ones, a pattern not only reflected in many self-employed career choices and also in their business objectives as described in the studies reported in Appendix B. Indeed, even the well-known small business goal of independence - which is another apparently simple yet multidimensional construct - is likely to be an unreal aspiration in most cases, reflecting more a desire to be left alone than any real prospect of growth to a sufficient size where independent action is a genuine possibility (Bolton Report, 1971; Curran,

1986; Gray 1990). Whether the type of enterprise training offered in Britain can switch round such deep rooted and habituated behaviour is doubtful.

4.2.4 Need for autonomy and independence.

One of the most widely agreed psychological features of small business owners and the self-employed is their strong desire for independence or nAutonomy in Murray's (1938) terms. The Bolton Report (1971) mentioned in chapter 1 found that the expressed need to attain and preserve independence to be a stronger motivator than the desire to make money. These findings have been confirmed in one research report after another - Stanworth and Curran (1973), a national Gallup poll for Legal and General (1985), an Infoline telephone survey for the Department of Employment (Hakim, 1989), a recent NatWest Quarterly Survey of Small Business in Britain (SBRT, 1990) and a tracking exercise conducted by NatWest Bank among 2,000 newly started small business clients (Observer, January 1991). Whether or not this is also a strong entrepreneurial motivator is in many ways one of the underlying themes of this dissertation and the studies conducted to explore this question are described in Appendices B3, B4 and B5.

Some 37 percent of the Gallup poll's 2,500 self-employed respondents reported the 'need for independence' as their main reason for setting up on their own, 42 % of the NatWest clients and one half (50 percent) of the 1,300 respondents to the SBRT quarterly survey reported in Appendix B3 stated that 'independence' was their main reason for being in business. Furthermore, the allure of independence is felt by the self-employed and small business founders not only in Britain but also in such other industrialised economies as the US, the Netherlands, Belgium, Ireland, Italy and so on (Sexton and Smilor, 1986; Donckels and Dupont, 1987). In the SBRT study (Appendix B3), just 19 % of the respondents reported that 'making money' was their prime motivation for being in business for themselves while the NatWest study 32 % of the clients were motivated by the prospect of greater financial reward and 14 % mentioned the avoidance of unemployment. In the following table summarising the findings of a Department of Employment report and a study of enterprise trainees in London, more than one third (35 %) of existing, failed and potential self-employed reported independence-related motives with financial motivators (20 %) a distant second place and unemployment (14 %) third (Hakim, 1989).

Table 10. Motivation for self-employment

	new self-emp	former self-emp	potential self-emp	enterprise trainees	SBRT small firms
Main motives.			(column percentages)		
Independence	31	32	42	29	50
Financial	18	26	23	14	19
Unemployment	15	13	14	44	-
Other push	3	1	1	-	26
Family	4	6	2	3	5
TOTAL	243	90	139	206	1349
%	100	100	100	100	100

(Source: Hakim, 1989; Blythe et al, 1989; SBRT 1990)

Although there are likely to be strong attributional effects present in all these studies, the importance of independence as a central element part of the small firm owners' self-concepts at even the earliest stages of small business development is clear. Also, it seems that enterprise training programmes attract only certain types of small business owners. The potential founders of small businesses are clearly the most concerned about independence but their concerns are not so strongly felt by the participants on enterprise training courses. These differences may reflect the higher educational levels of enterprise trainees (more than half - 51 % - have higher education qualifications compared with 15 % of the self-employed nationally), which may also partly explain the extreme difficulty enterprise trainers have in reaching the self-employed (Gray and Stanworth, 1986; Blythe et al, 1989; Daly, 1991). Even though high failure rates suggest that independently-minded small business owners need to improve their management skills, enterprise training does not seem to feature in their plans for independence, which may reflect some of the negative features of the need for achievement.

The desire for independence has been linked to resentment at the power of larger organisations or at not attaining the expected status within larger organisations and is clearly an important factor in the career choice of many self-employment (Bolton, 1971; Stanworth and Curran, 1973; Gray, 1988). However, the analysis of property relations in section 2.2.2 strongly suggests that the desire for independence or autonomy is a function of more deeply rooted socio-cultural factors associated with unequal class power relations resulting from present and past political-economic developments. In seeking to escape from these unequal power relations at the individual level, the stated objective of independence is an assertion for control over one's own destiny and can be seen as an expression of nPow. By analogy with fear of failure it could be termed fear of dominance. The essentially anti-social or isolated nature of a great deal of self-employment has also been well-documented and expressions of desire for independence of this type - to be left alone or fear of social exposure - can be seen as the opposite pole of an nAff dimension (Gray and Stanworth, 1986; Curran, 1986; Curran and Burrows, 1988).

On a more positive note, however, independence can also refer to an ultimate state of self-control and defeat of alienation which, as a personal development goal beyond business

objectives, would be an appropriate target for someone with high nAch who had succeeded in satisfying basic and social transactional needs. Indeed, this may explain why many early entrepreneurial careers reach a plateau and, as Schumpeter observed, cease being entrepreneurial. As mentioned earlier, on achieving a certain level of wealth or security, this type of entrepreneur could seek new challenges of a non-business kind. Therefore, there are at least three different types of independence as a motivational goal which may be linked to McClelland's treatment of psychogenic needs. Actual patterns of business behaviour suggest that the fear of dominance (nPow) and fear of social exposure (nAff) types of independence are dominant among the self-employed with fear of dominance and, to a lesser extent nAch, present among many small firm owners. This ambiguity over the psychological meaning of independence, when reported by the self-employed and the owners of smaller businesses as a motive for being in business on their own account, indicates that the psychodynamic development of entrepreneurs and other small business owners may hold the key to understanding entrepreneurial motivation (see next section and chapter 5).

Turning to the studies conducted expressly for this thesis (as described in the Appendices), clear patterns emerge from the various sets of data. For instance in the SBRT database studies of existing small firm owners (Appendix B), it seems reasonable to conclude from their replies that the active entrepreneurial 40 % of the sample have as their longer term aim the objective of complete functional independence. Many, however, may eventually wish to use their business success to achieve genuine independence in wider the spheres of public or private life. Some may be closer to that goal than others and those who feel they still have some way to go will be concentrating on the more immediate and attainable goals of boosting profits. Exactly where they feel they currently stand will be a function of their self-concepts and their concepts of current personal control. As entrepreneurs' self-concepts are, fundamentally, the concepts that the entrepreneurs hold about themselves, it remains to be seen whether LoC and nAch feature in their views of themselves. They seem to be closer to seeking their satisfaction from Maslow's self-actualising needs rather than security needs. This implies that they are a later stage in their career trajectories and partly explains the significant age effects reported in Table B16 of Appendix B5 and Table D8 of Appendix D.

Psychologically, it is not too difficult to see how different independence needs could lead to different patterns of small business behaviour. Needs that are closest to an individual's central areas of concern - those that are psychologically central - will obviously produce stronger motivation, provided there is a realistic and attainable way of satisfying those needs. Therefore, if work is more psychologically central than home or leisure, then the stronger will be the need to engage in work that provides positive self-validation - in general, work that is seen to be challenging, creative, self-directed and more autonomous (Gecas and Seff, 1990). The self-employed and small business owners for whom work is

psychologically central may need to maintain their own positive self-esteem by viewing their jobs as autonomous and self-directed even when, in reality, they are actually dependent on a few large customers or suppliers. Table B21 suggests that positive attitudes towards growth may also be part of their self-concept from which they derive their self-esteem. When leisure or home are more psychologically central than work, the self-employed and small business owners will mainly treat their business as a source of funding for their other activities. They will not be strongly motivated towards business growth and independence could well mean little more than freedom to have the time and to earn sufficient money to support their non-business activities.

In addition, there will be a large number of self-employed who, recognising the routine and dependent nature of their work (conditions associated with low self-esteem), defensively seek to minimise work-related social contacts and for them the independence motive will be a desire to be left alone. Indeed, this type of 'leave me alone' independence may either reflect or even cause much of the essentially anti-social or isolated nature of a great deal of self-employment (Gray and Stanworth, 1986; Curran, 1986; Gray, 1988). There is little doubt that the psychological meaning of independence, when reported by the self-employed and the owners of smaller businesses as a motive for being in business on their own account, is cloaked in ambiguity. Because of severe limitations in their resources and market share, functional independence for most small businesses is likely to be an unreal aspiration. In most cases, the question is not over actual functional independence (which is also an illusion for most large firms) but whether the behaviour small business owners reflects more a desire to take personal responsibility for decision-making or to be left alone. The first implies a learning curve and the prospect of growth as the owner seeks to address new and more complex problems while the second implies dogged seclusion and no real prospect of growth to a sufficient size where independent action is a genuine possibility (Bolton, 1971; Curran, 1986). Certainly, the self-employed who are mainly motivated by various push factors or by 'leave me alone' independence needs, are extremely unlikely to be strong growth prospects.

Most aspects of business involve social transactions and, therefore, growth implies not only the possession of a reasonably high degree of social skills but also a positive desire to take charge of one's own destiny. It seems intuitively likely that growers feel they can control their own lives and that they opted for business growth intentionally if not always in a planned fashion. Although the survival rates of the 'pushed' self-employed do not always differ significantly from other small business founders (Storey, 1986a), they are not likely to be so keen to view independence as an extension of personal control and responsibility because genuine autonomy usually involves an element of choice and intention (Deci and Ryan, 1985). Official labour force surveys indicate that overall 19 % of the self-employed have moved straight into self-employment from unemployment with another 18 % - excluding the 5 % of students - entering self-employment from previous

economic inactivity (Daly, 1991). Because it is unlikely that many of the 'leave me alone' types of independence-seekers actually reply to surveys, the role of push factors may very well be underestimated.

Consequently, the number of small business owners who genuinely and actively opted for self-employment as an extension of their self-control are likely to be fewer than suggested by surveys based on self-report. This reference to self-reports is not intended to be pejorative because, although self-reports are open to methodological criticism if their purpose is to reveal unconscious or socially sensitive data, the self-concept must - by definition - represent the opinions that one holds about oneself. Whatever proportion of the total small business population the more active small business owners represent, they are likely to hold a strong conception of themselves and the type of work, the social status, the level of responsibility and the remuneration they consider appropriate. In other words, they should have strong and well-defined self-concepts and, if they have taken the step of seeking personal responsibility in achieving their aims, they must believe that they have the skills and capacity to attain those aims in spite of existing external barriers. Of course, these are the features of people with high internal nAch and locus of control, as discussed respectively in the previous section and section 4.1.2, which leaves open the possibility that certain entrepreneurs may exhibit similar psychological features and, possibly, some similarities in personal or business development background factors.

4.2.5 Risk propensity.

Schumpeter (1934) felt that entrepreneurs would use their skills to minimise the risk they have to bear - correctly, in the light of modern banking practice and assessment of risk - and assigns the risk-bearing in a new venture to the capitalist (provider of investment capital). However, earlier definitions and popular current conceptions of the entrepreneur (see sections 2.1 and 2.2) usually view risk-taking as an essential element. If a softer definition of *risk* as tolerance of uncertainty is used, this does not pose a conceptual problem and is inherent in such expressions as 'taking a chance', 'prepared to have a go', 'dare to win' and so on. Certainly, popular notions of the entrepreneur and Schumpeter's more technical conception agree that entrepreneurs cannot be risk-averse yet equally entrepreneurial success is not seen as mainly due to luck or chance. In this sense, risk is clearly linked to uncertainty and risk-taking seems associated with pro-activity and intentionality. However, as Kahneman and Tversky (1979; 1982) have demonstrated over a wide range of situations, perceptions of risk, reward and uncertainty not only differ from one economic actor to the next but also, to a very large extent, depend on the framing of the situation and the perspective of the risk-assessor. At the small business end of the market, however, perceptions of risk vary enormously (borrower, lender, foresight, hindsight, and so on) and the concept of risk is not, therefore, particularly helpful in entrepreneurial research in spite of its theoretical value.

For practical and research purposes, therefore, risk as uncertainty is a psychologically imprecise term even though economists can model uncertainty as an informational constraint. However, a harder definition of *risk* - the probability of a negative outcome from any action or decision - has taken on an almost purely financial character in the eyes of modern bankers. Both this financial risk approach and a similar economist's definition by Knight (1921) - a future variability, predictable according to the laws of chance, hence insurable - demand an intellectual approach which is a variance with the observed financial decision-making behaviour of actual small firm owners (Binks, 1991). In psychological terms, these tougher definitions, which imply an active assessment of realistic risk as opposed to a vaguer acceptance of uncertainty, also require a well developed ability in probabilistic calculations - which may or may not be a cognitive feature of successful entrepreneurs. Thus risk is clearly also an issue that cannot be ignored but is too complex to operationalise for current research purposes or to investigate thoroughly in the present context. The propensity for risk-taking and risk-aversion in business people has been studied extensively but it is only possible to say that potential benefits must be seen to outweigh the potential risk and, where the doubt is high, people who already enjoy substantial benefits tend to risk-aversion while those who are without tend to risk-taking (Kahneman and Tversky, 1979).

Brockhaus (1980) compared managers who had taken a risk in quitting their jobs to start their own businesses with managers who had avoided such a risk and stayed. He found no significant differences in risk-taking propensity. Despite these theoretical, practical and empirical objections, entrepreneurs are still often thought to be risk-takers even though actual responses to risk by managers in general - entrepreneurial and otherwise - '...are not easily fitted into classical conceptions of risk' (March and Shapira, 1987). Psychological studies have distinguished entrepreneurs from most other small firm owners - though not from successful big firm managers - in their efforts to calculate and control risks (Timmons et al, 1977; Brockhaus, 1980). However, for present purposes it is accepted that the full weight of empirical evidence and theory indicates that entrepreneurs are neither risk-averse (unlike mid-management in larger organisations and traditional small business owners) nor reckless (unlike gamblers and certain failed small business owners). Certainly, this fits McClelland's (1968) and Timmons et al. (1977) findings and risk-perception is not a central issue in this thesis except so far as it relates to the original decision to switch careers and embark on a new life of self-management.

4.3 Learning, development and the entrepreneurial career.

Having determined that entrepreneurs, like non-entrepreneurs, draw on a mix of motivations to spur their efforts but that the characteristics of intentionality and pro-activity seem to be a feature of entrepreneurial behaviour, the most obvious places to investigate these issues are during the career-choice phase as the decision to start or develop a business dominates and during the growth phase. Starting with the first, it is

clear that, although occupational and organisational psychology has grown in recent years, career theory virtually ignores the entrepreneur completely. Business and work have been legitimate areas of psychological interest for most of this century but the self-employed have been tucked away in a forgotten corner even though many of the issues addressed by different approaches to career theory clearly have a bearing on the work-behaviour of the more active self-employed. It should be noted, however, that the vast majority of self-employed are reactive, in the sense that there is little self-direction in their career choice which is mainly determined by external economic and social events or through cultural (family, class and locality) tradition (Hakim, 1988). Given the pro-active nature of entrepreneurs, however, it is likely that they will not be reactive about their decision to seek a successful career working on their own account and that a more pro-active and considered approach to their work lives will distinguish them from most self-employed and other small firm owners. The question mark hanging over enterprise training and all enterprise culture policies is whether such pro-activity and clear goal setting can be induced in mature age people where it was previously absent.

4.3.1 Different career-theory approaches.

As career theory is heavily influenced by personality theory the various approaches to broadly fall into three similar categories - trait and factor, developmental and humanist/self-awareness. Trait and factor theories of career choice have their provenance in the general trait personality theories discussed in section 4.4.1 and are based on two underlying assumptions. Firstly, that every occupation has an ideal personality profile and, secondly, that every individual's personality profile is predisposed towards one particular occupational area. Trait and factor theories seek to identify the distinguishing characteristics and features of both occupations and people so that they can arrive at an optimum match and, in pursuing these aims, they have generated a large number of scales and questionnaires to test individual differences so that individuals can decide which jobs they want. Holland's approach (1973; 1985) was very clearly in this tradition but he began to adapt his earlier model in the light of experience to include the situational contexts in which individuals' express their personalities. Instead of confining the trait-occupation match to precise occupational areas, Holland became more interested in 6 different work environments: realistic, investigative, social, conventional, enterprising and artistic.

According to Holland, people respond in various ways to different environments but the most appropriate for them is termed their 'modal personal orientation'. If an individual does not have a clear idea about which environment represents the modal personal orientation, there is likely to be a degree of ambiguity about the individual's career. Holland was also interested on the effects of parental influence on vocational behaviour. Interestingly, in the light of the strong family links in the choice of a self-employed or small business career, he found that work goals often relate to the father's occupation and that this does affect career choice (but not always career attainment). The picture

presented by the research reported in the study of SBRT small firm owners in Appendix B5.1 and the repertory grid study of graduate enterprise trainees in Appendix E2 also shows a parental influence at work though less likely to be admitted by the more successful and growth-oriented small firm owners. Holland's work environments are linked (with *realistic* and *social* as psychological opposites) and jobs are available within each area at different levels. Holland also distinguishes jobs and aptitudes on whether they are primarily task-oriented or people-oriented, preserving the distinction between task-orientation and social-orientation which emerged in the repertory grid study of Italian enterprise trainees reported in Appendix E1.

An individual's level within each environment is determined by intelligence and *self-evaluation*. A function of personal history, education, social status, economic condition, health and other factors, self-evaluation is an interesting concept and may be considered part of the *self-concept* which other career and developmental theorists use. Holland also introduced a related concept, a feeling of the individual's own worth, known as *self-knowledge* which can be contrasted with the occupational knowledge an individual knows about any particular work environment or job. When the individual's personal qualities match the environmental demands of a given job there is said to be *congruence*. The adequacy of occupational choice depends on congruence and a good fit between self-knowledge (known by others as self-concept) and occupational knowledge (or, alternatively, the *occupational-concept*). The concept of congruence, and the effects of discongruence, could be used to research self-employed careers but, as with most career choice theories, little attention has been paid to the small business sector. Holland's use of external economic and social environmental factors, plus the identification of a great deal of ambiguity in actual job search behaviour, however, is a welcome reflection of the reality of career choice and job search behaviour among enterprise trainees.

According to trait and factor theory, successful small business career attainment would depend on the person (or people in the case of partnerships, cooperatives and team starts) exhibiting a reasonably wide range of the traits discussed in section 4.1.1 and the enterprise offering a suitable outlet for that particular set of skills, attributes and qualities. Research does lend some support to this approach but mainly in describing small business work behaviour more as a function of particular industries rather than as a function of the size of the business. For instance, numerous occupational psychological studies (including the repertory grid study reported in Appendix E1 and discussed in sections 3.3.3 and 4.1.4) have identified two broadly contrasted approaches to work - *task-orientation* and *people-orientation*. Basic or modal people-orientation and task-orientation have been clearly demonstrated to have an influence on vocational choice (Osipow, 1983). As mentioned in sections 2.2.1 and 3.3.3, it is a feature of small manufacturers, and certain other small business owners in the services (particularly high-technology), that they are often extremely deeply involved in their products (product driven) and their work

behaviour, consequently, tends to be task-oriented (Smith, 1967; Bolton, 1971; Dunkelberg and Cooper, 1982).

Task-orientation or people-orientation appears to help explain the attraction of particular jobs and some industries but not necessarily why someone would prefer self-employment over working in a large organisation. Where career changes represent a conscious and intentional choice, it seems likely that the failure to attain an expected level or type of job may provoke the switch as Stanworth and Curran (1973) found in certain textile and printing firms. However, successful entrepreneurs clearly require some degree of both people- and task-orientation skills. They may be very focused on the task of making money or producing a new product but, as successful capitalists, they invariably need strong people skills to realise their objectives. Indeed, as businesses grow, it is the interpersonal skills that assume a greater significance. This suggests a process of development with changing self- and occupational-concepts rather than a static people-only or task-only orientation. Although trait and factor theories have produced a large volume of interesting research, they rest on the fundamentally flawed assumption that individual choice is the most important element in finding employment.

Structural factors, not the least the actual supply and demand for different jobs in the local economy, will usually have far more pronounced effects on employment behaviour. Even confining comment to areas of psychological interest, it is important not to overlook the basic distinctions between occupational preference, selection and actual attainment when discussing career choice (Vroom, 1964). Occupational satisfaction raises more issues which can add to the confusion. In general, it seems reasonable to accept that occupational preference is a function of individual development but that the processes of job search - occupational selection and attainment - and to some extent job satisfaction, are clearly constrained by socio-economic realities. By contrast, the *developmental* career choice approach is more flexible, viewing individual personalities as the outcome of the personal development processes and experiences since infancy and includes both psychodynamic and social developmental theories. The humanist approach holds some similar views to those of the social development school but places greater stress on the notion of self-concept, self-awareness, development and context plus the notion that most people are striving for Maslow's fifth level need of self-actualisation.

Developmental theories move away from the search for the right personality mix and take the development of the self-concept as their starting point. Super's (1957, 1980) self-concept is very similar to Holland's idea of self-knowledge and self-evaluation. However, instead of seeking a compatible work environment, Super sees the individual as developing the self-concept by trying to enter an occupation which is likely to further self-expression. Influenced by Carl Rogers and developmental psychology, Super (along with Atkinson, Feather, Maslow, McClelland, Rotter and others already mentioned earlier) sees

childhood experiences as important in developing a self-concept and offers a stage-model of occupational behaviour. The different stages (crystallisation, specification, implementation, stabilisation and consolidation) match certain periods of the human maturation curve. As the self-concept forms, the young begin adopting work role models (social representations of work itself and of particular jobs) mainly through identification with their parents but later, as the self-concept develops, with other people (a position strongly supported by the findings reported in Appendix B 5, especially Table B20 and Appendix E2, Table E7). However, instead of seeking a compatible work environment, Super sees individuals as trying to develop their self-concepts by entering occupations likely to further self-expression. Occupational or career development (Super saw careers as broader than mere jobs) proceeds through 5 stages - or 6 if *decline* is included (which is certainly appropriate among a small business sector in recession).

The first stage, *crystallisation*, involves the development of self- and occupational-concepts followed by *specification*, a narrowing down onto specific choices and is typically believed to occur at 18-21 years. The actual selection of a job occurs in the next phase during the *implementation* period at 21-25 years followed by a longer *stabilisation* period at 25-35 years and a final *consolidation* period at 35-45 years. Even though these age brackets are only guides, the process seems far too neat to describe the typical employment patterns of the self-employed. It is interesting to note that this process is runs counter to that of Kets de Vries where future entrepreneurs are said to be rejected by their fathers which may affect the parental role in occupation identification. Research into job-search behaviour during the crystallisation and specification periods provides some support for Super's theory which also resembles some aspects of economic search theory of employment. People who can tolerate ambiguity, uncertainty, tension and frustration, which can result when job-search feedback clashes with their expectations, deal with this cognitive dissonance by adjusting their concepts appropriately. This is more likely to happen if they actively explore real, external options rather than mentally speculate about outcomes. The development of both the self-concept and occupational knowledge rely on exploratory behaviour and evaluating the resultant feedback though problems may arise if feedback clashes with expectations.

Individuals who can tolerate ambiguity, uncertainty, tension and frustration can deal with this cognitive dissonance by adjusting their concepts appropriately. Though social psychologist Henri Tajfel (1981) claims that 'even when facts do turn against us and destroy the useful and comfortable distinctions, we still find ways to preserve the general content of our categories' (p 132). This ability to be positive about reality-testing has also been used consistently to describe entrepreneurs (see section 4.2.3, especially the discussion on Atkinson and Feather's work). This contrasts with the behaviour of defensive, unrealistic people who find it hard to handle cognitive dissonance, seek to rationalise the contradictory experience and do not gain from exploratory behaviour (in

other words, exhibit high fear of failure and resistance to learning). These individuals are likely to be drawn to self-employment in low barrier to entry industries or into areas reflecting family and cultural traditions. Many people drawn to enterprise training courses fall into this category as the findings reported in Appendix E make clear. Consequently, self-employment may also be seen as the line of least resistance for many people rather than the challenge as it is portrayed in enterprise culture promotions. This helps explain why many self-employed are reactive rather than pro-active (Osipow, 1983).

Developmental theories recognise some limitations on individual decision making but these are also of an individualistic nature. To a large extent, the main weaknesses of most developmental theories spring from their overly tight focus on educational variables. Development is almost defined as moving from one educational situation to another, which is not particularly relevant for the 85 % of 18 year olds in Britain who have left school. It is less relevant for 20 % of under-25 year olds who are long-term unemployed. Crystallisation, selection and implementation have passed these people by. As a result of these and other criticisms, modern occupational and personality psychology theory now explicitly recognises an interaction between personality and situational variables (Argyle et al., 1981). The situational and social-learning approaches to career choice develop some of the processes of developmental career choice theory and take into account some of the actual external constraints of the labour market. Lofquist and Dawis's (1969) work adjustment theory takes the basic personal-needs fulfilment model but, instead of seeking ideal personality-job matches, they analyse work behaviour and career choice in terms of job satisfaction. Also building on the concept of congruence, they see vocational choice as a process whereby the individual seeks maximum satisfaction through congruence between occupational reinforcers and individual needs. Work adjustment is a constant process - not a stage process - and incongruency between work and personal environments leads to four interesting outcomes.

Flexible people will be able to tolerate this lack of congruence while *reactive* people will adjust their personal life to suit work. On the other hand, *active* people will adjust the work environment to enhance their personal life style. The fourth concept is that of *celerity* which is the speed at which individuals will try to attain congruence between the work and personal environments. The active and reactive concepts have already been mentioned when developing a self-employed typology. Indeed, people who are active tend to display leadership, organisational skills, achievements, innovative procedures, initiative and so on. In short, they are entrepreneurial and the opposite of reactives who tend to be conformist and normative. Again, the self-employed have not been addressed directly. For the majority of self-employed, the situational approach which is heavily influenced by sociology and admits the importance of social class, economic opportunities and even chance factors - especially for lower level occupations - seems more applicable. For instance, Osipow (1983) recognises that education is the primary agent for occupational

mobility but admits that educational decisions are often made casually and can affect future job prospects and behaviour enormously. It is mainly the petit bourgeoisie who are keen to use education for family advancement while the working class often remain outside the educational system. This clearly, is the case with many self-employed and most of the unemployed.

However, inheritance of occupation can also play a role, especially where the parents work in a state of isolation from other people. This can either be physical isolation or psychological but the mechanism of identification and self-concept formation remains the same. Osipow mentions farmers, fishing, medicine and the military but isolation is one of the biggest complaints of the self-employed and very small businesses (Gray and Stanworth, 1986). Unfortunately, isolation is also one of the big problems for the unemployed, raising the spectre of learned unemployment if the core of long-term unemployed cannot be reduced. The most important point to note is that the self-employed are almost completely neglected in career choice theory. Indeed, a consideration of the non-conventional career of self-employment and the non-career of unemployment should provide a useful tests by which to assess the general applicability of the major competing career choice theories. Indeed, the very concept of 'career' is itself questionable in this context. The mass of workers in the secondary sector do not have careers, they have jobs. If they are unemployed they lack jobs, not careers.

It is easy to see how different career choices could result from having to satisfy the different types of needs mentioned in section 4.2. For instance, it is clear that a large proportion of the self-employed, pushed into self-employment by the fear of unemployment, are mainly satisfying their more basic, lower-level needs for psychological and material security. As Appendices B3, B4 and B5, as well as various SBRT quarterly surveys of small firm pricing and competitive policies, demonstrate clearly, their principal business objective is usually survival rather than growth. Indeed, as already mentioned, the nPow type of independence as a realistic aspiration may well be linked to the development of fear of failure. Detailed analysis of the relevant family and local cultural dynamics is beyond the scope of this paper but it is instructive to note that strong fear of failure is associated with lack of parental (particularly maternal) support and a critical, over-structured upbringing (Atkinson and Feather, 1966). This is the same background process described by Kets de Vries (1980) for his neurotic 'entrepreneurs' whom he dooms to ultimate self-created business failure though by this stage the Kets de Vries small business owners are no longer entrepreneurs. The bi-polar dimensions he uses to analyse the role of their families in their psychodynamic development - acceptance/rejection and support/non-support - plus the phenomenon he describes (inability to function in large organisations and setting unrealistic levels of aspiration) are very similar to those described by Atkinson and Feather (1966) in relation to the development of fear of failure (hence, by extension, nAch).

Significantly, conditions for developing high nAch - supportive parents (especially the mother), use of praise for achievements rather than blame for failures, acceptance and the encouragement of independence and self-reliance - is very similar to the processes that produce internal locus of control - the key entrepreneurial belief in self-control over one's own behaviour and destiny (Atkinson and Feather, 1966; Rotter, 1966). This suggests that entrepreneurs differ from other small business owners not only in their business behaviour but also in their family backgrounds (see table 2) and, probably, in their psychological maturity. That entrepreneurs may operate at a higher level on Maslow's hierarchy of needs than other small business owners seems to have some support. Research into career development - especially into personality/job congruence, self concept, occupational concept, job search, etc - also highlights the importance of family and cultural background in developing exploratory behaviour, reality testing and an ability to deal with ambiguity, frustration, tension and unmet expectations (Super, 1980). Encouraging such self-reliance and exploratory behaviour in their children, is characteristic of mothers who themselves have high nAch and, not surprisingly, is linked to educational levels, social class and parental (especially paternal) occupation (Atkinson and Feather, 1966; Curran and Burrows, 1988).

In analysing career-choice motivators, it is useful to distinguish the personal pull factors (intrinsic satisfaction, potential extrinsic financial reward, higher status and so on) from the external push factors (unemployment, famine, family pressures and so on). Push factors much stronger for the apparently more vulnerable enterprise trainees in Table 10, almost one third (31 %) of whom were self-employed sole-traders rather than the owners of small businesses. Although attribution theory would suggest some social-desirability risk of attributing the career change to oneself and a tendency to downplay the effects of push factors (except in the case of failure), it is reassuring to note that the findings show little difference between existing and lapsed self-employed. Of course, this does not rule out social desirability effects on causal attribution but it is interesting that the former self-employed admit to having been motivated more strongly by extrinsic financial pull factors than the survivors. Push factors (mainly labour market) and expectations concerning profits or revenue pose few problems for economists. In fact, a drift in and out of self-employment would conform with economic job search theory. However, even though there is little difference generally in causal attribution between people who actually are self-employed, who have quit self-employment or who are thinking about entering self-employment, closer scrutiny reveals significant differences in emphasis suggesting different conceptions of 'independence' (as discussed in section 4.2.4).

The dominant concept of independence among people considering a career switch to self-employment is clearly of an 'avoidance of control by others' type with two-thirds mentioning 'be my own boss' or 'not to be told what to do' responses and one-third mentioning these feelings as their main reason. By contrast, just 20 % of the surviving

self-employed mentioned these reasons and 10 % mentioned reasons connected with organising their own work (only 5 % of potential self-employed mentioned these reasons). Tables B7 and B8 provide strong grounds for believing that the 'leave me alone' type of independence - which, in any case, has very limited economic appeal - is a feature of self-employment rather than small business management. Independence appears to remain a short term objective as well as a longer term goal for many self-employed whereas business concerns take over as short term objectives for most small business owners, especially those who are interested in attaining any form of growth. This conclusion is supported by the large cultural, educational, social and demographic differences between the self-employed who work alone (69 % of all businesses in Britain) and the owners of small businesses - almost one third of all businesses - that employ up to 25 people (Curran and Burrows, 1988; D/Employment, 1989; Daly, 1991). Certainly, in terms of hours worked, small business owners seem much more work-oriented than the majority of the self-employed. This may be due to greater financial risk in a bigger enterprise or the fact that small business owners tend, on average, to be older than the self-employed with different concepts of work, self and freedom from control.

It is clear, therefore, that developmental career theories tend to neglect both the self-employment and the unemployment as well as small firm owners. And, almost by definition because many entrepreneurs have spiralling careers rather than the neat linear curves of career theory, these types of model are inappropriate for analysing individual entrepreneurial behaviour which, in any case, would be expected to be exceptional or difficult to predict. Most self-employed remain stuck in the start-up or survival business stages, where stabilisation and consolidation remain a dream. For the small minority of self-employed (2 %) who progress to small business status with 25 employees, the threat of failure during take-off stage is very high (Creigh et al., 1986; Doyle and Gallagher, 1986). Stabilisation and consolidation become possible only when the firm reaches maturity and, in the highly competitive small business climate of the primary sector (which is dominated by larger firms), business maturity is attained by very few.

This does not completely invalidate the career development model, however, and much of the research concerning the exploratory phase and the development of self-knowledge could easily apply to the successful self-employed, but it does restrict the range of applicability of the model to a very narrow band. Social environmental theories which take into account the economic climate and the effects of socio-economic class offer the best framework for including non-conventional occupations such as the self-employed, casual and part-time work and the workless occupation of unemployment. The concept of work and personal environment congruence is also helpful especially in the context of a constant need to maintain work adjustment. Presumably, a failure to maintain congruence is a major reason why so many ex-employees seek an alternative career through self-employment, where they have greater control over their own work environment. Once

again, however, it is not apparent how enterprise training can intervene effectively in this process especially as its methodology in terms of learning theory and expected outcomes looks very weak indeed. Indeed, it appears that career-choice theory has had little impact on enterprise culture ideology or practice.

4.3.2 Learning theory.

Apart from the obvious fact that all types of training, as an educative process, must have some form of learning as the outcome, many of the concepts and characteristics associated with entrepreneurs and enterprising behaviour also have their history rooted deeply in learning theory. The most obvious examples dealt with in this chapter were Julian Rotter's locus of control and David McClelland's and John Atkinson's approach to achievement motivation. Most definitions of learning appear to include the notion of actual or potential changes to behaviour which are relatively permanent. This definition takes into account that the effects of learning may not be evident immediately and excludes temporary effects from sources such as drugs or fatigue. It should by now be clear that enterprise training has as its target permanent changes towards more enterprising behaviour on the part of large numbers of previously non-enterprising people (using *enterprising* as a softer less demanding notion, in business and innovative behavioural terms, than *entrepreneurial*).

At first glance, earlier learning theory based either on classical conditioning (Russian psychologist's Ivan Pavlov's salivating dogs are the usual example given in the text books) or Skinner's (1957) more sophisticated operant conditioning models seem a long way from hustle and bustle of small business life. However, as has already been pointed out (section 4.1.2.), Rotter's concept of locus of control draws heavily though not exclusively on behaviourist principles. Essentially, Skinner held that learned behaviour is not actually created but the probability of its occurrence increased through the provision of an appropriate sequence of *reinforcement* (this is often defined in a circular way as something likely to increase probabilities but may also be view as a satisfier or something that engenders a positive feeling of hope or anticipation). Obviously, this approach would have appeal to the proponents of enterprise training because it raises the prospect that, with appropriate schedules of reinforcement, masses of people with inherent business qualities could be conditioned into exhibiting enterprising behaviour. However, as discussed earlier in this chapter when the development of an entrepreneurial personality (section 4.1.1), locus of control (4.1.2) and need for achievement (4.2.3) were considered, this prospect of mass conditioning fades in the face of lack of consensus on what constitutes 'inherent business qualities' and the clear message that the key psychological characteristics of the entrepreneur appear to be developed in childhood and the early teens.

However, the discussion on the constructivist approach (section 4.1.4), which really treats learning as a pro-active lifelong experience but as a sorting and categorisation process

rather than as a passive reactor to reinforcements, suggests that adaptation can continue after the early formative years. Indeed, there is more recent evidence in the behaviourist tradition which suggests that biofeedback can provide reinforcement for a more pro-active approach to behavioural self-modification (Antonides, 1991). These more recent developments support a more *cognitive* approach to learning theory which places more emphasis on mental reasoning and insights leading to behavioural change. Judging from the style and content of most enterprise training courses, this seems to be the underlying theoretical base for most enterprise training in Britain. This model is developed further as a *social learning* model, the mechanisms and implications of which will be discussed next section in the discussion on the role of social representations in entrepreneurial development. This approach also provides some theoretical underpinning for how the role of the family or parents works during the process of occupational choice. Learning is assumed to take place not just through conditioning but also through observation and imitation, using the results of other individual's behaviour to develop cognitive plans and strategies for learning (Bandura, 1991).

Training, however, is more than its theoretical learning base. It is also a process of education which needs to be examined as a process. According to Maureen Pope and Terence Keen (1981) educational methods in colleges and schools can be divided into three main ideological traditions- *cultural transmission*, *romanticism* and *progressivism*. The first tradition, cultural transmission, from its very sound and from its emphasis on the transmission of information, rules and values gathered from the past, is basically the tradition in which most enterprise training is found. 'Much of the basis of modern educational technology and behavioural approaches to education can be seen as variants of the cultural transmission approach. Knowledge and values are seen as located in the culture and are internalised by children imitating adult behaviour models or through explicit instruction and the use of such training procedures as reward and punishment' (p 4). Once again, the influences of behaviourist thought are clearly at work. The romanticist tradition is far less 'scientific' in stressing stresses feelings and unveiling the student's 'true gifts and aptitudes. This tradition has been influenced by psychoanalytic concepts and could be more appropriate for more ideological awareness sessions than for the direct training of business skills.

The third tradition, progressivism, holds that 'education should nourish the person's natural interaction with a developing society or environment' (p 7) and has as its goal Maslow's fifth order need, self-actualisation. In the constructivist's camp, the progressivists would see the educational system and structure as needing to actively stimulate 'development through the presentation of a milieu in which the organising and developing force in the person's experience is *the person's active thinking*. Thinking is stimulated by cognitive conflict' (p 7). It is very interesting that virtually no enterprise training programmes fall into this category but that it is easy to see this as representing the pattern

through which entrepreneurs learn from experience. Indeed, following an approach similar to that of the constructivists, progressivists 'see the acquisition of knowledge as an act of change in the pattern of thinking brought about by *experiential* problem solving situations' (p 7). When applied to enterprise culture policies, it not too hard to see how this approach could have been used to spread the enterprise culture message and encourage enterprising behaviour but the reality of most enterprise training is far removed from this theoretical ideal as the description in Appendix A of typical enterprise training courses, with their clear emphasis on functional areas of management rather than human development, clearly reveals.

Pam Denicolo and Maureen Pope (1989) outlined what appropriate enterprise training ought to be from a constructivist perspective:

Enterprise requires an approach to the curriculum which recognises how learners learn as opposed to how teachers teach in order to produce a work population which is able, *inter alia*, to

- be self directed
- develop personal learning plans and establish criteria for feasible learning objectives
- define and analyse problems with which they are not already familiar and show imagination and initiative in posing a range of solutions
- work in teams and exhibit a range of interpersonal skills appropriate to the world of work
- demonstrate skills of organisation and time management
- show initiative and skills in obtaining information which is not normally available.

The implication for curricula appropriate to the above abilities is that emphasis is moved from product, or accumulation of knowledge, to process skills, learners being encouraged to move from a position of dependence on the teacher to one in which they take increasing responsibility for their own learning' (p 2)

Whether or not this is a comprehensive or generally agreed outline of what training designed to encourage and develop enterprising behaviour should be about. its emphasis on self-organisation is clearly a major step towards the development of a key entrepreneurial skill. This model is, however, not that of most enterprise training provided through enterprise culture policies where the emphasis, as noted above, is on management skills (discussed in more detail in sections 2.3.1 and 5.1). As early as 1968 Cole was suggesting that successful entrepreneurial development involved fitting the actions of small firm owners 'more closely to the requirements of the economy' which does not exactly represent a people-centred approach. By the start of the enterprise culture period, Watkins (1983) could still justifiably complain that owner-managers were still too close to day to day problems, suffered from too narrow an educational and experience base and that 'they were inward looking and information oriented and lacked a clear business strategy'.

At the height of enterprise culture policies, Allan Gibb (1987) was able to summarise the key differences in learning focus between the trainers and the entrepreneurs as:

Enterprise Culture: an acquired taste?

Chapter 4 - Psychology of entrepreneur

Education focus on:

The past
Critical analysis
Knowledge
Passive understanding
Absolute detachment
Manipulation of symbols
Written communication/neutrality
Concept

Entrepreneurial focus on:

The Future
Creativity
Insight
Active understanding
Emotional involvement
Manipulation of events
Personal communication/influence
Problem or opportunity

Towards the end of the enterprise culture decade, James Curran and John Stanworth (1989) first cited Gibb (1987) in pointing out that enterprise training courses 'stress order, rationality, predictability, tried and tested methods and the general depersonalisation of economic endeavour' but that these 'emphases appear difficult to integrate into the more charismatic approach of genuine entrepreneurs without damaging their special potential'. They then go on to point out that there is no real consensus on what management skills should be emphasised in enterprise training, that most enterprise training programmes are of too short a duration to have lasting educational effects and that they are very simplistic when confronted with the complexity involved in successfully managing a small firm. Curran and Stanworth conclude by stating that enterprise training in Britain during the 1980s has been under-resourced and under-researched in terms of identifying appropriate teaching objectives. The actual effects of enterprise training as a key enterprise culture policy instrument will be evaluated next chapter (section 5.2) but one issue that does spring out of all this confusion is whether the policy-makers, policy-implementers, enterprise trainers and potential small firm entrepreneurs are talking the same language or mean the same thing when they talk about or seek to develop enterprise.

4.3.3 The role of social representations.

In social psychology and other social sciences it is probably true to say that there is a general acceptance that reality is mediated by how individual's perceive it and communication depends on some common sharing of those perceptions. The first part of this approach is essentially the position of the constructivists and the second part has already been discussed in relation to Kelly's social corollary - to the extent that individuals construe the construction processes of another, they may play a role in a social process involving that other person - and Hampson's social constructivist theory in section 4.1.4. The general social cognition position is put very clearly in the introduction to O'Guigan and Shrum's (1991) economic psychology paper that 'individuals rely heavily upon perceptions of their social environment in the formation, maintenance and mediation of impressions, attitudes and behaviours. Furthermore, we know that these perceptions need not exist as reasoned, critically evaluated or even elaborated thoughts for them to impact behaviour'. The concept of social representations, however, is closer to Hampson's social constructivism in that the perceptions held by others is also part of an individual's social cognition and goes beyond the mere need to have shared meanings or common perceptions in order to communicate.

Morgan and Schwalbe (1990) feel that social cognition theory, in being generally based on information-processing models, has actually become asocial by raising 'the fence between the disciplines even higher because it seems to belie any real concern with the cognizing individual as a social being' (p 149). By contrast, social representations are social constructs that define groups and shape their behaviour and, as a consequence, transcend and shape the behaviour and attitudes of individual members of social groups even those who have not fully conceptualised the shared social representations. According to Moscovici (1988), social representations 'concern the contents of everyday thinking and the stock of ideas that gives coherence to our religious beliefs, political ideas and the connections we create as spontaneously as we breathe. They make it possible for us to classify persons and objects, to compare and explain behaviours and to objectify them as parts of our social setting. While representations are often to be located in the minds of men and women, they can just as often be found 'in the world', and as such examined separately' (p 214). That social representations may transcend the direct perceptions of any one individual derives from their creation as part of the 'social setting of communication'. This process is evidently very akin to that observed and reported by anthropologists as cultural transmission (see sections 3.3.2 and 4.1.3). Indeed the definition of *culture* by the respected social anthropologist Clifford Geertz (1973) as a 'system of inherited conceptions expressed in symbolic form by means of which men communicate, perpetuate and develop their knowledge about and attitudes towards life' emphasises the embracing power of social representations within cultures. Another example of the power of this process is the development of class consciousness and class occupational norming touched on in discussing Marx's pre-capitalist formations, petty capitalists and the process of capital accumulation in section 2.2.2.

Indeed, Moscovici goes on to state that we 'derive only a fraction of our knowledge and information from the simple interaction between ourselves and the facts we encounter in the world. Most knowledge is supplied to us by communication which affects our way of thinking and creates new contents' (p 215). It is this focus on communication which broadens the concept of social representation beyond the realm of individual social cognitions into its virtually autonomous role as a group or community 'cognition' and makes it so important when investigating social phenomena and processes in general and, in particular, the possibility of the social attitude shifts and the potential for miscommunication inherent in enterprise culture policies. Morgan and Schwalbe (1990) draw the distinction between the individual social cognition or Kelly-type constructivist approach towards socialisation and that taken by the more sociological or even anthropological social representations approach. The link between social cognition and constructivism is clear when they state that, for the social cognition school, 'the key consequence of socialization (especially adult socialization) is not so much the simple acquisition of information as the organisation of that information into usable knowledge'.

They stress that this approach has its strengths (generally discussed in section 4.1.4) in providing 'the tools to analyze both the content of new knowledge structures and the pace at which different individuals acquire such knowledge' (p 152).

This appreciation of the strengths of constructivism (social cognition) is confirmed by the richness of information only partially reported in Appendix E and is obviously extremely useful in evaluating the effects of enterprise culture policies in individuals (and by a process of almost economic aggregation of groups or sectors). However, citing Lave (1988), Morgan and Schwalbe, emphasise that the study of social phenomena requires more than an individual information-processing approach and suggest that this is provided by a social representations approach that includes the anthropological and sociological processes of role-based learning which they feel introduces 'the social context into studies of cognitive change...including factors such as the presence or absence of formal agents of socialization, whether or not a peer group was present, and the availability of positive and negative role models' (p 152). This has evident resonances with the findings reported in Appendices B3, B5 and E2 and discussed in sections 3.3.2, 4.1.3, 4.2.3 and 4.3.1 but the process is much richer and more useful than the mere conceptualisation of different roles. Social cognition, constructivism and social representation approaches, in common with most schools of social and developmental psychological thought, accept that individuals are guided in their actions by the conceptions of themselves and what they believe they are capable of, the self-concepts discussed in section 4.3.1.

According to the social cognition and constructivist position, the development and validation from experience of organising elements of the self-concept, Kelly's core constructs, have more general applicability as self-schema which allow individuals to process information very efficiently in the areas where the self-schema are well developed (Bannister and Fransella, 1986; Morgan and Schwalbe, 1990). In effect, this is the psychological centrality that has cropped up throughout this thesis (in sections 2.2.3, 3.3.2, 4.1.4, 4.2.2 and 4.2.4) and provides strong theoretical grounds for asserting that a distinguishing characteristic of all genuine entrepreneurs is that their self-schema in the field of business (or at least their own business field) must be well developed. Moscovici (1988), however, is adamant that the distinction drawn by one of the pioneers of sociology, Emile Durkheim, between individual and collective representations, between individual and society, must be rejected because it prevents social psychology 'from looking at the relationship between the individuals and the collectivity and their common ground' (p 218). Morgan and Schwalbe (1990) go further and point out that the social cognition view of self-schema is unnecessarily restrictive and cite Mead's (1934) earlier work on self imagery as offering a much more valuable conception because it 'recognises explicitly the social origins and functions of self-imagery and... links self-imagery to action as both cause and effect' (p 156). They go on to state emphatically that 'treating the self in terms of social representations can lead sociologists to appreciate more fully the

importance of history, ideology, and power in creating representations of selves' (p 157). This brings the thesis back to the political-economic theory discussed in chapter 2.

Although the message of the enterprise culture can be communicated between individuals and between groups because the enterprise culture concepts include widely shared economic, social and political social representations, the finer distinctions and the values associated with those representations clearly vary from one group to another. This is explicitly recognised by Moscovici (1988) in a statement worthy of Marx that representations 'can be shared by all members of a highly structured group...without their having been produced by the group. These *hegemonic* representations prevail implicitly in all symbolic or affective practices' (p 221). This appears to be the determining effect of the superstructure's (presumably the government and enterprise culture's policy makers) hegemony over other groups and classes. However, Moscovici goes on to say that each subgroup 'creates its own version and shares it with the others. These are emancipating representations with a certain degree of autonomy with respect to the interacting segments of society' (p 221) This suggests a contrary view that each group may have its own points of reference and that a version of a more general social representation may not be valued or carry as much weight with one group as it does with another even though members of each group may comprehend each other perfectly well.

Indeed, Moscovici makes this point absolutely explicit in pointing out that 'there are representations generated in the course of social conflict, social controversy, and society as a whole does not share them. They are determined by the antagonistic relations between its members and intended to be mutually exclusive. These polemical representations must be viewed in the context of an opposition or struggle between groups and are often expressed in terms of a dialogue with an imaginary interlocutor...These distinctions emphasise the transition from the concept of collective representation as a uniform view to a differentiated view of social representations, which is closer to our reality. The contrast between several kinds of social relations are more significant than the one between the social and individual element' (p 222). This immediately raises a question fundamental to this thesis of whether the enterprise culture 'social engineers' are operating on a different agenda which has little relevance to the agendas and social representations of those they would pretend to transform into 'entrepreneurs' and reintroduces the cultural effects of class relations back into the equation. Put another way, can the social representations held by the mainly secondary sector, working class and petit-bourgeois targets of enterprise policies of occupations, enterprise, careers, preferred lifestyles, business and other concepts associated with the enterprise culture, which have been discussed during the course of this thesis, be altered to the versions of these social representations held by the bureaucratic, policy-making elements of the dominant political-economic structure?

Given the discussion that has taken place so far, a strongly negative answer to that question seems inescapable. The actual effects of enterprise culture policies will be evaluated next chapter but it is worthwhile repeating here the very important and relevant points made in sections 2.1.4 and 3.3.2 that there have been at best only minimal shifts in public attitudes towards the enterprise culture itself or towards the key social representations associated with it. Even before the slump into recession when attitudes might have been expected to be rather bullish (see Chart 2), Graham Bannock, the research director of the Bolton Report (1981) and a well respected small business economist, reported in a dummy issue of the moribund Quarterly Enterprise Digest a 1987 MORI poll which revealed some 46% of respondents did believe a new enterprise culture had been created in Britain against 14% who disagreed but concluded that with 40% expressing no opinion, 'the general public has no views on the subject [suggesting] the new enterprise culture has a long way to go. The British Social Attitudes Survey 1990 actually found that a marginally smaller proportion of employees in Britain were seriously considering opting for self-employment in 1989 (16%) compared with 1983 (17%) and, while authors David Blanchflower and Andrew Oswald (1990) did not rule out an increase in entrepreneurial mood during the 1980s, they ascribed any shift in public opinion to the economic recovery at the time rather than to cultural factors.

The following year with recession well underway, Curran et al. (1991), investigating the possible impact of enterprise culture policies on business services (a key enterprise culture policy target and major small business growth sector during the 1980s) concluded that high proportion 'felt unable to make a link between public notions of the enterprise culture and their own lives' (p 28). This point was made even more powerfully in 1992 when the Labour Force Survey revealed not only that the proportion of people seeking a self-employed career option had continued to fall but that a majority of the existing self-employed would prefer to be paid employees working for someone else (Campbell and Daly, 1992). Furthermore that survey also revealed (see Chart 4) that the proportion of self-employed without employees had increased to two-thirds of all self-employed (and later Labour Force Surveys put that proportion at 72% by the end of 1993) which is hardly a sign of enterprising spirit as discussed in this paper but rather one of survival. The overwhelming message is that, except where individuals already shared the policy makers version of enterprise culture social representations, these policies have not shifted the attitudes or the behaviour of the largest groups and classes of society and must be judged a failure in terms of attitude management and cultural impact.

Moscovici states very clearly that 'representations shape what is loosely termed a social consciousness of a period, a class or a nation as a whole' (p 228) and it is equally clear that enterprise culture policies have failed to bridge the cultural and class gaps between policy maker and policy target. In their attempts to forge a synthesis between the social cognition and social representations approaches, Morgan and Schwalbe (1990) also

believe that sociology could be used to inform social cognition 'through research that examines the effects of social structure as an independent variable upon traditional measures of social cognition as dependent variables' (p 160). As the discussion in chapter 1 on the background factors and expectations that drive enterprise culture policies has already implied, the proponents of the enterprise culture have underestimated the power of class (often included as a prime example of social stratification in social psychology) and, with it, the crucial and significant differences in social representations of *collectivism* and *individualism*. This is not the same as the difference between individual and collective representations which Moscovici is right to push to one side in favour of the different versions of social representations between different classes and social groups but more about the relative importance of individual and collective goals as part of their social identity by members of different groups. Triandis (1989) points out that there appears to be a positive relation between affluence and individualism whereby individuals give priority to their own personal goals at the expense of the goals of their peer groups.

Triandis prefers to use the terms *idiocentric* and *allocentric* when talking about individuals, reserving the terms individualism and collectivism for cultures and societies, and makes the important observation that idiocentrics are 'concerned with achievement but are lonely, whereas the allocentrics report low alienation and receiving much social support' (p 509). Strongly consonant with the discussions in earlier sections, Triandis points to differences in child-rearing practices and expectations as a key determining variable is suggesting that 'individualistic cultures tend to emphasise self-reliance, independence, finding yourself, and self-actualisation. ...Conversely, in collectivist cultures, child-rearing emphasises the importance of the collective' (p 512) and that the main concern of parents is obedience, reliability and proper behaviour. This provides powerful theoretical support for the contention that enterprise culture policies are much less about enterprise and much more about individualism. Furthermore, Triandis indicates a strong class influence with 'upper-middle and upper-class' individuals far less collectivist than the 'lower-class' individuals who are the main enterprise culture targets. Given management guru Peter Drucker's strong case for linking innovation and business success to collective social efforts (discussed in section 2.4.2), it would appear that this clash of social expectations over the role of the individual and the collective lies at the heart of the evident failure of enterprise culture policies and the ineffectiveness of enterprise training, the weaknesses of which will be seen in the next chapter.

4.4 Summary.

This chapter has furnished the final theoretical nails in the coffin of enterprise culture policies as the creator of new entrepreneurs and economic development. The very consistent and strong message from the various studies and concepts discussed in this chapter was that while there is no unique entrepreneurial personality or set of defining characteristics, entrepreneurs usually do share certain common features such as strong

internal locus of control, high need for achievement, persistence, pro-activity and a desire for operational independence but that it is difficult to disentangle the causal links and that these features, in not being exclusive to entrepreneurs, do not have high predictive value. Instead, the consistent pattern to emerge was that the clue to entrepreneurial behaviour appears to lie in the cultural, family and class backgrounds of successful founders of small firms which would be hard to recreate in a formal classroom setting. Certainly, enterprise training as it is currently designed in content, methodology and intensity, is unlikely to transform the crucial social representations of enterprise-related concepts and attitudes among the bulk of people who are drawn towards enterprise training programmes and other policy initiatives.

In formal terms, the first hypothesis:

H1. Entrepreneurs exist as a distinct growth-oriented sub-set of small business owners identified by their clear and positive attitudes towards business growth, success and personal control.

appears to be strongly supported and confirmed. The second hypothesis:

H2. Existing and potential small businesses owners are mainly motivated to work because of the prospect of economic gain.

did not receive much support. Indeed, the strong evidence that various intrinsic and culturally determined career motivations were much more powerful than economic rationality as an explanation for small business behaviour, means that this hypothesis should be rejected. The third hypothesis:

H3 More individuals with the right entrepreneurial 'personalities' would start new businesses if anti-business political-economic, cultural and skills barriers were removed.

also received little support, neither in the notion that there is a 'right entrepreneurial personality' nor that the simple removal of structural constraints encourages more entrepreneurs (successful, proactive new capitalists) rather than many low-skilled non-entrepreneurial self-employed to start businesses. In the sense that enterprise culture policies appear to be misconceived and to have missed their mark, it may be said that this hypothesis has not been properly tested but on the balance of evidence presented here it must be rejected in the form it has been applied. Finally, the fourth hypothesis:

H4 Increasing the absolute numbers of people working on their own account, mainly through encouraging the unemployed to seek self-employment, will lead to an increase in the number of entrepreneurs and a consequent improved economic development.

has been manifestly demonstrated to be false on empirical and theoretical grounds and, while more entrepreneurs may have emerged from their social and cultural milieu during the enterprise culture years, their numbers are unlikely to have been large and their emergence unrelated to the mass programmes of enterprise culture policies. The empirical effectiveness of these policies will now be examined in the next chapter.

5 EFFECTIVENESS OF ENTERPRISE CULTURE POLICIES

The main aim of this chapter is to examine the issues raised in the previous four chapters in the light of available empirical evidence, both internal to this thesis as reported in the Appendices and external to it as publicly available data. The main issue addressed is the effectiveness of enterprise culture policies themselves in terms of their own stated objectives. Special attention is paid to the major enterprise culture policies - enterprise training and structural labour market policies, especially the Enterprise Allowance Scheme. The implications of the data and arguments presented in this thesis for current management and entrepreneurial development in Britain are then discussed. Fortunately, there is a wealth of published information on many aspects of enterprise culture targets, much of it already reviewed in Chapter 3, which, as the following section makes evident, offer cold comfort to those responsible for enterprise culture policy.

5.1. Empirical evidence.

There are sound empirical reasons to be sceptical about the effectiveness of enterprise culture policies in Britain. There are equally sound reasons for being sceptical about the assumptions that starting a business or becoming self-employed is in itself entrepreneurial or that the growth of the self-employed sector as a whole will generate more positive attitudes towards enterprise and promote more widespread entrepreneurial activities. Indeed, the evidence presented in Chapter 3 (and the findings reported in Appendix B in relation to career-motivation, business objectives and growth-orientation) would suggest otherwise. Furthermore, there appears to be little evidence that 'demand-side' government intervention of the type discussed briefly in Chapter 2 necessarily stifles enterprise (one of the central criticisms levelled at previous development models by proponents of the *enterprise culture*). More importantly, there is even less evidence that the 'supply-side' type of enterprise policy intervention has encouraged entrepreneurship or that the growth in absolute numbers of small owner-managed units of production actually leads to economic development. Despite a record growth in self-employment over the past ten years (see Table 1, section 1.1), Britain has actually under-performed compared with rival economies (see Table 2). There has undoubtedly been a significant increase amongst the self-employed and the smaller firms employing fewer than 20 people but these firms have the highest failure rates and suffered an decline in relative productivity over the period 1979-86 (Bannock and Daly, 1990; Hughes, 1990). The net effect of *enterprise culture* policies, it would appear, has been to encourage the foundation of large numbers of very small, relatively non-productive firms - possibly at the expense of slightly larger, potentially more productive small firms (see Chart 5).

Given the current increases in unemployment as more and more of these weaker businesses fail (see section 1.1), *enterprise culture* policies appear quite inefficient. Indeed, there are strong suggestions that - as in the 1930s - the growth of self-

employment is a symptom reflecting the pressures causing high unemployment rather than a desire for entrepreneurial growth (Binks and Jennings, 1986). On the face of it, the socio-economic structure certainly appears to play a key role in explaining and predicting rises and falls in levels of unemployment and self-employment. Both phenomena seem linked to the level of government investment (expenditure as a percentage of GDP) which fell in Britain, quite early in the 1980s, to the lowest level in the European Community. Structuralists would say that the resultant shrinkage and disappearance of large firms directly led to a growth in both unemployment and self-employment. The issues raised by the second question - whether founding a small firm is entrepreneurial *per se* - are discussed in full detail in section 2.4 though it is fairly clear that the mere act of starting a new firm or embarking on a self-employed career is not necessarily entrepreneurial.

Since most small firms have only local horizons, a weak grasp of technological and business principles and little desire to expand, many researchers have concluded that few small business owner-managers are either entrepreneurs or growth-oriented (Binks and Jennings, 1986; Storey, 1986b; Gray 1989a, 1990; SBRT vol.7 no.1, 1991). On the question of whether a growth in the number of the self-employed and of small firm owners helps to change attitudes towards enterprises and entrepreneurs, there is strong evidence that this has not happened. Apart from the pattern of declining entrepreneurship over the past decade, a survey of some 350 owners of small service businesses - discovered that just over one third of respondents were unable to explain what the term *enterprise culture* meant to them and that many of those who could use the phrases and concepts employed by the enterprise culture model felt that the notions did not apply to them. In other words, the very targets of *enterprise culture* policies basically felt alienated from the model and, in the words of the researchers (Curran et al, 1991),

'... the notion of the enterprise culture has clearly become reified in the minds' of many respondents to assume the status of something which even when they discuss it, they feel has nothing to do with them, their economic experience or views. In a more extreme fashion, for many respondents it appears to be so outside their conceptions of themselves and their activities that it is literally beyond any comment at all.' (p.27).

Personal discussions with the researchers revealed that many of the small business owners understood the concepts of the *enterprise culture* perfectly clearly but felt they applied to 'yuppies' and 'people in the City' rather than to themselves as active owners of small businesses. Consequently, the findings of British Social Attitudes (November, 1990), should come as no surprise. During the 1980s, the *enterprise culture* appears to have made virtually no impact upon the broader public consciousness. If anything, seven years of enterprise culture policies, 1983-89, appear to have hardened attitudes both against cuts in government expenditure and against treating self-employment as a reasonable career. Over the seven years the proportion of people in favour of increased social spending leapt from under one third (32 %) to well over one half (56 %).

In 1983 just 5 % of employees were very seriously (12 % quite seriously) considering self-employment compared with 70 % who took the idea 'not at all seriously'. By 1989, these percentages had hardly shifted to 6 % 'seriously' (10 % 'quite seriously') and 73 % 'not at all seriously'. Therefore, there are strong reasons to doubt that personal business motivations can be manipulated collectively to serve the needs of public policy. Indeed, the implicit critique underlying the enterprise-creation policy - that anti-entrepreneurial attitudes have been allowed to dominate social consciousness leading to the demotivation of otherwise potential entrepreneurs - finds little support in the treatment of motivation in economic or psychological theory and less in the actual behaviour of the self-employed themselves or of small business managers. An influential study of small manufacturers in the north of England concluded that the probability of a start-up manufacturer employing 100 people within 10 years was less than half of one percent (Storey, 1986b). This suggests, firstly, that it is virtually impossible to identify genuinely entrepreneurial firms at the start-up or early stages. Consequently, firms which have existed for at least 3 years are much more likely to provide a sufficient concentration of entrepreneurs to permit serious study. Secondly, the regional pattern of development in Britain cannot be ignored. In general, entrepreneurs are attracted to areas where there are already a lot of existing entrepreneurs. Whether this is because of some social imperative - a sort of entrepreneurial herd instinct - or because they are all drawn to the same economic and environmental attractions, this phenomenon is a feature of high growth areas in Britain, Italy and the United States (Amin et al., 1986; Keeble, 1987).

Despite the very small proportion of employees who claim to be actively seeking a self-employed career, Labour Force Surveys reveal that more than half (53%) of new entrants to self-employment come from paid employment, with just 20 % entering from unemployment (and about 30% from previous economic inactivity, such as students and women re-entering the workforce). This suggests that self-employment may well have an important role to play in the personal 'career paths' of certain groups of people but may not be an entrepreneurial end in itself. The upsurge of self-employment over the past decade seems to have been much more a function of economic re-structuring. The formation of entrepreneurial small businesses appears to have been a function of actual opportunities in the British economy. In their comparative study of self-employment in Britain and Germany, where the entry to self-employment is much more regulated, Nigel Meagher and his German colleagues (1992), found that economic restructuring and the contracting out of services had become new factors in the rise in self-employment as well as the traditional recruitment from the *petit-bourgeoisie*. These different structural effects, as well as some cultural influences, explained most of the differences in the different patterns of growth in self-employment between the two economies. In Germany, where there are fewer but larger small firms (which may imply a more entrepreneurial culture), more than 80% of the new self-employed came from previous paid employment and just

6% from unemployment. Their findings strongly support the theme and conclusions of this thesis and they concluded their extensive study, which contrasted the *laissez faire* approach of enterprise culture policies with the more regulated German approach, by pointing to the greater stability and higher survival rates of German model despite the faster growth of self-employment in Britain and then pulling the rug from under enterprise culture policies with the statement that 'there is little or no evidence of the UK's self-employment growth having been fuelled by a major change in workforce attitudes towards self-employment and "enterprise"' (p. 46).

The important point to note here is that active self-employment and entrepreneurial activity have always been and still remain very much the activity of a minority despite powerful attempts to introduce an enterprise culture. It is hard to avoid the conclusion that the tenets of the model run counter to most people's personal and work motivations (discussed in detail in section 4.2) and even the career motivations of most small business owners. The findings on the main motivations for self-employment in Appendix B have been confirmed by official Department of Employment investigations. The highest proportion (45%) of the new self-employed cite as their main reason the desire to be *independent* in the sense of not being told what to do or whom to work for rather than the chance to make their own business decisions. Roughly one third mentioned various *push factors* (34%), including unemployment, while a minority - less than one quarter (22%) - mentioned any other motive that could be construed as entrepreneurial (Hakim, 1989). The findings of the surveys conducted for this thesis confirm the linkages between personal expectations, work motivation and actual performance (in terms of growth) among small firm owners of all sizes with the clear indication that most small firm owners are and will remain very small because they want to for valid reasons of their own.

On the data presented so far, this means that less than 3% of people entering the workforce during the 'enterprise culture years' are seeking to do so for entrepreneurial reasons - hardly a mark of success for the enterprise culture model. And, on the wider issue of economic development, there are few signs that the *enterprise culture* actually has delivered the goods. The growth of non-agricultural self-employment from 6.5 % of the working population in 1979 to roughly 13 % today is often cited as evidence that Britain is becoming more enterprising but most of the new self-employed are part-time and fewer than one third employ other people (a *sine qua non* for the successful capitalist). Indeed, the trend during the 1980s showed a strong shift away from having employees with sole-trading self-employment increasing from 59% of all self-employed in 1980 to 74% in 1990 (Creigh et al, 1986; Hakim, 1988; Bannock and Daly, 1990). Larger small firms employing more than two dozen people offer the best prospects for economic growth and development - hence sustained reduction in unemployment - (Giannola, 1986; Storey and Johnston, 1987) yet they have declined in number under enterprise culture policies (Doyle and Gallagher, 1986; Bannock and Daly, 1990). Apart from specialist high-technology

firms, which in any case suffer high turbulence and failure rates, there is little evidence that small firms account for more technological innovations than large firms. However, there is good evidence to suggest that larger firms are better placed to exploit such innovations even though, taken as a whole, the entire new technology sector has actually declined over the enterprise culture years (Rothwell and Zegveld, 1982; Keeble, 1987; Oakey, 1987).

In a follow-up to his landmark study of attempts to develop an enterprise culture in the hostile environment of Cleveland, David Storey (together with Adam Strange, 1992) sums up the effects of the enterprise culture decade by concluding 'that the new firms established in the 1980s, although more numerous, are less likely to achieve significant growth than the new firms established during the 1970s. Many of the 1980s firms appear to have been established primarily for the 'lifestyle' benefits which business ownership provides. For almost half of new firm founders the prime lifestyle benefit is that of having a job at all' (p 77). This clearly helps to inform the interpretation of the studies reported in Appendices B 3, 4 and 5 (Tables B5, B6, B8, B9, B12 and B15) and the discussion in section 4.2 but, in driving a nail into the coffin of enterprise culture policies, hardly accords with the high hopes of the enterprise culture in terms of wealth generation and innovation expressed by the Cabinet Office's scientific advisers or the Department of Employment deregulation White Paper (quoted in section 2.1.2). Indeed, now is the time to look more closely at those high hopes.

5.2 Evaluation of enterprise training.

To encourage the growth of entrepreneurs in Britain, enterprise culture policies have basically relied on mass training programmes as their preferred instrument of intervention. In many ways, this approach reflects the emphasis increasingly adopted by management development thinking which, in turn, reflected the influence of human resource development ideas (Guest, 1987). The methodological and research underpinning for the high expectations of training leading to behavioural change is evident in the extensive and well-financed reports published in the mid-1980s which we have already mentioned in section 2.4.2 in relation to the poor management skills and equally poor take-up of remedial training by small firm owners and managers (Mangham and Silver, 1986; Constable and McCormick, 1987). However, the ideological and intellectual justification for the pursuing a training-led model of small business and entrepreneurial development, can be traced back to the neo-classical economic model of the labour market. Reducing human behaviour to the pursuit of economic goals, labour market theory holds that the supply and demand for labour are determined by wage levels. Leaving aside the fact that employment costs for employers are always higher than employees earnings, the effects of differential entry qualifications for different jobs, imperfect information about job offers and conditions and very strong barriers to labour mobility beyond certain geographic limits meant that the neo-classic model had to be adapted (though the attempts by various

governments to impose pay restraints suggest that many policy makers and politicians still adhere to the basic model).

Frank Knight (1921), whose views we have mentioned above (sections 2.2.4, 2.3.5 and 4.2.5), made an interesting suggestion that economic activities cannot be confined to those that produce earnings and that *leisure* has a 'price' or 'value'. This broadening of the scope of *economic rationality* (without altering the basic concept) produced a three-way differentiation between labour markets - employment, self-employment and unemployment. Knight explained to switch between the different labour markets as a rational choice based on a trade-off between expected earnings and the value of leisure. As we have already seen, however, even this broadened concept of economic rationality is too simplistic to explain human behaviour at work or elsewhere and that the notion of intentionality, implicit in Knight's model (and in the career-choice theories discussed above in section 4.3.1), breaks down when applied to most self-employed and to virtually all unemployed. Gary Becker's (1964) *human capital theory*, which develops Knight's ideas by introducing wage differentials and differential entry qualifications, represents a more convincing attempt to explain the effects of education, training and experience on levels of earnings within the neo-classical approach that underlies enterprise culture policies. Becker holds that there are many separate labour markets and that entry to those where a higher wage equilibrium prevails is a function of education (broadly defined to include appropriate training but often legitimised as formal qualifications) and experience.

Thus, the prospects of higher earnings means it is economically rational for individuals to invest in appropriate training or in acquiring particular qualifications. The pattern of expectations shown in Chart suggests that small firm owners (except the professions and other fields where qualifications are a legal requirement) relate their earnings and expectations of future earnings to structural shifts in the economy rather than their own skills or formal qualifications. This suggests that most small firm owners, especially if they are mainly motivated to achieve non-economic goals such as independence or the attainment of a certain lifestyle, would need to be strongly convinced that training will lead to quite appreciable increase in earnings before they would be prepared to invest their precious time in acquiring new management skills. If they are already earning close to their target levels, they are likely to conclude, probably correctly, that any increases in earnings are likely to be marginal. Indeed, the few entrepreneurs may have calculated that the opportunity costs of attending training (the costs of lost working time) may already be too high to justify investment in that area. In other words, there are sound *a priori* theoretical grounds to be sceptical about the attractions of enterprise training to potential or budding entrepreneurs. Nevertheless, despite fairly strong evidence that the expected economic outcomes of human capital theory (increased earnings coming from additional investment in training and education) do not hold in the secondary sector (King, 1990), a series of awareness and training programmes have been tailored, to help people found new

small businesses and provide the newly self-employed, and weak existing small businesses, with basic business skills.

A representative range of enterprise training courses is described in Appendix A where it can be seen that, despite slight variations in teaching methodologies and target populations, enterprise training courses share the common training objectives of inculcating sufficient management skills to enable trainees to start or develop their own businesses. Occasional remarks from various Small Firms Ministers also implied a rather strong psychological dimension in that proponents of enterprise culture policies also felt that exposure to business ideas on these enterprise training and awareness courses would lead to a shift in public perceptions (social representations) of business as an occupation. Initially, the publicly stated aim of enterprise training was to encourage an increase in the net formation of new firms though it became clear to many observers that the underlying policy target was a net reduction in the massive unemployment spawned by the collapse of large manufacturing industries during 1979-81 when the first Thatcher government came to power (Johnson C, 1991). The emphasis was almost exclusively on start-up enterprise training during the mid-1980s until it was recognised that existing small firms had more potential to generate extra jobs (Johnson S, 1989). From the late-1980s until the early-1990s, when the Training and Enterprise Councils (TECs) and Local Enterprise Companies in Scotland (LECs) took over local responsibility for enterprise training, a number of training programmes were designed for existing small firms and other specific groups but start-up enterprise training still attracted the bulk of government funding.

Start-ups still remain the prime focus in some TEC/LEC areas but others have moved towards more targeted development schemes. As the discussion in Chapter 4 and Appendix B2 reveals, however, there is an immediate flaw in the enterprise training model in that most enterprise trainees are motivated by a need to avoid their own unemployment or to support a particular lifestyle rather than by a positive desire to start their own businesses compared with only around 22% of all self-employed coming directly from unemployment (Hakim, 1989). Nearly half the participants on enterprise training courses in London during 1988-89 (which included courses for existing businesses) came from unemployment (Blythe et al, 1989). Since 1981, an average of 10% of the self-employed have left self-employment each year, of whom nearly half (45%) return to being paid employees but the dropout rate is much higher for start-ups who have previously been unemployed (Campbell and Daly, 1992). This effect is reflected in the failure rate of enterprise trainees though, in fact, they represent only a small proportion of new self-employed who generally share with existing small firm owners a deep suspicion of the benefits of training. Table B1 in Appendix B1 reveals the much stronger aversion to training among the self-employed than among those employing 5 or more (supporting the discussion in section 3.1.3). For these and other reasons already discussed, the failure rate of new start-ups is very high (Ganguly, 1985) and there is little evidence, in either the US

or Britain, that enterprise training for start-ups has produced many dynamic new businesses or truly innovative business ideas (Vespers, 1982; Gray and Stanworth, 1986).

One major methodological problem seems to be that there are conflicting criteria for evaluating the success of most enterprise training courses. Generally, enterprise training outcome criteria are phrased in terms of new businesses started or new jobs created. There is a lively debate about the job-generation capacity of the small business sector and, as Appendices B3 and B4 show (Tables B6, B8 and, by implication, B12), job-generation is clearly not an objective of growth-oriented entrepreneurial firms (though the creation of extra jobs may flow as a consequence from their growth in sales or capacity (see Table B9 and Chart 6)). As the discussion in section 3.2.1 shows, small firms do make a disproportionately large contribution to the creation of net new jobs compared with large firms (especially during periods of weak economic performance) but that most of these new jobs come from relatively few firms (Storey and Johnson, 1987). The evaluation studies mentioned later in this section show no significant performance or survival differences between all small firm owners and those who have received short-course enterprise training, though those who attended enterprise training courses lasting longer than 6 months did appear to benefit (Johnson and Thomas, 1983). However, it is costly to monitor the economic effects of enterprise training and neither the absolute formation rate nor quality of start-ups is monitored systematically and attitudinal shifts or skills improvement are rarely mentioned if at all. The administrators of enterprise policies seemed more interested in monitoring the number of enterprise trainees recruited by providers. This is an easy criterion to monitor but not obviously related to the stated objectives of the training courses or of enterprise culture policies themselves but clearly related to a reduction in unemployment figures.

There are also severe problems in identifying appropriate training course content. The main management needs of small businesses were identified by Bolton (1971), as listed in Table 4, and have not changed substantially since then, as the discussion in Appendix B2 makes very clear (Gray and Stanworth, 1986; Carswell, 1987; Gibb, 1987; Stanworth and Gray, 1991). Basically, the educational needs of dynamic small firms fall broadly into two categories. The first relates to expanding awareness of opportunities in the external environment, including new applications of technology, new markets, new methods for reaching markets and new ways of working with other firms to better overcome commercial challenges. The second category relates to the skills required for the efficient operation of the business which must be mastered before the first category of more general business educational development can be tackled. As the outline of different types of enterprise training in Appendix A demonstrates, it is the second strand that dominates enterprise training design. Almost all enterprise training courses cover the same core curriculum - basic marketing, basic financial accounts and how to obtain finance, personnel issues (usually connected with hiring and firing but also often including

encouragement to employ others and to delegate some responsibilities to employees) and basic planning (usually the production of cashflow projections or even a fuller business plan). The more specific programmes generally cover these topics in more depth and add other topics of particular interest to the target group.

However, it has been suggested that this type of enterprise training, in concentrating on technical matters such as accounting, market analysis, planning and so on, actually stifles the creativity which could lead to genuine innovation (Binks and Jennings, 1986). Certainly, course response studies conducted by providers and development research studies such as the one reported in Appendix B frequently reveal other priorities among small firm owners themselves as Table 11 below clearly shows. In particular, conversations with course providers and trainees, as well as direct experience with enterprise training courses, suggest that there is a need for training in the inter-personal skills of organisation, control and negotiation. As this fits in with the capitalist's role mentioned in Chapter 2 and the social skills required of successful entrepreneurs as discussed in Chapter 4, the inclusion of this type of training appears to have strong face validity but is rarely if ever included in enterprise training programmes. The implication is that there is a risk that enterprise training programmes may be over-focused on the management needs of small businesses as identified by 'experts' without paying sufficient attention to the needs as perceived by the entrepreneurs themselves (Carswell, 1987; Gray 1988).

Finally, there are problems of course design and learning methodology. The deep differences in the construal of common course contents among the Italian enterprise trainees reported in Appendix E1 also demonstrates the difficulties in producing generic courses in response to the different particular needs of various individuals at different stages of their own career search processes and different levels of business awareness. Indeed, even when training structure is appropriate, the skills must be capable of being taught and the skills must be relevant to business success. In terms of the learning theory discussed in the previous chapter, there has to be a clearly definable outcome as a learning target. The trouble with enterprise training is that many of the entrepreneurial skills - such as the ability to unearth new sources of finance, to concoct new ideas or to smell a good deal, to manage difficult customers or employees - are imprecise and often situation specific while the basic skills needed to manage finance, marketing and personnel issues are easier to specify and are being taught successfully every day.

However, addressing small business management needs is not sufficient. Enterprise training or any other small business development support measure are only effective if small business owners and managers actively want to acquire the skills. Therefore, enterprise support measures, including management training, have to meet both the needs and the wants of the target small firm owners and managers. In many ways, the training and support needs have been much easier for policy makers to target than the many

different training wants expressed by small business owners. The training wants of entrepreneurs have been even harder to identify. Although there are evident differences in emphasis between industries and different sized firms, small business problems seem fairly consistent over time. A study conducted by Mary Carswell (1987), which compared the training needs of textile and engineering firms as subjectively perceived by the owner managers themselves and as objectively measured by consultants, found some wide differences in perceptions. Echoing the picture of small firm training needs identified by Bolton (1971) and demonstrated in Appendix B1, 'marketing and sales' came out top on both counts though the owner managers were keener on improving this management function than the consultants felt they needed to be.

Table 11. Training needs of engineering and textile firms, 1987.

Engineers	training area	Textiles	
subj. obs'd.		subj.	obs'd.
(percentages)		(percentages)	
86 83	marketing and sales	69	66
72 59	financial control	62	79
62 52	management skills	59	59
55 62	managing production	86	76
52 59	general business	66	69
48 69	managing people	69	72
38 38	personnel & training	66	69
28 45	purchasing materials	31	66

Reflecting the discussion in Chapter 3, there were significant industry differences with the consultants observing that textile firms considerably understated their actual needs for skills in 'financial controls' even though, objectively, this function represented their biggest management problem. There is an interesting distinction between 'managing people', which should include many of the inter-personal skills mentioned above, and 'personnel and training' which is much closer the subjects actually covered in most enterprise training programmes. According to the consultants, these small firm managers tended to understate their need for training in managing people (especially the task-oriented engineers), which was far more important to their businesses than they realised. This mismatch between actual and perceived training needs - which certainly poses problems for people who design, deliver and market small business courses - may be due to relative inexperience or to low awareness of the importance of each management function. Accepting that successful managers may differ from unsuccessful managers across a range of accepted factors, these industry differences (and differences in perceptions) highlight the contention repeated several times in the first two chapters and the conclusions drawn in chapters 3 and 4 that the search for 'the entrepreneur' or the 'entrepreneurial personality' is a myth because of wide variations of what it takes to be successful in different industries. A Confederation of British Industry (CBI) survey of its small firms members compared the business training needs of owners and managers and owners of small 1-20 employee firms with slightly bigger 21-50 employee firms (CBI, 1986):

Table 12. Training needs of CBI smaller firms 1986.

Training area	all	1-20 (column percentages)	21-50
i. Planning and raising finance/ project appraisal	46	62	44
ii. Marketing/selling/exporting	36	58	27
iii. Personnel management/ industrial relations	27	42	12
iv. Production/operations	22	15	24
v. Commercial or contract law	21	-	-
vi. Cost/management accounting	20	-	-

The columns sum to more than 100 % because of multiple responses. The greater dynamism of respondent firms employing 1-20 employees, many of whom were firms of professional advisers, was evident in their greater actual use of training and in their greater concern over the skills related to the key management functions - finance, marketing and people. In common with many small business surveys, including those conducted regularly by the SBRT, problems connected with finance dominate, confirming a number of research studies that small firm owner managers in general have poor financial control of their businesses (Burns and Dewhurst, 1989; Binks, 1991). As an understanding of the costs, payback and cashflow implications of significant investment decisions are essential for the efficient managing of any business (as well as most organisations in the public and voluntary sectors), this provides further evidence that many small firms are not really businesses in the sense of being small capitalist enterprises. Having a good ability in financial management, is clearly an essential entrepreneurial skill as are the social skills of managing people (though entrepreneurs seem to be quick to make sure that the technical side of these two functions are dealt with by accountants and personnel managers). The lack of an understanding of the relevant aspects of these skills in so many small firms may be one of the root causes of the x-inefficiency discussed in sections 2.2.3 and 2.3.2 .

Indeed, a review of small business failure found that accounting problems were those most frequently mentioned (Berryman, 1983). Bank managers surveyed on the failure of their small business clients blamed undercapitalisation, a term favoured by bankers to describe poor financial management and lack of funds, as the prime cause despite significant industrial differences on other causes for failure (LBS, 1987). Financial problems, however, are often a symptom of underlying marketing or organisational problems. The differences revealed in Tables 10 and 11 lend weight to the hypothesis that gaps between perceptions and objective reality are narrower for entrepreneurial growth-oriented small businesses than for either static or contracting businesses. Significantly, expanding firms in Appendix B2 revealed stronger interest in training - in other words, a clearer perception of the factors limiting their growth which were also under their control - than static or contracting firms. The European Community study conducted by David Storey and Steve Johnson (1987) of small firms and job creation identified premises, finance, recruitment and training as the main problems of growing firms and noted several differences between

EC regions. Many of these regional differences may reflect industry differences because of different concentrations of industries in different localities. For instance, operations management and labour relations are problems for the hotel, catering and leisure industries while poor marketing and sales management hit small retailers (LBS, 1987). A review of the NEP training scheme for expanding firms provided revealing clues to the different emphases of growth-oriented managers (Chisnall, 1986):

Table 13. Main problems of expanding NEP firms 1977-83.

Problem	(percentages)
i. Finding new customers	50
ii. Employees	36
iii. New capital	24
iv. Premises	12
v. Unwilling to dilute control	10

It is immediately apparent that the demand-side or consumer-orientation of 'marketing/selling/finding new customers' is the management function usually identified by growth-oriented owner managers themselves as their single most important small business problem for which training would be suitable (Gray and Stanworth, 1985; Chisnall, 1986; Carswell, 1987). The prominence given to people management skills also confirms the remarks made above. To some extent, their lower priority placed on training in financial management will reflect the fact that many entrepreneurs already possess those skills. Apart from the actual physical and organisational problems of expansion, growth-oriented entrepreneurial firms do not encounter substantially different problems from those of other small businesses but, to repeat the point made elsewhere in this thesis, their approach to these problems is likely to be different. The challenge to enterprise policy makers and small business management trainers increasingly becomes the need to convince reluctant or busy small business managers that training will help them. The question of the inconvenience and cost of most training programmes - if not in fees, then in lost time and production - has to be faced because small business managers are more concerned with issues of immediate survival than with the strategic overview (Gibb, 1983).

It may seem a commonplace but, to have any chance of success, enterprise training must be seen to fulfil needs that are perceived to be important by the owners themselves and there is little sign that this has happened. Despite the manifest need for effective small business managerial training, it is clear that the impact of training on the overall performance of the total small business sector has been fairly marginal. Training courses reach only a tiny fraction of new businesses or expanding existing businesses. A 1986 study showed that only 20 % of small business respondents felt that training had a major role to play in overcoming their business problems compared with 80 % of big business respondents (Dey and Harrison, 1987). Indeed, the actual response of small business owners and founders to government-supported enterprise training courses during the height of the enterprise culture 'crusade' confirm the irrelevance of such training to most

of the targeted market sector. What may be an objective small business need is clearly not a subjectively held small business want. Yet, even though the survival rates of enterprise trainees who accept enterprise agency advice (just personal counselling usually) were double the norm for new businesses (Business in the Community, 1986), only a tiny fraction of Britain's small firms benefited from enterprise training. The vast majority of new start-ups do not use available small business assistance and only a minority - roughly one quarter to one third - of start-ups would like more specific advice or training if they could afford the time (Gray and Stanworth, 1986; Sym and Lewis, 1987).

It is certainly not clear that all the firms reached by government sponsored training courses actually benefited positively rather than merely attended. As the descriptions of courses in Appendix A suggest, most of the start-up programmes and courses for existing business are quite short, from a few hours to about one week, suggesting that mere attendance would not lead to many training benefits. The Manpower Services Commission (MSC), which had responsibility for enterprise training in the mid-1980s, conducted its internal assessments of the 1984/85 pilot courses for the training for enterprise initiative. Six months after the end of the course fewer than 60 % of the original start-up participants had started a business. However, for the existing small business participants on expansion courses more than 80 % of the original participants were still operating their own business. There are few published figures on longer-term drop-out rates but research on similar courses suggest that non-completion and non-start-up present significant problems. Consequently, the quality and the focus of the training needs to hit the mark if it is to make any impact on small business performance (Gray and Stanworth, 1985).

Figures provided in 1986 by the MSC to the Advisory Group on Enterprise Training (AGET), before it was disbanded in the middle of 1987, revealed that MSC courses for existing small businesses reached less than one percent of firms registered in Britain. Even though the MSC planned a threefold expansion of its training provision for existing small firms, from 4,473 in 1985/86 to 13,121 in 1986/87, that new target figure was still less than one % of the estimated 1.4 million small firms in Britain. The large growth in the supply of a wide variety of small business training courses had not been matched by a similar flood of demand from small businesses. Most of the places on small business courses are taken up by the unemployed, the self-employed or newly started businesses. In fact, even on the MSC's projected figures for 1986/87, which saw more emphasis placed on courses for existing businesses, more than three-quarters (78 %) of almost 60,000 course places were for start-ups. In relation to the 160,000 new VAT registrations for that year the MSC could claim, during the heyday of enterprise culture policies, to have trained more than one quarter (28 %) of all start-ups in Britain if they all actually started and managed to establish their sales above the VAT threshold (an unlikely scenario).

Even though the total number of people on MSC courses in 1987/88 was around 105,000 (with just under one half from already-established businesses), this contact rate does not look so impressive when viewed in relation to the rapid growth of one million self-employed over the past decade or in relation to the three million people who were without work at that time in Britain. It may be hard to make direct comparisons with other firms since, in fact, only a small proportion of the MSC trained start-ups registered for VAT. Interestingly, small firms on the longer running MSC courses which apply stricter selection criteria in recruiting their participants appeared to survive and to perform better than other small firms. The MSC claimed an 80 % start-up rate with a less than 2 % failure rate after three years trading for its New Enterprise Programme (NEP). An independent evaluation concluded that even with pessimistic assumptions the net training effects were positive (Johnson and Thomas, 1983). This bullish picture of the NEP firms was confirmed by a separate survey conducted by the Manchester Business School of more than one dozen NEP courses they had run over seven years, 1977-83 (Chisnall, 1986). More than half the respondents were breaking even within one year and by the end of the next year more than 80 % had passed the breakeven point.

In 1985, in an effort to be more flexible and meet small business training needs, the MSC introduced a part-time NEP called Firmstart (see Appendices B.1 and E2). The results continued to be impressive. A review conducted by the Cranfield School of Management of their Firmstart courses 1986-87 found that the growth rates and arrival at breakeven point did not differ significantly from those of firms which had not received training, but that the sales turnover and employment growth of the Firmstart firms was considerably higher (Saunders and Harries, 1987). Equally interesting, is the Graduate Enterprise Programme (GEP), a sort of NEP for recent university graduates (see Appendix A). Although the GEP firms are not big employers, their sales turnover appears to have grown fairly quickly and more than 85 % had passed breakeven point within two years (Brown and Myers, 1987). Although it seems clear from these course evaluation studies that clearly focused training does improve small business performance, the MSC was concerned that these targeted courses are too costly and began to withdraw its support for them. The government's preference for start-up courses - which were easier and cheaper to plan, design and run (and which absorbed far more unemployment) - remained apparent despite evidence that existing businesses respond more usefully to training. This pressure to reduce unemployment rolls by boosting the growth of new firms and the expansion of existing firms, led the MSC to measure enterprise training effectiveness by a crude accounting-type criterion - total cost of each course per participant - rather than economic criteria such as total jobs created, impact of new firm on local economy, improvement to overall infrastructure, etc. Because it takes around four years for new firms to stabilise and find their feet, judgements based on economic criteria are felt to be too slow.

It is clear from the above discussion that enterprise training has not delivered the attitudinal and behavioural changes that enterprise culture policy makers expected. Yet, before turning to examine other enterprise culture initiatives, it is worth pointing out that this entire initiative has been bedevilled by having mixed, and not always compatible, objectives and suffering from inappropriate performance criteria. Buried among the negative outcomes are more positive signals that well-designed and appropriate training initiatives which pay more attention to considerations of quality rather quantity may improve the management of small businesses provided learning targets are appropriate and properly specified. Available evidence suggests that small business owners who wish to improve their performance are drawn to training (CBI, 1986). Only a tiny proportion of existing firms approach enterprise agencies yet in the survey of assistance provided by enterprise agencies to small firms, a high 31 % of surviving firms had received some form of training although only 8 % had accepted training from an enterprise agency (Business in the Community, 1986). An evaluation of London Enterprise Programme (LEP) courses 1979-84 revealed that as many as one in five (19 %) of participants had previous business training yet more than half (56 %) would be keen to attend specific follow-up training courses if run at convenient times (Gray and Stanworth, 1985). Indeed, there is strong evidence that successful training breeds interest for further training which suggests that there is scope for designing more suitable enterprise training, perhaps incorporating some of the ideas of McClelland's achievement motivation training (Gray and Stanworth, 1985; CBI, 1986). In a more recent assessment of particular enterprise training courses which paid more attention to the cultural processes at work, Sally Caird (1990) concluded that 'participants on enterprise courses perceive themselves to be more entrepreneurial following enterprise training. This is an interesting result because these training courses do not explicitly aim to develop the psychological characteristics of entrepreneurs' (p77).

This is a doubly interesting conclusion because it exposes the shallowness of current enterprise training at a number of significant levels and perhaps reveals an important clue to the development of more effective enterprise training. There has been a tremendous amount of time and money spent, in recent years, on publicising small business training and support measures. Despite that publicity and evidence that enterprise training can improve business performance, the response from small firms remains low and the inescapable conclusion is that small businesses either do not believe that training will satisfy their skills needs or that course on offer do not merit their trust. Most importantly from the viewpoint of this thesis, there is virtually no evidence that enterprise training has increased significantly either the creation rate of new businesses or the stock of entrepreneurs in Britain. Even ambitious small businesses do not appear to be convinced that training offers them substantial benefits, especially if they are expanding (when their time is at a premium and disruption costs at their highest). It seems that unless training is seen to be of instrumental use it is not valued. This may go some way towards explaining

why enterprise training has achieved such a poor penetration of the small business sector. Looking at the evidence presented here, the fundamental problem seems to lie with the attitudes of small business owners towards the present provision of enterprise training and strongly suggests that this element of enterprise culture policies has missed its mark.

5.3 Structural enterprise-culture policies.

In considering enterprise culture policies, Steve Johnson (1989) makes a very useful distinction between economic or industrial policies and social policies, including labour market policies. It is easier to deal with the first right now because, with the Conservatives utterly opposed to economic intervention or any form of industrial policy, there has been so little of it. In its review of the small business sector, the Employment Department (1992) refers proudly to the great benefits that the owners of small businesses and entrepreneurs have gained from the Conservative's 'lenient' taxation regime. However, the total burden of taxation increased each year during first the Thatcher then the Major administrations (Johnson, 1991; Stanworth and Gray, 1991). Another claim concerns the lifting of onerous regulations on firms but there is no evidence that the net burden of compliance with regulations has lightened. Rather, it is in the social field (education, employment, welfare, etc.) where enterprise culture policies are located despite their professed economic and industrial aims. In particular, it is in the field of unemployment reduction that government money has been spent and the flagship operation has been the Enterprise Allowance Scheme (EAS), a keystone enterprise culture policy instrument, until responsibility for enterprise initiatives was devolved to the TECs and LECs.

Introduced on the supposition that unemployment benefits act as a disincentive on the unemployed to seek work, the EAS was designed as the main enterprise culture policy instrument for encouraging the unemployed to give up their 'dependency' on unemployment and related social benefits in exchange for limited support in setting up their own businesses. At the time the EAS was introduced - as a pilot scheme in 1982 and, nationally, since August 1983 - unemployment benefits across all types of claimants averaged at roughly £40 per week. To qualify for the scheme, applicants had to be between 16-64 years of age, to be unemployed or under notice of redundancy, to be actually receiving benefits, to have been unemployed for 13 weeks (later reduced to 8 weeks) and to have £1,000 to invest in their businesses. Originally, small business management training - as distinct from half-day 'awareness' sessions - was not part of the package and failure rates of firms started through the EAS were higher than national self-employment failure rates. In part, this may have been due to the fact that most EAS firms, as discussed in section 3.2.1, were in 'low barrier to entry' industries (see Table 15 below) and the EAS was initially introduced in regions of high unemployment (and, therefore, poor business prospects) but its adverse economic impact was not confined to the poor quality of businesses started under the scheme.

There is strong evidence that EAS firms (competing on price with aid of the EAS allowance) displaced existing small businesses and that those with the highest growth and survival rates would have started anyway, whether or not the EAS existed (Gray and Stanworth, 1986; Gray, 1990). Irrespective of the success or failure of the EAS, however, the premises on which the scheme are unsound. Econometric analyses of historic fluctuations in unemployment rates and benefit levels provide little evidence to support the contention that the unemployed do not seek work because of fear of losing benefits (Ormerod and Worswick, 1982). It is true that the benefits levels of two-thirds of the EAS participants were less than the EAS allowance but only one third reported that this financial improvement was their principal motive for joining the scheme. Another third of participants stated that their main motivation was to avoid unemployment while - most significantly from the perspective of this thesis - only 18 % stated positively that their main motivation was to seek a career in self-employment, which again is hardly a huge endorsement for enterprise culture policies (Gray and Stanworth, 1986; RBL, 1987).

A wide range of respected studies revealing the loss of both motivation and a sense of identity connected with non-temporary unemployment (Jahoda, 1979; Stokes and Cochrane, 1984) further undermine the rationale for the EAS. Even when they do seek informal self-employment in the black economy (which is dominated, in any case, by people in employment with second jobs), the unemployed are pushed into marginal, limited jobs and their lack of drive and initiative is apparent (Jahoda M, 1988). Fewer than half of the EAS participants whose businesses have survived for 3 years or more had been unemployed longer than 6 months before entering the scheme compared with 55 % of the non-survivors (RBL, 1987). The EAS does not now exist although schemes derived from it are operated by many of the 82 local TECs in England and Wales and the 22 LECs in Scotland, which were set up during 1990/91 to allow local business leaders to take over the training functions of the Employment Department. During its phase as a unified policy its record was mixed and its subsequent fragmentation is unlikely to have improved its success rate as a pathway into entrepreneurship for Britain's millions of unemployed.

Initially, it seemed that the EAS had been fairly successful not only at steering many unemployed into new self-employed careers but also in generating new jobs. By 1988/89, more than 100,000 applicants were being accepted each year and 350,000 unemployed had used the EAS to try their hand at self-employment. Furthermore, according to the Department of Employment, 65 % of those who completed their full EAS year were still in business 3 years after starting their business and for every 100 of these survivors, 114 additional jobs were created (Employment Department, Written Reply, House of Commons, July, 1988). On closer inspection, this central plank of enterprise culture policy is not so firm. During the period of the pilot scheme in 1982/83 12.5 % did not complete the full year and in 1986 it was confirmed that 11.5 % of participants on the national scheme failed to complete the full EAS year. Indeed, the Department of Employment, the

National Audit Office and the all-party Commons Public Accounts Committee separately and together confirm that half EAS businesses failed within 3 years - considerably worse than the failure rates of VAT registered firms displayed in Table 6 in Chapter 3.

Consequently, the role of the EAS in reducing unemployment by boosting self-employment is not impressive. In any case, as already mentioned above, the unemployed account for less than 20 % of the new entrants to self-employment compared with more than 50 % coming from paid employment. About one third of the new self-employed - the proportions vary slightly from year to year - were previously economically inactive (Hakim, 1988). An analysis of the EAS job generation is even more revealing. Three-quarters (74 %) of the additional jobs after 3 years were part-time. Furthermore, all the jobs were provided by less than one quarter of the original EAS participants - approximately one third (34 %) of the survivors after 3 years - and most of these only employed one extra person, part-time or full-time. Significantly, the people who took the EAS allowance but who intended to start anyway, even without support from the EAS (termed *deadweights*) had higher survival rates, employed more people and earned more than other EAS participants. Many deadweights were unemployed for the bare minimum qualifying period and are more likely to have a history of previous (often recent) employment as opposed to longer-term unemployment or first time entry into the labour market. Certainly, few if any of the deadweights were non-temporary (more than 6 months) unemployed yet they account for around 50 % of the EAS intake and more than 70 % of 3-year survivors. The deadweights are the true successes of the EAS but not of enterprise culture policies. By their own admission, they had not been constrained by any 'welfare benefits barrier' and the EAS was seen as just a source of cheap capital and not the reason for starting a business (Gray and Stanworth, 1986; RBL, 1987; Gray, 1990).

In fact, more than half of the survivors (53 %) had been unemployed for less than 6 months before joining the EAS compared with 42 % of the non-survivors. At the other end of the scale, less than one quarter (22 %) of survivors had been employed for more than one year compared with 29 % of non-survivors. Previous experience was also a significant factor in survival. Although roughly 70 % of EAS participants started a business in an area where they had previous experience, survivors were more likely to have worked in the same job. Survivors (28 %) were more likely to have previously held a managerial or professional position than non-survivors (19 %) and were significantly older. The following table illustrates the different age band distribution for EAS participants (national enrolment 1985-86, survey survivors, survey non-survivors), the self-employed, small businesses and all employees.

Table 14. Age differences: EAS, self-employed, small businesses, employees.

Age-band	EAS			Self-emp		Small Bus.		Employee	
	Nat.	Surv.	Non-S	M	F	M	F	M	F
16-24	25	8	14	10	9	4	2	19	22
25-34	34	22	34	27	30	22	23	23	20
35-44	23	33	25	28	26	33	36	21	23
45-54	13	23	14	19	19	23	21	19	20
55-65	5	13	13	12	11	15	16	15	12
66+	0	1	0	4	5	4	3	2	1

(Source: Gray and Stanworth, 1986; Curran and Burrows, 1988)

Survival is clearly linked to previous business or work experience and it looks likely that educational levels may also have a significant influence. EAS non-survivors tended to be younger (48 % less than 35 years) than the survivors (30 % under 35 years). However, it is likely that those who fail to complete the full EAS year - and those who failed to respond to the survey - are even younger because 59 % of the national EAS intake are less than 35 years old (Gray and Stanworth, 1986). This implies that the younger unemployed may find that self-employment is not an attractive or viable option. Relatively few of the non-survivors (30 %) were able to find paid employment immediately after they stopped trading. Eventually, about 20 % returned to some form of self-employment. There is little doubt that the enterprise culture's EAS offered limited prospects for the unemployed. Educational and work experience profiles of the self-employed and small business owners are quite different from those of the unemployed, suggesting that there are significant differences between the two populations. Nearly three quarters of people who have been unemployed for more than 6 months previously held unskilled or semi-skilled lower level industrial occupations while fewer than 10 % were formerly in managerial or administrative posts (Employment Department, LMQS, July 1988). Compared with the educational qualifications outlined in Table 8 (section 3.3.2), far more of the longer term unemployed (50 %) are without qualifications and relatively few of them have CSE-level technical qualifications (7 %) or degrees (3 %).

Apart from the low-skill processing, retailing and construction businesses, the vast majority of services offered by most EAS survivors also tend to be localised, low-skill, personal and domestic services such as leisure activities, maintenance trades, hairdressing, motor repairs and so on. Only one third of EAS survivors employ other people though two-thirds of the employees are full-time and non-family. In common with most small firms (see Chart 5 in Chapter 3), the vast majority of EAS businesses fall very firmly into the secondary sector but are appear to be even less entrepreneurial. Further confirmation that the EAS acts as a route into the secondary sector can be seen from the main industries in which EAS businesses are found. The main industries for EAS surviving businesses were: manufacturing/processing (29 %), construction (16 %), retail (14 %), leisure and personal services (12 %) and car and domestic appliance repairs (9 %).

Table 15. Main self-employed, small business and EAS industries.

Industry	Self-employed (no employees)		Small business 1- 25 employees		EAS	
	Male	Female	Male	Female	Male	Female
	(column percentages)					
agriculture	5	5	2	5	3	4
manufacturing	9	10	10	9	27	32
construction	38	4	25	4	18	1
distribution	22	27	43	60	27	26
transport	7	2	6	4	7	2
financial services	7	16	5	1	5	7
general services	13	37	9	17	13	28

(Source: Curran and Burrows, 1988).

The apparently high proportion of EAS businesses in the manufacturing sector are mainly low-skill artisanal/craft operations which use very simple technology and produce very low volumes, usually generating barely enough to cover the costs of reproduction (raw materials, rent, wages, etc.). Virtually all EAS businesses are in the lower growth sectors of the economy (see Chart 5 section 3.1). Very few EAS construction firms are in the primary sector (most of the 13 % growth of new UK construction firms over 1980-87 was in the secondary sector). EAS businesses are mostly a sub-set of the self-employed and do not appear to differ significantly from most self-employed in their attachment to their personal independence and their selecting of non-commercial objectives for their firms (see Appendix B3). Few are entrepreneurial in any meaningful sense of the term, being mainly motivated by the imperatives of economic survival or distaste for unemployment rather than by a burning desire to succeed or innovate. Their business ventures are similarly non-entrepreneurial, consisting mainly of replications of existing low-technical, low-capital businesses, a reflection of the economic realities they face and their own lack of business knowledge (Stanworth and Gray, 1991). Clearly, if there were any lingering doubts, this failure of the key enterprise culture policy for the unemployed exposes the fundamental weaknesses of the enterprise culture model at the empirical level.

The psychological implications are also significant. Returning to the descriptive model underlying this thesis, as outlined in Diagram 4 (the modified model of business behaviour), this examination of the EAS reveals not only the folly of relying on the encouragement of unrealistic expectations as a means for overcoming difficult socio-economic structural realities but also the power of cultural factors in determining occupational choices and subsequent work behaviour. Certainly, the removal of an alleged 'welfare benefits barrier' has not led to a rekindling of the spark of economic motivation or capital accumulation among the least experienced and most vulnerable members of society. Osipow (1983) and Furnham (1992) both point to cultural factors in vocational choice and it seems likely that the social representation of work and employment in general and of various occupational-concepts in particular will differ markedly between regions of long-term decline and high unemployment and those of relatively stable prosperity. Personal interviews with EAS participants (Gray and Stanworth, 1986)

indicate that they perceive their range of business opportunities to be limited and, given the precarious nature of their circumstances, it is not surprising that they seek to minimise their exposure to risk and failure in a rational though non-entrepreneurial fashion. Indeed, many report that they were cajoled into opting for the EAS by employment exchange officials and it may not represent their own personal career-choice. It is among those who intentionally sought their careers as small business owners that we need to look in order to see whether enterprise culture policies are capable of achieving their objectives.

5.4 Stages of enterprise development.

It is strongly implicit in enterprise culture policies - best symbolised by Lord Young's 'changing' the name of the Department of Trade and Industry to the Department of Enterprise (cf, his successor Michael Heseltine preferring to be called the President of the Board of Trade) - that enterprise development is more than just business development and is specifically about the promotion of new, innovative, 'leading-edge' businesses. To be effective, enterprise development must address:

- (i) real structural barriers to small firm development;
- (ii) management weaknesses that inhibit most small business growth;
- (iii) motivational and skills mix that most encourages innovation and pro-activity.

This section examines the focus of enterprise culture policies in relation to the development of already existing small businesses which only became a policy focus when the non-entrepreneurial nature of the self-employed and most new start-ups became inescapably apparent to policy makers in the late-1980s. A closer examination of the stage models of business development that underlie enterprise culture policies (see section 2.1) will be used to demonstrate that these three issues have not been addressed effectively and that, in fact, there are sound practical, psychological and cultural reasons why few existing small firms are likely to satisfy enterprise culture expectations.

As sections 2.4.2 and 5.2 explain, apart from technical and production matters specific to the business, most small business management problems fall under one of three key heads - finance, marketing and people. In most small businesses, even in expanding or reasonably sized firms, there is a manifest need for the owners or managers to improve their skills in these areas. However, not all problems should be treated as training needs. Many problems are due to structural problems - lack of finance, premises, skilled labour and so on - where support measures other than training are appropriate. Modern theories of the firm recognise that firms behave in response to both internal goals and external market conditions. Agency and managerial theories point out that managers are agents of the owners and that they often have different goals - status, power, independence, market share, etc - from profit-maximising owners who are seeking high rates of return on their capital (Marris, 1964). Thus sales-maximisation or growth in workforce or accumulation of capital assets may better describe the actual behaviour of firms and independence-maximisation the behaviour of many managers. As mentioned in section 2, most of the

classical political economists - from Smith (1776) to Marx(1867) - recognised the central importance of profits to business performance, even when they differed in their interpretation of the fundamental driving forces in human affairs. On this basis, the findings on the growth and business objectives of small firm owners reported in Appendices B3, B4 and B5 provide firm evidence that a majority of existing small firms are not businesses of the type described by neo-classical theory.

The biggest problem for policy makers, however, is that their stage model of small business development is deeply flawed because very few firms appear to take the accumulation of capital seriously. Bearing in mind the criticisms of the stage-model approach to small firm development in general (see section 3.2.4), these models are useful for assessing the actual performance of entrepreneurial small firms in relation to the expectations of the enterprise culture model. A manager-oriented 5-stage model, which used a series of crisis points to chart the firm's progress from *small youth* to *large maturity*, was developed by Greiner (1972). In stage (i), creativity provides the impetus to growth and leads to a crisis of leadership, (ii) growth is through direction which leads to a crisis of autonomy, (iii) then growth through delegation, leading to crisis of control, (iv) followed by growth through coordination provoking a crisis of red tape and the final stage (v) is growth through collaboration. Greiner's model seems open-ended at its upper limits but it does provide a series of choice points and introduces the idea that growth or non-growth involves the owner's volition and intentional participation. However, it is important to note that, apart from the first stage, all subsequent stages involve collective action and explicitly reject the individualism that is so central to enterprise culture ideology. As mentioned in the previous chapter, however, many small firm owners and self-employed share this individualism as part of their own self-concepts and (as Tables B26 and B27 clearly show) even growth-oriented owners tend to be directive and suspicious of delegating responsibility, albeit less so than growth-averse owners.

Developing this idea that the owner's attitudes and decisions have to be balanced against the social imperatives of group work, Neil Churchill and Virginia Lewis (1983) describe a 5-stage model (with a 6th *bale-out* stage for reluctant growers) linking management style, organisational structure and the firm's strategy to successive stages. Stage (i) existence - directly managed personally by the owner, simple organic structure; (ii) survival - more complex structure with some delegated tasks, supervised by the owners; (iii) success - functional management has appeared and the owner is concerned about maintaining profitability but also concerned about whether future growth is a personal aim; (iv) take-off - having decided on growth the firm acquires a more divisional management structure (with or without the original owner); (v) resource maturity - internal systems and complexity reveals a firm that is concerned about obtaining the maximum return on its investments. The Churchill and Lewis model is more flexible and recognises the dilemma facing many successful small firm owners when they are forced to choose between their

personal preference for individual control and their firm's development needs for more strategic goals. However, this model essentially retains a big-business approach and findings mentioned in Appendix B5.2 suggests the growth decision point may come with the acceptance or rejection of external equity investment and the acceptance of internal delegation of responsibilities. The effects of individualism as presented in Appendices B, C and D and discussed in the previous chapter, clearly inhibit both developments.

Specific decision points were used by Sue Bates and Peter Wilson (1989) to develop a *choice-point* as a useful tool in delivering enterprise training to growing small firms. Their 4-point model is more focused on the earlier stages and is very owner-oriented. Point (i) awareness of the need for strategy - without conscious recognition of the need for an explicit strategy there will be little systematic, formal management development; (ii) a willingness to loosen control - growth will be more likely if the owner delegates other management functions; (iii) recognising the limits to the owner's competencies - a management team is more likely to be developed if the owner recognises his or her own limits; (iv) recognising the value of external agents - an effective management team is unlikely to be constructed until the owner accepts that external intervention can be beneficial. The profile of small business owners' attitudes presented in Appendix B, suggests that many more firms will opt for the non-growth approach and intentionally decline to move to the next development stage. The review of studies discussed in section 3.2.1 demonstrate that this is indeed so and suggests that the *span of control* beyond which effective personal direction becomes extremely difficult (put by Miller (1970) at around seven employees) may be a key limiting factor. Indeed, adapting Jaques' (1976) notion that levels of hierarchies within organisations are determined by the different *time-spans* over which decisions are projected, it may be that many small firm owners may not have the personal capacity to plan over longer time-spans which would limit their ability to manage organisations or decisions of any complexity.

The poor educational backgrounds (see Table 8 and discussion in sections 3.3.2 and 4.3.2) and problems with time-management of many small firm owners suggests that their lack of ability (labelled *objective ability* in the general occupational behaviour model outlined in Diagram 4, section 1.2.2) actually does represent a severe constraint for enterprise culture policies aimed at encouraging entrepreneurial business development. Given the isolation and lack of peer-comparison that individualism fosters, plus the general effects of fear of failure discussed in sections 4.2.3 and 4.3.1, their perceptions of their own abilities (*perceived ability* in Diagram 4) are likely to be even less generous. Furthermore, small business owners of this type, including many of the respondents to the surveys presented in Appendix B, will be prone to attribute their own limitations to external agencies beyond their control and reject growth or business development on pseudo-rational grounds (in a manner analogous to the process described by Farr (1977) in his critique of Herzberg's 2-factor theory which was discussed in section 4.2.1). This has the effect of restricting their

perceived opportunities (even when the *objective opportunities* may be wider). Indeed, as the recession deepened during the early 1990s (4th quarter 1992 in Charts 1 and 6), most respondents to the SBRT surveys attributed their own poor performance to the absence of business opportunities (44% of respondents) or cashflow/debtor problems (11%) rather than their own managerial abilities (0.2%) even though marketing and debt control are management functions. Their responses certainly represented economic structural realities in many cases but serve to show how broad economic effects are mediated psychologically through individual perceptions to affect expectations, motivation and business behaviour. At the early stages of growth, when so much depends on the owner's perceptions and expectations, it is clearly extremely difficult for most small business owners to separate their own personal objectives from those they set for their businesses.

These development models share a common understanding that business development involves a shift away from the owner's personal objectives (as a producer) towards objectives and organisational forms more socially determined by the need to compete effectively in their chosen markets (customer-driven). For small business owners who feel their independence or self-esteem is threatened by this process, there are basically two options - either to sell their business to more professional or entrepreneurial managers or to freeze the development of their business at a stage where personal control is maintained which is generally the preferred option as the findings in Appendix B5.2 make very clear. Given the increased complexity involved in managing increased transactions costs and monitoring performance as levels of hierarchy develop (discussed in section 2.3.2), it is not surprising that even the small firm owners who do perceive that they have adequate ability are evidently reluctant to proceed to succeeding stages (though the evidence presented in Appendix B suggests this is more connected with a psychological need for autonomy than a rational consideration of organisational complexity). It appears that the few small firms which do manage to grow successfully pass through roughly five 'life-cycle' stages - *start-up* (establishing or extending from self-employment), *survival* (personal control over the business and employees), *take-off* (more formalised control), *consolidation* of the expansion (formal structures) and, finally, either *decline* (in the absence of new product development), or *exit* (where the owners manage to sell or merge) or Flamholtz's (1986) *transformation* (where the firm ceases to be small and moves into a new era as a professionally managed growing company).

Businesses can get stuck in any of these stages though, given appropriate motivation, it is expected that a learning process takes place, making the management of progression easier. At a theoretical level, the entrepreneur in this model is seen to be making a conscious choice, a pro-active decision either way. The problem for the enterprise culture model is that very few firms conform to this model. Table B23 in Appendix B5.2 suggests that some small firms may gradually evolve as they mature but that very few grow to a size where more formal management structures become necessary. As Schumpeter

predicted, the majority cease any pretence at entrepreneurial growth once they feel secure, which can occur at fairly modest levels of earnings. Entrepreneurs who do decide to set up more professional management structures and to go for growth may find that delegation can actually enhance both their resources and their range of options but all the empirical evidence (presented in section 3.3.2) shows that fewer than 5% of small firms grow beyond having 25 employees (Gallagher, 1991) and that the chance of a firm starting from scratch and employing 100 people within 10 years is less than half a percent (Storey 1986b; Storey and Strange, 1992). It is noticeable in the findings reported in the Appendices that firms below the 25-employee mark have significantly more negative attitudes towards management training (Table B1), towards selecting economic objectives for their businesses (Table B6) and, not surprisingly, towards growth (Table B10) or future development (Tables B19 and B24). As mentioned before, these affects are markedly stronger for the self-employed and 2-4 person (often family) firms.

These anti-development attitudes, even in firms employing up to say 5-6 people, are reflected in a strong reluctance to increase their employment of others and it is clear that the government's removal of employment and strike protection 'barriers' in the labour markets has had little or no influence on most small firms (which, in any case, recruit from a less qualified and less formal labour market than larger firms (Stanworth and Curran, 1973; SBRT QS No 4, 1989; Goss, 1991). A number of plausible reasons for this growth-aversion have been suggested in this section including the need to maintain personal control, problems with the span of control, a rational decision to avoid the increased transactions costs involved in managing larger organisations (the 'hassle' factor), low levels of aspiration and satisfaction and the lack of personal management and planning ability on the part of many small firm owners. To these reasons another may be added. The analysis in section 2 on the role of pre-capitalist formations in the economy and the alienation of redundant workers and in section 3.3 on small business typologies, point to the existence of a sub-culture where the social representation of legitimate work includes a hostility towards large organisations and the public sector coupled with an attraction towards working alone or in small intimate groups. Certain personal abilities, occupations, expectations and outcomes will be valued more highly than others and these do not appear to include those associated with the formal organisation of other people.

That there is a strong family and intergenerational influence present in the career-choice of a large proportion of the self-employed and of the owners of very small (often family) firms is well established (see sections 3.3.2 (Table 7) and 4.1.3 and Tables A7-A10 of Appendix A and Tables B20 of Appendix B5.1) and the discussions in sections 4.3.1 and 4.3.2 on career-choice and learning theories support the notion that they come from a particular social milieu. Although individualism and informality are strong elements in the culture of this milieu, the behaviour and expectations associated with business growth run counter to the culture. Indeed, the one-third of respondents to the study reported in

Appendix B5.1 who do not come from a self-employed family background are more growth-oriented and own bigger firms. It is the non-entrepreneurial smallest firms and the self-employed (by far the vast majority of all firms as Chart 4 clearly shows) which report the strongest attachment to personal independence and the individualism that underpins enterprise culture policies (Table B7). That individualism, it appears, leads not to entrepreneurial businesses but to their opposite. Even with existing small firms, enterprise culture theories find little or no empirical support for their policies of mass intervention.

5.5 Summary.

In this chapter publicly available empirical evidence and specific findings of this thesis (reported in the Appendices) have been used to evaluate whether enterprise culture policies have had an real effect in their intended target areas. Assessing firstly the area of attitudinal and cultural change, followed by the key policy areas of enterprise training and structural policies, especially the EAS, the inescapable conclusion is that there is virtually no support for the enterprise culture model on either empirical or theoretical grounds. This chapter concluded by examining basic enterprise culture stages of growth assumptions and found that, here too, the empirical evidence suggested the need for far more appropriate models to explain the development of entrepreneurial small businesses.

More formally, there is convincing evidence that expanding firms behave differently from static or declining firms and so the first hypothesis should stand:

H1. Entrepreneurs exist as a distinct growth-oriented sub-set of small business owners identified by their clear and positive attitudes towards business, growth, success and personal control.

However, there was little or no support for the second hypothesis but plenty of evidence indicating that neither economic-rationality nor the profit-motive informs decisions about training or self-development and so the second hypothesis can be rejected:

H2. Existing and potential small businesses owners are mainly motivated to work because of the prospect of economic gain.

Similarly, the third hypothesis has to be rejected since all the evidence indicates that the removal of barriers and the provision of support measures, such as the EAS, are largely ignored by most new start-up and existing small businesses for a variety of sound practical, psychological and cultural reasons. Indeed, the individualism encouraged by enterprise culture policies appears to act as a brake on business development:

H3 More individuals with the right entrepreneurial 'personalities' would start new businesses if anti-business political-economic, cultural and skills barriers were removed.

Finally, lack of empirical support for the enterprise culture model and enterprise training as an effective tool for shifting attitudes and changing culture considerably weakens support for the fourth hypothesis which is demolished through evidence that stage models of growth are not applicable to most of the small firm sector and that the proportion of potentially entrepreneurial businesses in the sector is extremely small:

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H4. Increasing the absolute numbers of people working on their own account, mainly through encouraging the unemployed to seek self-employment, will lead to an increase in the number of entrepreneurs and consequent improved economic development.

These findings really provide the finishing touches to the conclusions already arrived at through the analysis and description contained in the previous four chapters. It now remains to draw the strands together as final conclusions.

6. CONCLUSIONS.

With the acceptance of the first hypothesis that entrepreneurs can be defined as a distinct category of business person and the rejection of the last three hypotheses, which all relate to the postulates of enterprise culture policies designed to promote the creation of entrepreneurs, the thesis is formally complete. Although the methodology reflected the inter-disciplinary nature of the thesis and relied more on quantitative measures, it was possible to identify and partially explore key cultural and ideological factors that offer real prospects for explaining why, at both the individual and social levels, people drawn to running their own businesses may not be a significant source of new industries or economic regeneration. Some of these issues have been touched on before in the various disciplines considered here but not integrated or tested against the empirical realities of the working environment of Britain's small business sector. Now, it remains for the various strands of thought to be brought together in order to summarise the main findings, to identify deficiencies in the methodology with respect to new issues raised during the discussion and to indicate areas for future research. Firstly, the implications for enterprise training as an educative process will be discussed followed by a discussion of the political-economic implications for industrial policy of the theoretical and empirical bankruptcy of the enterprise culture model. Finally, some of the more important psychological considerations will be discussed concerning mainly motivation and how ideas generated through the constructivist and social representations approaches may yield more effective support methods for small firm and general economic development.

6.1 Can entrepreneurship be trained?

In the sense that business-oriented people and groups share certain social representations about 'enterprise', it is meaningful to talk of an enterprise culture as a possible policy target and teaching target. There are no real problems about this at a theoretical level, as the discussions on the contributions of constructivism and social representations make clear. As Gerard Duveen and Barbara Lloyd (1990) point out, social representations change over time in any case (through a process they call *sociogenesis*) and that the process of actually developing social representations, *ontogenesis*, 'is a process through which individuals re-construct social representations, and that in doing so they elaborate particular social identities' which become 'psychologically active for individuals' (p7). Enterprise culture policies are about the transformation of social identities and the introduction of new cultural norms. As we have seen at various points throughout this thesis, this raises two important questions: is training the most effective form of intervention for securing these profound personal and social shifts and is management training of the type offered through enterprise training programmes the most effective instrument for achieving these goals?

Given the individual learning processes involved from early childhood in the development of most entrepreneurial characteristics, there are likely to be significant difficulties in replicating these processes among mature-age people on a mass scale. However, as we have argued throughout this thesis, there are also powerful social processes at work in shaping broad attitudes and responses towards work and in determining entrepreneurial behaviour. In the sense that training is often about the development of individual skills it may not be an appropriate instrument for producing cultural change (indeed, if anything, this thesis has shown that the cultural values of the self-employed impede their acceptance of training). Within larger corporations and the public sector, higher management has been heavily influenced by human resource management ideas (Guest, 1987) to try achieving internal cultural shifts (mainly in relation to self-management, quality issues, 'de-layering', etc.) through policies and processes where training may play only a minor part. Their approach often involves the empowerment of employees and affording a greater role for women through the organisation. David McClelland (1968) believed that the development of a more self-confident, achievement-motivated personality lies in giving more power to women. He argued that mothers provide the right kind of support likely to nurture achievement-motivation at an early age while fathers can be too strict or competitive and that, therefore, women should be more empowered to rear children collectively.

Given the lack of prior information on family backgrounds, attitudes and rearing practices (let alone any reliable methodology for determining the actual effects of each individuals' early family dynamics), it was beyond the scope of this thesis to investigate McClelland's views that mothers with high nAch tend to produce children who also exhibit high nAch but there was some support. Leaving to one side the problem of differential satisfaction (satisficing) levels, the studies reported in Appendix D show clearly that small firm owners who intend to grow are more achievement motivated than the self-employed (who have higher nAch than the control groups) and that they themselves were more likely to have parents from the same background (who, presumably, would also tend to have high nAch). From the same studies, though not reported in the Appendix, it also emerged that respondents who reported that their career choices were influenced by their mothers were more likely to be male and very growth oriented. Most of these respondents, however, were not from self-employed backgrounds which suggests that maternal attitudes and child rearing practices have an effect independent of broader cultural effects. This not only provides some support for McClelland's views but also for the enterprise culture objective of encouraging cultural change. However, given the individualism that lies at the heart of enterprise culture ideology, it is unlikely that any proposal to provide collective support for child rearing would get a sympathetic hearing.

These points will be discussed further in section 6.3 but it is worth noting here that even to recognise that these processes need to be taken into account would represent a major advance on the part of enterprise training designers. The level of detail and the

methodology employed in this thesis (relying mainly on self-reported written surveys with virtually no early biodata) does not allow a fully considered analysis of the first question on the overall efficacy of training. However, the weight of publicly available evidence and the findings of the surveys and repertory grids involving enterprise trainees strongly suggest that the enterprise training programmes of the 1980s were not successful either in imparting management skills of any depth or durability or in creating more positive attitudes towards 'enterprise' on a mass basis. Some of the enterprise training programmes achieved less lofty objectives such as removing the unemployed from the unemployment register and raising the awareness of training needs among certain self-employed and small firm owners but in terms of economic and psychological development objectives their effects were minimal. As this thesis has shown, the real problem seems to lie in the inappropriateness of the policies chosen to transform non-business people into people who embrace these previously alien (to them) social representations. These problems multiply and perhaps even comprise different elements when the focus shifts to include only entrepreneurs as a special sub-set of business people.

A further complication for the designers of enterprise training arose from significant differences in the provenance of enterprise trainees with the majority coming from two quite different economic and social starting points. The largest and least promising group are drawn from the large pool of the unemployment and a smaller group from paid employment. There are psychologically significant self-conceptual differences between the self-employed, the owners of small businesses employing other people, employees who work in large organisations and the short-term and long-term unemployed which suggests that policy makers should explore different versions of enterprise training for each group if not different specifically designed programmes. The evaluation of enterprise training in section 5.2 indicates that the present form of basic management training is of little value and makes little impact upon new start-ups from unemployment but may be more useful to either weak or expanding small firms, provided more suitable skills training is included in the course contents. The experiences of the Open University's Startup Your Own Business course and the Firmstart course (Appendix A3) also suggest that some people seeking to leave paid employment and start a self-employed career may also use this type of training instrumentally though not those hoping to embark on a more serious business venture.

As we saw in section 5.2, although relatively few start-ups come directly from unemployment, a far higher proportion of enterprise trainees come from this source and it is reasonable to conclude that social policy objectives has obscured or diverted, in many cases, the economic development targets of enterprise culture policies. Section 5.3 highlighted the enormous differences in the psychological profiles and expectations of the unemployed compared with the characteristics required for successful self-employment as described in Chapter 3. Unemployment is a traumatic experience for most people who have been made redundant and, as the period of unemployment increases, the symptoms -

hostility, guilt, loss of self-satisfaction, loss of identity, feelings of rejection, low self-esteem, loss of self-confidence, and so on - become progressively more powerful (Stokes and Cochrane, 1984; Jahoda M, 1988). Consequently, very few unemployed who try self-employment or even successful EAS participants can expect to progress from start-up stage to survival stage let alone to take-off stage (Gray and Stanworth, 1986). The economic implications of these differences extend not only to job-search and labour market behaviour but will also impact on business behaviour and performance.

In order to replicate the process of ontogenesis, the unemployed will require programmes to boost their self-esteem before they can even contemplate running a successful business as opposed to managing to eke out a living for themselves and their families. For the traditional or 'artisanal' self-employed, who are generally resistant to external control and uncomfortable operating organisationally and who prefer mainly to have personal control over their own space but who are not necessarily interested in extending it, official policies and exhortations in favour of growth will fall on deaf ears, unless they are seen as a way of protecting or strengthening that independence. Paradoxically, although the intense desire for personal independence that is so psychologically-central for these people is clearly a key element in the concept of individualism, which is so central to the enterprise culture, current enterprise training does not address these issues. On the other hand, people already organising other people as a business seem more likely to welcome and benefit from support measures which enable them to organise and operate more efficiently but may not encourage them to become more growth minded. In many ways, these are the most significant finding that emerged from the surveys reported in Appendices C and D.

The entrepreneurial and non-entrepreneurial business owners surveyed in the more qualitative follow-up studies clearly have well-defined self-concepts and occupational-concepts. To encourage more entrepreneurial growth-oriented behaviour among business owners of this type, training initiatives need to address individual concerns with appropriate learning objectives and course contents (not necessarily management skills) and business support policies with appropriate potential reinforcers need to be carefully defined for each group. To be successful on an appreciable scale, however, the social concerns also need to be addressed. The design of such initiatives will have to use the language and appeal to the expectations of each group, starting from an understanding of the social representations that these different types of small business owners hold about their own class or cultural groups. With overall economic growth and the establishment of growth-oriented, well-managed small businesses as central policy objectives throughout Europe, it is clearly vital that these differences in self-concept and, consequently, motivation, be given full consideration. In the absence of long term multi-focused enterprise or personal development training, socio-economic structural factors outside the control of enterprise culture policy makers seem likely to remain the main generator of new successful capitalists.

6.2 The political-economy of enterprise.

Here there are once again basically two issues to address. On both theoretical and practical grounds, current enterprise policies are manifestly flawed and this raises the question as to their validity as a development model. The second issue is more speculative and concerns making a judgement on the dangers of social engineering and on whether or not enterprise culture policies are likely to have longer term effects. On the first issue, it was clear from Chapter 1 that there are serious problems with the theoretical underpinnings of the enterprise culture model as a development model and even at the level of its basic assumptions. Empirically, it is equally clear that no transformation of public attitudes has taken place and Britain's economic fortunes have not soared because of a re-invigorated small business sector or a renewal of the industrial fabric. However, this addresses the economic development issues according to the agenda proposed by enterprise culture policy makers. There is a strong critique of these policies on economic development grounds which points out that the removal of 'barriers to becoming entrepreneurial' is really an fig leaf for a completely *laissez faire* approach which jettisons any attempt at a coherent and planned industrial policy. As mentioned before, enterprise culture policies are not really about enterprise at all according to this view (and supported by the evidence presented in this thesis) but about individualism and self-interest.

During the 1970s, industrial policy was mainly about trying to alter the markets in favour of encouraging particular types of firm or industry. These amount to direct intervention to manipulate certain aspects of the current socio-economic structure. The capital markets can be manipulated by fiscal measures such as taxation exemptions or subsidised capital (Italy relies on several types of 'soft loans' - ie, below base interest rates - to encourage the growth of small firms), both the capital and goods markets can be affected in one direction or another by allowing various allowances on new investment in capital goods and the labour market can be affected, as mentioned above, by reducing employer's costs, income support measures and regulation (pay policies and freezes). The role of training in industrial policy was to upgrade the skills of workers and of managers in particular sectors and to improve the general skills of the workforce rather than the enterprise culture focus on enterprise management training. Enterprise culture policies only made use of fiscal policy to re-distribute wealth to the employing classes and concentrated upon the labour market but as part of their social policy rather than as part of their industrial policy, shying away from active and effective interventionist policies. Even the income-support aspects of the EAS were rather limited in their scope and not directed at all the labour force or at any particular industrial sector.

This leads on to the second issue. It is in this area and in related human resource management and development policies that advocates of industrial policy are now looking. Britain's record in all types of training at all levels has been abysmal and steadily declined during the enterprise culture years (NEDO, 1988; Cutler, 1992). The consequences in

human and psychological terms has been to restrict employment choice and limit individual levels of aspiration while on the economic front it has reduced the skills and the technology base thus constraining entrepreneurial opportunities. There is a growing body of evidence that successful new small businesses more capable of survival and growth, are being started by several founders working together as teams (Dunkelberg and Cooper, 1982; Barkham, 1987; Storey et al, 1989). This type of social activity takes the form of planned enterprises or, sometimes, of management buyouts, spawned the recognition of new opportunities opened up by structural shifts in the economy or in the changing business strategies of larger corporations. The politics of individualism, which is such a fundamental part of enterprise culture policies and the ethos of many self-employed and traditional small firm owners, can stand in the way of this process and may be judged, consequently, as anti-entrepreneurial.

Business groups are clearly more aware of themselves as decision-makers and appear to believe they have greater control over their own destinies than many other groups (including academics or personnel students). However, there are also clear signs that the self-employed tend to have significantly different self-concepts from those of the small business managers. The greater importance placed on independence as a personal career-motive and on lifestyle or status as business objectives among the self-employed with the growing emergence of economic motives as the organisational size of the business increases, highlights these differences (see Tables B6, B7, B9, B10, B17 and B24 in Appendix B). The relative importance of achievement motivation together with a stronger perception of internal locus of control among those intending to remain self-employed compared with potential small business managers suggests that success among the self-employed is judged less according to business criteria and more in terms of personal autonomy and freedom from control. This would explain why so many self-employed prefer not to employ other people and why they set non-economic objectives for their 'businesses'. This is clearly an enormous internal contradiction in the enterprise culture policies that have dominated Britain during the 1980s.

By contrast, the respondents to the study reported in Appendix B who intend to become managing directors of small (and sometimes) big companies had a slightly weaker tendency towards perceiving themselves as having an internal locus of control and the importance of independence seems relatively a little less strong among those who actually do employ other people. This suggests that independence for them is seen more in organisational terms and less as a part of personal individualism. This may also help explain why there are only slight differences between them and the employees of large organisations in terms of their self-reported achievement motivation. However, the desire of potential small business owners to organise others and to take decisions is reflected in their higher self-reported internal locus of control and achievement motivation than the employees. Many of the potential managers were already operating businesses and their

rather more realistic and calculated approach to business risks among the potential managers - they were less inclined to seek new challenges than the self-employed - suggest that an awareness of the imperatives of organisation and planning may temper their need for new or short term achievements or that they have already attained their expectations (satisfaction). This generalised growth-aversion on the part of most self-employed and many small business owners obviously places serious constraints on the effectiveness of public policies aimed at developing the small firm sector.

There is little doubt that, economically, direct structural interventionist policies are more effective than enterprise culture policies which may very well be harmful to personal and economic development. In the longer term, however, we are not in a position to assess the social psychological and cultural implications of enterprise culture policies. One methodological weakness of this thesis is that there is no measure or assessment of respondents awareness of and attitudes towards the key enterprise culture policies of which they are a central target. Nor were the background educational factors explored. Even simple self-reported questions on background data and attitude scales would have provided benchmark data though a repertory grid approach, similar to that on how enterprise trainees construed the concept of the entrepreneur in relation to their own circumstances (in Appendix E), could have been used to provide valuable qualitative information. This is a natural extension of the examination of cultural and family effects on small firm responses towards growth and future development and are certainly extremely important areas to explore. Indeed, they reflect the two different approaches discussed in full in the introduction: the laissez faire enterprise culture model which focuses on attitude shifts or the more structured approach which focuses on social development.

From the detailed picture presented in this thesis of family and other cultural influences on the development of entrepreneurial small businesses, supporters of enterprise culture policies could argue that the effects of the massive growth of self-employment may not be felt in this generation but will have its full impact on the next generation, many more of whom will have a self-employed family background. Opponents may well argue that, as most self-employed operate as pre-capitalist elements in the secondary sector, their culture is not particularly entrepreneurial, especially as their educational standards and heritage has been considerably depleted. Instead, it could be argued that the higher cultural base and self-development inherent in a well-resourced broad educational system is more likely to lead to innovative and imaginative behaviour and the ability to organise the social forms of work that seem to be the true hallmark of entrepreneurial development. The evidence presented in this thesis tends to support the latter position but these issues were not addressed squarely and the argument here rests mainly on psychological grounds with the true empirical test left to future historical judgement as will the question on whether the general enterprise culture approach has had long lasting detrimental effects on other parts of the economy and the social fabric of Britain.

6.3 Developing entrepreneurial behaviour.

Psychological considerations associated with enterprise culture policies have already been raised in the previous two sections and elsewhere throughout this thesis. Now is the time to consider implications for future research. A number of related issues need to be addressed. The first are primarily psychological and concern the effects of essentially non-entrepreneurial work motivation and low levels of aspiration among the self-employed, the unemployed and among many employees on business behaviour and participation in public policy initiatives. Attitudes towards and expectations of education and public policy are other areas of interest to social psychology while many issues of concern to developmental psychologists and cognitive psychologists have been raised at various points in this thesis. The second concerns the areas where economic and psychological research offer mutual benefits and new insights to each other such as in the areas of information gathering, usage and interpretation (as mentioned in section 2.3.2). Also, the strict concepts of economic motivation and rationality have been strongly questioned in this paper and it may be that this area of enquiry should move to exploring new concepts of wealth and differential demand (as opposed to the neo-classical concept of effective demand). The third issue is more multi-disciplinary and concerns the practical steps that may have to be taken in order to take into account the effects of cultural factors - class, education, family, peer group - initially in the self-employed career choice decision and later in continued growth-orientation.

Taking the more psychological issues first, the prevalence of non-business work motivation needs to be taken into account in many areas of public policy. The behavioural ramifications of non-work motivation on business-related behaviour should provide a fertile field for psychological research and eventually support discussions on alternative policies designed to cater to a wider range of personal needs. It is evident that enterprise culture policies have totally failed to take into account the dominance of non-economic personal motives among their target groups, where there may be more interest in training to develop technical skills or social interactive skills which may have a business value but which are accepted because of linkages to other non-business areas of personal life. The demoralisation, poor self-esteem and low levels of aspiration - in short the characteristics of a fear of failure (discussed in section 4.2) - prevalent amongst the unemployed and many of the new self-employed will clearly affect their attitudes towards business and their business behaviour. The other side of fear of failure, however, is also present among potential enterprise trainees and new start-ups - the dreamers who set themselves unrealistically high levels of aspiration. It is a tricky psychological and course design challenge to be able to identify both extreme types. The next, equally tricky challenge lies in devising strategies for boosting the self-confidence of the first group while gently discouraging the unrealistic aspirations of the second group. The clue may lie in providing longer term pre-career and personal development choice programmes where self-

employment is only one of several options. Courses helping the self-employed use their business-related skills for other purposes may have the effect of raising the status of their work-life in their own eyes and make them less apologetic and resistant to improvement.

Turning to the areas where psychology can inform economic thinking and *vice versa*, this thesis has strongly questioned the appropriateness of economic rationality and the primacy of profit-maximisation as the main motivation of small firm owners. The above discussion on the effects of different work motivations on business behaviour could be usefully extended to considering how and in what terms entrepreneurs define wealth. The high status given 'lifestyle' as a business objective suggests that reducing wealth and reward to monetary or accounting values may run the risk of losing some of the social value of work and success. That said, however, it is clear that the longer-term growth prospects of those who seek an individualistic or loner lifestyle as a business objective is limited. Their self-concepts as independent individuals are likely to mean that they are equally uncomfortable in accepting the necessary constraints of organisational life either as employees or as employers. It was pointed out in Chapter 4 that business will be psychologically central for them and the lifestyle they seek to support may well be anti-growth. Even if they are not actively hostile to, or awkward with, the idea of employing other people, such as secretarial or technical support staff, their growth horizons are likely to be severely limited. Patterns of distribution of the self-employed with and without employees (see Chart 4) strongly supports this conclusion.

There are sound psychological reasons (information overload, span of control, problems of delegation, loss of personal contact, and so on) and often legal considerations (mainly concerning taxation and industrial relations) why few small firms employ other people and why even fewer pass beyond a 20-employee barrier. Indeed, even small business managers who set economic objectives - such as profit-maximisation, market share, and so on - for their firms are likely to restrict the growth of their firms as they achieve functional business independence or sufficient income to support a sufficiently high and independent lifestyle (Schumpeter, 1934; Duesenberry, 1949; Hirsch, 1977). To the extent that business growth is impeded by lack of useful and timely information, and the owners poor capacity to manage the information effectively, there seems to be a case for focusing on training and broader education in this field. Equally, the social skills of dealing and networking with other firms would address some of the social and resource constraints that non-entrepreneurial firms with growth potential appear to face. However, as with McClelland's courses on encouraging nAch, dedicated attention to these particular problems would require specific training initiatives which currently fall outside the current rubric of enterprise training.

Finally, policy makers need to identify the small business managers who recognise that training and the efficient use of capital will enable them to reach that point of achievement

satisfaction and independence more swiftly and securely. Here, the findings on cultural factors should be helpful. The need for more research into the effects of and attitudes towards education has already been mentioned. Sociological and psychological research into informal communications networks within and between the appropriate milieu may repay handsome dividends in identifying people doing non-entrepreneurial jobs who nevertheless share entrepreneurial social representations of the work, business and broader cultural references. As well as family and cultural communications and background, the criteria of success and achievement actually used by entrepreneurs, perhaps as part of their concepts of wealth and reward as mentioned above, is another area that merits attention. In some cases, performance standards are directly related to business objectives and, provided the level of aspiration remains the same, the satisfaction - the feeling of achievement - comes with the attainment of those objectives. In other cases, satisfaction derived from successfully creating the enterprise itself rather than the goods or services produced by the business could provide the spur.

It may be that entrepreneurs with family or cultural business backgrounds find the business world a natural arena for their talents and business objectives wholly natural and satisfying as personal targets. Other entrepreneurs, perhaps those with managerial or professional backgrounds, may feel that business offers them an opportunity to acquire sufficient wealth to afford an expected high standard of living. Furthermore they may recognise that this means only a profitable business will enable them to achieve their ultimate goal. For yet another type of entrepreneur, however, the choice of a business career might itself have been an expression of a deeper level motivation. Whatever their degree of intrinsic motivation, entrepreneurs will distinguish themselves from other small businesses by their strong motivation and clear goals. Of course, high motivation on the part of business owners clearly is not a sufficient condition for business success. As this thesis has confirmed, actual ability and opportunities, as well as their perception of their own abilities and opportunities, are clearly vital elements in the success of any small business (Carswell, 1987; Davidsson, 1989a). Ultimately, entrepreneurs are distinguished from other imaginative and energetic small business owners by their ability to perceive and to respond to changing economic realities. The enterprise culture model has evidently failed to provide them with sufficient prospects for satisfying their many needs and until public policies recognise the complexity of entrepreneurial motivation it is hard to see many more able people seeking the route of self-employment if they can gainfully avoid it.

6.4 Summary.

This thesis has drawn on a wealth of existing research from many disciplines and upon its own original research to analyse, in economic and psychological terms, the function of the entrepreneur as both a target and an instrument of current development policies aimed at creating an enterprise culture. The key aspects of entrepreneurial development, and the part that enterprise culture policies have played in it, have been critically assessed.

Consequently, the three main objectives set out in the beginning have been achieved. The main original contribution to entrepreneurial development theory is the conclusion that the economic thrust of enterprise culture policies represents an alien culture to the vast majority of self-employed and small business owners and that the psychological impact of the policies actually promotes a culture of individualism which is inimical to the sustained development of enterprises or of the economy. Referring to the research hypotheses, the key thesis findings may be summarised in the following statements and recommendations:

- (i) Entrepreneurs do exist mainly as a sub-set of growth-oriented small business owners, defined economically and psychologically by their desire to take their own decisions and their more developed capacity to organise other people in pursuit of business growth and the realisation of their own personal ambitions;
- (ii) Growth-oriented small business owners tend to exhibit different cultural, personal developmental and motivational patterns from other small business owners manifest not only in actual business performance but also in the more evident psychological centrality of business and in the clearer setting of appropriate business goals and effective use of information;
- (iii) The more positive approaches and attitudes towards business and taking control of their own lives by entrepreneurs appears to be largely determined by family background, child rearing and cultural factors (including class and education) rather than a knowledge of management skills;
- (iv) As a product of personal development, growth-orientation is neither genetically determined nor a distinct personality trait capable of propagation through management training or the manipulation of public images;
- (v) To play any significant role in the development of more growth-oriented businesses, enterprise training must become part of a continuing and longer process of personal and social development rather than remain restricted to management skills training.

The overall conclusion is that the problems and potential solutions to Britain's socio-economic development crisis are extremely deep rooted and require long-term , innovative social and educational policies aimed at fostering an enterprising and cooperative culture rather than short term, limited management skills training courses and advertising slogans aimed at promoting an individualistic culture of the *entrepreneur*. In the terms of the central issues of this thesis, it must be concluded that it is difficult to transform large numbers of people into adopting a more entrepreneurial approach through current enterprise training and that enterprise culture policies have not transformed, nor are likely to transform in the immediate future, social attitudes and expectations significantly in order to create a new class of innovative entrepreneurs.

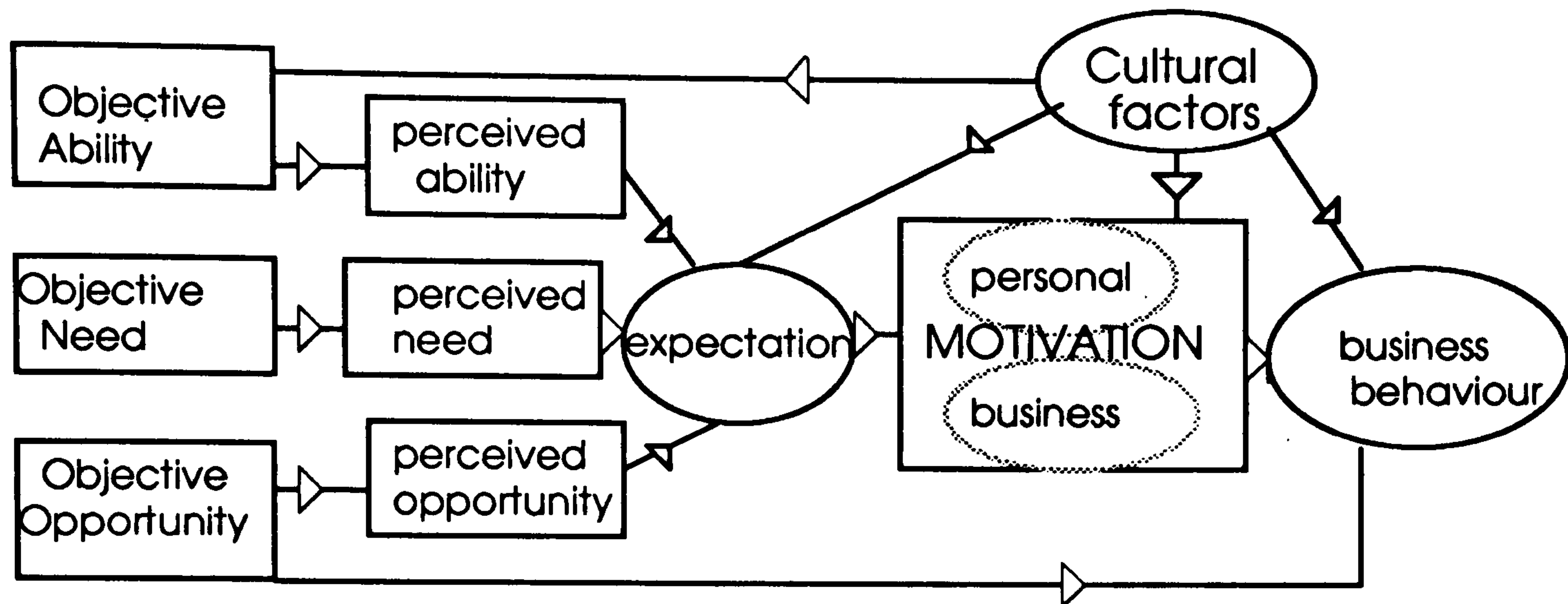
7. REFLECTIONS: CULTURE OF ENTERPRISE

The four hypotheses relating to present enterprise culture policies have been tested and a number of conclusions that question both the theoretical basis and the methods of implementation of those policies have been drawn. Empirical evidence presented from a wide array of public sources indicates that the policies have, in fact, not achieved their aims. It was argued that the research findings of the thesis revealed two fundamental flaws in the 'enterprise culture model': a mistaken reliance on the primacy of economic motivators and an over-emphasis on promoting individualism. What now remains is the drawing together of the inferences from the findings that concern enterprise development and the psycho-economic goals that enterprise culture policies were seeking to achieve. This chapter closes the thesis with the development of a more appropriate model of the role of active small firms in economic development. The earlier model outlined in chapter 1 (and briefly discussed in relation to stages of development in sections 3.2.2 and 5.4) needs to be re-examined in the light of the findings reported in the thesis and the role of entrepreneurs in economic development needs to be re-assessed. To a large extent, this re-assessment will reflect the economic role of the entrepreneur as successful capitalist, drawing on earlier discussions on business stage models of development and management theory. It is argued that this thesis provides support for the view that the appropriate policy target for economic development should be *enterprises* rather than individual *entrepreneurs*. An alternative model based on this idea is outlined in which the role of culture as a social force is expanded. This chapter concludes with a consideration of areas of future research raised by the new model and the findings of this thesis.

7.1 Re-examination of the entrepreneurial development model

In section 1.2 a general model of business behaviour was derived from models developed by George Katona and Per Davidsson which was used to provide a framework for linking the main areas of concern in the thesis. The main relationships between external 'real' objective factors that affect businesses and how their perception by entrepreneurs determine business expectations and behaviour was described in Diagram 4 (repeated below). The empirical data and findings from the studies reported in the Appendices, as discussed at various points throughout the thesis, now suggest that this model does not provide an adequate framework for explaining small business behaviour in general or entrepreneurial behaviour in particular. The findings and issues discussed in this thesis imply the need for a more dynamic model for the information flows between the elements of the model and a stronger role for the cultural factors.

Diagram 4. General model of business behaviour.



Moving from left to right in the direction of the flow of the model, it was mentioned in Chapter 1 and section 5.4 that the objective factors can be regarded as the real constraints upon business activities. The earlier implication that the 'objective' factors referred to external structural conditions affecting commercial and broader social activities at any given time or place should be made more explicit here. Clearly, individual firms and entrepreneurs (indeed, also particular industries) will be affected positively or adversely by external structural changes according to their circumstances and the nature of the changes (which could range from weather conditions to subtle switches in consumer preferences). This important qualification reflects the findings of this thesis that socio-economic structural factors have a powerful role in determining entrepreneurial behaviour. The observation made earlier that entrepreneurs may have a stronger congruence between the objective and the perceived elements becomes even more valid and capable of being operationalised in entrepreneurial research (and highly likely to reflect a key distinguishing feature of entrepreneurial behaviour). However, these elements in the model, 'ability', 'need' and 'opportunity', are conceptually unclear and seem to be mixtures of personal and business categories. Following Schumpeter's line of argument, it was suggested that a key factor distinguishing entrepreneurs from other managers is that they are more adept at overcoming apparent informational and production limitations in producing goods or services which customers prefer to those of their competitors. Therefore, the actual or objective abilities of entrepreneurs and the staff and other people they organise to achieve their goals will be a source either of comparative advantage or of limitation depending on their levels of competence and the actual skills required for the successful completion of key tasks. However, the organisation of work and cultural attitudes towards it are currently undergoing significant changes.

Efficient firms require financial, physical and technical resources which they are increasingly drawing from external sources as and when they are needed. In many industries, employment relations are giving way to contractual relations and the main function of core staff becomes servicing customers and ensuring contract compliance.

Increasingly, efficient and growth-oriented small firms (the proxy used in the thesis for *entrepreneurial* firms, with growth measured in sales) are the former larger firms with reduced workforces, former parts of larger organisations that have been 'hived off' and many more effectively managed small suppliers whose owners are prepared to work within the structures created for larger firms. Also, industrialised societies have seen a significant growth in the number of qualifications, regulations and standards that govern commercial life and require particular skills or abilities, often in response to the pressures of global competition rather than in response to government regulations.

It is the overall *capacity* of firms, real and perceived, rather than just the individual abilities of their owners, managers or employees that limit the scope of their activities. Capacity includes more than abilities and is more observable and quantifiable, especially when it concerns specified skills and resources. Perceptions of their own and their staff's capacities plus their perceptions of competitors' capacities has an important part to play in determining small firm owners' expectations of success. However, there are also likely to be cultural factors of a more general nature which influence perceptions of desired abilities, resources and skills. Entrepreneurs may well be able to identify crucial skills and tasks more accurately than other small business managers. Perceptions of relative capacities between firms will generally influence perceptions of comparative opportunities and threats so the external elements of the model should not be seen as completely independent variables. There are problems also with the other two external elements, 'opportunities' and 'needs', because there is little to differentiate them from each other.

The perception of opportunities is an important element in the model because it is related to notions of creativity and imagination as well as to the concept of risk. However, the 'need' element in the model is redundant. Opportunities arise because customers develop new objective needs or because new ways of satisfying existing needs become feasible. As we have seen throughout this thesis, entrepreneurs are defined in terms of their ability to perceive and to respond to these changes more quickly than do other business managers. It is relatively straightforward to discuss opportunities and to identify the gaps between reality and perception. However, (as we saw in section 4.2.1 and in the findings reported in the Appendices) needs are complex concepts which are often ill defined, hidden from view and difficult to operationalise. Indeed, at times, Davidsson 's (1979a) category of 'objective needs' appears to confuse the needs of small business owner-managers with those of customers but, as we have seen, these are not located externally, even though higher level needs are largely determined by external, social processes. Certainly, the perception of many lower level needs (either the needs of entrepreneurs or of customers) are even more strongly determined socially through broad cultural or more immediate occupational influences.

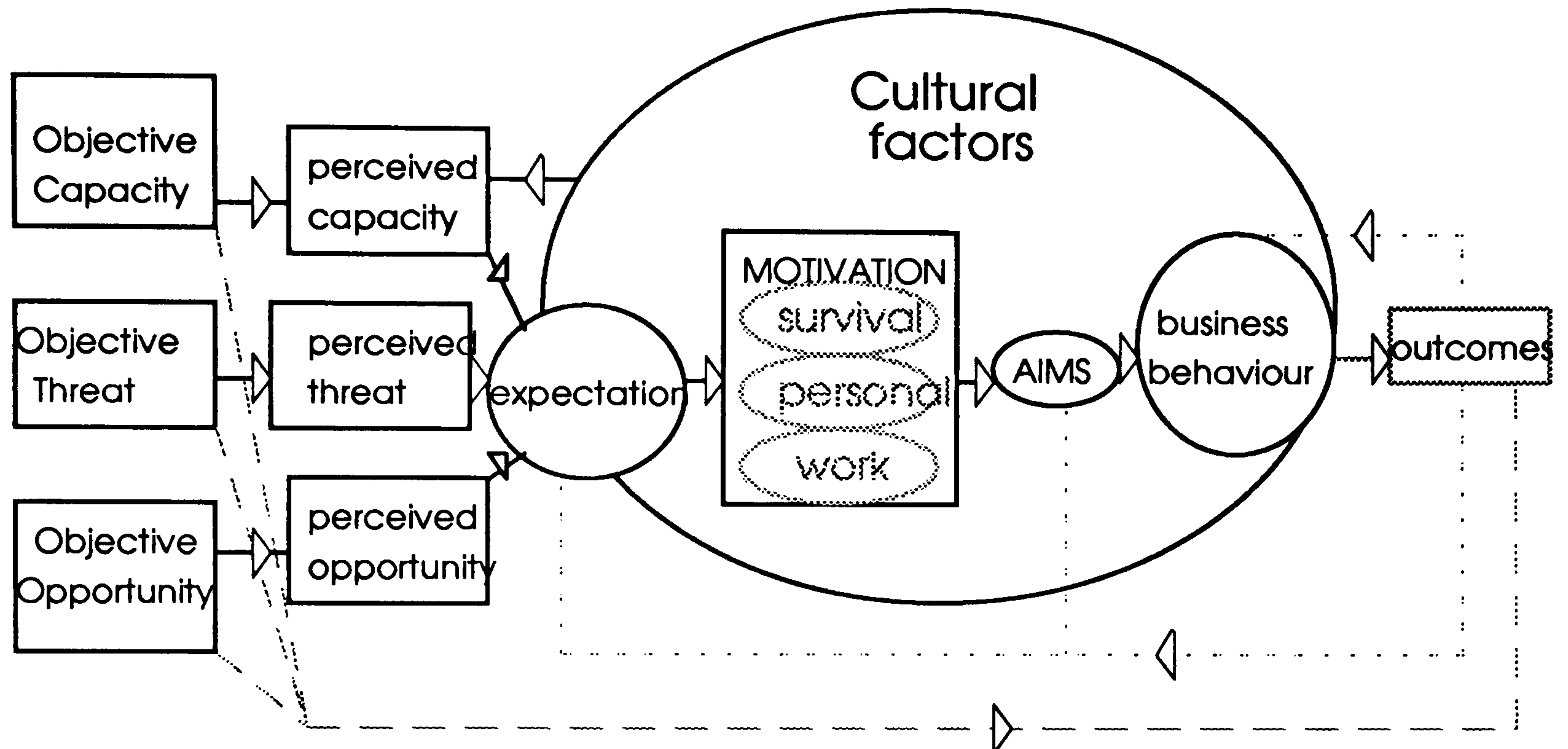
Indeed, even though the cultural influences were introduced into the earlier Katona/Davidsson model to produce the adapted model used as the descriptive framework in this thesis (Diagram 4), they now appear to have been understated and weakly defined. Broader social representations of occupational roles and of the economy not only influence individual expectations but also shape the perceptions of abilities, needs and the entire business environment. Indeed, modern social anthropologists clearly see the development of cultural norms almost in terms of individual members of groups becoming aware of and participating in the social representations that characterise any given group (Schweder and Levine, 1984). There is a lot of common ground between social anthropology and developmental psychology in regard to the acquisition of cultural norms. This can be seen as commencing from the earliest years of life and, for some, even earlier in inherited predispositions towards certain social behaviour (including the use of language). Developing the acculturation process described only briefly in sections 3.3.2 and 4.3.3, it is reasonable to assert that the distinctive social representations of a particular culture are so pervasive and deep-rooted that they are bound to channel the attitudes and behavioural patterns of all members of the group, albeit in individual ways allowing for personal differences of ability, aptitude and social status (as defined and applied within that culture). They will also determine the selection and interpretation of information at various levels from the individual and family, through corporate and industry, to national cultures. Consequently, cultural factors will affect most elements of this model - the *personal* in terms of perceptions and expectations, the *organisational* in terms of work relations and business behaviour and the *economic* in terms of contact, competition and exchange between economic actors as well as through more abstract notions of success and value.

7.2 A behavioural model of enterprise.

The findings of this thesis suggest a number of crucial alterations to the model developed in chapter 1. As it stands, the model in Diagram 4 does not reflect the full impact of cultural influences or the inherent dynamism of business or of economic development. Given the importance of socio-economic structural factors and of business-cycle effects on the attitudes and behaviour of small business owners (discussed in detail in chapter 3), the model should be sufficiently flexible to take into account structural fluctuations. In order to support further research in entrepreneurship or small business behaviour, the revised model must be capable of generating new hypotheses or of depicting relationships that can be tested. In particular, the model must comprise elements and relationships that can be assessed and measured. This suggests that the revised model should also include the aims and the outcomes that form such important elements in most management models. Once again, however, the validity of the aims and of the outcomes by which their success is judged will also be subject to strong cultural influences. The following diagram represents an attempt to include these considerations in a revised model of business

behaviour which also includes a further disaggregation of motivation into the three main spheres suggested by the discussions on motivation in section 4.2.1 and on career choice in section 4.3.1.

Diagram 5. Revised general model of business behaviour.



The flexibility and power of this revised model is even further improved by the expansion of the role of cultural factors, the inclusion of aims and outcomes and the disaggregation of motivation into three separate spheres. The direction of information flows is clearer and all the elements of the model are observable, particularly following the replacement of 'abilities' by capacity and 'needs' by threats and the inclusion of aims and outcomes. The mix of cultural factors, which are mainly determined socially, and individual perceptions that form an individual's expectations can be seen to be part of a dynamic process. As Chart 1 in section 2.2.1 clearly shows, expectations are not particularly stable over time but change in response to changes in the external environment. An interesting test for the model would be to see if it allows for the testing of the relative importance of structural and cultural factors, and the role of feedback, in determining expectations in terms of stated aims and observed outcomes. It may be hypothesised that, if no significant link was found over time between intentions (expectations and aims) and outcomes, then the role of the individual entrepreneurial decision maker (which is the centrepiece of this model) as an independent element in the economy would be considerably weakened. In relation to the processes of economic development, there would be a strong argument for concluding that this type of model was not appropriate or had been falsified, and that other models not based on individual decision-makers should be tested (such as those based on biological models of the behaviour of populations which are finding some favour in modern behavioural economics).

Another area where the model itself could be tested concerns the relative importance of the different spheres of motivation, such as those relating to work, personal interests and

economic survival as mentioned in section 4.2. It might be hypothesised that the relative importance of different spheres may be more stable to the extent that they reflect cultural norms which are deeply rooted. Therefore, in relation to the perceptions of risk or of self-efficacy, the model also allows us to take into consideration the fact that, say, a particular opportunity may be seen as requiring a lot of time to ensure success which in its turn may pose a threat to domestic harmony or involve a clash with other personal aims. Thus perceived threats in one area may counter perceived opportunities in other areas. The effects of these trade-offs was perhaps best seen in the discussions in section 4.1.1 and Appendices B4 and C5 on fear of failure (a *threat*) and its constraining effect on growth-aspirations which will be reflected not only in expectations but also the aims set by business owners. This revised model allows not only for the effects of negative or unexpected outcomes on business behaviour and expectations to be analysed and investigated but also permits such key concepts of the 'entrepreneurial personality' as *need for achievement* or *need for autonomy* to be examined in more detail.

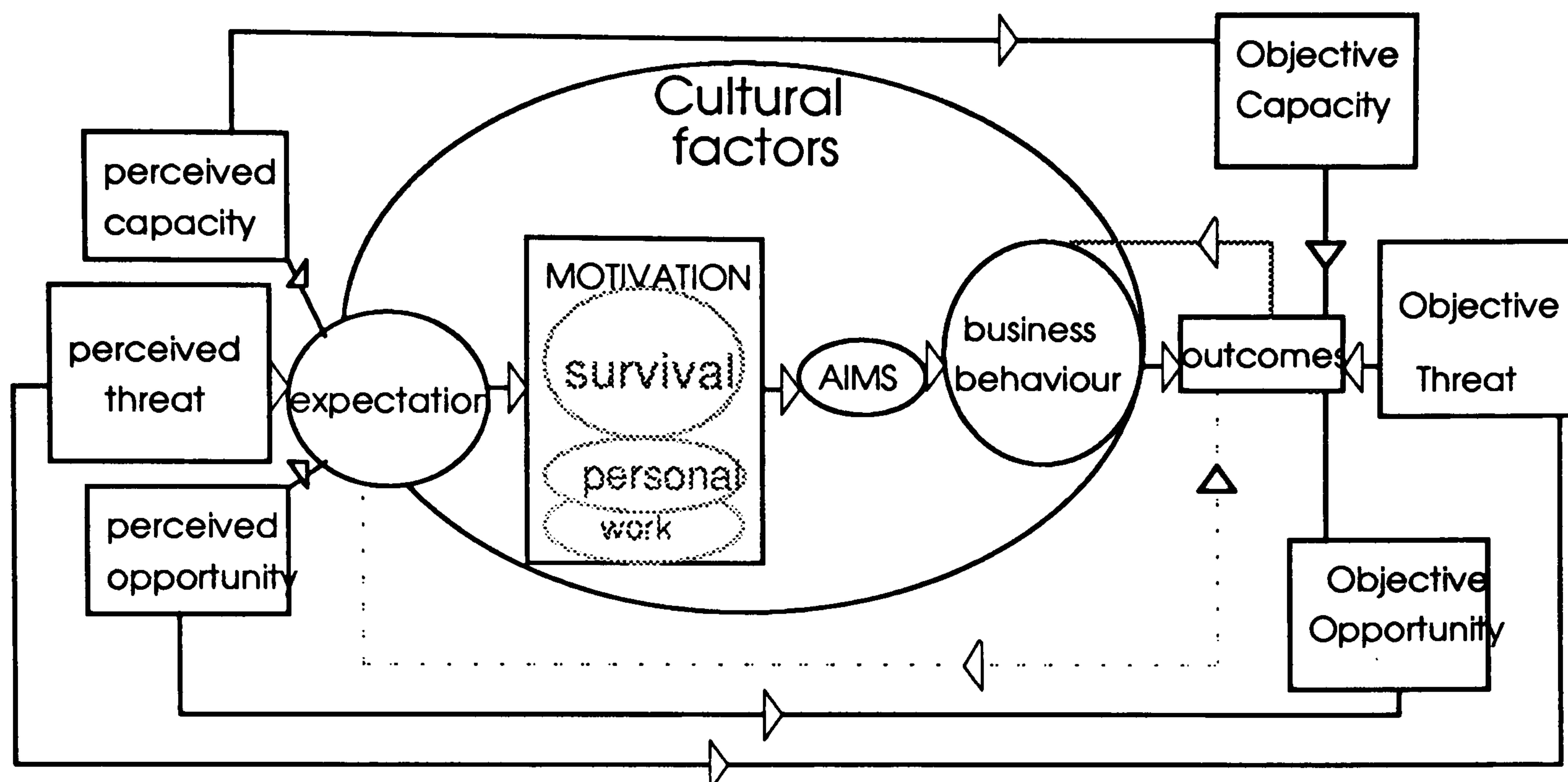
One of the important findings of the thesis is the importance of sociological and of personal life-cycle influences on the career-choice of different types of small business owners. It seems reasonable to view the pro-active or enterprising behaviour of most people as a function of (i) their own perceptions of their own abilities and the opportunities and threats they face, (ii) their objective abilities and how they are perceived by others with whom they have contact (peers, family, customers, staff, suppliers, competitors, etc.) and (iii) culturally determined occupational concepts and life-style expectations. This revised model facilitates a better understanding of the issues discussed in this thesis such as the unity of nAch as a concept (in section 4.2.1) by Cassidy and Lynn (1989) and Adrian Furnham (1990) and the emergence of two components - 'satisfaction' and 'continued striving' - in the findings reported in Appendix D. The 'satisfaction' component can be treated in a similar way to perceptions of risk and of self-efficacy mentioned above. The proposition that higher levels of Simon's (1957) 'satisficing behaviour' would be associated with perceptions of high reward opportunities and self-efficacy, but lower current capital accumulation, could be tested using methodology that behavioural economists often use to test for endowment effects. The effects of cultural and personal life-cycle factors could be tested through comparing stated expectations (using the self-report method in the way the SBRT does or through more searching personal interviews) with subsequent actual measurable outcomes (and perhaps using historic empirical data to estimate congruence between perceptions and 'reality'). A series of studies of this type could be used to concepts such as 'pro-activity', 'continued striving', 'enterprising behaviour' and other similar ideas.

It is worth emphasising that the splitting of motivation into the three spheres enables the effects of differing and competing needs, as well as changes in personal circumstances, to be taken into account. Thus the newly emerging capitalists analysed in Marx's terms in

section 2.2.2 may come from a different sociological milieu from, say, sports or outdoors activities enthusiasts or music buffs. They may adhere to quite different cultural values yet still share certain psychological or personal life-cycle characteristics connected with persistence in seeking higher levels of satisficing. Earlier, it was suggested that the internal locus of control associated with entrepreneurs may reflect their clearer conception of their own ability to participate in the construction of relevant social representations. However, it was also clearly established at various points throughout the thesis that entrepreneurship is very much an economic concept. It basically refers to business behaviour which must ultimately be judged according to business outcomes. Successful entrepreneurial outcomes are unlikely to arise from motivation that is more focused on non-work issues even though personal, culturally-determined ambitions will also be very important. To be enterprising and pro-active may be a characteristic of successful entrepreneurs but it is not a sufficient condition for entrepreneurial behaviour and, as this revised model implies, springs from combinations of causes which may vary widely in composition and relative emphases.

Indeed, this thesis has shown that we should expect different behavioural patterns from owners of different types of firm. For instance, the essentially individualistic and non-entrepreneurial character of most self-employed, and the strong cultural influences evident in that milieu have been discussed at some length throughout the thesis and are clearly present in the findings reported in the Appendices. The basic model outlined in Diagram 5 can be used to discuss important aspects and determinants of business behaviour, including the key differences between the different types of small business discussed in chapters 3 and 4.. To highlight the main differences between these categories - the self-employed, small business owners, entrepreneurs - the revised model can be modified to fit the patterns of behaviour exhibited by each these different types of enterprises. The following diagram attempts to depict how the behaviour of most self-employed could be described in terms of the model.

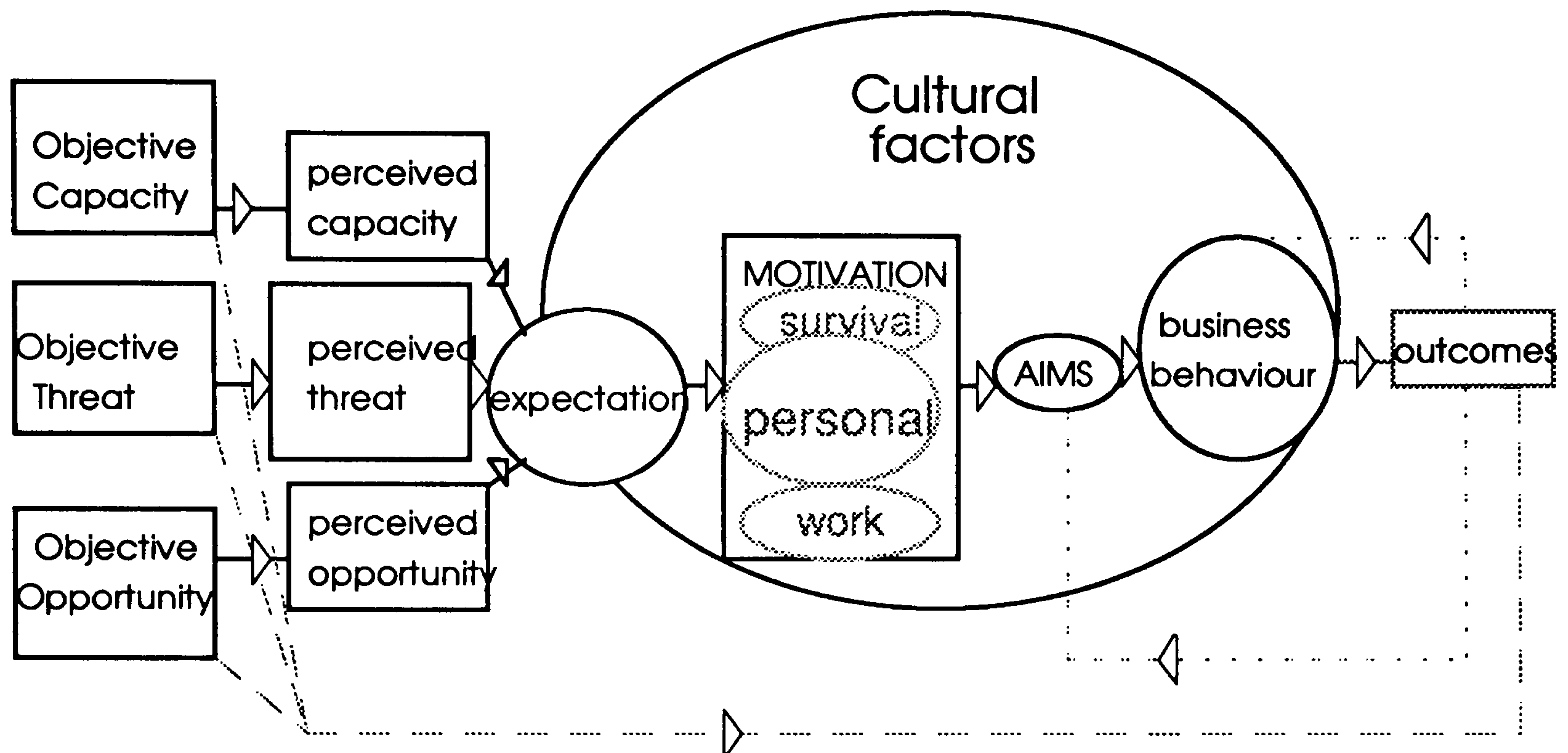
Diagram 6. Business behaviour model: self-employment.



The main changes reflect the findings reported in this thesis, particularly the more reactive nature of most self-employed which is shown in the dominance of lower-level survival motivation and the direct impact of objective opportunities and threats on work outcomes. This modification to the revised general model, not only represents the speed and flexibility of the self-employed but also their essentially reactive (and in many cases dependent) relations with immediate business conditions. The short lines of information flow and lack of feedback also helps to explain why most self-employed are poor at planning. They have little time, especially during recession, for planning. It is not surprising that growth orientation among the self-employed sole-traders and the smallest mini-firms is so low (as Appendices B4 and C5 confirm). It would be interesting to test the proposition that expectations among most self-employed are shaped directly by external structural factors and play little part in anticipating or planning future business behaviour. This is not to suggest that cultural determining factors are any less important to the self-employed. Indeed, the dominance of the need for autonomy or independence suggests that the picture of a strong anti-establishment consciousness among Marx's pre-capitalist formations may still hold true today. Instead of business plans, spontaneity and flexibility seem to be highly prized and the question of personal power over one's immediate affairs is clearly important. Some of the main differences between the self-employed and other small business owners with employees seem to spring from the fact that many small businesses have accumulated some assets which are put at risk by an injudicious decision unlike many self-employed who essentially sell their labour (this is reflects the brief discussion in section 4.2 on Kahneman and Tversky's (1982) framing effects in risk-perception and endowment effects in economics). It is also clear from the discussions about the non-entrepreneurial nature of most self-employed that many of them have different cultural approaches towards participating socially in formal work environments or, more broadly, in capitalist society. These social elements are very

important because they determine not only the different personal goals of the self-employed compared to small business managers but also, in conjunction with perceived and objective opportunities and threats, they explain why they made their occupational choice. The following diagram, which is closer to the general diagram, describes the model as it applies to small business owners.

Diagram 7. Business behaviour model: small business owner.

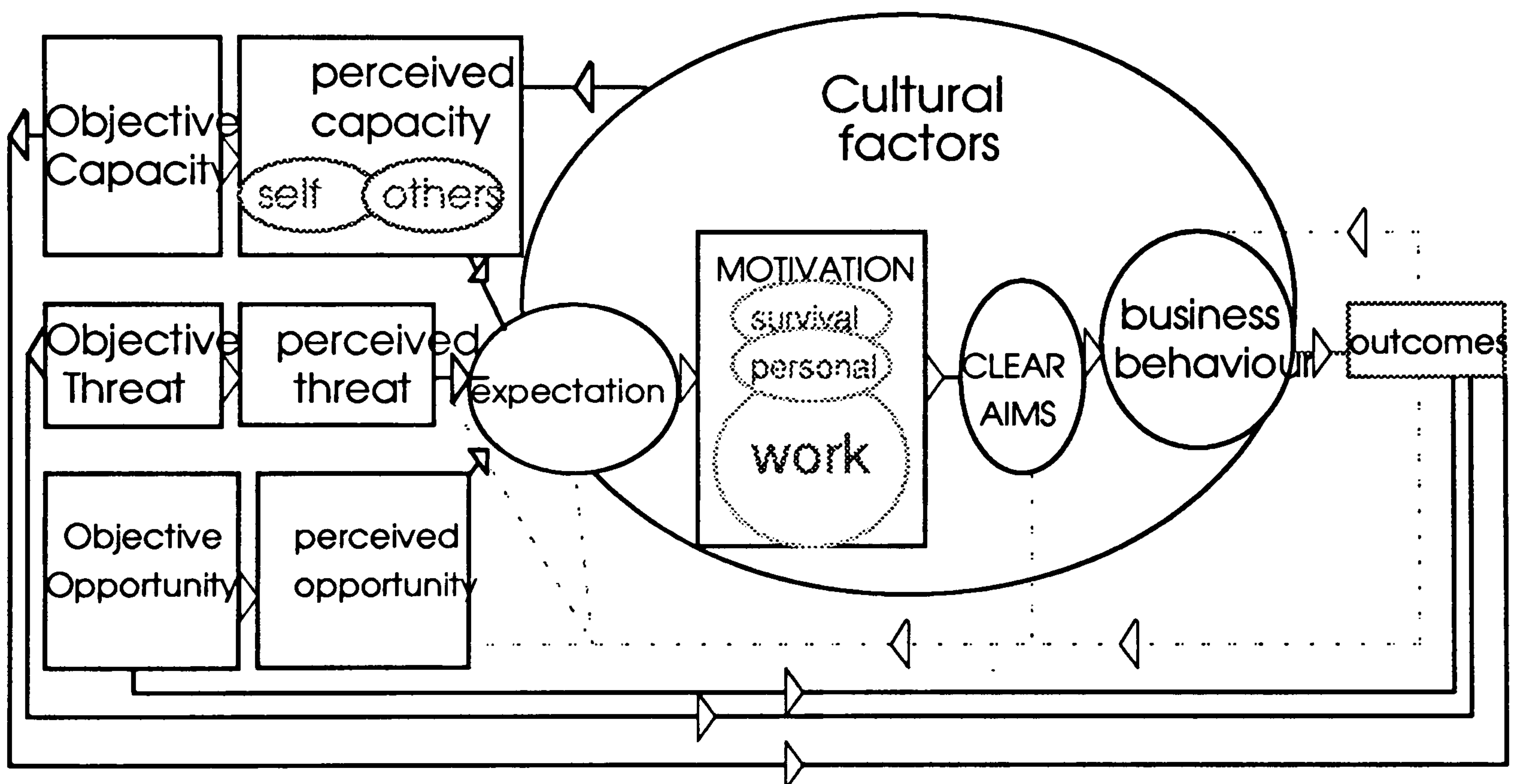


Here, the personal goals dominate and outcomes feed directly back into the setting of aims which will be modified to respond to business realities. Small business owners can also be flexible in their behaviour but hold their expectations and perceptions of the external world more rigidly. This conforms to the high value that small firm owners place on maintaining their lifestyles and their limited or non-existent growth aspirations. There is a gap between the objective factors and their perception of them. An important overall aim of this thesis has been to identify which factors, whether objective or perceived, are important in the development of growth-oriented small businesses and to explore whether these factors can be induced or nurtured where they were previously absent. As mentioned above, this implies that the owners or managers of such businesses have a conscious intention of using their abilities to start and expand their businesses, further implying that they consciously set appropriate commercial and strategic objectives for their businesses.

It seems reasonable to hold that effective business judgement reflects the correspondence of an individual's perceived capacities, opportunities and threats to their objective possibilities and the individual's ability (*competence*) to act upon that information. It is not too difficult to then interpret Timmons et al. (1977) list of common entrepreneurial characteristics (described Table 9 in Chapter 4) in terms of business competence and the expected outcomes those of successful business growth and performance. Modern management theory is certainly moving in this direction and away from older hierarchical, scientific management or management-by-objectives models. In smaller enterprises,

however, It remains an open question, not addressed directly in this thesis, whether business competence corresponds to the levels of individual capability and work effectiveness of small firm owners. Elliot Jaques (1976), who was one of the pioneers in applying cultural models to organisational behaviour in large firms, has argued that individual capacity in planning and work effectiveness (in effect, the capacity to plan for different time horizons) are the key determinants of the structure and career-path opportunities of bureaucratic hierarchies. It may be that similar individual capacities are also the main determinant of entrepreneurial small firm growth and success. The conclusion reached in section 1.2, that entrepreneurs must be more capable and competent as business managers than most self-employed and other small firm managers, is supported by the findings of this thesis and is depicted in the following diagram.

Diagram 8. Business behaviour model: the entrepreneur.



The main features of this entrepreneurial variant of the model are the greater congruence between the objective and perceived elements, the greater emphasis on opportunities, the dominance of work motivation and the way feedback also directly affects expectations (which then pro-actively determine the setting of appropriate and clearly defined aims). The essentially social nature of a successful enterprise is also explicitly recognised in the importance accorded to the accurate perception of capacities of self and others. It has been argued in this thesis that the 'entrepreneur' is basically an economic concept which includes owners of independent businesses who are able to organise other people in successfully pursuing a business enterprise. In these terms, success is usually measured in terms of market success - market share, profit-growth or the introduction of a significant and profitable product, process or organisational innovations. Both of these criteria, particularly the second, would have the effect of boosting economic development and together they imply psychologically a positive orientation towards the efficient growth of

the business. However, it does not follow (as we saw in the discussion on stages of growth in section 3.2.2) that the informational needs of expanding and innovative enterprises will remain constant or that their growth and development will continue and flourish under the control of a single individual entrepreneur. There is nothing in this model which entails that sustained growth must be an outcome (indeed some entrepreneurs switch from one opportunity to another in search of revenue or profits unencumbered by any sense of maintaining assets in the form of permanent staff or premises). In some cases, however, growth is an outcome and the policy challenge remains that of how to encourage this to occur more often and more significantly.

7.3 Implications for the development of an 'enterprise culture'

In the sense that the model now contains more elements from management theory, it conforms more with current enterprise and management training practice. In particular, the recasting of the external elements in terms of capacities (to include both abilities and resources), opportunities and threats plus the inclusion of aims and outcome measures, strongly reflect management theory. Nevertheless, the differences between the different variants of the model highlight the enormous differences that still remain between the self-employed (who form the bulk of enterprise trainees), small business owners who employ other people and entrepreneurial business behaviour. The discussion in the previous section identified some areas where further research might cast light on key problems and offer potential routes for more effective policies. The two general areas that stand out lie in the fields of cultural influences and related areas concerning the role of information.

Throughout the thesis various references have been made to the importance of cultural influences on career choice and business behaviour. Edward Tylor's (1874) definition of culture as the capabilities and habits formed by individuals as part of society (see section 1.2.1) has stood the test of time and remains the valid, particularly in the light of the various discussions on the role of social representations, but it is very broad and needs to be refined for any particular context to which it is applied. A fundamental point made in this thesis (section 2.2.1) was that the very concept of the 'entrepreneur' is a cultural construct that has reflected the spirit and economic development of its times. Many of the cultural considerations that need to be taken into account when describing the behaviour of small firms, the self-employed and entrepreneurs as groups in today's developed economies have been extensively discussed from a sociological perspective (in section 3.3.1). However, in a way that perhaps detracts from its precision as a concept, culture is also used as an explanatory or discriminating factor at the macro level between industries, within organisations and at a national level. At the broadest and most general level as used by social anthropologists (introduced in section 3.3.2 and mentioned in the last section), cultural influences differentiate whole societies from each other. This implies that there will be discernible differences in attitudes towards all occupational concepts, including business behaviour of the types discussed above. The status of different industries and

occupations will not only affect career-choice but also the values and organisational forms of all types of firm, big and small. The international differences in international performance and in the structure of self-employment in different industrialised economies (summarised Tables 1 and 2 in chapter 1) reflect these differences. We have already discussed how capitalism evolved differently from different medieval cultures in both East and West (Pirrene, 1937 and Weber 1984). Psychologist Richard Lynn (1991), whose views on achievement motivation we have already mentioned, has also stirred up controversy over his views on cultural differences in this area. The Dutch social psychologist Geert Hofstede (1980) dominates the field of cultural influences in business and management, though his findings are also by no means uncontroversial (especially in any application to small firms).

Following an intensive study of work behaviour and norms of organisational behaviour in large organisations in most industrialised economies, Hofstede identified a four-dimension framework for comparing business cultures: Later, following validation studies of the framework in China (Hofstede, 1991), a fifth dimension was added.

Power/distance - the psychological distance between hierarchical superiors and subordinates;

Uncertainty/avoidance - the need for direction and order in the face of innovation and novelty;

Individualism/collectivism - the relative importance a culture places on individual effort as opposed to collectivist and group centred endeavour;

Masculinity/femininity - this really contrasts task - and performance-orientation, usually measured by money and material gain, and includes 'quality of life' issues as well as concern for others and for the environment.

Short-term/long-term orientation - this contrasts an immediate concern for maintaining social traditions and status with a longer term perspective involving deferred gratification, saving and adaptation of traditions to current and likely structural changes.

We have discussed most of these concepts as psychological needs at the individual level (mainly in section 4.2.1 when discussing psychological needs and motivation, and in the discussion on nAch and fear of failure in section 4.2.3). For instance, behaviour associated with Murray's nDeference and nDominance is likely to be a feature of the power/distance dimension, perhaps nAchievement, nInfavoidance and nUnderstanding with uncertainty/avoidance and, a central finding of this thesis, nAutonomy and nAffiliation are associated with the individualism/collectivism dimension that is so important in analysing the work behaviour of the self-employed and small firms. The masculinity/femininity dimension does not find an echo in Murray's list of psychogenic needs but does reflect some of McClelland's observations about the early development of achievement motivation (Appendix D and sections 4.2.3 and 6.1). However, this is an example of an unfortunate label since the male-female divide on the dimension is only evident in 'masculine' cultures but, even there, only weakly. Also, as many commentators have observed, including the German sociologist Ulrich Beck (1992), there is a growing shift away from the 'masculine' model towards 'feminine' concerns which means Hofstede's concepts may now be less applicable.

Nevertheless, his cultural maps and five-dimension framework, based on an analysis of the corporate cultures of large firms in different societies provoke interesting discussions. Theoretically, Hofstede re-emphasises the social role that national cultures play in influencing different occupational and industry sub-cultures as well as individual behaviour and career choice. If the concept of organisational cultural norms does hold true nationally, then it might be expected that certain management styles and conventions of commercial conduct would predominate in firms of all sizes. Where those cultural norms do not reflect the requirements of modern capitalist development, it may be that entrepreneurs will tend to be the aberrant outsiders as described by Weber (1930) and Kets de Vries (1977). However, a note of caution (mentioned earlier in the discussion on nAch and locus of control in chapter 4 and Appendices C and D) needs to be stressed. The direction of causation remains a problem here as it does for McClelland - does the distribution of psychogenic needs among individuals in a population reflect the cultural norms of the society or group to which they belong, do cultural norms arise as an implicit consensus or polarisation among individuals who share the most common psychogenic needs, or do cultures and psychogenic needs both reflect the stage of economic and structural development of a society or group? Because these issues are clearly interdependent, great care has to be taken in methodology and interpretation when using culture as a variable. Neither this thesis nor the studies mentioned here have addressed these questions satisfactorily though it is evident that cultural factors at various levels are real phenomena that need to be taken into account in entrepreneurial research.

Keeping this caution in mind, Hofstede's approach has produced some interesting findings. At the end of the 1970s, just before the inception of enterprise culture policies, Hofstede identified Britain as a central member of the 'Anglo' group which also consisted of Australia, Canada, Ireland, New Zealand and the United States. The characteristics of this group in terms of average management styles were low psychological power distance, low uncertainty-avoidance, high individualism and high masculinity. By contrast, 'Latin' groups had high power distances and high uncertainty-avoidance. Japan also had high uncertainty-avoidance but medium power distances and medium individualism which it shared with the 'Germanic' group. The Germanic group shared with the 'Anglo' group a low power distance (in other words, less of a formal distance between hierarchical levels). Not too much should be read into these reported cultural differences because they only represent average scores (with wide variances in some cases) concerning the behaviour of corporate executives. There are, however, two main points of interest concerning the issues considered in this thesis and the development of an enterprise culture.

The first point is that a factor analysis of the responses did produce national groupings which exhibit cultural affinities that have a strong face validity. The second point is that the strong individualism of enterprise culture policies was already clearly part of the culture of the dominant class in Britain (of which the top echelons of management are an

important constituent part). These types of national differences in business styles and attitudes and the more individualistic approach of British firms was still evident in more recent European studies such as the Interstratos study on exporting behaviour (Haahti, 1993). Beck (1992) can point in Germany to a new 'societalising' tendency that is beginning to counter the effects of a pervasive 'individualisation' process of advanced capitalism (and point to features of modern German society that are also apparent in Britain). However, observation suggests that new forms of collectivist behaviour in business are not so advanced in Britain. The point made in the last chapter about the retrograde effects of enterprise culture policies, because of the central importance given to individualism, are clearly deep-rooted and may explain the initial appeal of those policies to many commentators and voters who might otherwise have not been so supportive of a Conservative government.

Anthropologists have long made the point that 'western' cultures are more positivist, rationalistic and individualistic than most other cultures in the world (Geertz, 1973) and have even accused psychology as being part of individualism's defensive shield. At an inter-disciplinary debate on culture, Richard Schweder remarked that until recently 'psychology was known as the nonsocial social science' (Schweder and Levine, 1984, p 4.). However, there are signs of changing attitudes along the individualism/collectivism dimension. Pressure of global competition from Germany and Japan, is producing a change in corporate culture. Within entire industries, distinctive cultures are developing which not only affect other smaller firms down the chains of production and distribution but also filter into broader cultural mainstreams as altered social representations held by managers are transmitted to other members of society (Schein, 1981; Pettigrew and Whip, 1991). Perhaps the field that offers most interest to social psychologists and is central to the process of cultural change is that concerning *value* concepts. Values can be seen as abstracted social cognitions that reflect and determine an individual's participation in a culture and can, therefore, be explored usefully at both the levels of the individual and of society. They are similar to Kelly's personal constructs but more socially determined. An individual's set of values reflects the significance of different social representations to that individual and so can relate to the range of individualist and collective needs discussed in section 4.2.1 (Schwartz and Bilsky, 1987). Research into value formation and value shifts provided a clear operational focus for assessing cultural influences (Hofstede and Bond, 1984) and is used increasingly by marketers in the context of lifestyle analysis in order to ensure effective communication with target customers.

A switch in emphasis towards values associated with more collectivist forms of business behaviour suggests a way forward for creating a more effective 'enterprise culture'. In terms of our business behaviour model, the focus should be on improving entrepreneurial and small business capacity for gaining competitive advantage from cooperating with other firms or with the specialist self-employed. It is now clear, however, that any mass

support or training will have to take into account culturally accepted forms of communicating and the values systems of target enterprise trainee groups. This raises the second broad area of concern - the role of communication and information. This thesis has already demonstrated that information limitations have a significant impact upon the scope and accuracy of the business expectations of small firm managers. As Chart 1 in section 2.2.1 indicates, the influence of information limitations on the formation of expectations particularly evident during an economic recession and weakens considerably their value as predictors of business behaviour (a weakness that could be tested through the model, relating expectations to aims and then to subsequent behaviour and performance). Social desirability and causal attribution effects also corrupt information and adversely affect the predictive power of business expectations among small firm owners. Lifestyle marketing and new forms of communication, through applications of information technology, may enable small firm professional advisers to address 'misinformation gaps' through offering a wider range of help, advice, information and training than most providers of the basic management training that passes as 'enterprise training' are currently capable of doing.

Any attempt to foster values that support greater business cooperation and enterprising behaviour in the form of an 'enterprise culture' cannot afford to ignore the largest small business population - the self-employed. It has been established beyond reasonable doubt throughout this thesis that a need for independence (and related needs for autonomy and respect) are central to the value systems of most self-employed. Looking again at the graphical description of their business behaviour as outlined in Diagram 6, it is clear that measures that can enable many self-employed to find more personal time without fear of a loss of income are needed. This thesis provides some support for those campaigners who advocate a reduction in red-tape and form-filling for the smallest firms. It may be that an acceptance of a notional minimum wage for all people of an earning age would enable the self-employed to earn up to certain levels without fear of fiscal penalty from the taxation authorities. This type of policy does not command universal political support and does not address directly the question of creating an enterprising culture.

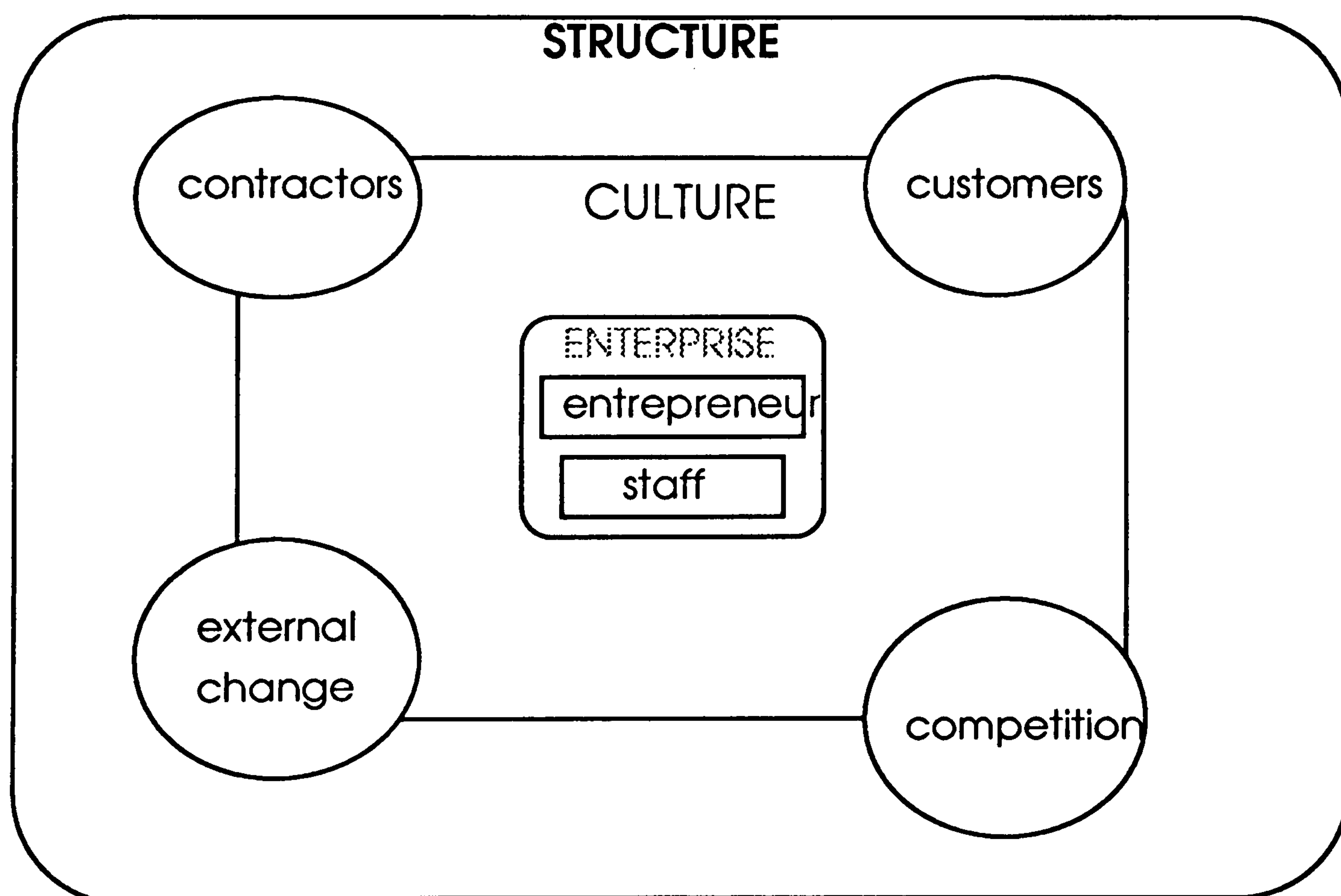
It is hard to see how - even with messages and information crafted to appeal culturally to different categories of the self-employed - many self-employed will find time to consider their ways of earning their living more creatively or more rationally. One answer may lie in the content of enterprise training. Perhaps training related more to assertiveness and other social skills called for in business might be helpful. Another solution may lie (paradoxically given their staunch individualism) in a greater provision of universal social services relating to child care, education and communication. This approach would find support from McClelland's (1968) view that earlier socialisation and a greater emphasis on the 'mothering' side of personal development, coupled with reward for achievements among the very young, is the route for establishing a more achievement-oriented culture. Furthermore, a re-focusing on the social rather than the economic development of the self-

employed may lead to a complete re-appraisal of enterprise policy through recognising that entrepreneurial business behaviour need not require an individual entrepreneur nor be confined to small independent firms. Increasingly, small autonomous units are being formed within larger organisations and many non-business organisations in the public and voluntary sectors can be extremely enterprising.

7.4 Implications for enterprise development

The evidence and arguments presented above suggest that an enterprise culture is more likely to flow from the social interactions demanded of effective enterprise development policy than from any marketing campaign, no matter how effective. One important implication to draw from the conclusion of this thesis - that the individualism so central to enterprise culture policies is also its fatal flaw - is that the unit of analysis, or the ultimate policy target, should not be the individual *entrepreneur* but instead the *enterprise* itself. This is the very strong implication from the discussion on stage models of business development in section 3.2.2. The following diagram shows where the entrepreneur fits into the competitive environment.

Diagram 9. The entrepreneur in context.



This diagram is not intended to represent the dynamic process of competition but to show clearly the points where policy interventions might have an impact. Moving from the outer ring that represents the socio-economic structural factors inwards, the early part of the thesis presented a strong case for considering entrepreneurial development to be a consequence of the structural changes taking place in an economy. The structural factors which receive policy support in various economies include:

Enterprise Culture: an acquired taste?

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Social change
Environmental issues
Technology
Economic cycle
Business conditions.
(local & abroad)

Competition
Industry trends
Factor markets
(supply and demand)

We have already discussed cultural influences extensively and some of the areas which might affect value formation and therefore be potential sources of influence on business behaviour include:

Education
Family influences
Class influences
self-concept
work-concept
life-cycle
lifestyle

One policy option for addressing the cultural influences and for providing new skills for addressing problems in dealing with competitors, contractors, customers and suppliers remains training. However, many of the skills required are technical rather than the more psychological aspects of developing positive feelings about 'enterprise'. This still leaves open other important questions about the role and content of 'enterprise' training. The thesis has already demonstrated convincingly that most if the basic business techniques course provided under the rubric of enterprise training have failed to produce a skilled approach to business or to transform naive business owners or non-business people into effective innovating entrepreneurs. It was suggested that Gary Becker's (1964) *human capital theory* provided a useful economic rationale for analysing training effects and the attitudes of small firm owners towards it. Becker's theory links participation in training to the expectations of increased future reward as a result of the new skills, experience of qualifications.

Whether financial incentives or status/career improvements could induce the acquisition of the right range of staff and management skills to support more effective enterprises is ultimately a political decision outside the scope of this thesis. However, it can be said that the portends are not good. The question still returns to cultural influences and how highly education, development and training are valued. A great deal of attention has already been paid by present enterprise culture supporters to finding good exemplar case-studies of firms that have prospered following training. Their efforts have not been crowned with evident success. According to Becker's theories, enterprise owners are too aware of the obvious costs in time, money and lost opportunities to risk investing in staff improvements when faced with the prospects of uncertain reward. There may be a case for compulsory training levies so that the perception switches to the possibility of recouping at least some of their outlay if the training works. Another approach might be to take measures to raise

the revenue and status of the trainers through the use of appropriate incentives and qualifications.

One of the most important issues that needs to be addressed if enterprise policy is to be about the development of enterprises not just entrepreneurs, is how to drive the early founder managers along the stage development curve. Another related problem is how to provide them with acceptable exit routes so that they can leave a viable enterprise feeling they have been properly rewarded for their initial hard work and vision. Once again, this seems to be the role of fiscal policy by giving successful retiring owners tax incentives - income tax, sales tax and inheritance tax. Local development banks or local stock exchanges could also offer markets in local firms enabling owners to sell or to move out gradually. They would also have an incentive to ensure that their firm was left in a healthy and profitable state. These ideas have been aired by various commentators and some have found their way into the small firms policies of various political parties. They are not of direct concern to this thesis. Rather, the human behavioural aspects of encouraging successful business founders to raise their levels of competence and satisfying behaviour remains as the central issue. The focus is slightly different and the concept of an enterprising culture does not contain the unfortunate attack on the 'dependency culture' that current enterprise culture policies do. The 'enterprise culture', where individual changes in attitudes were expected to transform existing cultural norms, may be better viewed as an 'culture of enterprise' that shapes individuals' values, perceptions and behaviour. The psychologists' role in exploring the effects of cultural influences and the processes of value formation make this new suggested approach considerably more interesting and, therefore, more amenable to successful policy intervention. This thesis has indicated some useful avenues to explore in order to achieve the goals of effective economic renewal.

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APPENDIX A: DESCRIPTION OF QUALITATIVE STUDY

A.1 Methodology

The studies described in these appendices were preceded by two related studies which are mentioned in the main text: a comparison of unemployed enterprise trainees compared with personnel students on a career suitability scale, the Myers-Briggs personality inventory and Rotter's IE scale (Gray, 1986) and a study of how enterprise trainees in southern Italy construed the contents of their course conducted through interviews and repertory grids (Gray, 1987). The personality inventory did not discriminate meaningfully between the self-employed, small firm owners and other groups, or aid the interpretation of data gathered from other sources. On the other hand, data gathered through repertory grids was almost too rich and too individual to be applied easily to a large study of social phenomenon. This method was used in a strictly limited way to explore enterprise trainees construals of themselves and of entrepreneurs on the two sub-samples of enterprise trainees described in Appendices A and E. The data gathered specifically for this thesis derive from two main sources: (i) responses by individual members of various training groups to a number of scales, questionnaires and, in some cases, repertory grids (each sub-sample is described in more detail in Appendix A) (ii) aggregated quantitative data collected through questions inserted in the Small Business Research Trust's (SBRT) Quarterly Surveys of Small Business in Britain (described in Appendix B). Further analyses of particular areas of interest - locus of control, need for achievement and personal constructs of enterprise trainees are described in detail in Appendices C, D and E).

The main aim of the more qualitative studies was to explore differences, over a range of personal characteristics (including biographical, cultural, business, personality and attitudinal), between various groups of enterprise trainees. The quantitative and qualitative halves of the overall study have been brought together in two ways. Firstly, many of the members of the sub-samples who were actually operating a business at the time of the study also completed SBRT quarterly survey questionnaire forms. Secondly, and more importantly from the perspective of the development of the main themes of this dissertation, a special survey based on the findings of the qualitative studies was conducted among a special sample of 470 growth-oriented and growth-averse members of the SBRT Database. The purpose of this survey (described in Appendix B.4) was not only to synthesise the findings of the qualitative and quantitative sides of this total study but also to explore the key differences between entrepreneurial (growth-oriented) and non-entrepreneurial (growth-averse) owners of small firms in terms of business performance and on the principal psychological and sociological variables discussed in the dissertation.

A.2 Characteristics of sample

A number of attitudinal, locus of control and motivational scales and personal background questionnaires were completed by 145 respondents, of whom 82 (57 per cent) were male and 62 female (43 per cent), with one non-response to the gender question. The relatively high proportion of females - in June 1990, males accounted for 76 per cent of self-employment in Britain (down from 81 per cent in June 1979) - is due to the high proportion of females in the control group of personnel students (except for the end column, these are row percentages).

Table A1. Sub-samples and GB self-employed 1990 by gender

Gender:	Male		Female		Total	
	(row percentages)					
Occupation	no.	(%)	no.	(%)	no.	(col %)
Enterprise	36	(75)	12	(25)	48	(33)
Graduates	29	(83)	6	(17)	35	(24)
Non-business	7	(50)	7	(50)	14	(10)
Personnel	10	(21)	37	(79)	47	(33)
Total	82	(57)	62	(43)	144	(100)
SBRT thesis survey	279	(90)	28	(10)	307	(100)
Self-employed GB, 1990	2577K	(76)	803K	(24)	3380K	(100)
with employees	825K	(78)	233K	(22)	1058K	(100)
All employees GB	11708K	(52)	10987K	(48)	22695K	(100)

The enterprise trainees are in line with national gender distributions among the self-employed while the non-business group and the qualitative samples are in line with the gender distribution for all GB employees. It is interesting to note the very high proportion of male graduates among the GEP sub-sample. The Employment Gazette April 1991 reported female graduates entering self-employment at a faster rate than men but they may select self-employment after gaining work experience). The sample for the SBRT survey of existing small firm owners reflects the strong male bias of the database and is discussed also in connection with Table B16.

In common with most studies involving enterprise trainees from different training programmes (Gray and Stanworth, 1985; Blythe et al, 1990), the enterprise courses from which the subjects for the qualitative studies were recruited fall into two broad categories - basic management skills training for startups (people about to become self-employed, those about to start their own business and those who have recently done so) and management improvement for existing firms. Respondents were from both these categories and a further sub-category from specially designed post-university courses for graduates, the Graduate Enterprise Programme (GEP), were also identified separately to highlight the any educational and cultural determinants of career choice and subsequent business performance. As already mentioned, repertory grids (described in Appendix E) were conducted among the Firmstart and GEP enterprise trainees (described in more

Appendix A

detail below). Subjects were recruited and tested during 1988-90 via a number of enterprise training and support initiatives including:

- * the Firmstart programme (growth-potential startups and existing firms) run by Trent Polytechnic (Nottingham);
- * the London Enterprise Programme (LEP - covering a similar range to the Firmstart trainees) run by the Polytechnic of Central London;
- * the Graduate Enterprise Programmes run by Cranfield School of Management;
- * a self-employment course for the unemployed run by Thames Polytechnic;
- * the *Startup Your Own Business* distance-taught programme run by the School of Management at the Open University;

In addition, two separate groups of established small business owners and managers also completed the scales and survey questionnaire:

- * a group of small firm owners recruited by enterprise agencies in Bolton, Milton Keynes and Swindon to pilot the *Opening the Single Market* distance-taught programme run by the School of Management at the Open University;
- * some 307 members of the Small Business Research Trust (SBRT) Database who were fairly evenly split, on the basis of an earlier survey (see following Appendices), between growth-oriented and growth-averse small firm owners.

Apart from the inter-group effects, these qualitative studies also contrasted the enterprise training groups with a number of control groups including academics who expressed no desire to start their own firms, members of unemployment counselling groups ultimately seeking full-time employment and Diploma of Personnel Management students who were mainly seeking careers in large organisations but also rather closely matched the enterprise training groups in age and social profiles. Both the two latter groups were recruited through the (then) Polytechnic of Central London. The subjects were classified in four different categories derived from the different recruitment groups - enterprise trainees, graduates, non-business and personnel trainees. The DPS personnel trainees, especially, and the GEP graduates, to a reasonable extent, were both fairly homogeneous groups in terms of their backgrounds and rationale of their training programmes. The non-business people were mainly academics (plus 2 redundant public sector employees) but, as mentioned above, the enterprise trainees included both startups and existing business owners. The following table outlines their occupational status at the time of completing the questionnaires and interviews.

Appendix A

Table A2. Occupational status of respondents at time of study.

<u>Occupation></u>	<u>student</u>	<u>unemployed</u>	<u>self-</u> <u>employed</u>	<u>manager/ MD</u>	<u>employee</u>	<u>TOTAL</u>	
<u>Sub-sample</u>						<u>subjects</u>	<u>(col %)</u>
Enterprise	0	3	19	14	12	48	(33)
Graduates	8	6	16	4	1	35	(24)
Non-business	0	3	0	0	11	14	(10)
Personnel	0	1	1	7	39	48	(33)
Total no.	8	13	36	25	63	145	
(%)	(6)	(9)	(25)	(17)	(43)		(100)
SBRT small firm owners							
growth-oriented	0	2	80	72	3	157	(51)
growth-averse	0	0	102	44	2	150	(49)
Total no:	0	2	182	116	5	307	
(%):	(0)	(1)	(59)	(38)	(2)		

The clear self-distinction between self-employment and small business management, and the relative importance of self-employment, is evident in both the established business owners of the SBRT sample (see Table B16 for more details of this sample) and the various types of enterprise trainees, which both contrast with the control group of personnel students. Also, different types of enterprise trainees are represented in this table - the unemployed (actually, a larger group than is apparent in the table because some recently redundant respondents self-classified themselves as 'ex-employees'), sole-trading self-employed, owner/managers of small companies (including some classifying themselves as 'employees' - technically correct for incorporated firms) and potential startups (roughly one in five of the 'enterprise' group reported they were not yet trading) and people leaving employment (included in both the 'employees' and 'manager' columns). GEP graduates cannot be simply categorised as 'naive, inexperienced students learning about business' because more than half had already started their own businesses (indeed, 40 per cent of the 35 graduates had been running their business for more than 2 years) and there are clear differences in career aspirations between the groups.

Table A3. Enterprise trainees and control groups by career goals.

<u>Career goals</u>	<u>Self-employed</u>		<u>Manager/MD</u>		<u>Employees</u>		<u>Total</u>	
<u>Groups</u>			(row percentages)					
	no.	(%)	no.	(%)	no.	(%)	no.	(col %)
Enterprise	19	(40)	23	(48)	6	(13)	48	(34)
Graduates	24	(69)	11	(31)	0	(0)	35	(25)
Non-business	0	(0)	1	(7)	13	(93)	14	(10)
Personnel	7	(16)	21	(48)	16	(36)	44	(31)
Total	50	(36)	56	(40)	35	(25)	141	(100)

(4 respondents did not indicate career goals)

From a methodological perspective, the lack of interest in a career in self-employment among the control groups is reassuring. Many personnel trainees mentioned that they

Appendix A

hoped for a management career within their existing organisations, most of which were not large (ie, >500 employees). As managing directors, many owners of small incorporated firms are technically employees which may account for the 13 per cent of small firm owners who want to be employees (although some may actually wish to be taken over). The strength of the independence motive and, possibly, lack of either organisational or work experience among the graduates may explain their relatively strong preference for self-employment. Labour Force Surveys reveal that graduates are more likely to employ other people. These responses fit the general pattern of responses in the SBRT small firms survey (see Table B19).

Only around 15 per cent of the self-employed have degrees or their equivalent and self-employment among graduates has not been growing as fast as people with CSEs or A-levels (though self-employment among people with absolutely no qualifications at all has virtually stood still). However, almost one in five of the self-employed with employees is a graduate. The restrained ambitions of the GEP graduates is probably largely linked to their relative inexperience which is a function of age. In this respect, they are reasonably well matched with the personnel students. Many of the non-graduate startups are also relatively young which is reflected in the overall youth of the sample compared with the 1990 national Labour Force Survey though it is interesting to observe that the age profile of new entrants to self-employment nationally is also much younger (Employment Gazette, April, 1991).

Table A4. Present occupation by age.

Age	16-24		25-34		35-44		45+		Total

Appendices F and G) - is very evident. Obviously, training of any type is generally an activity commenced at the early or mid career-stages and the relative absence of older subjects reflects the fact that most subjects were recruited through enterprise training and support programmes. The aim of enterprise training, as opposed to vocational training, is to encourage entrepreneurial behaviour as well as provide practical skills and there are signs that the older subjects are less entrepreneurially ambitious.

Table A5. Career goals by age.

<u>Age</u>	<u>16-24</u>		<u>25-34</u>		<u>35-44</u>		<u>45+</u>		<u>Total</u>	
<u>Career</u>			(row percentages)							
<u>goals</u>	no.	(%)	no.	(%)	no.	(%)	no.	(%)	no.	(col %)
Self-employed	11	(22)	28	(57)	7	(14)	3	(6)	49	(37)
Manager/MD	11	(21)	24	(45)	10	(19)	8	(15)	53	(40)
Employee	3	(10)	13	(42)	10	(32)	5	(16)	31	(23)
Total	25	(19)	65	(49)	27	(20)	16	(12)	133	(100)

(12 respondents did not indicate either career goals or age)

The slightly stronger managerial ambition among the youngest subjects is interesting although the 'manager/MD' category includes management positions within larger organisations as well as managing a small independent company. The most important feature, as the national figures in table A3 suggest, is the stronger tendency towards a career in self-employment among the young (<35 years). Personal discussions suggested the presence of different pressures. The desire for personal autonomy and perceived lack of business experience among younger subjects and a need to earn a living after being made redundant among the older subjects. A closer examination of subjects' intended careers against previous careers (ie, their immediate employment status before attending their various courses) shows the effects of these pressures more clearly as well as providing useful background data about all subjects.

Table A6. Previous occupation by career goals.

<u>Career goals</u>	<u>Self-employed</u>		<u>Manager/MD</u>		<u>Employee</u>		<u>Total</u>	
<u>Previous</u>			(row percentages)					
<u>career</u>	no.	(%)	no.	(%)	no.	(%)	no.	(col %)
Student	14	(45)	14	(45)	3	(10)	31	(22)
Unemployed	2	(29)	4	(57)	1	(14)	7	(5)
Self-employed	17	(71)	6	(25)	1	(4)	24	(17)
Manager/MD	5	(25)	14	(70)	1	(5)	20	(14)
Employee	12	(20)	18	(31)	29	(49)	59	(42)
Total	50	(36)	56	(40)	35	(25)	141	(100)

(4 respondents did not indicate career goals)

It is not very difficult to find good structural reasons for these career shifts but the pattern of replies, which were significant to a <0.001 level of probability (chi-square = 66.8, df = 8), provides strong evidence for the power of the *self-concept* in matters of

image and career choice. It is very clear that there are strong cultural influences at work in the determination of future career goals. Of particular interest is the stronger ambition for autonomy or achievement displayed by graduates and the strong trend towards maintaining their *status quo* among the self-employed, business managers and employees (except that some employees wish to be promoted to manager). Also, the effects of unemployment are understated in the above table. Not surprisingly, nobody intends to become unemployed, or apparently return to fulltime study as a 'student', but the role of unemployment as a push factor is evidently obscured by some degree of social-desirability effect. Some respondents correctly replied that they had been employees or managers but they were on enterprise training courses because they had been made redundant. At the time of completing the questionnaire they preferred to classify themselves either as 'students' or, if they were also in the process of starting a business, as self-employed. More than half the ex-unemployed described themselves as a student or self-employed. Two of the personnel students were in a similar position. On the other hand, 6 of the graduates saw themselves as unemployed during their enterprise training course and 6 continued to describe themselves as students. The most important point to emerge from Table A6, however, is the strong reluctance of both the self-employed and managers to see themselves as employees. Both groups appear to exhibit strong *self-concepts* and *occupational-concepts*. The background family influences on the development of these personal concepts are clear. Nearly 60 per cent of the total sample reporting that they had some family background in self-employment (with roughly half of these reporting 'father') compared with only around 10 per cent of respondents to General Household Surveys reporting having a self-employed father.

Table A7. Occupational groups by family background self-employment.

Background	None		Parents		Other family		Total	
	(row percentages)							
Occupation	no.	(%)	no.	(%)	no.	(%)	no.	(col %)
Enterprise	15	(44)	11	(32)	8	(24)	34	(28)
Graduates	8	(28)	14	(48)	7	(24)	29	(24)
Non-business	8	(72)	1	(9)	2	(18)	11	(9)
Personnel	18	(39)	14	(30)	14	(30)	46	(38)
Total	49	(41)	40	(33)	31	(26)	120	(100)

(25 respondents did not state either parental background or occupation)

It is interesting that the graduates display the effects of parental background most clearly of all (little more than one quarter reported no family influence of self-employment compared with half of the respondents who had previously been employees or managers) though the self-employed father's career choice influence on managers also seems strong. This may be a function of their age and relative lack of work experience (see Table A3). Many recent graduates may not yet have direct knowledge of alternative forms of work and may still be engaged in a process of career search (the repertory grid-based studies

Appendix A

and informal interviews with the enterprise trainees in Salerno reported in Appendix E1 strongly support this interpretation). However, the graduates career behaviour may be more due to broader cultural factors. Despite possible family pressure to get a 'good education' or to find a 'good job', the family social representation of the world of work and employment may have been more powerful than vocal exhortations. Also, many of the GEP participants were from ethnic minorities (mainly Asians - fairly classic examples of Weber's theory of the outsider) which, in general, have higher rates of self-employment than the host population. The family background issues raised by these findings were examined in some depth through the use of repertory grids (reported in Appendix E). A reasonable conclusion to draw from these findings as they stand, however, seems to be that the role of parental or cultural influence is felt most at the point of initial career choice but perhaps less so as personal experience accumulates.

Table A8. Business development stage by family background self-employment.

<u>Background</u>	<u>None</u>		<u>Parents</u>		<u>Other family</u>		<u>Total</u>	
			(row percentages)					
<u>Stage</u>	no.	(%)	no.	(%)	no.	(%)	no.	(col %)
Not trading	9	(32)	13	(46)	6	(21)	28	(28)
Start up	8	(42)	5	(26)	6	(32)	19	(19)
Surviving	7	(37)	6	(32)	6	(32)	19	(19)
Mature	15	(43)	12	(34)	8	(23)	35	(35)
Total no:	39	(39)	36	(36)	26	(26)	101	(100)

(35 respondents did not state either parental background or age of firm)

Most of the non-responses were from the personnel trainees so the 'not trading' category mainly consisted of people who wanted to start up their own business but had not yet done so or owners of failed businesses who wish to improve their management skills and start again. The influence of parental background in self-employment seems to be linked to the initial decision to seek a career in self-employment and to the tendency to persist in pursuing a self-employed career. In all stages (which are discussed in more detail in Appendix G2), the proportion of self-employed parents is significantly higher than the national average showing the power of these cultural factors in career-choice at all stages of business development.

Appendix A

Table A9. Career goals by family background in self-employment.

<u>Background</u>	<u>None</u>		<u>Parents</u>		<u>Other family</u>		<u>Total</u>	
			(row percentages)					
<u>Career goals</u>	no.	(%)	no.	(%)	no.	(%)	no.	(col %)
Self-employment	13	(30)	18	(42)	12	(28)	43	(37)
Manager/MD	17	(40)	19	(44)	7	(16)	43	(37)
Employee	17	(57)	2	(7)	11	(37)	30	(26)
Total	47	(41)	39	(34)	30	(26)	116	(100)

(25 respondents did not state parental background and another 10 did not indicate career goals)

The linkage between a background family culture of self-employment and the intention to pursue a career as the owner of an independent business, especially in self-employment but also as an owner-manager, is clearly evident. In a negative sense, it is clear that employees are far less likely to come from a self-employed family (though the petty bourgeoisie tendency to move into a 'safe' job in a large public or private sector organisation - Bechhofer and Elliott, 1976; Scase and Goffee, 1982; Goldthorpe et al, 1987; Curran and Burrows, 1988 - is also evident if the wider family is taken into account). The strong parental influence on the career choice to pursue a career as a small business or large organisational manager is clear and on the decision to pursue a self-employed career it is particularly striking. However it is also striking how strongly this phenomenon is linked to age.

Table A10. Respondents' age by family background in self-employment.

<u>Background</u>	<u>None</u>		<u>Parents</u>		<u>Other family</u>		<u>Total</u>	
			(row percentages)					
<u>Age bands</u>	no.	(%)	no.	(%)	no.	(%)	no.	(col %)
up to 24	8	(33)	9	(38)	7	(29)	24	(21)
25-34	22	(37)	25	(42)	12	(20)	59	(51)
35-44	11	(52)	3	(14)	7	(33)	21	(18)
45+	6	(50)	2	(17)	4	(33)	12	(10)
Total	47	(41)	39	(34)	30	(26)	116	(100)

(39 respondents did not indicate either their age or their parental background)

This pattern of responses reveals the strength of the socio-economic structural influences on career choice. Up until the period of OPEC-induced oil price shocks in the early 1970s, Britain enjoyed reasonably full employment and there were plenty of career opportunities. Also, as the Bolton Report (1971) revealed, the proportion of self-employment in Britain was at an historic low (6.5 per cent of non-agricultural employment) and much lower than in other industrialised economies. Consequently, career choice push factors were much weaker for people entering employment 20 years ago (respondents over the age of 35) and their likelihood of having self-employed parents was also much lower. It seems reasonable to conclude that the nature and pattern of self-employment has altered significantly over the past twenty years.

Appendix A

The implication for the future is that self-employment may be seen as a valid career choice for an increasing number of people. Whether this necessarily implies a greater propensity to entrepreneurship or innovation in Britain is discussed in the main text. However, it is worth noting that neither this particular analysis of the background influences nor national sources of data on the self-employed and small business owners support the thesis that an increase in self-employment *per se* has improved socio-economic development in Britain. If entrepreneurs do have a role to play in socio-economic development, it is important to distinguish what features distinguish them from the bulk of self-employed and small business owners in relation to the processes of development. However, it is also important not to lose sight of the fact that owner/managers' plans for future development, and their business behaviour in furtherance of those plans, will also depend on their access to resources and on the resource base they are starting from. The following table shows a clear link between future career intentions and the current stage of the firms development (where startup = 1-3 years, surviving = 4-10 years and mature = 10+ years - see Appendix B).

Table A11. Career goals by business development stage.

STAGE Career goals	not trading	start-up	surviving	mature	Total	(col %)
self-employed	18	13	11	0	42	(46)
manager	5	9	15	6	35	(38)
employee	6	2	1	6	15	(16)
Total	29	24	27	12	92	
(%)	(32)	(26)	(29)	(13)		(100)

(39 respondents did not indicate either their career goals or their stage of business development)

These responses, which exclude the personnel students because so few expressed small business career aspirations (see Table A3), indicate the importance of business experience in boosting confidence and raising levels of aspirations. Those not yet started or just started are more likely to have the more modest career goal of self-employment while surviving and mature firms are more likely to wish to become the managers of small or medium-sized firms. These trends, which are significant at the <0.001 level of probability (chi-square = 26; df = 6), are interesting not only because they underline the importance of experience but also because they once again emphasise the limited objectives set by most small business owner/managers. Managing directors of companies may classify themselves as employees but many not yet trading (20 per cent) and possibly as many as half the mature firms would rather be working for some one else.

The most ambitious group are clearly those who have survived their start-up in self-employment. More than half of them (55 per cent) would prefer to manage a business rather than remain as a self-employed sole-trader, as would half the mature firms more

Appendix A

than 5 years old. It is worth noting that more than half the not-trading group (55 per cent) were the graduates which suggests interesting differences between the samples. The following section describes the sub-samples more fully, Appendix B summarises the findings of the quantitative studies based on findings from certain SBRT quarterly surveys and follow-up studies, Appendices C and D outline the key findings of each of the specific studies into distinguishing features of the entrepreneur and Appendix E outlines the key points to emerge from an investigation of the personal constructs of entrepreneurship by GEP III and Firmstart trainees.

A3: Details of sub-samples

1 London Enterprise Programme

Developed in 1979 for the London Enterprise Agency (LEntA) by the Polytechnic of Central London, the London Enterprise Programme (LEP) pre-dated the advent of *enterprise culture* policies. Its syllabus and open structure of one initial residential weekend on the fundamentals of marketing, organisation and accounting principles followed, after 4-week intervals, by two non-residential weekends and a final residential weekend for a presentation of a business plan to real high street bankers (with a genuine prospect of obtaining a favourable loan) was acknowledged to be the forerunner of various MSC enterprise training courses. The LEP continued to be run, in a modified non-residential form, up until 1989 and was responsible for providing management training to around 1,000 potential startups and owners of existing small firms in the Greater London area. A report on the first 13 LEP courses (1979-84) revealed that three-quarters of the participants were still in business, of whom roughly one third (48 firms) were new enterprises (Gray and Stanworth, 1985). Taking into account those that had ceased trading or reduced staff, a net total of 600 new full-time and part-time jobs had been created but the job-generators were very much a minority and over half of the surviving LEP firms intended to remain as sole-traders. Indeed, the essentially non-entrepreneurial nature of most LEP participants was evident with only 40 per cent reporting that they were making a profit. Nevertheless, the vast majority were happy to be self-employed (mainly because of feelings of personal independence and self-satisfaction). There was strong evidence of the power of cultural career-choice influences with 62 per cent having close family and friends who were also self-employed. During 1989-90, one of the last LEP groups, LEP 23, completed the *locus of control*, attitude and performance scales and discussed various aspects of their own perceptions of the enterprise culture and the problems of working on their own account.

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<i>Subjects</i>						
Name	Business activity	Age	Gender	family S/E	Career goal	Rotters IE
SA			f			9
RB			m			6
DC			m			12
NC			m			9
MF			f			4
NH	health club	39	f	0	mng	3
RK	shipping serv.	28	m	0	mng	7
KL			f			12
PL	mail ord. crafts	40	f	0	-	3
M-P	language school		m			15
TR		27	m	F	mng	10
KR			f			6
MS			m			8
DS			f			3
KS			m			3
JS			f			9
CT			m			9
DW			m			11
RW	insurance brkr	38	m	0	mng	1
TOTAL (Average)		(34)	20			(7)

Codes: m=male; f=female; F=father; M=mother; C=other close family; E=employee; S/E=self-employed; Mng= business (big or small) manager.

The gender mix on LEP 23, with 40 per cent of the its enterprise trainees women, was more reflective of national self-employment trends than is generally found on this type of enterprise training course (Blythe et al, 1990). This partly reflects LEntA's recruitment policies and partly the urban nature of the sample. The opportunities presented by the huge local London economy was also evident in the number of trainees either from a financial or public sector background seeking self-employment in the business services sector (mainly as consultants). Follow-up conversations during 1991 with the course directors confirmed that those who had already started trading tended to be more focused and get more from the course and that several aspiring self-employed chose to remain in employment as employees.

2 Firmstart

The Manpower Services Commission introduced a range of enterprise training programmes in the early 1980s. Initially, the main programme was the New Enterprise Programme (NEP) - a four month instruction plus practical experience programme designed for specially selected new start-ups with real growth and employment potential - which was based on the LEP described above. Responding to criticism that existing firms should benefit more from management skills training than inexperienced startups but could not afford the time for a full-time course, the MSC introduced Firmstart as a part-time NEP in 1985. Local training providers, including Trent Polytechnic in Nottingham, were contracted to run Firmstart programmes for small existing firms with problems and for firms just about to start trading. During 1988, a mix of start-up and

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existing business participants completed all the scales (see Appendix F) devised for this thesis and many completed the repertory grids reported in Appendix E.

Subjects

Name	Business activity	Age	Gender	family S/E	Career goal	Rotter's IE
SB	-	31	f	C	S/E	1
*GB	accountant	38	m	0	S/E	2
RC		36	m	0	S/E	3
*SC		34	f	0	mng	5
*BK		41	m	0	S/E	1
*NK		26	m	C	S/E	5
PM		27	m	0	mng	-
*WM		36	m	0	E	11
*TM		45	m	F&M	mng	7
*AR		23	m	F	S/E	7
*GS		39	m	0	mng	16
*PS		47	m	0	mng	11
IS		-	m	0	S/E	12
*JS		28	m	M	mng	10
*QW		30	m	0	S/E	8
TOTAL (Average)		(34)	15			(7)

Codes: m=male; f=female; F=father; M=mother; C=other close family; E=employee; S/E=self-employed; Mng= business (big or small) manager. Asterisk (*) means subject also completed repertory grid (see Appendix E2).

The dominance of males on this enterprise course reflects a common tendency, except on courses specifically designed for, or recruited from, women (Blythe et al, 1990). There was also a wide range of levels of abilities and ambitions among participants but it was clear that many of the existing businesses had only attended because they were facing an actual and immediate problem rather than for longer term management-skills development reasons. Few of the existing small firms employed other people apart from secretarial help and a subsequent follow-up conversation with the course director, Mary Carswell, in 1991 revealed that few of the aspiring 'entrepreneurs' actually went ahead and started their proposed business and that some of the existing businesses had ceased trading.

3 Graduate Enterprise Programme

In 1986, a specially enhanced version of the NEP - the Graduate Enterprise Programme (GEP) - was introduced to encourage graduates to consider a career in self-employment. Originally, this programme ran for 9 months - a full academic year. During 1988 and 1989, two GEP groups were tested though only one group, GEP III, provided repertory grids.

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(ii) Subjects

Subject	Business activity	Age	Gender	family S/E	Career goal
GEP I					
MB	retail	25	m	F	S/E
MD	distr: car part	26	m	0	mng
NE	IT: legal serv.	30	m	F	mng
HF	greeting cards	27	m	C	S/E
RH	manuf: furniture	27	m	0	S/E
AI	transport	26	m	0	mng
PM	coach tours	29	m	0	S/E
DR	research agency	30	m	0	S/E
VR	textiles	24	f	C	mng
MS	product design	30	m	C	S/E
JS	retail: shoe,wine	25	f	M	S/E
NT	fast food	26	m	0	S/E
PT	record studio	25	m	F	S/E
PW	electronics	27	m	0	S/E
TOTAL (Average)		(27)	14		
standard dev.		2.1			
GEP III					
*RA		24	m	F	mng
FB		23	m	F&M	mng
MC		24	m	F	mng
VD		37	f	F	S/E
*CD		24	m	F	S/E
KE			f		
KF			f		
*AG		28	f	0	S/E
*PH		21	m	0	S/E
DH			f		
*CL		27	f	F	S/E
MM		21	m	C	S/E
SO			m		
*O		33	m	0	mng
*JP		23	m	0	S/E
*SP		24	m	0	S/E
*NP		22	m	0	mng
*JR		24	m	F	S/E
TR		22	f	F	S/E
*PS		22	m	M	S/E
AS			f		
S		23	m	0	mng
*AT		24	m	F	S/E
SV			f		
PW		38	m	C	mng
*MW		26	m	F	S/E
*KW		24	m	F	S/E
TOTAL (Average)		(25)	27		
standard dev.		4.8			

Codes: m=male; f=female; F=father; M=mother; C=other close family; E=employee; S/E=self-employed; Mng= business (big or small) manager. Asterisk (*) means subject also completed repertory grid (see Appendix E2).

With only one quarter of the sample female, the predominance of male enterprise trainees is evident. The course director reported there was an even stronger male bias

among the original enquirers, suggesting that a career in business or self-employment is not a first option for recent female graduates. This may be due partly to cultural reasons and partly due to competing job opportunities available to female graduates. Many trainees who completed the course did not start their proposed business and many of those who did later used the experience to seek employment as employees.

4 Startup Your Own Business

The *Startup Your Own Business* programme was developed as a 9-month distance-taught course by the Open University with support from Barclays Bank. Startup participants were expected to submit written exercises and work towards the presentation of a business plan for their intended enterprise nine months after enrolment. Despite recruitment drives every two months, the total enrolment over the entire five years of the programme's existence has been little more than 480 participants, well short of the proposed annual target. A partial explanation for the low take up was that the cost of the course was high, especially for new businesses and in light of the free material the Department of Employment made available not long after the launch of the programme. Also, many of the participants had to submit to an interview in order to qualify for sponsorship. A number of unemployed participants obtained a 50 per cent subsidy whereas others, mainly in full-time employment, paid the full course fee (£400 in the late-1980s, which was rather high). The survival and growth rates of people in employment are higher than the unemployed (Gray, 1989) but, as the following table makes clear, there are too few to make any definitive statements there. As only two participants on the Thames Polytechnic enterprise course for the unemployed (similar target to the Startup) replied to the follow-up questionnaire, their details are also included here.

Appendix A

Subjects

Name	Business activity	Age	Gender	family S/E	Career goal	Rotters IE
Thames Poly						
CD		30	f	-	s/e	10
PF	ambulance serv.	35	m	-	mng	2
Startup Your Own Business						
TB		45	m	C	s/e	
PC		50	f	-	s/e	
EC	design consult.	31	f	F	mng	
BC		50	m	-	mng	
ME		40	f	F	s/e	
CF		33	f	C	s/e	
AH		45	m	C	E	
JMcH		53	f	C	s/e	
RMcK		26	f	-	s/e	
AR		32	m	M	E	
VS		34	m	F	mng	
GT		44	m	-	s/e	
RT	video prod'n	37	m	-	mng	
PW		44	m	-	mng	
DH		42	m	C	E	
TOTAL (Average)		(40)	17			

Codes: m=male; f=female; F=father; M=mother; C=other close family; E=employee; S/E=self-employed; Mng= business (big or small) manager.

In a sense, these trainees are different from other enterprise course participants. Because of the nature of distance learning, all of them have elected to acquire their management skills in isolation from fellow trainees. Also, although there was a bursary scheme in operation, the cost of fees was much higher (leading, incidentally, to a very poor take up rate). However, it is clear that distance-learning *per se* is not unattractive to small business management trainees and, indeed, that the self-management is attractive to those who do start. Since 1983, more than one in five of around 50,000 total registrations on OBS distance-learning management courses have come from firms employing fewer than 100 employees. The *Startup Your Own Business* programme was specifically designed for start-ups who were already occupied or else isolated (the unemployed). Apart from a few 'guests' of HMG prisons, many of the trainees were already employed but keen to leave paid employment for self-employment. These trainees were much more likely to complete the course and present business plans while the unemployed were far less likely to complete or even subsequently start their own business. In fact, only 3 per cent of all participants actually presented their business plans to the Startup panel and more than one third of respondents to an evaluation survey reported that they had no concrete plans for starting a business (Newbould, 1987).

An evaluation survey revealed that more than half (53 per cent) of the respondents enrolled and followed the course while they were working full-time, mostly as mid-level managers in bigger firms. The age distribution of Startup participants, which peaked in

the 26-45 year age band, was older than that for the self-employed and strongly resembled the age distribution for active small business owners (Curran et al., 1987; Newbould, 1987). However, the Startup evaluation survey also confirmed one major drawback of distance learning for small businesses. The lack of personal contact and remote approach is unappealing to certain small business owners (Newbould, 1987). The opportunity for discussion and sharing mutual experiences is an attractive feature of conventional training courses for small business owners (Gray and Stanworth, 1985). The isolation of distance learning has to be ameliorated by group discussions and counselling if it is to attract significant numbers of small business owners (Dey and Harrison, 1987).

It is already known that small business awareness of open-learning is low. Only 20 per cent of the respondents to the 1986 CBI survey on small business managerial training were aware of OBS courses while more than half (55 per cent) knew about similar conventional training available from local providers. Significantly, the awareness was lowest (12 per cent) among those who had never received any training and very low in the engineering (13 per cent) and distribution (8 per cent) industries (CBI, 1986). Low awareness of distance learning was found among engineering and textile firms (7 per cent) in another study conducted in the east Midlands (Carswell, 1987). Even firms which are actively introducing new technology have little contact with new methods of training, including open-learning, computer-based training or inter-active video. Less than 10 per cent of innovative firms and less than half (40 per cent) of the specialist trainers use these methods (CEDAT, 1988).

5 Academics

A number of academic colleagues were interested in the studies connected with this dissertation and, as none had any desire to run their own business, many agreed to complete the scales as a non-entrepreneurial but achievement-oriented control group. Many, however, objected to the forced choice Rotter's IE items and only about half of these scales were completed satisfactorily - a reaction which may have a direct bearing on the efficacy of the Rotter's scale in entrepreneurial research.

Appendix A

Subjects

Name	Business activity	Age	Gender.	family S/E	Career goal	Rotters IE	
SC	lecturer	40	f	-	mng		
SK	counsellor		47	f	-	E	17
GM	researcher	43	m	-	E		
JP	co-ordinator	30	f	-	E		
JP	co-ordinator	29	f	-	E		
DP	professor	55	m	-	E		
CS	lecturer	43	f	-	E	14	
JS	professor	48	m	C	E	13	
	TOTAL	(42)	8			(15)	

Codes: m=male; f=female; F=father; M=mother; C=other close family; E=employee).

6 B787 small business owners

During 1990, the Open Business School developed and produced two *Opening the Single Market* multi-media, open-learning packs to help small firms prepare for the Single Market. As part of the development process for this programme, the national 'umbrella' organisation for enterprise agencies, Business in the Community, organised three separate groups of owner-managers to test and comment on B787 draft written material and the audio-visual material. All of these owner-managers were recruited through their local enterprise agencies - Bolton, Milton Keynes and Swindon. Subjects were all experienced owner-managers and many were interested in pursuing business growth, which a number had achieved.

(ii) Subjects

Name	Business activity	Age	Gender	family S/E	Career goal
MA	manuf: furniture	55	m	0	mng
MG	manuf: concrete	50	m	0	mng
K	geo-phys. data	33	f	0	mng
IH	manuf: engineer	40	m	0	mng
AJ	manuf: beer eqp	36	m	0	E
AK	manuf: engineer	38	m	0	mng
EL	manuf: hydraulic	50	m	F	mng
ML	manuf: engineer	54	m	0	mng
SM	manuf: electric.	36	m	C	S/E
MS	manuf: engineer	39	m	0	S/E
MT	manuf: clothing	28	m	F&M	mng
	TOTAL (Average)	(42)	11		

Codes: m=male; f=female; F=father; M=mother; C=other close family; E=employee; S/E=self-employed; Mng=business (big or small) manager.

The lack of a family history or culture in self-employment is an interesting feature of this sample of established small business owners, suggesting that career performance as opposed to career choice may not have such obvious family links. All the members of this sample were experienced business people and most were still trading as the 1992 recession began to bite.

7 Diploma of Personnel Management

Various courses in personnel and human resource studies offered by the Management Faculty of the Polytechnic of Central London (now University of Westminster) have been very popular with large London-based firms - especially the Diploma of Personnel Studies, which is recognised by the Institute of Personnel Management. Indeed, many firms sponsor their employees to study the course because the personnel function is such an important aspect of central administration for large firms and the course, which is provided part-time during the evenings, can be studied with minimum disruption to work. The 48 subjects who participated as a control group were recruited from years 2 and 3 of the 3-year Diploma.

Appendix A

Subjects

Name	Business activity	Age	Gender	family S/E	Career goal	Rotters IE
A	tele-comms.	24	f	0	mng	14
B	prof. institute	28	f	F&M	mng	17
C	-	26	m	0	mng	13
D	-	25	f	0	E	14
E	NHS	35	f	0	E	17
F	media	28	f	0	E	13
G	-	25	f	F	S/E	12
H	-	37	m	C	mng	9
I	-	-	f	0	mng	5
J	-	-	f	0	mng	5
K	-	25	m	F	mng	9
L	tele-comms.	-	f	0	mng	17
M	-	-	-	F	S/E	16
TB	hotel	24	f	C	E	11
JB	hotel	30	f	F	S/E	9
RB	tele-comms.	24	m	0	mng	15
CB	construction	27	f	F	mng	14
RB	tele-comms.	29	f	0	S/E	3
AB	-	30	f	0	E	6
LB	wholesale	27	f	C	mng	14
NC	-	47	f	0	E	16
JC	-	25	f	0	E	11
BDeV	-	30	f	F	mng	14
JE	university	23	f	C	E	12
CF	retail	30	f	0	mng	13
TG	-	25	m	C	E	17
CG	-	26	f	0	E	12
JG	-	21	f	C	mng	3
JG-L	TNC	41	f	0	E	16
HG	jewellery	24	f	0	E	9
FG	-	34	f	F&M	S/E	15
SH	-	22	f	0	mng	11
VH	-	23	f	C	mng	9
AMcG	engineering	28	f	F&M	S/E	13
SMcS	trading	-	f	0	E	16
DM	retail	27	f	0	E	11
JM	banking	26	m	C	S/E	9
CM	-	29	f	C	mng	5
MM	-	31	m	0	E	11
TM	retail	27	f	C	E	9
LM	-	26	f	F	E	10
KM	retail	23	f	0	mng	15
SO'R	charity	25	f	F&M	mng	8
MP	electric gen.	29	m	C	E	15
AP	hotel	25	m	F	mng	11
MP	consultancy	32	m	F	mng	11
P	finance	26	f	F	mng	15
LR	-	27	f	0	mng	16
TOTAL (Average)		(28)	48			(12)
standard dev.		5.0				3.8

Codes: m=male; f=female; F=father; M=mother; C=other close family; E=employee; S/E=self-employed; Mng= business (big or small) manager.

Appendix A

The age and educational profile compare well with the main enterprise training groups. The most obvious difference is the dominance of women in the sample which could distort some of the findings and mask any gender effects. However, a more theoretically interesting feature is the dominance of trainees without self-employed parents (roughly 70 per cent) and the fact that of the 6 respondents who were actively seeking a career in self-employment 4 had self-employed parents. An earlier 1985 study which compared enterprise and personnel trainees found that virtually all the personnel trainees were seeking careers as functionaries within the core of large organisations. Although employment and recruitment agencies have been one of the fastest growing business service industries, none of the subjects in the earlier study expressed any interest in setting up such an agency or in even working for a small recruitment, employment or personnel services agency. By the time this study was conducted in 1990, there was some evidence that attitudes had changed. The vast majority of subjects (85 per cent) still sought secure careers as employees or managers within personnel or human resource departments of large firms but a number of personnel trainees either saw themselves offering freelance services or running a small agency (though they did not display especially strong internal locus of control as measured by Rotter's IE).

APPENDIX B: QUANTITATIVE STUDIES OF SBRT QUARTERLY SURVEY FINDINGS

B1. Methodological note

The *Quarterly Survey of Small Business in Britain* was launched in late 1984 by the *Small Business Research Trust*, an independent educational charity registered with the Charity Commission, to monitor trends in the performance and attitudes of small business owners, directors and managers throughout Britain. The sample was originally drawn from the memberships of Britain's leading small business representative organisations at that time: Association of Independent Businesses (AIB), Forum for Private Business and the National Federation of Self-employed and Small Businesses (NFSE). At that time, the total membership lists probably totalled no more than 50,000 (from a UK total of 1,422,000 businesses registered for VAT and a self-employed population of around 2.5 million). Recognising that the sampling frame was certainly not random and likely to be biased (having been drawn from volunteer joiners of representative organisations), the conscious aim was to monitor trends rather than make definitive statements or predictions about attitudes or behaviour about the total UK small firm sector. Consequently, the data collected through the one-A4 page survey questionnaires were processed on a database program to produce frequency tables and cross tabulations without calculating confidence levels.

Later, the SBRT inserted a version of the survey questionnaire in the *NatWest Small Business Digest*, a small A-5 magazine with a 500,000 print run targeted at small business owners and support professionals. Some 3,500 respondents to this special Digest survey agreed to give their names and addresses with the intention of participating in future SBRT surveys and a special filter question on membership of representative organisations (only around 25 per cent of the Digest respondents were 'joiners') enabled the SBRT to establish that there were no statistically significant differences between responses from joiners and non-joiners (see Vol 2. No 1, 1986). At various intervals over the years, special survey questionnaires were inserted in the *NatWest Small Business Digest*, thus building up a reasonably large database from across Britain of small business research volunteers (around 8,000 entries). Increasingly, the quarterly survey samples have drawn on this database, though the National Chambers of Trade joined the sample in late 1988 and younger firms recruited through enterprise agencies registered with Business in the Community joined the sample frame in 1989.

Nevertheless, even though the database is likely to be more representative of the wider small firm sector than the representative groups, the SBRT sample is not random and the original cautious treatment of the data has been adhered to. However, it has been possible to weight the responses to reflect the latest VAT-registration distributions and a clear

formula for seasonal adjustments has improved the predictive value of the data which is fairly accurate empirically if not particularly statistically robust. Consequently, the 4 separate surveys described below should be treated as descriptive rather than predictive. These surveys are (i) a special survey of the SBRT database on the training needs of firms with growth-potential, (ii) an SBRT Quarterly Survey of Small Business in Britain in the second quarter of 1990 on the personal motivations and business objectives of small firm owners, (iii) an SBRT Quarterly Survey of Small Business in Britain in the third quarter of 1991 on the growth aspirations of small firm owners and (iv) an adaptation of the main qualitative instruments completed by most sub-samples in Appendix A conducted among members of the SBRT database who responded to the SBRT quarterly surveys of Q2, 1990 and Q3, 1991.

B2. OU/SBRT training needs survey.

(i) Rationale.

As part of the development process to produce the Open University's Small Business Programme (now titled Build a Better Business), the SBRT was commissioned to conduct a mailed survey of the 3,500 members of its database in 1989. The aim of the survey was to obtain some idea, firstly, of the actual training record of small firm owners in relation to themselves as managers and their workforce in relation to technical and managerial skills, secondly, of their attitudes towards enterprise training and, thirdly, of their likely response to the sort of open-learning packs being developed by the OU. The intention of the programme, which was launched in 1990, is to support the self-development of management skills to growth-oriented small firm owners. Recognising that, as Curran (1988) has clearly demonstrated, most small business management problems fall into four main areas - finance, marketing, people and planning - each of 25 separate multi-media packs were designed to meet the enterprise training needs of entrepreneurial and quasi-entrepreneurial small firms. However, it was also recognised that, while general management skills and rules of good business practice may be relatively easy to identify, it may be rather more difficult to teach such entrepreneurial skills. Although individual firms have their own specific requirements, there is fairly broad agreement on the main areas small firms weaknesses. Some of the problems spring from the external environment outside the scope of training but others may be amenable to properly targeted small business managerial training. However, it is equally clear that there are important size, industrial and regional differences in the training needs of different firms.

(ii) Methodology.

A short 3-page questionnaire was sent to the full SBRT Database during mid-1988. The regional and industrial distributions of responses broadly corresponded to the Census of

Employment 1981, VAT registrations and the self-employed (Department of Employment). The aim of the questionnaire was to provide basic information about the potential market for a small business distance-learning management course for expanding small firms - the *Small Business Programme*. Apart from the usual demographic questions (industry, location, size of workforce, age of firm, and so on) and performance questions (changes in workforce and sales turnover), the questionnaire focused on current training practice, training needs and the likely attractions of open-learning packs as an attractive medium for management training.

(iii) Results.

Altogether 1,488 small business owners replied, some 37 per cent of the entire database. More than half of the respondents (55 per cent) were from firms employing 5-50 people (the target for the *Small Business Programme*), with a large proportion of respondents (44 per cent) employing less than 5 people and under 3 per cent employing more than 50. The size effects on attitudes towards the benefits of business training, which have been a feature of a number of studies on small business management training, were clearly apparent (Mangham and Silver, 1986; SBRT, Vol. 3, No.1, 1988). Nearly one third (31 per cent) of firms employing less than 5 stated that they had little or no interest in using training to boost their business performance.

Table B1. Importance of training by firm workforce size.

Firm size. (employees)	Importance of training (percent across row).				
	<u>very</u>	<u>quite</u>	<u>not very</u>	<u>not at all</u>	<u>balance</u>
1-4	28	38	28	3	-3
5-9	33	41	22	2	9
10-14	33	50	16	-	17
15-24	33	50	16	-	17
25-49	35	57	7	-	28
50-99	53	37	7	3	43
100+	46	46	8	-	38

These results are based on the total workforce - both full-time and part-time. Discounting the one dozen firms employing more than 100, the size effects on attitudes towards business training are evident. Just under one third of the respondents (30 per cent) were expanding in both sales turnover and staff. More than half (59 per cent) of them were either strongly in favour or quite in favour of training. More than half (54 per cent) of those who had received no formal training themselves (36 per cent of the sample) believed that training would be very or quite useful for their businesses. However, a slightly higher proportion of those who had received training themselves also believed it would be useful in improving their business performance. Although cost-factors and educational background clearly affect attitudes and decisions regarding training, it is also clear that there are strong structural effects at work reflected in clear regional and

industrial differences. The survey disclosed some interesting differences in perceived training needs between different industries.

Table B2. Small business training attitudes by industry.

<u>Industry</u>	<u>Strong interest in training</u>	<u>Interest in Open-learning</u>			
		<u>Very</u> (row percentages)	<u>Quite</u>	<u>D/K</u>	<u>No</u>
Manufacturers	29	25	33	33	8
Retail	36	39	31	23	8
Wholesale	33	40	20	23	17
Construction	33	34	19	1	16
Financial services	35	39	19	17	20
Personal services	28	15	41	33	11
(Total %):	(31)	(28)	(30)	(27)	(12)
Total = 1468					

Interest in distance-learning is of relevance to this thesis because of the persistence and high personal motivation required for open-learning courses and the importance of self-management in this type of training. Firms in the distribution sector and providers of financial services displayed the strongest interest. Manufacturers expressed the most general interest in enterprise training (82 per cent) and were keen on open-learning (58 per cent) but also displayed the most ignorance about it. Construction firms and personal services were also fairly in favour of enterprise training but not very keen on open-learning. Business services were more consistent with two-thirds of the respondents favouring both business training and open-learning. Overall, there was general agreement that the most needed skills relate to selling the products and services followed by some concern for organisational issues (especially for growing businesses). Confining attention to the top ten areas of training needs, the following table shows the different preferences for the whole sample (including the self-employed) followed by the target 5-50 employee firms and two sub-groups of these target firms - the growth-oriented and the sales-oriented firms. As a performance yardstick, the final column records the comparative proportion of actual sales of the material during 1991-92.

Table B3. Small firm owners' management training needs.

Training areas	All respondents		Firms (5-50 staff)		Growth firms	Sales 1991-93	
	<u>mentions</u>	<u>col.%</u>	<u>mentions</u>	<u>col.%</u>	<u>col.%</u>	<u>packs</u>	<u>(rank)</u>
Marketing	571	38	315	39	39	131	(2)
Selling	518	35	297	37	35	97	(4)
Computers	397	27	226	28	28	62	(17=)
Advertising	354	24	169	21	19	77	(11)
Time mngnt	336	23	206	26	27	96	(5)
Accounting	316	21	181	22	23	88	(6)
People	301	20	234	29	33	103	(3)
Pricing	236	16	105	13	13	68	(14)
Budgeting	182	12	110	14	13	80	(10)
Quality	161	11	135	17	20	-	-
Total mentions	4468		1978				
respondents:	1488		807				

The survey responses correspond with the skills gaps identified by Bolton, especially among the expanding 5-50 employee firms where the need to develop organisational skills is clearly considered to be very important. The preferences of active SMEs for more training in organisations and systems is also reflected in the high sales for the *business plan* (rank 1; sales 132), *time management* (rank 5; sales 96) and *managing the growing business* (rank 7; sales 87) which were not included in the list of the original survey. Paradoxically, sales were hit by the recession but *debtor control* registered the lowest sales of all. Fortunately, from the viewpoint of management theory, the comparatively high sales enjoyed by the *marketing, organising people, selling* and *accounting* cover the three functional areas of management education and correspond to the major small business problems and training needs in previous studies (Bolton, 1971; CBI, 1986; Curran, 1988; Stanworth and Gray, 1991). It is interesting to note that preferences change as firms become bigger and more serious about business. For instance there is generally a greater need for *time management* but this is particularly marked in the firms that have actually experienced the pressures of growth. Even more remarkable is the very strong interest by owners of expanding firms in acquiring organisational skills. One third of the expanding firms expressed strong interest in *organising people* compared with one quarter of the firms more interested in only increasing sales and a paltry 20 per cent of all firms including the self-employed. The patterns of response reported above suggest at least two types of dynamic small businesses - a market and sales oriented type and a professional, controlling type drawn to the skills of financial and social control.

B3. Small firm career motives and business objectives.

(i) Rationale.

Although the smallest end of the small business sector is notoriously difficult to research, there are strong grounds for believing that the trends identified through the SBRT

quarterly surveys do reflect actual shifts in opinion and performance taking place in the Britain's small business sector as a whole. For instance, respondents' expected sales turnover and employment levels correlate highly with subsequent levels of actual annual sales and employment performance which, in turn, have provided accurate predictions of subsequent official measures of industrial activity in the retail, manufacturing and construction industries. Analyses of specific issues - such as, the financial needs of small firms or the effects of skilled labour shortages - have been confirmed by subsequent national surveys conducted by bodies such as the National Economic Development Office (NEDO, 1986), the Institute of Employment Research (1987) and the Employment Department.

(ii) Methodology.

Two related specific questions on business motivation were inserted in the quarterly survey (Vol 6; No 2) conducted during the second quarter of 1990 (April, May, June). The first question asked respondents to state their main motivation for being in business by marking one of the following - no alternative; family tradition; independence; to create security; making money; other. The second question asked about the respondents' main business objectives and offered the alternatives - growth in sales; growth in profit; growth in employment; achieve a certain standard of living; protect your future; build up asset for your children; life style; other(see questionnaire attached to back of these Appendices). Most of the questions in the survey are designed to measure responses to current economic and business conditions and it is worth noting that the replies should take into account that this survey was mailed out as the British economy was sliding into recession. The main problems reported by the respondents reflect these uncertain economic conditions. For instance, the most frequently mentioned general business problems concerned finance (*interest rates* - 26 percent of mentions; *cashflow/bad debts* - 12 percent; *access to finance* - 4 percent) followed by *lack of business* (14 percent), *government regulations* (7 percent) and *lack of skilled labour* (6 percent). More than half (56 percent) reported that their sales turnover during the past year had increased but only one quarter (25 percent) reported that they had taken on more staff. Because of increased use of labour-saving technologies and the quicker reactions of entrepreneurs to the downturn in the economy over much of the past year, it may be that some of the more entrepreneurial respondents have been shedding staff or using existing staff more productively. Consequently, given the economic climate, the 21 percent of all respondents who reported that they had grown in both sales turnover and employment should be regarded as entrepreneurial.

(iii) Results

Some 1,350 small business owners from all over Britain responded to the quarterly survey. More than two-thirds (68 percent) had fewer than 10 employees which, although below the national distribution of 90 percent of all firms in this size-bracket, means this national survey is the biggest of its type conducted amongst Britain's smaller firms. Just over half the respondents had businesses in the manufacturing (22 percent) or business services (29 percent) industries which, because many active (entrepreneurial) businesses are in these industries, was welcome but it does mean that small retailers, haulage and construction firms were under-represented. As the following table shows, there are interesting differences in the personal motivations of small business owners from different industries.

Table B4. Main personal motivations of small firm owners by industry.

Business	No	Family	Indepe	Secure	Make	TOTAL	
<u>activity</u>	<u>choice</u>	<u>trad'n</u>	<u>n</u> <u>-dence</u>	<u>future</u>	<u>money</u>	<u>firms</u>	(col. %)
			(row percentages)				
Manufacturing	5	7	48	8	25	289	(21)
Transport	10	3	62	10	7	29	(2)
Construction	1	8	45	22	19	78	(6)
Wholesale	10	7	50	6	21	112	(8)
Retail	9	13	48	8	16	228	(17)
Catering/Restauran t	7	0	59	7	19	27	(2)
Business services	5	0	53	6	16	387	(29)
Personal services	5	4	56	9	16	153	(11)
TOTAL No:	80	71	678	111	251	1349	
(%):	(6)	(5)	(50)	(8)	(19)		(100)

The most notable result is the strong importance of independence as a motive for being in business across all industries although there are also clear differences between industries. The inter-dependent nature of the building trade - with a considerable amount of cross sub-contracting and many skilled workers only nominally self-employed (often working almost exclusively for former employers) - shows in the relatively less importance attached to independence and comparative importance given to creating security for themselves. The high concern over their independence and lack of concern over making money of the small transport firms is also apparent and hints at a fairly non-entrepreneurial approach. By comparison, wholesaling, which places less emphasis on security and more on making money, is a sector that has seen considerable new technological innovation. The more instrumental and less idealistic approach of the small manufacturers is clear from their slightly lower concern over maintaining their independence (though, at 48 percent, this is clearly their dominant personal motivation) and their comparatively more frequently expressed desire to make money as a prime personal business motivation. This fits the picture of the more task-oriented

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manufacturer compared with the more traditionally minded small retailers or the probable 'lifestyle' independence of small restaurateurs (see table B5). It is worth noting that restaurants and shops are popular for startup businesses (which can be entrepreneurial, especially if they discover new niches) but that for the most part these types of business, in replicating existing businesses tend not to be entrepreneurial. As the following table shows, in terms of profit-orientation, manufacturing and wholesaling stand out as the two most entrepreneurial industries.

Table B5. Main business objectives of small firm owners by industry.

<u>Business Sector</u>	<u>sales growth</u>	<u>profit growth</u>	<u>staff growth</u> (row)	<u>status</u>	<u>safe future</u> percentages)	<u>assets growth</u>	<u>life-style</u>	<u>TOTAL firms</u>	(col %)
Manufacturing	10	34	1	9	11	6	22	289	(21)
Transport	7	14	0	24	14	3	31	29	(2)
Construction	10	22	1	14	19	1	31	78	(6)
Wholesale	5	32	0	15	13	6	23	112	(8)
Retail	6	22	0	19	14	5	29	228	(17)
Catering/Rest.	4	15	0	19	22	4	33	27	(2)
Business serv.	6	15	5	17	11	2	33	387	(29)
Other serv.	2	11	3	18	10	1	48	153	(11)
TOTAL	88	289	30	209	164	50	409	1349	
(%:)	(7)	(21)	(2)	(16)	(12)	(4)	(30)		(100)

The most fundamentally entrepreneurial approach for a small business is that of maximising profits. The maximisation of sales may lead to a bigger sized firm or to a bigger market share but it can also eventually lead to inefficient growth, overtrading and possible failure or takeover. In larger firms, this is a policy that some managers might prefer in opposition to the owners' preference for profits if they stand to gain certain collateral benefits. In small firms, however, a policy of sales-maximisation without ensuring the profitability of sales is a recipe for disaster and, as such, decidedly non-entrepreneurial. Similarly, concern over status and life-style may be valid overall life objectives but they imply that the firm is not the owner's primary interest and that it lacks a suitable business objective. Only the manufacturers and wholesalers reported that profit-maximisation was their main objective while respondents from the other industries were more inclined to view their businesses as vehicles to support a preferred life-style or to enhance their status. Indeed, the relatively non-entrepreneurial nature of most very small firms employing fewer than five people is clearly demonstrated in the following table.

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Table B6. Business objectives by firm size.

<u>Number of Employees</u>	<u>sales growth</u>	<u>profit growth</u>	<u>staff growth</u> (row percentages)	<u>status</u>	<u>safe future</u>	<u>assets growth</u>	<u>life- style</u>	<u>TOTAL firms</u>	(col. %)
1 - 4	7	12	1	18	11	3	42	595	(44)
5 - 9	7	21	4	16	14	5	24	324	(24)
10 - 14	4	27	1	15	19	3	23	124	(9)
15 - 49	8	37	3	11	11	4	19	233	(17)
50 - 99	8	54	0	8	6	4	16	50	(4)
100+	6	38	0	6	19	0	19	16	(1)
Total:	88	289	30	209	164	50	409	1349	(100)
%:	7	21	2	16	12	4	30	100	

There is a marked direct relation between the profit motive and size and almost equally strong inverse relations between size and both life-style and status. The self-employed and mini-firms in the 1-4 employee band, where lifestyle (42 percent) is the dominant business objective, are clearly less entrepreneurial than the more dynamic firms in the 15-49 employee band, where 37 percent have growth in profits as their main business objective. Certainly, this view is further supported by the results in the following table which shows *making money* as a personal motive for being in business increasing with the size of firm coupled with an equally distinct decline in *independence* as a personal motive.

Table B7. Personal motives by firm size.

<u>Number of Employees</u>	<u>No Choice</u>	<u>Family Trad'n</u> (row percentages)	<u>Indepen -dence</u>	<u>Secure future</u>	<u>Make money</u>	<u>TOTAL firms</u>	(col %)
1 - 4	9	2	54	8	16	595	(44)
5 - 9	5	6	52	8	15	324	(24)
10 - 14	4	7	51	9	20	124	(9)
15 - 49	3	11	40	10	25	233	(17)
50 - 99	0	14	44	4	34	50	(4)
100+	0	13	31	6	37	16	(1)
Total:	80	71	678	111	251	1349	(100)
%:	6	5	50	8	19	100	

Obviously, making money as a personal motive is strongly linked to having increased profits as a business objective but it is interesting to note that money is often seen as a badge of success by entrepreneurs (Timmons et al, 1977). It is also important to note the increase with firm-size of family tradition as motive. It may be that these respondents represent a stable, non-entrepreneurial sub-group of the generally more active 15-25 employee businesses. On the other hand, active later generations can put an established business to new uses. The 9 percent of the smallest firms that reported they had no alternative are likely to be recent startups who have chosen self-employment as the only alternative to unemployment. The following cross-tabulation of personal motives by business objectives provides some interesting clues to the existence of distinct types of small business - entrepreneurial, traditional, avoiders, etc.

Table B8. Personal motivation by business objectives.

Motive> Objective	No Choice	Family Trad'n	Indepen -dence	Secure future	Make money	TOTAL firms	(col %)
	(column percentages)						
sales growth	6	4	7	5	9	88	(7)
profit growth	15	24	19	11	40	289	(21)
staff growth	0	0	1	5	1	30	(2)
status	35	16	16	15	14	209	(16)
protect future	10	18	10	38	11	164	(12)
assets growth	8	16	3	4	4	50	(4)
lifestyle	18	17	40	19	19	409	(30)
Total:	80	71	678	111	251	1349	(100)

Most of these results have an intuitive face validity. For instance, it is not surprising that 40 percent of respondent motivated to make money - twice the average 21 percent - have the growth of profits as their business objective or that 38 percent of those concerned to create security - three times the average - should aim at building protection for the future. Nor is it strange that respondents motivated by family tradition are five times more likely than most other respondents to aim for an accumulation of assets (for their successors). However, the non-entrepreneurial nature of many of those pushed into self-employment by, amongst other things, fear of unemployment (see Gray 1989a), is reflected in the relatively low importance they place on growth of profits and the strong importance that achieving a reasonable standard of living (status) holds for them. The responses from those who felt they had no choice other than to turn to self-employment is not only indicative of high *external* locus of control (see Appendix C) but also lends reflects the importance of basic needs - such as achieving a certain minimum standard of living - among small businesses and the self-employed. Having as a business goal the preservation of a certain lifestyle could reflect a variety of needs though not necessarily any likely to lead to business success. This lends added interest to the replies from the half of the total sample who reported that attaining *independence* was their main motivation for running their own business. The 40 percent whose main business objective is the supporting of a preferred life-style is the largest sub-group followed by the profit-maximisers (19 percent) as a smaller but, presumably, more dynamic sub-group exhibiting high *internal* locus of control. These differences are highlighted in the following table the business objectives of the entrepreneurial growers (those who reported increases in both sales turnover and employment over the past year) are contrasted with those respondents whose businesses actually declined over the past year.

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Table B9. Business objectives by actual growth 1991.

Performance	<u>sales</u> <u>growth</u>	<u>profit</u> <u>growth</u>	<u>staff</u> <u>growth</u> (row percentages)	status	<u>safe</u> <u>future</u>	<u>assets</u> <u>growth</u>	<u>life-</u> <u>style</u>	TOTAL
Growers	9	28	4	16	10	3	26	313
Decliners	4	24	0	19	10	4	32	115
Neutral	6	19	2	15	13	4	32	921
Total:	88	289	30	209	164	50	409	1349
%:	7	21	2	16	12	4	30	100

The importance of profits and, to a lesser extent, sales turnover to their business success is clearly understood by the growers, who represented one in five of the total sample. The relative unimportance of supporting a lifestyle was also a feature of the growers. The declining firms were also aware of the need to boost profits (though less so than the growers) and comparatively more interested setting business objectives aimed at attaining a certain standard of living (status) and supporting a lifestyle. Indeed, more than half the declining businesses (51 percent) had these rather non-business goals as their objectives compared with only 42 percent of the growers. These differences suggest that the more active firms may have a different outlook on business and set of priorities than the less active or more reactive firms.

B4. Small firm growth-orientation.

(i) Rationale.

After conducting national surveys of small business attitudes and performance every three months for more than seven years, it became possible for the SBRT to track small business trends over time with reasonable accuracy. Responding to demands to know more about certain features of growing small firms, the SBRT analysed replies to past surveys (there is roughly a 50 per cent carry over from one survey sample to the next). Around one quarter of all the 21,028 respondents to the surveys over 1984-88 were growers - respondents who reported actual annual increases both in sales turnover and in employment. An analysis of the 5,172 growers confirmed that the most dynamic firms are not the self-employed sole-traders but those that have enough staff to be considered as small organisations rather than merely as extensions of a single owner (Gray and Bannock, 1989). The growers tend to be the firms with 10-50 employees rather than the smaller firms. A special analysis in the last quarter of 1986 of expanding firms revealed that manufacturers, wholesalers and transport firms were strongest growers with retailers the weakest, reflecting the national decline in that sector. A later analysis of job-generation in the second and third surveys of 1987 confirmed this pattern and added business and financial services to the list of growers.

Although one necessary condition for growth is that the owners and managers actually want to grow, this may not be a sufficient condition. Growth is not on the agenda for the majority of Britain's small firms but it may be that even the growth-oriented firms have

rather limited objectives. The SBRT's quarterly survey's consistently find that respondents reporting sales and employment growth over the past year represent a minority of respondents - around one quarter of the sample to the end of 1989, then slipping steadily from 21 per cent in mid-1990 to around 10 per cent in late 1991. Of course, this trend is a direct reflection of the recession with sales dropping for all types of firm regardless of their personal growth-orientations. However, it should not be forgotten that the SBRT surveys only the owners of surviving firms who identify themselves as such and are committed enough to complete a questionnaire. It is presumed that SBRT respondents represent the more active and self-aware small business owners.

Of course, the economy can only absorb a limited number of growing firms and there are valid reasons why even efficient firms do not want to grow - significant disruption to organisation and premises, already at a satisfactory equilibrium, the optimal size is only a few people (traders, repairers, village shops, crafts, etc), benefits of growth very marginal, loss of personal control and so on. National economic development, however, ultimately depends on the provision of more cost-effective goods and services to meet new and existing demands - a role ideally suited to certain small firms. Yet, overcoming the very real problems of growth requires determination. Even during the mid-1980s boom years, SBRT surveys found strong evidence of the turmoil which can accompany growth among small manufacturers, wholesalers and construction firms facing severe problems with slow payers and cashflow. Some of this turmoil could be ameliorated by infrastructural improvements for the whole economy and by improved information and support services for small businesses. The strongest barriers to growth among small business owners, however, appear to spring from their personal motivations and ambitions.

(ii) Methodology.

To address directly the question of growth-orientation in small business owners, a special question on growth targets was inserted in the latest SBRT quarterly survey (Vol 7, No 3, 1991). There were 1,718 replies from 2,500 questionnaires (an extremely satisfactory 69 per cent response) of whom 31 per cent reported that they would prefer to remain at their present size, 20 per cent stated that they want to expand indefinitely, 18 per cent want to expand but only to a certain size and 12 per cent would like to sell their business (another 3 per cent said they would like to merge with another firm). Some 7 per cent admitted to having no growth targets and only 1 per cent of respondents, in the depths of a profound recession, stated that they would like to reduce the size of their firm to a more manageable dimension. As with the earlier surveys that probed the personal background of small business life (2,236 respondents to the intergenerational/ multiple

ownership survey and 1,349 to the personal motivation/business objectives survey), there were distinct size effects with the smaller firms and the self-employed being markedly less growth-oriented.

(iii) Results.

Altogether there were 1,719 usable replies, fairly evenly split between growth-oriented and growth-averse respondents (more than one third each) with one quarter of the sample either unsure of their attitude to growth or else keen to sell or merge their business with another. To simplify the analysis, the two growth categories (indefinite expansion and to a certain size) have been collapsed into one category and three non-growth categories (remain at current size, contract and no growth targets) have been reduced to one while the rest (no response, don't know, sell and merge) are left as an 'other' category. As in most surveys of small business owners, size effects were very clear:

Table B10. Growth orientation by employment size.

<u>Employees</u>	<u>Growth-oriented</u>	<u>Growth-averse</u> (row percentages)	<u>Other</u>	<u>TOTAL</u>
1 (self)	20	58	22	253
2	30	47	23	300
3-4	35	38	27	350
5-9	43	33	24	361
10-14	47	28	25	159
15-24	53	21	26	118
25-49	59	24	17	124
50+	48	28	24	50
Total	37	38	25	1719

The key features of the results are the very high growth aspirations of the 15-49 employee firms and the low growth, or more accurately, the high non-growth of the self-employed sole-traders. There were also clear differences between industries (which partly accounts for the size affects) with small manufacturers (49 per cent) and wholesalers (43 per cent) the most growth-oriented. Small retailers and caterers are clearly not particularly growth-oriented with one third of retailers wanting to remain the same size and 18 per cent keen to sell their businesses. Not surprisingly, caterers, including restaurants, are the keenest to sell their business (30 per cent). At first glance, small transport firms appeared to be the least keen on growth but this was because they clearly have a strong awareness of an optimal or preferred size with 40 per cent wishing to retain their present size and 26 per cent keen to grow but only to a certain size. The owners of transport firms are amongst the keenest to retain their personal independence although, as the following table shows, the relationship between growth-orientation and the need for independence is not very clear.

Appendix B

Table B11. Personal business motivation and growth-orientation.

<u>Motivation</u>	<u>Growth-oriented</u>	<u>Growth-averse</u> (column percentages)	Other	TOTAL
No alternative	5	6	10	7
Family tradition	1	7	3	4
Independence	56	56	51	55
Security	9	7	6	7
Make money	22	17	22	20
TOTAL:	232	240	167	639
%:	100	100	100	100

Growth-oriented firms are slightly more inclined to be motivated by financial gain and not to be seeking to maintain a family small business tradition (in any case, only 4 per cent of respondents). There is no difference between the growth-oriented and growth-averse firms in relation to personal independence and the slight drop among the 'others' is no doubt due to the inclusion of respondents people who want to sell or merge their businesses. Once again, the above average concern over personal independence among all volunteers to the SBRT database is clearly manifest. Notwithstanding its ambiguity as a concept, concern over independence is obviously a central feature of small business consciousness. There is a real risk, however, that many small business owners and self-employed rate their independence above the success of their business. There is a strong reluctance to cede, or even share, control of the business either internally or externally. Yet, for the active minority of business owners who do wish to grow successfully, the internal organisation of their firms must move away from one of concentrated personal control to a more devolved system. There are grounds for believing that it is problems to do with span of control, the reluctance to delegate authority, which create many of the strong internal barriers to growth. The above results reflect this confusion and point to the need for more research into management styles and systems within small firms with growth potential. Fortunately, there is a clearer relationship between the setting of reasonable business objectives and growth-orientation.

Table B12. Business objectives and growth-orientation.

<u>Objectives</u>	<u>Growth-oriented</u>	<u>Growth-averse</u> (column percentages)	Other	TOTAL
Sales growth	11	4	4	7
Profit growth	36	11	16	21
Status	12	18	20	16
Future assets	12	18	20	16
Lifestyle	23	45	34	34
Total:	232	240	167	639
%:	100	100	100	100

The clear dominance of maximisation of profits or sales (a reasonable objective for firms keen to increase market share and operating within fairly fixed profit margins) as a

business objective among growth-oriented firms reflects their more professional approach towards business. Nearly half of the growth-oriented firms (47 per cent) have these objectives compared with only 15 per cent of firms with non-growth targets. The dominance of *lifestyle* - itself another ambiguous concept, ranging from distinctly anti-business behaviours to those of conspicuous consumption - as a business objective among the non-growth firms also supports the general observation about their non-professional approach. The stronger business culture of growth-oriented firms is also evident among the 1,068 respondents who replied to the 1989 quarterly survey on intergenerational links and numbers of previous businesses owned. A large proportion of members of the SBRT database have close relatives who are also self-employed (44 per cent have self-employed parents and/or siblings) but non-growth firms are slightly lower (40 per cent). Almost half (48 per cent) of growth-oriented firms have close relatives also self-employed. In terms of previous businesses owned, again almost half the growth-oriented respondents (45 per cent) have previously owned another business compared with just one-third (33 per cent) of non-growth firms.

The growth-oriented owners of more than one business (27 per cent) were more likely than the non-growth owners (24 per cent) to have sold the previous business to a third party or to be still running the other business as well. However, the ultimate test of growth-orientation is whether those owners actually manage to achieve higher growth than owners with non-growth targets. After all, growth is not merely a function of intentions but also of ability and economic conditions. As the following table demonstrates, growth-oriented firms surveyed in the third quarter 1991 - even though also suffering from a deep recession - achieve higher growth (measured as reported increases in actual sales over the past year plus annual increases in either employment or investment) than firms with non-growth targets.

Table B13. Growth-orientation and actual business performance 1991.

<u>Performance</u>	<u>Growth</u>	<u>Non-growth</u>	<u>Other</u>	<u>TOTAL</u>
		(column percentages)		
Growing	27	12	12	18
Static	48	57	48	51
Declining	25	31	40	31
Total:	648	660	411	1,719
%:	100	100	100	100

It should be mentioned that the responses to this survey - the 28th in the SBRT quarterly series - were deep in recession and recorded the weakest actual annual performances and current quarterly expectations of any of the SBRT's surveys since 1984. Nevertheless, more growth-oriented firms managed to overcome the recession and expand (27 per cent) than contract (25 per cent). In fact, growth-oriented firms represented 58 per cent of all growing firms. The other feature of these results is the high *others* category for

declining firms (ie, those registering decreases in sales and either employment or investment). To an extent, this is an artefact of the classification procedure because the vast majority of these 529 declining respondents want to either sell (46 per cent) or merge their firm with another (20 per cent). The one quarter of the whole sample, mainly owners of the smallest firms and the self-employed, who are personally seeking independence and set 'lifestyle' as a business objective do not hold their business as psychologically central and are unlikely to want to grow. In fact, declining businesses are more concerned (51 per cent) about securing a certain standard of living and lifestyle than are growing businesses (42 per cent). The opposite holds true for the 12 per cent who are motivated to make money and set profit-growth as their business objective and for the other 12 per cent seeking independence with the same profit-growth business objective. However, not all firms seeking to expand profits are necessarily growth minded - owners with a family tradition in business may only seek to maintain their business at its present size but recognise that maintained profits are the best defence against business failure.

However, this raises another issue concerning small business growth and growth-orientation. Business growth, particularly for people who are reluctant to give up personal control, may take the form of founding several businesses rather than expanding one business to a larger size. The SBRT quarterly survey in the third quarter of 1989 explored the effects of certain aspects of business culture on the behaviour of small business owners. The first question asked about the extent of self-employment among members of the respondent's immediate family. The results confirmed the strong influences in family tradition and small firm ownership from previous research studies (Bolton, 1971; Stanworth and Gray, 1991) and the findings here in relation to enterprise trainees (Table A7, A8, A9 and A10) with three-quarters of respondents having other family members also self-employed. The second question explored the phenomenon of multiple ownership of firms. Some 40 per cent of the 2,236 respondents had run another business previously, many more than one, and one quarter of them (10 per cent of the total sample) were still operating the other business.

Roughly one quarter (479) of the 1990 SBRT quarterly survey had also been surveyed in the 1989 survey so it was possible to explore the business culture effects further. In general, the importance of the independence motive was stronger when the wider family were also engaged in self-employment and slightly weaker if there was no family involvement or if only the mother had been self-employed. However, having a self-employed mother or no family involved was also linked to the setting of profits-growth as a business objective. There was not such a clear pattern among the previous business owners. This may be because the previous business was a family business and the second

the respondent's own venture, the respondent feels the lessons have been learned from a previous business failure, the original investment is the main source of income or the main motivation may have been the starting of a business as opposed to the continued managing of a business. The following table on number of businesses owned and personal motivation suggests there are two sub-groups in the cross-sample:

Table B14. Personal motivations by number of businesses owned.

<u>Businesses</u>	<u>No</u> <u>choice</u>	<u>Family</u> <u>tradition</u>	<u>Indepen-</u> <u>dence</u> (row percentages)	<u>Secure</u> <u>future</u>	<u>Make</u> <u>money</u>	<u>TOTAL</u>
One only	9	3	59	6	17	290
One before	10	2	59	6	15	94
Two	14	4	44	9	23	57
before						
Three & more	7	7	45	3	28	29
Total:	45	14	270	30	86	479
%:	9	3	56	6	18	100

There is a clear difference between those who have owned more than one business and those who have owned fewer. In fact, those who have only owned one other business previously - perhaps its dissolution gave birth to the present business, more of a continuum than two separate businesses - have virtually the same personal motivations as respondents who have only ever owned their present business. The more experienced small business owners are markedly less concerned about independence - though it does remain their main motivation - and are more interested in making money. However, the ambiguity of the independence motive weakens its value as a tool for analysing small business behaviour even though it is clearly important in cultural, political and marketing terms. Members of the SBRT database - the common respondents to the two surveys were recruited from the database - unambiguously identify themselves as small business owners and display strong independence motivation.

These surveys suggest that the more active firms have a different set of priorities and outlook on business and lifestyle than the more reactive firms. This hypothesis received strong support from an analysis of the responses to the survey from SBRT database members who owned other businesses. The database consists of small business owners who have volunteered to contribute to small business research implying that they identify themselves as part of the small business sector and want to learn more about the sector. Since many small business owners define themselves by industry rather than size and few care about 'academic' or other studies, this further implies that the self-concepts of SBRT Database include as a central element the fact that they are small business owners. As the following table indicates, the strength of this self-concept as a small business

owner is likely to be even more pronounced among those who own or have owned more than one small business.

Table B15. Business objectives by number of businesses owned.

<u>Number of Businesses</u>	<u>sales growth</u>	<u>profit growth</u>	<u>staff growth</u> (row	<u>status</u> percenta	<u>secure family ges)</u>	<u>assets growth</u>	<u>life- style</u>	<u>TOTAL</u>	<u>(col%)</u>
One only	7	18	1	17	16	2	32	290	(61)
One before	6	22	1	16	5	1	40	94	(20)
Two before	7	18	2	25	12	5	25	57	(12)
Three plus	-	17	-	10	17	10	41	29	(6)
Total:	30	89	38	85	63	14	166	479	(100)
%:	6	19	1	18	13	3	35	100	

The immediate point that stands out is the strong tendency to stick with the first business started (all members of the SBRT Database are past the high-failure 3 year post-startup period). This apparent general lack of entrepreneurial flexibility and desire for change is also reflected in the higher importance placed by SBRT Database members - especially those who have owned one business previously - on running a business to support a preferred lifestyle. Indeed, taken together (with 'attaining a certain status') the two non-economic business objectives strongly overshadow the main economic objectives. However, both lifestyle and status are open to several interpretations - including the lifestyle and status of 'being a business owner or a company director' - as is clear from the somewhat erratic distributions of responses and the fact that people who have own just one previous business are strong not only on lifestyle but also on expanding their profits.

B5. Small Business owners attitudes survey

1 Background and Career Choice Issues.

(i) Rationale.

Once the findings from the specially constructed attitudinal scales on the enterprise and non-enterprise trainees had been assessed, the scales were tested on the more representative small business owners sample from the SBRT Database. It was apparent that a number of issues required further exploration - especially those relating to small business owners self-concepts and their attitudes towards growth and control. The influence of a family background in self-employment has already been discussed in relation to enterprise trainees (see Table A9).

(ii) Methodology.

The responses of the 470 small business owners identified as either growth-oriented or growth-averse in the third quarterly SBRT survey of 1991 were of particular interest because positive growth-orientation is perhaps the closest proxy for entrepreneurship.

Consequently, a special version of the LoC and achievement-motivation scales plus the biographical items were administered as a postal survey during January-February 1992 to these 470 SBRT respondents (see the questionnaire attached at the back of this Appendix). In addition, a number of questions on career choice and forced-choice items exploring issues such as the psychological centrality of work, approaches to management styles, control over self and business and aspects of the independence concept were included. As already mentioned, the coded replies were transformed into a data file for analysis by the SPSS/PC program which allowed for full statistical confidence testing, including t-tests, non-parametric tests and stepwise regression analysis (though no direct internal consistency tests for the scales).

(iii) Results.

Reflecting their strong self-identification as small business owners, some 307 replied representing a very high response rate of 65 per cent. The following profile of this sample (see also Tables A2 and A5) shows that responses were split fairly evenly between the growth-oriented and the growth-averse but that the sample is rather over-represented by male small firm owners.

Table B16. Characteristics of sample.

<u>Growth attitudes</u>	<u>GENDER</u>		<u>AGE</u>				<u>TOTAL firms</u>	<u>(col.%)</u>
	<u>Male</u>	<u>Female</u>	<u>25-34</u>	<u>35-44</u>	<u>45-54</u>	<u>55+</u>		
			(row percentages)					
Growth-oriented	90	9	8	34	30	28	157	(51)
Growth-averse	91	7	5	19	31	44	150	(49)
Total	277	25	19	81	93	109	307	(100)
(%)	(90)	(10)	(6)	(26)	(30)	(36)	(100)	

(For 'age', there were 5 non responses; chi-square was significant at a $p < 0.01\%$ level of probability).

The predominance of males among the general small business population in Britain (and among the SBRT sample in particular) has already been noted as has the over-representation in the SBRT sample of surviving small firm owners (clearly reflected in this sample). However, it is interesting to note that growth-aversion seems linked to age (probably a function of changing stages of personal development as different achievement and expectancy points have been passed). The older, more mature firms in this sample contrast strongly with the sample of enterprise trainees described in Appendix A (contrast Table B16 above with Table A5). Department of Employment statistics also reflect this dynamism-age link though it does appear that many younger small business owners have rather limited growth objectives (Employment Gazette, January 1992). Alternatively, the age link may also reflect the fact that older, more-experienced self-employed who never had any intention to expand tend to survive longer. This interpretation receives some support when the growth-oriented and growth-averse respondents are compared on the their present employment status (refer also to

table A1 for an inter-sample comparison). The categories in the questionnaire have been collapsed to 'non-business' (which includes unemployed, students, public sector and other as used in Appendix A), self-employed, director (mainly of small firms though there were a handful of respondents who are ambitious to become managing directors of large firms) and employees.

Table B17. Growth-orientation by present occupation.

<u>Present occupation</u>	<u>Growth-oriented</u>		<u>Growth-averse</u>		<u>Total</u>	
	<u>firms</u>	<u>(col. %)</u>	<u>firms</u>	<u>(col. %)</u>	<u>firms</u>	<u>(col. %)</u>
Non-business	2	(1)	2	(2)	4	(2)
Self-employed	80	(51)	102	(68)	182	(59)
Manager/MD	72	(46)	44	(29)	116	(38)
Employee	2	(2)	1	(1)	3	(2)
Total:	156	(51)	149	(49)	305	(100)

(There were 2 non responses. Chi-square was significant at a $p < 0.05\%$ level of probability).

The lower growth aspirations of the self-employed compared with owners of small firms is clear but by no means universal. More than two-thirds of the growth-averse small firm owners are self-employed yet just over half (51 per cent) of the growth-oriented owners were also self-employed. The actual shifts in employment status show that self-employment is an early stage for many growth-oriented firms although the bulk of self-employed - even among the relatively more active respondents to SBRT surveys - are not growth-oriented.

Table B18. Present occupation by past occupation.

<u>Present</u>	<u>Past</u>				<u>Total firms</u>	<u>(col. %)</u>
	<u>Non-business</u>	<u>Self-employ</u>	<u>Manager MD</u>	<u>Employee</u>		
Non-business	0	0	2	0	2	(1)
Self-employed	3	110	21	30	164	(59)
Manager/MD	1	4	87	14	106	(38)
Employee	1	1	1	2	5	(2)
Total:	5	115	111	46	277	
(row %)	(2)	(42)	(40)	(17)		(100)

(30 non responses not included in the table. Chi-square significant at $p < 0.001\%$ level of probability).

Apart from revealing a significant shift from paid employment into self-employment, these results reflect other interesting trends. Firstly, there is the evident stability of employment among the established small firm owners with the self-employed representing the larger group and showing no apparent desire for expansion (only 4 appeared to incorporated recently). There is a very slight drift out of the small firm owner group but this is probably as a result of recession. More interestingly, there are signs of entry into both self-employment and also small business from a traditional source - small business employees who have decided the time is ripe to set out on their own - and others seemingly squeezed by economic restructuring - former managers and employees from larger public and private sector organisations. The tendency to opt for

self-employment is less marked among former large business managers who seem more likely to found small companies - possibly as management buyouts. These tendencies appear to be rather strong and, if anything (confirming the pattern described in table A3), are even stronger when future career intentions are considered.

Table B19. Present occupation by future career intentions.

Present	Non-business	Self-employ.	Future Manager MD	Employee	Total firms	(col.%)
Non-business	0	0	1	1	2	(1)
Self-employed	0	149	5	3	157	(59)
Manager/MD	0	4	94	5	103	(39)
Employee	0	2	0	3	5	(2)
Total:	0	155	100	12	267	
(row %)	(0)	(58)	(37)	(4)		(100)

(39 non responses not included in the table. Chi-square significant at a $p < 0.001\%$ level of probability).

More than 80 per cent of growth-oriented owners intend to incorporate and they also accounted for 63 per cent of those who sought a career as a small firm owner. By contrast, two-thirds of the growth-averse firms wished to remain as self-employed. The cultural influences discussed in the thesis, most notably those of the family, clearly have an impact on career choice confirming many the findings of many sociological studies which reveal a strong inter-generational link in the career-choice to be self-employed or a small business owner (Bolton, 1971; Stanworth and Bannock, 1990; Gray and Stanworth, 1991). This is clear from Table B20 but, as Tables B16 and B18 indicate, the recessions during these enterprise culture years have interrupted many careers in paid employment and self-employment, as a means for survival rather than growth opportunity, is becoming an involuntary stage in the personal careers of many people from other backgrounds as well and they are often more growth-oriented than people from the milieu of self-employment.

Table B20. Family influences on career choice for self-employment.

Influence:	Family				Non-family	Total			
self-employed	Father	Mother	Other (column n)	Spouse % of	Employer mentions)	Outsider	Nobody	Replies	(%)
Parents	38	25	29	21	12	21	36	109	(27)
Relatives	33	40	47	29	24	31	28	122	(31)
Spouse	9	15	12	25	4	5	7	39	(10)
None	20	20	12	25	60	39	39	129	(32)
Mentions	91	20	17	48	25	75	133	399	(100)
firms	59	13	13	34	22	62	108	307	
(%)	(19)	(4)	(4)	(11)	(7)	(20)	(35)	(100)	

It should be emphasised that these are all self-reported responses (there is a difference between the number of 'mentions' and 'firms' because this was a multi-response item),

almost certainly reflecting strong attributional effects, but even with this caveat it is clear that there is a strong conscious family influence in career choice to be self-employed or to run a small business. This is confirmed by the pattern of responses in Tables A7 and A9 and by sociological evidence which shows certain backgrounds (self-employment, professions, management, farming) featuring extremely highly among the self-employed and small business owners (Stanworth and Bannock, 1990). This is also important evidence for the strength of cultural determinants of economic behaviour (and fits in with the Marxian analysis of chapter 2, section 2.2.2) but it is also clear that postal questionnaires are not the appropriate methodology for this type of investigation. Studies based on more accurate biodata, including personal interviews, would be needed to explore adequately the career choice influences on the one third of the sample (35 per cent) who claimed that nobody influenced their career choice (especially those who share a self-employed family background). Indeed, this group is very important because they are the most growth-oriented and their response to this question is entirely consistent with having a very internal *locus of control* (see Appendix C). The repertory grid studies conducted among enterprise trainees show how complex this issue can be, however, when the effects of inner-family dynamics are taken into account (see Appendix D, Table D).

2. Attitudes to growth and control

(i) Rationale

Strong motivation on the part of the owner will obviously be linked to a successful passage from startup to survival though the effects need not be a simple linear causal move from motivation to performance. It is highly unlikely that motivation and performance are independent variables because successful survival will positively affect most owner's future expectations and motivations. However, successful growth-oriented owners (entrepreneurs) rapidly arrive at a choice point where internal delegation becomes a necessity if future growth is to continue. This gives the entrepreneur the option of going for continued growth and more formalised structures or exiting and starting up a new venture. At a theoretical level, the entrepreneur in this model is seen to be making a conscious choice, a pro-active decision either way. Most current evidence suggests that the majority of fast growth small firms lose much of their entrepreneurial *elan* at this point and opt for the rather non-entrepreneurial position of restraining growth but retaining full power. This provides a clue as to why so few firms pass beyond the 20-25 employee growth barrier. To employ even just one other human being (except perhaps another family member where the term 'employ' may be fairly loose) is quite a major step for many people which is one reason why less than one quarter of self-employed have externally recruited employees.

For those who do employ others, management can remain fairly informal - often mainly an extension of the owner - up to about a half-dozen employees but from about say 5 employees to around 20-25 there has to be certain amount of sub-division of labour and the delegation of specific tasks to key employees or partners. Beyond this point it becomes organisationally and psychologically difficult to delegate tasks without also delegating some authority to make independent decisions. There also seem to be psychological barriers in relation to financing this growth and organisational expansion. Reorganisations cost time, money and human resources which have to be funded. Usually, retained profits are not enough and the borrowing too risky and costly beyond a certain point. This raises the question of accepting outside investor's equity capital and their right to have some say in how the company is run. Once again, personal control can become a constraint. It is not too difficult to understand the transition to a more professional management stage but the transition from self-employment to a microfirm of 1-4 employees and then to a small business with say 5-25 employees, which has the resources and can meaningfully think in terms of transition to a medium-sized firm, is very under-researched. This study examines some of these size effects in relation personal motivation of owners and attitudes to growth, control and business with particular attention to recently founded surviving (say 4-10 years of trading) small business owners (with 5-25 employees).

(ii) Methodology

The complex influence of the independence-motive during the growth stage was examined through a set of forced-choice questions included in the separate questionnaire (which also contained the LoC and achievement motivation scales reported in Appendices C and D respectively). As already mentioned, the 307 respondents also completed a follow-up survey examining personality and motivational, as well as personal background, variables. SBRT respondents tend to run older, surviving businesses (and are 90% male). As their strong desire to be independent bears testimony, they also display a strong self-identification as small business owners. Given the fact that some 70 per cent of all self-employed have no employees themselves and show no inclination towards growth, it is likely that the SBRT sample contains a disproportionate number of growth-oriented owners. Certainly, the SBRT sample seems to be more experienced - in that they are all older than 24 years (a key growth band now representing some 8 per cent of national self-employment) - yet more active (the self-employed over 65 years represent one third of the national labour force in that band but are virtually absent from the SBRT database). This highlights the importance of attitudes associated with a 'business culture' or 'being business minded' in examining attitudes

towards growth and control and in determining the exact nature of growth or entrepreneurial motivation.

(iii) Results

The importance of business cultural values in influencing how independence may be defined by firms with growth potential is highlighted by the following table which outlines differences between owners who are business-centred and those who are more concerned about the non-business sides of their lives.

Table B21. Business objectives and centrality of 'business' to owner.

<u>Business centrality</u>	<u>business/economic</u>	<u>security</u>	<u>lifestyle</u>	<u>Other</u>	<u>TOTAL (%)</u>
non-business	14	27	39	4	84 (28)
business	77	66	65	9	217 (71)
TOTAL	91 (30)	93 (31)	104 (35)	13 (4)	301 (100)

(Chi-square = 14.29; d/f = 6; significance $p < 0.027$)

These differences were significant and suggest that those who define their interests and independence in business terms are more likely to want to pass through the various stages of entrepreneurial growth. These are likely to provide the bulk of small firms that grow to a size where delegation, division of labour and formal systems are a feature of survival and success. However, business centrality may not necessarily be such a significant factor in the early stages - particularly during startup and during the transition from survival to take-off. Factors associated with the transition from survival to the take-off and up to the professionalise stages are examined through an analysing key responses on the two main variables - firm-size and maturity of firms according to number of years trading. The following table, which again uses the Labour Force Surveys size bands (sole-trader, 1-2 employees, 3-4 employees, 5-9 employees, 10-14 employees, 15-24 employees and those of 25 or more employees), analyses in more detail the growth patterns summarised in Tables B9 and B13 through a comparison of full-time workforce sizes in early 1990, at the onset of the recession, and in mid-1991 thus providing a measure of the labour market shifts in the active small firm sector.

Appendix B

Table B22. Shifts in full-time workforce size 1990-91.

1990 FT	1991 full-time staff														TOTAL
	sole		1-2emps		3-4emps		5-9emps		10-14emp		15-24emp		25+emps		
sole	26		10		4		0		0		0		0		40 (13)
1-2emps	12		33		7		2		0		0		0		54 (18)
3-4emps	2		10		39		8		1		0		0		60 (20)
5-9emps	0		5		9		45		5		1		0		65 (21)
10-14em	0		0		1		6		13		7		1		28 (9)
15-24em	0		0		0		2		7		13		2		24 (8)
25+emp	0		0		1		0		0		5		29		35 (11)
TOTAL	40	(13)	58	(19)	61	(20)	63	(21)	26	(9)	26	(9)	32	(11)	306 (100)

(Chi-square = 722.37; d/f= 36; significance $p < 0.0000$)

There have clearly been some movements between bands but the most interesting feature of the above table is that, despite the recession, the distributions have remained remarkably stable. Indeed, the 102 respondents who shed staff over the period were almost matched by the 92 who grew. It is of particular interest to note that the most turbulence occurs between the microfirm band of 3-4 employees and the next stage - the 5-9 employee small businesses, with significant growth from sole-trader startups to surviving microfirms and from small businesses into the 'springboard' small business band of 15-24 employees. The maturity age bands reflect VAT registration-deregistration analysis: young (1-3 years trading, which includes maximum vulnerability peak failure rates), 4-10 years where survival rates have stabilised, 11-20 years when firms are seen to well established, 21-30 years which represents maturity and 31 years or more which should include most traditional and inter-generational firms. The independent variables include: personal motivation and attitudes towards independence, internal delegation, personal control and external equity finance (which should provide useful data on the likely influence of the independence-motive on strategies for realising the value of the owner's enterprise). There is a significant link between the age of the firm and its size.

Table B23. Age of firm by size (full-time employees) 1991.

Size (FT employees)	Age of firm (years trading)					TOTAL (%)
	Startup (1-3 yrs)	Survival (4-10 yrs)	Established (11-20 yrs)	Mature (21-30 yrs)	Consolidate (31 +)	
sole-trader	1	22	10	3	2	38 (13)
1-2 emps.	2	34	16	4	2	58 (19)
3-4 emps.	3	36	14	3	5	61 (20)
5-9 emps.	1	26	18	8	9	62 (21)
10-14 emps	0	7	13	3	3	26 (9)
15-24 emps	0	5	15	5	1	26 (9)
25+ emps	0	2	12	7	11	32 (11)
TOTAL (%)	7 (2)	132 (44)	98 (32)	33 (11)	33 (11)	303 (100)

(Chi square = 69.67, d/f = 24, $p < .000$)

Sole-traders account for 70 per cent of the self-employed in Britain and microfirms with 1-5 employees account for another 21 per cent. Just over half of the SBRT sample are in these bands which means some effects will be biased. Virtually all the sample has passed

through the critical stage of startup yet three-quarters of the sample have been trading through the height of the 'enterprise culture' years but are young enough to respond without becoming too mature as organisations. Growth above the two-dozen employee barrier is clearly linked with age of firm and may be more due to the passage of time than any particularly pro-active desire to grow. Also, more than half the sample (52 per cent), especially those in the 4-10 year survival band, seem content to remain as microfirms or sole-traders. This suggests that even in this sample of active small firm owners the entrepreneurial drive to create a large enterprise was not a strong motivation for founding the firm. However, the desire for growth, even if not strong enough to promote development beyond the 25-employee barrier does seem related to size as Table B10 clearly revealed. Sole-traders and microfirms are evidently less concerned about growth and it can be seen that once again the reasonably established small businesses in the 5-9 employee band are the most growth-oriented. Whether their stronger interest in business growth translates into a desire to take-off and pass through the 25-employee growth barrier and become professionally managed medium-sized firms is not so clear. It has already been shown (Table B19) that relatively few respondents were contemplating a career shift from self-employment to incorporating as a small business but the following table shows that there are significant size-effects in relation to career intentions.

Table B24. Future career intentions by size of firms (full-time employees) 1991.

<u>Size (FT employees)</u>	<u>Other</u>	<u>self-employed</u>	<u>manager/MD</u>	<u>employee</u>	<u>TOTAL (%)</u>
sole-trader	4	31	4	1	40 (13)
1-2 emps.	5	40	10	3	58 (19)
3-4 emps.	9	33	17	2	61 (20)
5-9 emps.	12	27	23	1	63 (21)
10-14 emps	4	11	11	0	26 (9)
15-24 emps	1	8	15	2	26 (9)
25+ emps	4	5	20	3	32 (11)
TOTAL (%)	39 (13)	155 (51)	100 (33)	12 (4)	306 (100)

(Chi-square = 63.91; d/f = 24; significance $p < 0.0000$)

With the 5-9 employee band accounting for roughly one quarter of the respondents who wish to become managers or directors of small and large firms, it appears there are some grounds for applying a stage-model approach at the early stages of growth. However, very few of even this active one third of the sample have ambitions to run a large firm. Except for 3 firms which grew over the 18-month period, the firms with more than 25 employees were already at that size but this could reflect the effects of the recession. It is immediately clear that the self-employed sole-traders are not very ambitious with only 4 (10 per cent of all sole-traders) expressing a desire to become the directors or managers of a small business thus confirming the pattern in table 5 where most of the sole-traders

had remained as sole-traders (Tables B18 and B19). This was not simply a question of experience because, as Tables B16 and B23 demonstrates, all bar one had been in business for more than four years. A similar picture is recorded for the smallest microfirms with 1-2 employees. On balance, it seems these patterns of development are mainly a function of personal motivation rather than of experience linked with age as suggested by size-maturity (as opposed to decision point) stage models. Certainly, there is no statistically significant linkage between the number of years trading and the future career intentions not between the age of respondents and workforce size. There is evidence that a personal life cycle effect may be operating on attitudes towards growth (Table B9) with younger respondents tending to be more growth-oriented than the older respondents. However, it is also clear that this is only a tendency and quite relative (for instance, fractionally more middle-aged respondents of 45-54 years are growth oriented). Also, it is clear that the SBRT sample is very much an older, and possibly more traditional, sample of small business owners. There is no statistically significant linkage between the age of respondents and the main objectives they select for their businesses. However, there is a link between the age of respondent and the personal motivations for being in business.

Table B25. Owners' personal motivations by age of respondents.

<u>Age (years)</u>	<u>external</u>	<u>financial</u>	<u>independence</u>	<u>other</u>	<u>TOTAL (%)</u>
25-34	0	8	9	2	19 (6)
35-44	3	27	49	2	81 (27)
45-54	11	20	56	5	93 (31)
55-64	6	26	45	9	86 (28)
65+	6	6	6	5	23 (8)
TOTAL (%)	27 (9)	87 (29)	167 (55)	23 (8)	301 (100)

(Chi-squared = 35.25; d/f = 15; significance $p < 0.002$)

This strengthens the case for linking small business growth decisions to the personal life-cycles of the founders and managers rather than to more mechanistic models based on size. The independence motive dominates the more active and growth-oriented 35-44 year group but financial motivations are also important (though relatively less so than they are for the older not so growth-oriented respondents). This places potential conflicts over loss of personal control in its proper context of the owners overall life ambitions at a particular stage of personal and business development. Owners keen to grow only up to the real delegation choice point may, in effect, be saying that personal control is more important than creating a lasting organisation. The conflict between increasing organisational complexities related to size and the owner's personal motivations can be seen in the following table on delegation effects.

Table B26. Business objectives by management styles.

<u>Objectives</u>	<u>Directive</u>	<u>Delegative</u>	<u>TOTAL (%)</u>
business/economic	54	37	91 (30)
security	63	30	93 (31)
lifestyle	81	23	104 (35)
other	9	3	12 (4)
TOTAL (%)	207 (68)	93 (31)	300 (100)

(Chi-square = 13.98; d/f = 6; significance $p < 0.03$)

The overall reluctance of small firm owners give up personal control inside their firms is clear (and even stronger if the likely social desirability effects to report a more participative approach are taken into account). A directive management style is stronger among owners with 'lifestyle' as a business objective than those with business/economic objectives. Since growth implies the development of more devolved management, it is not surprising that growth-oriented owners are twice as likely to be delegative than growth-averse owners (although directive management styles dominate both groups). By contrast, a forced choice question contrasting the acceptance of external equity with the desire to retain personal control - which also addresses an important determinant of future growth - did not discriminate significantly between the two groups. Removing the sole-traders and smaller microfirms (it makes little sense to ask if they delegate internally to others), differences between the groups on management styles are significant ($p < 0.025$) on a 2-tail t-test with the average directive firm having 12 employees and the average delegative firm 17 employees. There were no significant personal life-cycle effects on management styles. The effects of experience are more equivocal with no significant differences between styles in relation to years experience as a manager but significant differences ($p < 0.008$) in relation to years trading for the current business (possibly reflecting a more team approach as core workforce stabilises). This implies some support for a stage model approach but the following table on the effects of personal motivation on management styles shows that the position is by no means clearcut.

Table B27. Owners' personal motivations by management style.

<u>Motivations</u>	<u>Directive</u>	<u>Delegative</u>	<u>TOTAL (%)</u>
external	17	9	26 (9)
financial	59	26	86 (28)
independence	113	55	169 (56)
other	18	3	23 (8)
TOTAL (%)	207 (68)	93 (31)	300 (100)

(Chi-square = 13.64; d/f = 6; significance $p < 0.03$)

Given the clear inverse link between size of firm and the importance of the managers' independence motivation, a similar inverse relationship between the independence motive and a delegative management style might be expected but this does not appear to be the case. There is an increased acceptance of the need for external equity as firms

Appendix B

grow but, again, not linked to the independence motive (although it may be if the external stake were big enough to threaten ownership or control).

APPENDIX C: LOCUS OF CONTROL

C1. Rotters IE Scale

(i) Rationale.

Originally conceived as a learned behavioural response (Rotter, 1966), *locus of control* (LoC) may be most simply described as the extent to which a people believe they control their own behaviour, external events and, ultimately, their own destinies. Individuals who believe that the outcome of events are generally determined by their own behaviour are said to have an *internal* locus of control. Again put simply, internals are people who believe they have personal control over their own lives. By contrast, individuals with *external* locus of control believe that events and outcomes are not contingent on their own behaviour but are more likely to be due to chance, luck, other more powerful people or to be inherently unpredictable. For Rotter, LoC refers to a general expectancy that people have about their power to intervene in most situations and not about their actual behaviour in any one given situation.

During the early 1960s, as part of an overall study of social learning behaviour from a behaviourist perspective, Rotter and his colleagues developed a 23-item scale (see scales attached to Appendix B) to measure locus of control plus 6 lie-scale items. Each item is in the form of a forced choice between two alternative statements of belief with only the external responses producing a score (0 = maximum internal; 23 = maximum external). Rotter's 29 item IE scale, although the most commonly used LoC measure, has also attracted criticism as an instrument even though its reliability (test-retest) is generally acknowledged to be consistently good (Wright, 1975). According to Rotter, his 29-item scale is additive and applicable in all situations. Many other researchers, however, have found it difficult to test for internal consistency because each item is relatively singular. Nevertheless, Rotter was able to report reasonable internal consistency and test-retest correlations. Subsequent validation studies suggest that the scale is only slightly affected by social desirability factors and not significantly correlated with intelligence scores (Lefcourt, 1979). There are no overall gender effects but some situational effects related to gender differences have been discovered. Several studies have reported significant ethnic origin or social class differences and there have been attacks on its claims to unidimensionality (Anderson, 1977; Furnham, 1986).

However, on closer examination many of the attacks on unidimensionality are directed more at the LoC concept itself rather than Rotter's IE scale. Many more specific LoC scales have been developed including a *development of work* LoC scale by Paul Spector (1988) who is content to use Rotter's IE as a 'measure of general locus of control' (p 336). Adrian Furnham (1986) who has developed an *economic* LoC scale admits Rotter's

IE has been used extensively in a wide range of settings as a 'single measure of beliefs concerning individual's general expectancy regarding their ability to control life's events' (p 33). Indeed, Furnham highlights the paradox of Rotter's IE by describing it as 'one of the most thoroughly psychometricized scales in psychology although there is some doubt about its psychometric structure' (p33). Rotter (1975) himself believed the debate over the structure and unidimensionality of his scales as a bit of a red herring because he claimed that the broad LoC concept would be appropriate for most samples but conceded that certain sub-classes of the concept could well vary from sample to sample. A review of LoC research conducted by George Wright in 1975 reported that many researchers had identified various 'sub-classes' but concluded that the test-retest validity had been consistently good although the discriminant validity was not always particularly sharp. This may explain the conclusion reached by Anderson and his colleagues (1977) that the 'IE scale has a unidimensional and a multidimensional component' (p 1062).

Thus, many researchers feel they have thrown sufficient doubt on Rotter's IE scale as a measure of a single concept yet seem very happy to use the scale and even applaud its strengths. On balance, it seems reasonable to accept Rotter's contention that the scale does measure a generalised expectancy which may be affected by specific circumstances. The theoretical aspects of Rotter's LoC concept are discussed in the main body of the text (Chapter 4, section 4.23) but the operational implications in research terms are quite clear. Successful small business owners are said to have high internal LoC. In other words, they believe their behaviour determines what happens to them and that they can control their own behaviour. LoC scores do appear to be affected by situational factors but they have correlated positively with business success. The effectiveness of Rotter's IE for exploring this proposition was tested in 1985/86 by comparing a group of enterprise trainees with a similar group of personnel management trainees (Gray, 1986), and replicated in 1990 with a parallel study conducted among growth-oriented and growth-averse small business owners in 1991. In addition, the multidimensionality issue was addressed through the inclusion of an adaptation of Hannah Levenson's IPC scale in the 1990 and 1991 studies. Levenson's views that the external LoC concept can be subdivided into a recognition of one's political/actual weakness *vis a vis* others and a more general unpredictable, luck/chance dimension has found fairly wide support. Finally, a series of special scales exploring beliefs derived directly from LoC theory were also administered to explore how well LoC meshed with the self-concepts of enterprise trainees and actual small firm owners.

(ii) Methodology: enterprise vs personnel trainees 1985.

Discussions were held with the course designers and the tutors of several enterprise training courses to determine evaluation criteria for judging success on the courses. Each

course was administered independently but conformed to standards on content laid down by the then Manpower Services Commission (MSC), which was responsible for implementing government policy on small business training and funded around 85 per cent of small business courses in Britain during the 1980s. In total, more than 60 enterprise trainees agreed to participate but spoilt responses or withdrawals due to pressure of time reduced the sample to 50. In order of size, the four courses were conducted by the London Enterprise Agency, Thames Polytechnic, the Polytechnic of Central London and URBED - a long established, private, small business consultancy and training agency. There was a general consensus that simple accounting and marketing skills related to the production of a business plan, plus personal social skills, relating to negotiating, marketing and presentation of the business plan, were the key elements of the small business courses. The enterprise training subjects were participants on four separate small business courses, located in different parts of London. The following table gives a gender and age breakdown of each sub-sample and shows that the total small business sample was evenly split between men (27) and women (23), with most participants falling into the mid age band.

Table C1. Small business sample by gender and age.

Course	GENDER		AGE (in years)			TOTAL
	<u>Men</u>	<u>Women</u>	<u><25</u>	<u>26-44</u>	<u>45+</u>	
LENTA	13	9	8	14	-	22
Thames Poly	4	9	3	8	2	13
PCL	4	4	2	3	3	8
URBED	6	1	-	6	1	7
TOTAL	27	23	13	31	6	50

The control group consisted of 25 students on a Diploma of Personnel Studies course at the Polytechnic of Central London. Virtually all these subjects were already employed in personnel departments of big firms, although some did intend to work in recruitment or counselling agencies. None expressed any interest in setting up their own agency. The subjects were all volunteers and the various scales were administered on a group basis. There were two main group comparisons. The first was between the experimental and the control groups, involving a preliminary investigation of gender, age and work effects, followed by a comparison of their respective Rotter's IE scores.

(iii) Results 1985.

Each group completed Rotter's IE scale (described in section above). Subjects were split into 3 categories of locus of control for this analysis of variance - internal (<9), neutral (9-15) and external (>15). Each of the participants were rated by their trainer on their likelihood of success as self-employed small business owners. Ratings were obtained on a total of 41 subjects, of which 25 were rated as 'likely to succeed', 10 as 'unlikely to

succeed' and 5 as neither. The tutors' ratings were factor analysed and rotation produced three factors of interest to training evaluation.

Table C2. Factor analytic (varimax) loadings of enterprise tutors ratings.

<u>Factor</u>	<u>Eigenvalue</u>	<u>Dimension</u>	<u>Scale loading</u>
1. Enterprise skills	4.78	market awareness	.78
		likely to succeed	.75
		need to achieve	.74
		benefit from course	.62
		knows business plan	.60
		verbal ability	.57
		increased confidence	.51
2. Social skills	2.24	extroverted	.86
		persistent	.74
		sociable	.72
		leadership potential	.60
		self-confident	.43
3. Course content	1.61	appreciates accounts	.77
		knows bookkeeping	.73
		benefit from course	.54
		increased confidence	.43

Three factors emerged with eigenvalues above 1.5. After rotation, the first could be described as relating to business success and included market awareness, achievement, verbal ability and dimensions relating to perceived benefits from the course. The second factor could be described as a social skills factor and included extroversion, persistence, sociability, self confidence and leadership potential. The third factor appeared to relate to the actual content of the course. Of course, these rating scale scores reflected the tutors own perceptions of what determines business success and their concerns for their own enterprise training courses. Nevertheless, they are consistent with other enterprise course evaluations and the Bartlett sphericity test was significant ($p < .001$) which suggests that these factors provide a useful framework for evaluating enterprise training. However, the Rotter's IE scores failed to discriminate between trainees likely to succeed and those not likely to either start or succeed.

Table C3. LoC, gender and age differences among enterprise trainees.

	<u>Sum/squares</u>	<u>df</u>	<u>Mean Squ.</u>	<u>F</u>	<u>p</u>
Main effects	4.92	5	0.98	0.53	n.s.
LoC (IE)	0.06	2	0.03	0.02	n.s.
Gender	1.78	1	1.78	0.96	n.s.
Age	2.82	2	1.41	0.76	n.s.
Residual	79.57	43	1.95		
TOTAL	84.49	48	1.76		

In fact, it is evident that enterprise training courses often act as a sort of career-decision filter (see Appendix E) and it is not unusual for 10-40 per cent of participants (depending on the course) to not actually start up in business for a wide variety of reasons. Also, the

start/non-start decision is not necessarily linked to personal competence because many of the more promising participants do not start because they actually find paid employment which they find more appealing. Consequently, the question of judging the likelihood of eventual start-up or success is a more complex one than a mere rating on apparent ability. The fact that there are no significant gender and age differences reflects the fact that these types of enterprise training courses recruited from essentially similar sources as much as anything else. During the mid-1980s most enterprise training was focused on reducing unemployment through encouraging the unemployed to become self-employed. Later, particular courses were developed for existing small business owners (described in Appendix A) but only a fraction of eligible small business owners actually attended. In some ways this is odd because Britain has a strong tradition of part-time and evening education where thousands of people attempt to improve their personal skills or their career prospects. The following table compares the Rotter's IE scores obtained by the enterprise trainees as a group with those obtained by a reasonably well matched - in terms of age, education and social class - group of personnel trainees.

Table C4. LoC, gender and age differences between enterprise and personnel trainees.

	<u>Sum of squares</u>	<u>df</u>	<u>Mean square</u>	<u>F</u>	<u>p</u>
Main effects	4.01	5	0.80	4.35	<.01
LoC	1.62	2	0.81	4.39	<.05
Gender	0.88	1	0.88	4.75	<.05
Age	1.00	2	0.50	2.70	n.s.
Residual	12.54	68	0.18		
TOTAL	16.55	73	0.23		

The differences between the groups are significant. Both LoC and gender differences contribute significantly towards the explanation of the group differences. The groups were matched according to certain features including background, attendance on a part-time course and age and it is not surprising, therefore, that age is not a discriminating variable between these two groups of trainees. The significant gender differences partly reflect a well documented male bias in small business (particularly present in national distributions of self-employed and small business owner-managers during the mid-1980s and reflected in the composition of small business courses and programmes at that time) and partly the high proportion of women who generally attend the personnel courses. Because of these peculiarities of the two groups, and because the interaction effects of gender were not significant, it seems reasonable to conclude that gender does not play a key explanatory role in the present context, especially as gender differences did not distinguish between the different enterprise trainee groups. Also, while LoC distinguishes between would-be entrepreneurs and non-entrepreneurs, it fails to distinguish between potentially successful and unsuccessful enterprise trainees.

Obviously some of the effects were due to the sampling procedures. The control group was not selected to represent the general population but to provide a contrast with the small business groups on the basis of chosen career. Members of the control group all worked in an administrative capacity for big organisations. However, many of them - but not all - attend the evening personnel course of their own volition in order to advance their careers. In other words, there are strong grounds for expecting many members of the control group to exhibit internal LoC and to be achievement motivated. Furthermore, as most of their daily working lives is involved in planning the lives of others, in an environment where the prevailing ethos might be expected to be 'reward for merit', there is no reason to believe they should exhibit high external LoC. On the other hand, many members of the experimental groups - but not all - were involuntarily unemployed. Others had deliberately sought unemployment as part of their career choice to opt for self-employment and some were already running their own business, but for many their decision to attend their course was partly dictated by events outside their own control. There was no prior reason to expect the experimental subjects to exhibit high, or any, internal LoC though they may be expected to exhibit perhaps a higher degree of motivation than other unemployed people.

The Rotter's IE effects were also interesting in theoretical terms over the issue of unidimensionality and situation-specificity (Rotter, 1966; Phares, 1976). Several subjects in the 1985 study complained that many of the questions in the Rotter's IE were inappropriate because they felt in control of their own lives but recognised that the reality of constraints in the commercial world. Although it could be argued strongly that none of the subjects were entrepreneurs and it was hard to judge how successful they are or are likely to be, these findings did not rebut the criticism that IE can distinguish business managers from other occupations but not entrepreneurial from non-entrepreneurial business managers. There were statistically significant LoC differences between enterprise trainees and personnel students and the differences were in the expected direction. The entrepreneurial trainees exhibited more internal LoC. On the other hand, no statistically significant differences in LoC were found between those entrepreneurial trainees judged likely to succeed and those judged unlikely to succeed. However, there are a number of reasons which may be advanced to explain this apparent anomaly. Firstly, it is consistent with the evidence mentioned above that unemployed people who attend courses or small business programmes do exhibit an increase in self-confidence though it is rarely clear how long these effects persist (Johnson and Thomas, 1983; Gray and Stanworth, 1985).

To the extent that they believe that they are determining their own fate, it would be expected that all small business course participants should manifest reasonably strong

internal LoC, successful and unsuccessful. (With the control group, however, it seems that the career minded participants may have been offset by the company placements. Also, the employed control subjects may not have been as motivated ('hungry') as many of the unemployed experimental subjects. Certainly, further studies into the connections between LoC beliefs and the entrepreneurial personality seem justified on the basis of these findings.

C2. Rotters IE: enterprise vs personnel trainees 1990.

(i) Rationale.

Although the findings of the 1985 study conformed with other LoC studies that show entrepreneurs and the self-employed as significantly more internal than big company employees, a number of interesting issues remained unresolved. Firstly, there are a number of criticisms of Rotter's IE, both conceptually and technically as a scale. Secondly, according to various studies including the 1985 study reported above, LoC does not appear to distinguish well between successful and unsuccessful business people or between entrepreneurial small business owners and active bigger business managers (or other independently-minded, achievement-oriented groups such as academics). To explore these in more depth, the 1985 study was replicated and extended during 1990.

(ii) Methodology

The range of subjects was widened to include not only personnel students and potential self-employed and small business startups but also existing small businesses, enterprising graduates and academics. Apart from the Rotter's IE scale, the LoC measures included a self-reported scale on attitudes towards control and attributions of causality as suggested by LoC theory and a small business-focused adaptation of Levenson's IPC scale which had originally been designed to distinguish internal LoC psychiatric patients from those who believed they were controlled by chance and the more political who felt 'powerful others' controlled them. Because of the time taken to complete repertory grids, the graduate enterprise trainees described in Appendix A3 did not complete the Rotter's IE scale and are not included in the analysis. Nor was it feasible to administer the scale to the distance-taught enterprise trainees of the Open University's *Startup Your Own Business*. Effectively, this meant that the sub-sample of 20 enterprise trainees were recruited from the Firmstart and LEP18 groups. There were two other sub-samples - 5 non-business respondents and 43 personnel trainees (see Appendix A3 for a full description of all these groups) from the Polytechnic of Central London's *Diploma of Personnel Studies*, which ensured continuity and comparability with the 1985 study. Apart from the imbalance between sample sizes, one other methodological difference between the two studies was the use of IE scale raw scores in 1990 rather than the internal, medium and external categories used in 1985.

(iii) Results.

The sub-sample size of enterprise trainees was not sufficiently large to allow for internal comparisons between different types (such as between the not yet started and established business owners). Comparisons between the two main groups, however, yielded results in line with the 1985 findings. For instance, as the following table shows, gender and age effects were not significant though Rotter's IE does distinguish significantly between the small business participants and the personnel trainees.

Table C5. IE: gender and age effects among enterprise and personnel trainees 1990.

	Sum of <u>squares</u>	<u>df</u>	Mean <u>squares</u>	<u>F</u>	<u>p</u>
Main effects:	553.54	6	92.26	6.72	<.0000
Groups	385.55	2	192.78	14.05	<.0000
Gender	4.90	1	4.90	0.36	n.s.
Age	46.80	3	15.60	1.14	n.s.
Residual	836.97	61	13.72		
TOTAL	1390.52	67	20.75		

The differences between the groups is significant with the enterprise trainees very internal (mean IE score 6.8) and the personnel group (average IE = 11.6) not differing significantly from the median IE score of 12.5. Because both groups were deliberately matched according to age, the lack of significance in the age variable is not so interesting. Nor were gender effects significant in determining the LoC levels of either enterprise or personnel trainees and there were no significant interactive effects between the variables. As pointed out in the discussion of the 1985 study, these findings are significant psychologically as well as statistically because both groups were reasonably matched in personal ambitions and the determination to 'better themselves' through part-time study. The personnel students were, on average, not externals but the enterprise trainees were very evidently internals. It appears that attendance on a self-improvement training programme either reflects pre-existing or encourages the development of internal LoC beliefs about oneself. The 1985 study suggested that this 'training attendance effect' may not be related to actual performance.

In the 1990 study, no attempt was made to take a rating of the participants' likelihood of success (mainly because there was no scope for confirming the validity of the rating) although subsequent discussions with the various tutors (see Appendix B) indicated that the startup and survival rates were not particularly high. However, some of the enterprise trainees had started and answered questions on their business performance. There was no statistically significant difference in IE scores between those who reported they had taken on staff and those who had either reduced staff or remained self-employed sole-traders. Subjects were also asked about their present occupation and future career intentions and classified broadly into three categories - self-employment, business

manager, employee. Although there was a slight difference between those who classified themselves as self-employed (IE mean = 7.89) and as small firm managers (IE mean = 8.62) both groups were significantly (respectively $p < .015$ and $p < .02$) more internal than those classified as employees/students (IE mean = 11.76). However, both groups were training for future career prospects and it was clear that the self-employed hold stronger internal LoC beliefs than either those who intend to become managers or become unemployed. The IE scores of those seeking self-employment remained virtually the same at 7.87 while intending managers were more external with a mean IE score of 10.1 though the differences were not statistically significant. The shift may also have been explained by a number of personnel trainees aiming to become personnel or even managing directors. Consequently, only the difference between those who intended to be self-employed and those who intended to remain employees (IE mean = 12.24) was significant ($p < .006$).

It is interesting that these clear differences much the same in 1990 as they were in 1985 despite five years of relentless propaganda in favour of creating an enterprise culture. This is not to say, however, that no changes in career perceptions had occurred over the period. In 1985, none of the personnel trainees expressed any interest in setting up their own recruitment/employment bureau or consultancy and all worked in large organisations. In the 1990 study, 3 were temporarily out of work, about half-a-dozen worked in small firms and others worked in medium-sized firms. The majority still saw their careers as being within large organisations but many were also contemplating the possibilities of self-employment or working in smaller firms. The big difference between the two groups was that the enterprise trainees had already taken positive steps towards a situation which they perceived to be one of more personal control over their own work lives. The more internal LoC beliefs seemed very much related to that particular career choice of self-employment especially and self-management.

C3. Adapted Levenson's IPC Scale

(i) Rationale.

The criticism that Rotter's concept of LoC is not one trait but many different traits which are situation-specific has led to the development of a number rival LoC scales or, at least, suggestions of how the Rotter's scale could be improved. As already mentioned, the multidimensional nature of the IE scale has been reported in many studies on social class and ethnic origin (Phares, 1976). However, Rotter and supporters argue that the original concept is sufficiently flexible to allow for different degrees of internality/externality across various situations. Whether this is so or not, it is now recognised that there could be two forms of external LoC reflecting, on the one hand, the realities of our social, political and economic system and, on the other, a belief in luck or chance. Clinical

Appendix C

psychologist Hannah Levenson (1973) developed a 6-point Likert scale instrument containing three 8-item scales (see table C6) to measure these different LoC concepts among psychiatric patients and her scale was adapted by Perry et al. (1985) in a study of Australian entrepreneurs.

Indeed, a number of subjects in the 1985 study commented on the ambiguity posed by the different forms of external LoC (Gray, 1986). Furthermore, the importance of situational influences was also clearly demonstrated. Several subjects in the present study also complained that many of the questions in the Rotter's IE were inappropriate because they felt in control of their own lives but recognised that the reality of constraints in the commercial world. These issues were addressed by Hannah Levenson in her work with psychiatric patients. Levenson is basically comfortable with Rotter's concept of internal LoC but identified two types of external LoC - 'control by powerful others' (P) and a non-controlled random chance (C) dimension. Levenson constructed three 8-item scales to measure each of these constructs, presented as one 24-item IPC scale. These scales and the factor-analytic loadings of each item in relation to each sub-scale, are described below (correlations below 0.1 are left blank).

Table C6. Factor analytic (varimax) loadings of Levenson's IPC items.

No:	ITEM	I	P	C
I 19	I am usually able to protect my personal interests	.78	-	-
5	When I make plans, I am almost certain to make them work	.74	-	-
18	I can pretty much determine what will happen in my life	.59	.14	-
4	* My behaviour will determine when I am able to leave hospital	.40	.11	-
21	When I get what I want, it's usually because I have worked hard for it	.19	-	-
23	My life is determined by my own actions	.14	-	-
9	How many friends I have depends on how nice a person I am	-	-	-
1	Whether or not I get to be a leader depends mostly on my ability	-	-	-
P 17	If important people were to decide they didn't like me, I wouldn't make many friends	-	.65	-
11	My life is chiefly controlled by powerful others	.14	.64	-.24
3	I feel like what happens in my life is mostly determined by powerful other people	.12	.60	-
8	Even if I were a good leader, I would not be made a leader unless I play up to those in positions of power	-.11	.59	-.24
20	*How soon I leave hospital depends on other people who have power over me	-.26	.57	-.16
22	In order to have my plans work, I make sure that they fit in with the desires of people who have power over me	-	.56	-
13	People like myself have little chance of protecting our personal interests when they conflict with those of powerful other people	.14	.49	-.34
15	Getting what I want means I have to please those people above me	-	.24	-
C 7	When I get what I want, it's usually because I am lucky	-	-	.75
10	I have often found that what is going to happen will happen	.17	-	.67
24	It is chiefly a matter of fate whether I have a few friends or many friends	-	.14	.66
14	It's not always wise for me to plan too far ahead because many things turn out to be a matter of good or bad fortune	-	.11	.62
16	Whether or not I get to be leader depends on whether I am lucky enough to be in the right place at the right time	-	-	.56
6	Often there is no chance of protecting my personal interests from bad luck happenings	-.15	-	.50
2	To a great extent my life is controlled by accidental happenings	-.26	-	.38
12	* It is impossible to say how long I'll be in the hospital	-	-	-

There are a number of interesting features in this table including the obvious point that the items designed specifically for the particular research situation (marked with *) of patients in a psychiatric hospital did not discriminate very effectively. Provided the item-validity is reasonable (and face-validity appears to be fine), this may suggest that LoC is a more generalisable trait (as opposed to being more situation specific) than it often seems. However, it is also interesting to note that items which most explicitly reflect LoC theory (for instance, items 1 and 2) do not seem to be effective discriminators either.

(ii) Methodology.

There were 3 special items (*) re-written for the present purpose (see attached questionnaire) and references to 'making friends' in certain items were changed to 'business success'. Although Levenson's IPC scale was developed originally for use with psychiatric patients, it has also been used in entrepreneurial studies (Perry et al, 1985) where Levenson's I and C scales, but not the C scale, discriminated fairly successfully

between an entrepreneurial sub-sample and an 'ordinary' small business sub-sample and both of these sub-samples from a non-business sample. Both the Rotter's IE and the Levenson's internal scale (I) discriminate significantly (at the $p < .05$ level) between the business owners and the two non-business groups but not between the graduates (who did not complete the Rotter's scale) and those groups. Group 1 are the enterprise trainees, group 2 the graduate enterprise trainees, group 3 are academics and group 4 are the personnel trainees.

(iii) Results.

On the 8-item 5-point Likert scale, the maximum internal score was 40. The following table shows the Levenson scores with the means adjusted (Levenson used a 6-point Likert scale) for comparison with the means from Levenson's original study.

**Table C7. Levenson's IPC internal scale scores across groups.
(oneway analysis of variance)**

<u>Source</u>	<u>df.</u>	<u>Sum of Square</u>	<u>Mean Square</u>	<u>F Ratio</u>	<u>F Prob.</u>
Between Groups	3	237.1	79.02	6.48	.0005
Within Groups	106	1292.4	12.19		
Total	109	1529.4			

Tukey-HSD Procedure (significance: $p < .05$ level=*)

Levenson's	UK trainees 1990							
IE means 1973	N	Mean	Adj'd	Group	4	3	2	1
committed	35.4	48	30.3	36.4	4. Personnel			
vol. admission	34.1	10	30.9	37	3 Academics			
re-admitted	36.2	34	32.4	38.9	2 Graduates			
new	35.6	31	34.2	41	1 Enterprise	*	*	

Although the slight bias towards internal (a feature of many LoC scales) is apparent in all mean scores, the internal LoC of the enterprise trainee groups is strongly confirmed. In particular, group 1 (which contained many already established self-employed and small firms) was significantly more internal than the other non-business groups. The I scale also distinguished between the self-employed and other different present occupational classifications and future career intentions but less successfully than Rotter's IE. With the potential maximum score at 40, the 20 current self-employed were significantly more internal ($p < .003$) with a mean score of 33.35 than employees with a mean of 30.56 who were, however, also clearly internal. The current small business managers with a mean of 32.35 fitted in between but the difference was not significant with either of the two other groups. Indeed, adjusting the scores to a 6-point scaling, it can be seen in the above table that all the groups in the 1990 study were more internal than Levenson's psychiatric

patients, especially the self-employed. As with the Rotter's IE, a similar pattern emerged in relation to future career intentions - significant ($p < .022$) differences between intending self-employed and employees but not between intending managers and the other two groups.

The splitting of external LoC into separate powerful others (P) and chance (C) dimensions proved to be of mixed value. Although both P and C distinguished between the enterprise trainee group and the two non-business groups at the $p < .05$ level, neither distinguished the graduate enterprise trainees from the other three groups. However, both P ($p < .002$) and C ($p < .004$) distinguished managers, who scored below the median on both scales, from employees who registered median scores almost exactly. No significant differences were found on either scale in relation to the self-employed. However, significant differences were found on both scales between the intending self-employed and intending employees (both significant at $p < .002$) while significant differences between intending managers and intending employees were also obtained on the C scale ($p < .016$). The IPC is based on useful concepts though the slightly weaker discriminatory power of the I scale compared with Rotter's IE, especially in relation to the self-employed, calls into question its supposed advantages as an instrument. The IPC scale seemed to suffer from wide variances in the responses which may have been an artefact of the Likert scoring system as opposed to Rotter's forced choice methodology or a reflection of poor item validity. In this respect, P was far less coherent and less able to discriminate between groups as a scale than C, thus also calling into question the appropriateness of splitting the external construct. As the following table shows in relation to the I scale, a number of the items do appear to have little construct validity (expected relationships should be negative because internal on the IE scale is a low score while internal on the IPC is a high score).

Table C8. IPC-Scale internal and Rotter's I-E correlations on Internal scale.

Items:	IPC- Int	IE	D1	D4	D5	D9	D18	D19	D21	D23
IPC-Int	1.0	-.49**	.55**	.63**	.59**	.45**	.57**	.58**	.56**	.58**
IE	-.49**	1.0	-.34*	-.36**	-.42**	-.14	-.13	-.26	-.3*	-.39**
D1	.55**	-.34*	1.0	.46**	.32*	.04	.16	.23	.33*	.49**
D4	.63**	-.36**	.46**	1.0	.32*	.15	.34*	.2	.26	.39**
D5	.59**	-.42**	.32*	.32*	1.0	.12	.23	.26	.36**	.32*
D9	.45**	-.14	.04	.15	.12	1.0	.11	.09	.03	.1
D18	.57**	-.13	.16	.34*	.23	.11	1.0	.36**	.17	.20
D19	.58**	-.26	.23	.20	.26	.09	.36**	1.0	.31*	.17
D21	.56**	-.30*	.32*	.26	.36**	.03	.17	.31*	1.0	.51**
D23	.59**	-.39**	.49**	.39**	.32*	.1	.20	.17	.51**	1.0
N of cases: 73 1-tailed Signif: * - .01 ** - .001										

Even though the IPC scale may not be as robust as Rotter's IE, the correlation between the two scores is in the right direction and highly significant. However, a comparison

with Levenson's own reported item loadings (see table C6) suggests that the IPC scale could be slimmed down without loss of discriminatory power. A similar pattern emerged from the correlation matrices of the P and C scales although some items on these scales actually correlated more strongly with the other external scale rather than their own scale suggesting a lack of construct coherence. Despite these reservations (bearing in mind the fact that all these groups are basically internal), the basic importance of the LoC concept to entrepreneurial research comes through strongly and it may be that the P and C scales come into their own when considering such matters as small firm-big firm links, the independence motive and barriers to growth.

C4. Self report scale

(i) Rationale.

The final study concerning LoC involved constructing simple scales to allow the trainees to report how they felt LoC concepts applied to them. The self report scales were based on Rotter's own description of LoC as being about beliefs that individuals are responsible for their own behaviour and that their behaviour has a direct impact on the outcome of events in which they feel it is important to participate. The rationale behind this study was that LoC beliefs are evidently an important component of the self-concept which, by definition, must be to a greater or lesser extent conscious even for individuals with weak or ill-defined self-concepts. The psychometric scales reported above (Rotter's IE and Levenson's IPC), however, aim to reveal the 'true' underlying pattern of LoC beliefs which may not be fully congruent with how those individuals conceptualise themselves. Direct self-report would provide that dimension of the self-concept relating to the conscious attribution of causality relating in general to oneself and more specifically to business life.

(ii) Methodology.

Two sets of scales were developed (see attached questionnaires) - the first to ask about general beliefs on causality for personal actions (own responsibility, born that way, early experiences and reaction to others) and the second to relate the questions more specifically to business behaviour. To obtain maximum the sensitivity of in the scores subjects were asked to allocate a percentage value to their degree of agreement with each statement (0-25% = strongly disagree; 75-100% = strongly agree).

(iii) Results.

The main purpose of most enterprise training and personnel training courses concern future career intentions and the following table compares the mean responses for each item across this variable.

Table C 9. Personal causation beliefs by future career intentions.

Statement (low = disagree strongly) <i>'In general, I behave as I do because..'</i>	Self-employed		Director/manager		Other/employee	
	Mean	sd	Mean	sd	Mean	sd
1. I am responsible for my own behaviour.	86.7	11.3	84.0	15.3	79.3	18.3
2. I was born the way I am.	43.4	24.5	42.8	23.3	46.9	27.8
3. A result of past earlier experiences.	61.9	22.8	65.3	19.2	60.1	19.2
4. A reaction to the behaviour of others.	52.3	22.6	50.3	23.7	46.9	19.7
Number of subjects:	50		56		35	

Even though each group shows a distinct leaning towards being internal (50% is the median score for each item), the responses to the statement of personal causality is very revealing. Not only are the people who intend to remain self-employed also view themselves as being more internal but, as the standard deviations show, they seem to be more sure of their opinions in this regard. The general agreement with the statement on the influence of past earlier experiences is also interesting because an interpretation that it is about past decisions determining present events implies a contradiction with the first statement but if it is seen as an affirmation of an ongoing learning process it supports Rotter's learning theories. Concentrating on internal LoC, the following analysis of variance shows that the simple self-reported measure on the central LoC statement 'I am responsible for my own behaviour' did discriminate between the two enterprise trainee groups (business owners and graduates) and the control group of personnel students (at the $p<.05$ level of confidence) but not between the academics who fell in the middle of the two groups (separate analyses of variance revealed no significant age or gender effects).

Table C10. Analysis of variance of self-reported internal LoC (resp) attribution of personal causality across groups.

Source of Variation		Sum of Squares	df	Mean Square	F	Signif of F(p<)
Between groups		5029.46	3	1676.49	8.81	.000
Within groups		26835.30	141	190.32		
Total		31864.76	144			
Tukey-HSD Procedure (significance at $p<.05$ level=*)						
Mean	Group	4	3	2	1	
77.06	4 personnel					
79.00	3 academics					
84.43	2 graduates					
91.04	1enterprise	*	*			

The Tukey test reveals the very high internal response of the enterprise trainees and the erosion of internality as the groups become more 'large organisation minded' - graduate enterprise trainees, academics, personnel trainees. To some extent this may be a function of the optimism engendered by starting a business because there was a significant difference ($p<.007$) between the recent startups and owners of businesses that had been established for more than 10 years. It is interesting to note that none of the other

statements about locus of personal causality discriminated between the groups. This finding indicates that business owners (including the self-employed) consciously view themselves as being responsible for their own behaviour - a central LoC belief. As the following analysis of variance shows, however, this belief is markedly weaker when subjects contemplate their business lives.

Table C11. Self-reported internal LoC (self) attribution of business causality across groups.

<u>Source of Variation</u>	<u>Sum of Squares</u>	<u>df</u>	<u>Mean Square</u>	<u>F</u>	<u>Signif of F (p<)</u>
Between groups	11605.80	3	3868.60	11.77	.000
Within groups	46014.36	140	328.67		
Total	57620.16	143			
Tukey-HSD Procedure (significance at p<.05 level=*)					
Mean	Group	4	3	2	1
59.50	4 personnel				
70.38	3 academics				
77.97	2 graduates	*			
79.69	1 enterprise	*			

It is interesting to note that all subjects, particularly the personnel trainees most of whom stated that they intended to pursue careers as employees in large organisations, were far less inclined to view themselves as being an influence on business outcomes (though they all had a tendency to score internal). Perhaps reflecting the capacity of the self-employed to respond immediately to events and to take their own decisions, there were statistically significant differences between those who described themselves as currently self-employed and those who are currently employees on the personal control statement ($p<.001$) and on business control statement ($p<.002$). The same effects though slightly weaker were observed in relation to future career intentions ($p<.039$ and $p<.007$ respectively), as the following table demonstrates.

Table C 12. Business causation beliefs by future career intentions.

Statement (low: disagree strongly; high: agree strongly)	Self-employed		Director/ manager		Other/ employee	
<i>'Events happen in my business life because of....'</i>	Mean	sd	Mean	sd	Mean	sd
1. My own behaviour.	77.9	17.4	70.2	20.3	66.6	18.8
2. Decisions by bigger firms.	39.6	24.6	41.4	30.2	43.0	26.2
3. Chance happenings in the outside world.	38.1	21.0	40.5	24.6	45.7	21.5
Number of subjects	50		56		35	

Clearly, the internality of the intending self-employed is seen in the responses to the question on locus of business causality which significantly discriminated ($p<.038$) between the intending self-employed (mean score = 77.90) and the intending small business managers (mean score = 70.20). The 'wooliness' of responses to the other two statements (ie, weak disagreement and very wide variations) is perhaps a reflection of the

fact that most of the personnel trainees and many of the enterprise trainees had little practical experience of running their own businesses. Although the graduate enterprise trainees did not complete the Rotter's IE, the following correlation matrix gives a good impression of the relationships between the self-reported items and LoC.

Table C13. Correlation matrix of self-reported LoC and Rotters' IE scale.

	<u>RESP</u>	<u>BORN</u>	<u>PAST</u>	<u>REAX</u>	<u>SELF</u>	<u>BIG</u>	<u>LUCK</u>	<u>IE</u>
RESP	1.0	-.2	0	-.2	.2	-.1	-.27	-.2
BORN	-.2	1.0	.2	-.06	-.33*	.26	.26	.23
PAST	0	.24	1.0	.44**	-.1	.1	.3*	.3*
REAX	-.2	-.1	.44**	1.0	0	0	.1	.2
SELF	.2	-.33*	-.1	0	1.0	-.1	0	-.33*
BIG	-.1	.26	.1	0	-.1	1.0	.44**	.1
LUCK	-.27	.26	.3*	.0	0	.44**	1.0	.2
IE	-.2	.2	.3*	.2	-.33*	.1	.2	1.0
N of cases: 72 1-tailed Signif: * - .01 ** - .001								

The most unexpected result is the lack of significant correlation between IE scores and the statement on personal responsibility for causality (Resp), though the direction of all relationships with IE are in the expected directions. On the other hand, given the slightly weaker scores for the statement on business causality, it is interesting that the negative correlation with IE is in the expected direction and significant to the $p < .001$ level of significance. It is also interesting to note in relation to attributions of causality and Rotter's learning theory, that there was tendency among all subjects to disagree with the notion that we are born the way we are (Born mean score = 43%) and a fairly high acceptance of the importance of earlier experiences (Past mean score = 64%). This is reflected in the significant inverse relation between the statement on behaviour being determined by being born the way we are and the business self-efficacy statement (Self). The relationships between Levenson's IPC scale items is shown in the following correlation matrix.

Table C14. Correlation matrix of self-reported LoC items and IPC scores.

	<u>RESP</u>	<u>BORN</u>	<u>PAST</u>	<u>REAX</u>	<u>SELF</u>	<u>BIG</u>	<u>LUCK</u>	<u>I</u>	<u>P</u>	<u>C</u>
RESP	1.0	-.1	0	.2	.29*	-.1	-.26*	.24*	-.23*	-.28*
BORN	-.1	1.0	.1	-.1	-.2	.1	.2	.1	.1	.26*
PAST	0	.1	1.0	.37**	-.1	.1	.2	0	.24*	.2
REAX	-.2	-.1	.37**	1.0	0	0	.1	0	.2	.2
SELF	.29*	-.2	-.1	0	1.0	0	-.1	.5**	-.1	-.32**
BIG	-.1	.1	.1	0	0	1.0	.43**	0	0	.1
LUCK	-.26*	.2	.2	.1	-.1	.43**	1.0	-.2	.25*	.2
I	.24*	.1	0	0	.5**	0	-.2	1.0	-.25*	-.35**
P	-.23*	.1	.24*	.2	-.1	0	.25*	-.25*	1.0	.53**
C	-.28*	.26*	.2	.2	-.32**	.1	.2	-.35**	.53**	1.0

N of cases: 103 1-tailed Signif: * - .01 ** - .001

The most interesting methodological feature, which has already been mentioned, is the strong correlation between the P and C scales which suggests that they are not

independent dimensions. It is also interesting to note that C (chance) appears to be more antithetical to the internal LoC concept as measured by I than P (powerful others). The marked increase in significance of the personal responsibility statement (Resp) appears to be due either to the inclusion of the basically internal graduate enterprise students or to the similar methodology employed by the IPC scales and self-report scales (agree-disagree with a single statement as opposed to Rotter's forced choice method). To explore the differences in self-reported LoC between the subjects who wish to remain self-employed, those who wish to become the managers of companies (big or small) and those who wish to be employees (which included a few current self-employed), the scores from the internal self-reported question (Resp) were classified into high, above average and medium (with a high score representing a high belief in personal internal LoC).

Table C15. Occupational intention by self-reported internal LoC .

<u>Future</u>	<u>Internal LoC</u>			<u>TOTAL</u>	
	<u>medium</u>	<u>above average</u>	<u>high</u>	<u>replies</u>	<u>(col.%</u>
self-	2	13	34	49	(35)
employed					
manager	5	26	25	56	(40)
employee	6	15	13	34	(25)
TOTAL	13	54	72	139	(100)
(row %)	(9)	(39)	(52)	(100)	

Chi-Square = 11.64; Significance: p<0.02. Number of Missing Observations = 12

Although no respondents reported external LoC attitudes (which suggests a strong social desirability effect in these self-reports but may also reflect the a genuine internal bias in all groups), virtually 70 per cent of respondents who wish to remain or become self-employed reported highly internal LoC attitudes compared with just 45 per cent of those who intend to become managers (including owner/managers) and only 38 per cent of those who seek to be employees. It is clear from the above and the previous table that people who seek a self-employed career are likely to have a stronger self-concept involving a perceived internal LoC than other career-choice groups including those who wish to manager a big or small business.

Although there have been a number of criticisms of Rotter's (1966) original LoC construct, these findings did not support the contention that it is helpful to divide external LoC into a chance dimension and a powerful-others dimension. Rather, the widely reported bias towards reporting internal LoC attitudes and the essentially anti-social implications of reporting very high internal beliefs were confirmed. There was also some support for Rotter's original conception of LoC as a learned and generalised trait, particularly if one accepts his formulation that behaviour associated with internal LoC will vary from one situation to another and that internals will themselves recognise

perfectly clearly when their actions are likely to produce desired results immediately or in the longer term. Hence, the relatively weak discriminatory power of the business self-efficacy statement (Self) may reflect an awareness among enterprise trainees of the realities of commercial life and the importance to small firms of larger firms either as customers or suppliers (and often as competitors). However, because LoC is a generalised behaviour trait, there are still doubts about its in differentiating different groups of business internals (or externals) from each other.

These results from the analyses of self-reported attitudes among business and non-business samples and those from the business motivation survey (reported in the next section) suggest that differences in self-concepts, particularly in relation to independence and control, reflect strong differences in personal work goals and, therefore, measures of achievement. These differences in self-concept help explain the strength of independence as a career-motivation among the self-employed and its declining importance amongst the owners of small firms, especially as the size of workforce increases. In theoretical terms, the differences in self-concept were most clearly demonstrated through Rotter's IE though the various other LoC measures which relied, to a greater or lesser extent, on self-report also offer scope for exploring differences between enterprise trainees, including entrepreneurs, in more detail. The real test of these instruments must rest in how they discriminate among actual business people rather than trainees. It should not be forgotten that a proportion of enterprise trainees (see Appendix B) never actually ever start their own business, Their stated career intentions should always be treated with caution.

C5. Small Business Owners Growth Attitudes survey 1991.

This survey of 307 members of the SBRT Volunteers Database - fairly evenly split between growth-oriented and growth-averse owners of small firms - is more fully reported in Appendix G. The findings are interesting in relation to the doubts expressed over the discriminatory power of Rotter's IE between different business populations and the effects of the scale's alleged multidimensionality. In contrast to Begley and Boyd (1986), it was felt that small business owners with pro-active approaches to growth offered better proxies for entrepreneurs than whether or not they had founded a business. The main body of text provides abundant evidence in support of this contention. Indeed, most of the entire SBRT sample - growth-oriented and growth-averse had founded their own businesses.

All subjects completed an adapted Rotter's IE (the lie-scale items were removed to abbreviate the scale), a refined version of the adapted Levenson's IPC scale (the least discriminatory and least central item - see Table C8 above which identifies item D9 - from each scale was removed, reducing each scale to 7 items scored on a 5-point Likert-

type scale) and the two 4-item scales based directly on LoC theory mentioned in the previous section - one on general beliefs about the locus of personal causality and the other referring specifically to the business situation. The findings are presented in this order.

(i) Rotter's IE

The 1991 study of established small business owners (reported in Appendix B) was able to explore the existence of relatively stronger internal LoC beliefs as measured by Rotter's IE among growth-oriented owners compared with growth-averse owners. Although, on average, all respondents were internal (thus confirming the patterns reported among enterprise trainees), Rotter's IE scale was able to make finer distinctions between the various small firm owners across a range of categories.

C16. IE: gender and age effects among growth-oriented and growth-averse small firm owners.

	Sum of <u>squares</u>	<u>df</u>	Mean <u>squares</u>	<u>F</u>	<u>p</u>
Main effects:	326.02	5	65.20	4.35	<.001
Groups	110.79	1	110.79	7.39	<.007
Gender	46.37	1	46.37	3.10	n.s.($<.08$)
Age	194.27	3	64.76	4.32	<.005
Residual	3611.21	241	14.98		
TOTAL	1390.52	256	15.94		

The findings are remarkable not only because they confirm Rotter's IE discriminatory power between more and less entrepreneurial firms but also because of the gender effects. Women represent less than 10 per cent of the total sample which is also older (the median age lies in the 45-54 year band) than national samples of enterprise trainees. The interactions between age and gender were significant ($p<.046$) reflecting the relatively recent switch towards self-employment among younger women and suggesting a slightly more cautious approach among the older male small firm owners. This highlights the discriminatory power of Rotter's IE among small businesses (the average growth-averse score was 8.2 and the growth-oriented 7.3 - both comfortably internal but the t-difference is significant at $p<.043$) and the fundamental centrality of LoC beliefs and volition in the creation, development and performance of growth-oriented small firms. However, the predictive power of these factors in relation to actual performance is not so clear. These subjects because they were recruited through two wider surveys which were separated by about 18 months, spanning the onset and deepening of the 1990 recession. Roughly one third of the sample (101) shed full-time employees over the period though, as is the nature of the small business sector, almost as many reported taking on extra labour. By subtracting the workforce size in the second period from the first period it was easy to calculate the actual labour force shifts for each firm and so

identify 'shrinkers' and 'growers' (though small firm owners are themselves more likely to judge success not so much in terms of people employed but more in terms of profits or sales). Although there was wide variation, little of the variation was explained by LoC, gender or age. On removing the majority of respondents who recorded no workforce shift, there were very significant ($p < .02$) t-test differences between the LoC internality of the 'shrinkers' (8.3) and the 'growers' (6.9). The apparent anomaly between the two results is explained by the fact that many of static firms are the smallest microfirms and self-employed sole-traders who cannot shrink further and have little wish to grow. The size effects are reflected in the following analysis of variance of the size distribution of the firms (fulltime employees).

C 17. Size of firm: IE and growth-orientation effects among growth-oriented and growth-averse small firm owners.

	Sum of <u>squares</u>	<u>df</u>	Mean <u>squares</u>	<u>F</u>	<u>p</u>
Main effects:	5783.11	3	1927.70	8.46	<.000
IE	1917.08	2	958.54	4.21	<.016
Growth	2969.45	1	2969.45	13.03	<.000
Residual	63359.76	278	227.91		
TOTAL	69171.76	283	244.42		

These findings are interesting but not especially surprising because growth-oriented owners tend to operate larger firms (see Appendix G). Also, growth-oriented owners (IE mean = 7.3) tend to be slightly though significantly ($p < .042$) more internal than the growth-averse (IE mean = 8.2). There is no reason to suppose that internals should also be keen to grow because growth can lead to loss of personal control (indeed many of the growth-averse have already successfully attained their stated desired workforce size). In fact, there were virtually no interaction effects between IE scores and growth-orientation suggesting that internal Loc independently influences the business behaviour of the owners of growing small firms (or the owners of firms that grow beyond the 'microfirm' stage). This fits in with observations mentioned above that, although the direction of causality cannot be taken for granted, internals will be more likely to be upwardly mobile, more open to performing well in participative work environments, more task-oriented and, in short, are more likely to make better managers (Lefcourt 1979; Spector 1982, 1988; Furnham, 1986).

Consequently, it is to be expected that internals will be more likely to be successful in running small businesses which employ other people than externals and that they will find it easier to overcome one of the strong barriers to small business growth - effective and genuine delegation. This conclusion received strong support when it was found that IE discriminated significantly ($p < .000$) between the 197 respondents who stated a preference for a directive, non-participatory management style (IE mean = 8.3) and the

87 who preferred to delegate to others (IE mean = 6.3). However, there are also indications that the propensity to delegate and LoC internality may also be linked to the number of years of business experience (see Appendix B). Whatever the impact of business experience on the development of internal LoC, there were significant differences ($p<.048$) between the 206 subjects who hold business to be more psychologically central (IE mean = 7.4) and the 79 who find non-business matters more central (IE mean = 8.5) which is a key variable among small firm owners with growth potential (see Appendix B). The overall conclusion is that these findings conform with the predictions of LoC theory in relation to entrepreneurial small firm owners and confirm not only the robustness of Rotter's IE scale but also its sensitivity in discriminating between well-specified sub-samples of the small business population. There appear to be few practical problems over the alleged unidimensionality of the scale - in line with Rotter's own claims.

(ii) Levenson's IPC

Following the analysis of the results in the 1990 study of enterprise trainees, the adapted Levenson's IPC was further altered by dropping items 9, 22 and 24 (one from each scale - see table C6) which did not contribute significantly with the main scales and further modifying the phrasing in some items to make them allude more specifically to business behaviour. The internal consistency of the scales were improved considerably but, even so, the three 7-item scales of the adapted IPC were not so satisfactory, particularly the I (internal) scale which was far less discriminatory than Rotter's IE. The I-scale failed to discriminate between the growth-oriented and growth averse firms although it did discriminate significantly ($p<.016$) between the 182 respondents who were content with their present business success and the 115 who saw their business success as a stepping stone into other activities where the IE did not. However, a more entrepreneurial distinction is between those prepared to delegate and those with a more directive style and, once again the IE discriminated significantly but the I-scale did not. The relation between the IPC-scale items and IE are shown below.

Table C18. Correlation matrix of IE and I against I-scale items.

	<u>IE</u>	<u>IPC-int</u>	<u>14.1</u>	<u>14.4</u>	<u>14.5</u>	<u>14.17</u>	<u>14.18</u>	<u>14.20</u>	<u>14.21</u>
IE	1.0	-.36**	-.24**	-.28**	-.22**	-.28**	-.26**	-.17*	-.30**
IPC-Int	-.36**	1.0	.67**	.69**	.70**	.70**	.76**	.63**	.73**
N of cases: 282 1-tailed Signif: * - .01 ** - .001									

Compared with table C8, the modified I-scale is clearly more coherent and against the Rotter's IE each item appears to have reasonable construct validity, which was not the case previously. However, as mentioned above it seems less sensitive than the IE and, although the inverse correlation is still in the right direction, it is reduced against the IE (formerly $-.49^{**}$). Instead, the P and C scales performed more sensitively with the P

scale showing that participative small firm owners were significantly ($p<.000$) less concerned about powerful others than directive small firm owners. The C scale also significantly ($p<.001$) distinguished between these two groups. And more importantly, both the P ($p<.001$) and C ($p<.003$) scales discriminated between growth-oriented and growth-averse owners and the P scale discriminated significantly ($p<.05$) between the 40 respondents who defined independence as 'being their own boss' (and who were more inclined to ascribe the causation of events to powerful others) and the 245 respondents who felt independence had more to do with taking responsibility for their own decisions - right or wrong.

Once again, as with the enterprise trainees, it is reasonable to conclude that the LoC concept is useful in analysing the behaviour of actual small firm owners and seems to be a more distinguishing feature of active small firm owners though not necessarily the more entrepreneurial in an economic sense. However, Levenson's IPC does little if anything to extend the analytic power of the LoC concept. Indeed, with a high correlation between the P and C scales (.63**), it remains doubtful that this scale has managed to open up the external LoC concept in any particular meaningful or helpful way (with the exception that the P scale seems to confirm the multidimensionality of the independence motive and the potentially anti-social and anti-growth nature of the 'be my own boss' type of independence).

(iii) Self-report scales

The enterprise trainees self-report LoC items were scored on a normal 5-point Likert scale rather than percentage estimates because the percentage scoring method produced wide variances and many respondents by quoting a percentage range rather than a single percentage value. The following table shows the mean scores on each of the 4 personal causation items, comparing the growth-oriented with the growth-averse.

Table C 19. Personal causation beliefs: growth oriented vs growth-averse owners.

Statement (1=disagree strongly; 5=agree strongly)	Growth-oriented		Growth-averse		p
	Mean	sd	Mean	sd	
<i>'In general, I behave as I do because....'</i>					
1. I am responsible for my own behaviour.	4.7	0.7	4.7	0.6	ns
2. I was born the way I am.	2.9	1.3	3.1	1.4	ns
3. A result of past earlier experiences.	3.9	0.9	4.1	0.9	ns
4. A reaction to the behaviour of others.	3.1	1.2	3.1	1.2	ns
Number of subjects:	157		149		

Although the key statement on personal causality discriminated significantly among enterprise trainees, it is clear that it is very central to the way small business owners *per se* view themselves and does not discriminate on the grounds of growth-orientation. Indeed, it may be surmised that small firm owners have fairly well-defined self-concepts

with fairly similar external points of reference and shared social representations whatever their growth ambitions. There may be a similar ambiguity about the responses to the statement on the power of past experiences which could be explored further. Also, to explore whether a self-reported 'powerful others' category might help in analysing self-reported attribution of business causality one extra item ('Events happen in my business life because of trends and changes in the broader economy') was inserted. Again, as the following table shows, there were no real differences in the responses to these items.

Table C 20. Business causation: growth oriented vs growth-averse owners.

Statement (1=disagree strongly; 5=agree strongly) 'Events happen in my business life because of....'	Growth-oriented		Growth-averse		p
	Mean	sd	Mean	sd	
1. My own behaviour.	4.3	1.0	4.2	1.0	ns
2. Decisions by bigger firms.	3.1	1.2	3.0	1.5	ns
3. Chance happenings in the outside world.	3.0	1.2	3.2	1.3	ns
4. Change and trends in the broader economy.	2.2	2.0	1.9	2.0	ns

Despite the onset of the recession, the new item was not very sensitive because most respondents, whether growth-oriented or growth-averse, directive or participative, shrinkers or growers, tended to disagree with the statement or were unsure about how they are affected. The wide variations may also reflect differences in regional and industrial economic impact which may be spread across both groups. This apparent lack of awareness of broader effects conforms with research findings on the likely effects of the Single Market on small firms where a majority feel they will not be affected because they are too small and very local (Gray, 1992).

Table C21. Correlation matrix of self-reported LoC items, IPC and IE scores.

	<u>RESP</u>	<u>BORN</u>	<u>PAST</u>	<u>REAX</u>	<u>SELF</u>	<u>BIG</u>	<u>LUCK</u>	<u>ECON</u>	<u>I</u>	<u>P</u>	<u>C</u>	<u>IE</u>
RESP	1.0	.1	.15*	-.15*	.25**	-.1	-.1	.1	.37**	-.17*	-.21**	-.21**
BORN	.1	1.0	0	0	0	0	.1	-.1	0	.1	.22**	.1
PAST	.15*	0	1.0	.1	.17*	0	0	.15*	.18*	0	-.1	-.1
REAX	-.15*	0	.1	1.0	-.1	.17*	.17*	.1	-.15*	.26**	.16*	0
SELF	.24**	0	.17**	-.1	1.0	-.1	-.17*	-.1	.45**	-.24**	-.34**	-.23**
BIG	-.1	0	0	.17*	-.1	1.0	.1	0	-.1	.37**	.1	0
LUCK	-.1	.1	0	.17*	-.17*	.1	1.0	0	-.1	.22**	-.34**	.1
ECON	.1	-.1	.15*	.1	-.1	0	0	1.0	0	0	-.1	-.1
I	.37**	0	.18*	-.15*	.45**	-.1	-.1	0	1.0	-.31**	-.36**	-.37**
P	-.17*	.1	0	.26**	-.24**	.37**	.21**	0	-.31**	1.0	.63**	.37**
C	-.21**	.22**	-.1	.16*	-.34**	.1	.34**	-.1	-.36**	.63**	1.0	.60**
IE	-.21**	-.1	-.1	0	-.23**	0	.1	-.1	-.37**	.37**	.60**	1.0

N of cases: 103 1-tailed Signif: * - .01 ** - .001

Comparing this matrix with the matrix for the enterprise trainees in table 11, a number of stable and unstable (or changed) relationships emerge. The slightly weaker link between Rotter's IE and the IPC scales has already been mentioned but the link between IE and personal responsibility for own actions (Resp) is now significant at the $p < .001$ level and the IE link with business self-efficacy also remains at the same significance level (though

the coefficient is smaller). In fact, the self-reported item on personal responsibility is evidently of more relevance to the LoC beliefs of actual small business owners than it is to the groups of enterprise and personnel trainees. Indeed, this item (Resp) discriminates significantly ($p < .017$) between directive and delegative small firm owners who both, however, agreed with the statement of personal responsibility for own behaviour. There is now a strong link, as expected, between personal responsibility and business self-efficacy (Self) which was not apparent with the trainees who, as a total group, had far less business experience. The other side of this coin is that subjects who do hold stronger P external beliefs also believe that their own business behaviour is strongly influenced by decisions made by big businesses.

However, the construct validity of the C scale is once again brought into question by the relatively low coefficient of correlation (.34, significant at the $p < .001$ level but not high) between it and the statement that business events occur because of a combination of chance happenings. Also the instability of the P scale is fairly clear when compared with the previous study with previously significant relationships no longer significant. The net conclusion must be, however, that the LoC concept is evidently very important in any study of small business behaviour in general and entrepreneurs in particular. The internal LoC self-reports do help to expand the concept as does the IPC scale but the Rotter's IE remains a reliable research tool and its forced choice methodology produces more insightful responses than the simple agree-disagree method, perhaps because it mirrors the real business-world need to make and live by firm decisions. The results from these items are discussed more fully in Appendix G and in the following Appendix where they also help in the interpretation of Likert style items relating to achievement motivation.

APPENDIX D: NEED FOR ACHIEVEMENT

1. Rationale

Originally identified by Murray (1938) as one of the key *psychogenic* factors - together the need for power (nPow) and the need for social affiliation (nAff) - high nAch is said to characterise people who are successful in business. The best known proponent of nAch as a factor in economic development, David McClelland (1971) described *need for achievement* (nAch), as 'a desire to do well for the sake of inner feeling of personal accomplishment'. Entrepreneurs are distinguished from successful managers and administrators by also having high nPower. By contrast high nAff appears to be detrimental to continued business success (Davidsson, 1989). The different psychogenic needs have been used effectively in classifying the personal constructs of small business managers. It is interesting to note that nPower constructs predominated among top and bottom level managers with nAff constructs strongest for the mid-level managers. Only the top managers - presumably including any owner-managers - exhibited above average nAch (Stewart and Stewart, 1981).

There are some doubts about the validity of nAch as a predictor at the individual level but the concept has been useful in making international and inter-cultural comparisons and is very helpful in developing a psychological theory of the entrepreneur. For instance, people with high achievement motivation are also said to have a low fear of failure and a preference for controlled risk-taking rather than reckless gambling. People with high fear of failure have been found to set themselves tasks with either too high or too low levels of aspiration (Atkinson, 1957). By contrast, successful entrepreneurs do not like to gamble and set themselves high but attainable goals (Brockhaus, 1980). The other aspect shared by both nAch and entrepreneurial behaviour is persistence whereas people with high fear of failure either set their sights so low that attainment requires no persistence or too high so that the excuse for not persisting is already apparent..

McClelland and most early researchers into achievement motivation generally used projective techniques and content analysis to reveal achievement, affiliation or power imagery. This methodology has attracted criticism because of obvious problems concerning the controlling of standards of administration and interpretation. Written achievement scales have been devised (Cassidy and Lynn, 1989; Lynn, 1991) but none have gained widespread acceptance. However, Davidsson (1987, 1989b) conducted an extensive study in Sweden of continuing entrepreneurship - entrepreneurs who did not rapidly reach their satisfaction levels but persisted in setting new challenges - in Sweden required some measure of nAch and he designed a 4-scale questionnaire based on McClelland's first principles. The following table demonstrates that this scale was by no

means perfect (Davidsson reported a fairly weak Cronbach Alpha of 0.55 for his scale) but that it did discriminate well between certain groups and most of the relationships he tested were in the direction expected according the McClelland's theories so Davidsson felt justified in asserting that his index does reflect a psychological difference and that this difference can be labelled nAch (p216, 1989b).

Table D1. Davidsson's achievement motivation scale.

1. (succeed)	I have always wanted to succeed and accomplish something in my lifetime.
2. (new goals)	I find it hard to understand people who keep striving for new goals when they have already
3. (challenge)	To face new challenges and to manage to cope with them is important to me.
4. (satisfied)	I am sufficiently satisfied with my life-achievement that I now confine myself to what I have.

NB: To calculate the composite nAch score, scores on items 2 (new goals) and 4 (satisfied) are reversed. Davidsson (1989b) extended his investigation on the persistence of the achievement motive in 540 small manufacturers, high-technology firms, repair services and retailers to examine the potential links between growth-orientation (or growth-willingness as he termed the concept) and nAch. Roughly one third of the sample were micro-firms with under 5 employees, one-third mini-firms with 5-9 employees and the remaining one-third mini-firms with 10-19 employees. Davidsson's growth-orientation measure was based on a self-reported ideal size of the respondents' firm 5 years from the survey date which may be more a measure of the owners' expectations for the present firm rather than whether the respondents actually want to manage a larger enterprise. However, Davidsson did ask many more questions about the expected effects of any change in firm size on the respondent and on such variables as perceived control and independence than the present studies which has tried to avoid longer term, and inherently unknowable, hypothetical considerations. Allowing for this differences in approach, Davidsson's results were interesting. The majority of his respondents (62 per cent) expected to increase their workforce size but that significantly more (87 per cent), especially the very smallest and the high-technology firms, expected to increase turnover in real terms.

The findings of most interest in relation to present purposes were that, in line with the findings to the SBRT small business owners survey reported in Table B11 of Appendix B, financial motives appeared to be most closely linked to positive growth-orientation but that more intrinsic motivators such as 'employee well-being' and the ever present 'independence' were not far behind as main motivators. However, Davidsson also found significant differences in patterns of motivation in relation to size of firm and industry. He was pleased to be able to demonstrate that Vroom's (1964) expectancy theory received support from the finding that the strength of growth-orientation appeared to be significantly linked to expected outcomes on the main motivators. Support for Herzberg's (1966) hygiene theory also received some but less clearcut support though it is very

interesting to note that independence followed by financial gain were the only two significant positive motivators (especially strong among the high-technology firms) but the strength of independence as a positive motivator decreases as size of firm increases. Loss of control as a potential outcome of growth was seen as the most powerful deterrent to growth and this increases with firm size. In relation to his central variable of interest, nAch, Davidsson's results were not so psychologically or statistically significant.

Achievement motivation did appear to influence growth-orientation but only in relation to growth in turnover and not increase in workforce size. The degree of influence was of psychological importance (in the sense of size of coefficient and probability level) only among the respondents motivated mainly by financial gain. Davidsson interpreted this finding as support for McClelland's contention that money is seen as a measure of success by high nAch people but it could equally suggest that very few small firm owners are likely to pursue growth for the intrinsic satisfaction that achievement may bring. However, nAch increases with firm size as its links with growth-orientation also increase. Davidsson interprets this finding as evidence that the smaller firms may be motivated by seek goals other than business objectives which is entirely consistent with the findings of the present studies. He concludes, with some justification, that introducing nAch as an explanatory variable of growth-orientation is not particularly helpful and that the 'expectancy' approach rather than a 'personality trait' approach provides a more useful explanation of entrepreneurial behaviour. One key objective of the studies reported in this appendix is to investigate whether Davidsson's findings are replaceable with a British sample and whether the entrepreneurial effects can be more effectively identified through a self-report of personal intentions rather than a self-report of long-term business performance.

2. Methodology

Davidsson's nAch index (Table D1) was included in the scales administered to the range of enterprise trainees described in Appendix A. Respondents were asked to allocate percentage points to register their degree of agreement with the 4 statements of the Davidsson nAch scale (low indicating strong disagreement to high for strong agreement). As many of the trainees had not started their businesses or else were attending enterprise training courses because they were experiencing problems with their businesses, a question on growth expectation did not seem appropriate. Future expectations were measured as career expectations at three levels - decision to not run their own business, limit themselves to self-employment, ambition to be a director of a company. Also, some of the background features of nAch were explored in relation to family backgrounds and the expected differences between educational levels (graduates would be expected to exhibit strong nAch according to McClelland's theory). The following correlation matrix

gives an indication of the loading of each item in the composite score and the relative independence of each item.

Table D2. Achievement motivation scale items correlation matrix: enterprise trainees.

	<u>nAch</u>	<u>succeed</u>	<u>new goals</u>	<u>challenge</u>	<u>satisfied</u>
nAch	1.00	0.58**	-0.74**	0.72**	-.68**
succeed	0.58**	1.00	-0.14	0.48**	-0.21*
new goals	-0.74**	-0.14	1.00	-0.40**	0.31**
challenge	0.72**	0.48**	-0.40**	1.00	-0.22*
satisfied	-0.68**	-0.21*	0.31**	-0.22*	1.00

n = 144 * = p<0.01 ** = p<0.001

The first item seems to have the most face validity in terms of McClelland's achievement motivation theory but apparently has the least discriminatory power and is not the most central item in the scale. On the other hand, the rejection of the second item, a low achievement-motivation statement questioning the need to continuing to strive for accomplishment, seems more central and independent of a self-reported general desire to succeed. Davidsson reported a Cronbach Alpha coefficient of 0.55 for the scale which is reasonable if not particularly good. It was not possible to run a similar internal consistency test on the version of SPSS-PC used for this analysis and the construction of the sample meant that a crude split in two would leave two unbalanced halves with the existing business enterprise trainees and the graduate trainees in one half and the control group of personnel trainees in the other. Nevertheless, these findings support Davidsson's nAch index as appropriate for a follow-up study with existing small business managers.

However, as the percentage scale rather than the Likert scale favoured by Davidsson had produced no benefits in increased sensitivity, a 1-5 Likert-scale was used in the Davidsson nAch scale included with the survey of existing owners in the SBRT Database (see Appendix B and next section). Consequently, it was possible to explore the linkages between Davidsson's nAch index and growth-orientation directly as well as explore some of the links with independence as a positive motivator and control as a deterrent. It was also possible to explore differences between enterprise trainees and actual small business owners on the measures common to both studies - family background, links to LoC, career intentions, etc. Before examining the findings in more detail, it is interesting to note the differences in the item correlation matrix for the SBRT sample compared with the matrix in Table D2.

Table D3. Achievement motivation scale items correlation matrix: small business owners.

	<u>nAch</u>	<u>succeed</u>	<u>new goals</u>	<u>challenge</u>	<u>satisfied</u>
nAch	1.00	0.53**	-0.74**	0.68**	-0.74**
succeed	0.53**	1.00	-0.12	0.39**	-0.20**
new goals	-0.74**	-0.12	1.00	-0.31**	0.39**
challenge	0.68**	0.39**	-0.31**	1.00	-0.26**
satisfied	-0.74**	-0.20**	0.39**	-0.26**	1.00
n = 306 * p<0.01 <0.001					

It is reassuring to note that the patterns of responses from this sample of existing small firm owners corresponds closely to the responses from the enterprise trainees. For the reasons mentioned above, it was not possible to run a Cronbach Alpha test but, as the original sample had been recruited at random, it was possible to split the sample in two and the split-sample t-test revealed no significant differences on the composite nAch score or on any of the individual items. Apart from the second item which had a 2-tail probability estimate of 0.27, the probability was above 0.8 for all other items though item 1 had a much more consistently extreme score (4.5 for both halves of the sample, with a maximum possible score of 5) than other items and a much narrower standard deviation indicating little dispersion of scores and suggesting a comparatively weaker discriminatory power. In fact, there seemed to be a slightly stronger tendency to agree with positive statements rather than disagree with negative statements.

3.1 Enterprise trainees results

The initial analysis explored the discriminating power of the nAch index by comparing the graduate enterprise trainees with other groups. According to McClelland's theory, it would be expected that graduate enterprise trainees followed by existing business enterprise trainees would exhibit the strongest achievement motivation as measured by the composite nAch score with the third group (academic achievers) next. However a oneway analysis of variance with a Tukey-HSD test to identify significant differences, at a probability level of <0.05, between the means of the four key groups - enterprise trainees, graduate enterprise trainees, non-business and personnel trainees failed to establish any such significant differences. This is also in line with Davidsson's findings and supports his comments that people are likely to be motivated to achieve different (often non-business) objectives. The mainly academic third group and would almost certainly have quite different objectives from enterprise trainees and the personnel trainees, many having opted to follow a part time course of study, must be fairly ambitions but probably express their objectives in organisational rather than the individualistic terms of the enterprise culture (as confirmed in informal conversations with many of these subjects reported in Appendix A). Virtually none of the individual items of the achievement motivation scale discriminated significantly between the groups either. The one exception was the first item, the self-reported desire to succeed.

Table D4. Oneway analysis of variance: 'succeed' by trainee groups.

Source of variance	degrees of freedom	sum of squares	mean squares	F ratio	F probability
Between groups	3	3040.20	1013.40	5.43	0.0015
Within groups	140	26122.46	186.60		
Total	143	29162.66			
Multiple range Tukey-HSD test				* = p<0.05	
Mean	group	1	2	3	4
89.79	1.enterprise	-	-	-	*
92.11	2. graduates	-	-	-	*
83.85	3. academics	-	-	-	-
81.19	4. personnel	-	-	-	-

It is interesting that the direction of predictions according to McClelland's theory is confirmed. Indeed, when the graduate enterprise group is compared to the non-business group on a t-test with pooled variance (which is a reasonable assumption as both groups consist of university graduates) the differences between the means was significant at $p<0.046$. Apart from the observation that achievement will be measured differently according to each individual's expectations, the lack of significant differences between the business and non-business (mainly academic) groups plus the strong tendency of SBRT small firm owners to agree with item 1 (and the almost zero correlations between items 1 and 3 on one hand and items 2 and 4 on the other in both correlation matrices), these findings suggest that the Davidsson nAch scale may be measuring more than one phenomenon. Principal component factor analysis of the scores, however, only extracted one factor (with a threshold of 1 eigenvalue) though the plot of scores on a forced 2 factor chart show item 4 ('satisfied') isolated at one pole of a second factor with items 1 and 3 at one pole of the single significant factor and item 2 at the other pole. Specifying a 2 factor solution, a varimax rotation produces the following two factors:

Table D5. 'Achievement' vs 'Satisfaction'.

	Factor 1 'achievement'	Factor 2 'satisfaction'
achievement	.70	.24
challenge	.52	-.06
new goals	.09	.62
satisfaction	.14	.62

This split is even more acutely evident in the factor analysis of the SBRT small firm owners responses to the nAch scale (see Table D 13 next section) and support the role that satisfaction might be expected to play in motivation theory (and suggests that enterprise trainees already exhibit potentially limiting *satisfying* behaviour). To investigate the discriminatory power of Davidsson's nAch scale as a complete instrument further, subjects had been asked to describe their present and future intended career occupations. Firstly, as much as a means for separating out the enterprise trainees with existing businesses from those who had not yet started, the nAch scale and its constituent

items were compared across occupational groups - 1:non-work (student + unemployed), 2:self-employed, 3:business manager and 4:employee. There were no significant differences in means between any of the groups on the composite nAch scores but, as the following oneway analysis of variance shows, there were significant differences on the self-reported desire to succeed ('succeed') between managers and those who saw themselves as just employees.

Table D6. Oneway analysis of variance: 'succeed' by present occupations.

Source of variance	degrees of freedom	sum of squares	mean squares	F ratio	F probability
Between groups	3	2281.78	760.59	3.96	0.0095
Within groups	140	26880.88	192.01		
Total	143	29162.66			
Multiple range Tukey-HSD test			* = p<0.05		
Mean	group		1	2	3 4
91.33	1.non-work		-	-	- -
89.03	2. self-employed		-	-	- -
91.36	3. managers/MD		-	-	- *
82.49	4. employees		-	-	- -

The highest self-reported desire to succeed was, as expected, among the respondents who are managers in small and larger firms but the non-work group (many recent graduates and some people keen to leave unemployment) was close behind. This once again highlights the fact that success and achievement may be defined in many different ways and directed towards many different goals. The most appropriate groups to test the predictive powers of the nAch scale on were the different career intentions classified in similar categories to the present occupations except that no subjects expressed intentions of becoming unemployed or resuming life as a student so there was no non-work group. Once again, however, the nAch scale failed to discriminate between groups where the self-reported desire to succeed was able to discriminate.

Table D7. Oneway analysis of variance: 'succeed' by career intention.

Source of variance	degrees of freedom	sum of squares	mean squares	F ratio	F probability
Between groups	2	1499.00	749.49	3.74	0.026
Within groups	137	27461.18	200.45		
Total	139	28960.17			
Multiple range Tukey-HSD test			* = p<0.05		
Mean	group		1	2	3
91.28	1.self-employed		-	-	*
85.80	2. manager/MD		-	-	-
83.15	3. employees		-	-	-
* = p<0.05					

As the group of subjects intending to become managers will include the more ambitious personnel students, these findings do not invalidate the importance of McClelland's achievement motivation. The strongest differences are between people intending to be

self-employed and those intending to be paid employees. Also, a separate variance t-test revealed significant differences on the desire to succeed between those intending to be self-employed and those intending to become managing directors of small firms.

Table D8. 'Succeed' by occupational goals.
(t-test: self-employed v managing director)

Future career intention	Number of cases	Mean	Standard Deviation	Error
Self-employed	49	91.31	10.677	1.525
Managing directors	56	85.80	16.591	2.217
Separate	Variance	Estimate		
	t	Degrees of Freedom	2-Tail Prob.	
	2.04	95.00	.044	

Once again this has interesting theoretical implications. In terms of the enterprise culture, the encouragement of self-employment is seen as an extremely entrepreneurial goal. However, the personal achievement and economic developmental significance of managing a group of other people, especially in an organisation founded by the manager, is a more central goal. Yet, it is those who intend to pursue a self-employed career who score highest on the self-reported desire to succeed. There appear to be size or scale influences as well as cultural factors also at work. However, there were no apparent gender influences and family background did not have a significant effect on the scores to the nAch scale or its constituent items though there were some interesting age effects on the fourth item - *satisfaction* with present achievements.

Table D9. Oneway analysis of variance: 'achievement' by age.

Source of variance	degrees of freedom	sum of squares	mean squares	F ratio	F probability
Between groups	3	7515.04	2505.01	6.43	0.0004
Within groups	132	51410.31	389.47		
Total	135	58925.35			
Multiple range Tukey-HSD test		* = p<0.05			
Mean	age in years	1	2	3	4
14.31	1.16-24	-	-	-	-
20.52	2. 25-34	-	-	-	-
15.58	3. 35-44	-	-	-	-
39.69	4. 45+	*	*	*	-

This provides strong support for a stages of personal development effect with middle-aged to older subjects much more inclined to agree with the idea of resting on life-achievements already attained (to even their mean score indicates a tendency to disagree with the statement). There were fairly wide variations in responses to this item because the level of existing achievements and level of aspirations are clearly of strong influence. It is interesting to note that a similar effect was present in the responses from the SBRT small business owners.

3.2 SBRT small business owners results

The nAch scale and other achievement motivation issues can be tested empirically with actual owners of small firms because it is possible to measure them against output and achievement measures. The most obvious measures over the 18 month period between the two SBRT surveys which saw the deepening of the recession are changes to sales and workforce over the period. There were no significant difference in nAch scores between different bands of employee-size or sales turnover. Nor was there a significant difference between those whose sales had risen over the period and those whose sales had fallen. However, workforce shifts proved to be a more relevant measure of growth with significant differences between the growers and the shrinkers.

Table D10. Oneway analysis of variance: nAch by workforce shift 1990-91.

Source of variance	degrees of freedom	sum of squares	mean squares	F ratio	F probability
Between groups	2	85.63	42.81	4.12	0.017
Within groups	302	3139.86	200.45		
Total	304	3225.49			
Multiple range Tukey-HSD test			* = p<0.05		
Mean	group	1	2	3	
15.21	1.shrinkers	-	-	-	
15.55	2. same	-	-	-	
16.43	3. expanders	*	-	-	

It is reassuring to note that the business owners whose firms grew during the recession had strong achievement motivation as measured by the nAch scale. However, virtually all the discriminatory power of the nAch scale in this case was due to item 4 (satisfaction) which was the only item to distinguish significantly($p<0.0005$), especially between those who reported no change in workforce over the period (mean = 3.31) and those who grew (3.41) on one hand and those who shrank (4.02) on the other. Owners of firms which had shed workers appeared rather dissatisfied with their situation and did not agree with the statement. It appears that immediate business circumstances affect small business owners outlooks and attitudes more powerfully than any underlying 'personality trait'. It also appears that medium term business objectives have a strong influence on attitudes and behaviour. The main motives for being in business do not seem linked to achievement motivation, adding more evidence to the conclusion that personal achievement, even among small business owners, can be as easily defined in non-business terms as business terms. If an owners is motivated to achieve independence then success will be defined in those terms, another is keen to make money then success will be measure in financial earnings. In relation to the business itself however, performance criteria are fairly clear and it is interesting that the nAch scale did discriminate between owners with different business objectives as described in Appendix B (see Tables B21, B25 and B26) - 1:business/economic, 2:security, 3: lifestyle and 4:others.

Table D11. Oneway analysis of variance: nAch by business objectives.

Source of variance	degrees of freedom	sum of squares	mean squares	F ratio	F probability
Between groups	3	95.55	31.85	3.06	0.028
Within groups	301	3129.94	10.40		
Total	304	325.49			
Multiple range Tukey-HSD test					
* = p<0.05					
Mean	objectives	1	2	3	4
16.56	1.economic	-	*	-	-
15.29	2. security	-	-	-	-
15.38	3. lifestyle	-	-	-	-
16.08	4. others	-	-	-	-

Given the ambiguous nature of lifestyle as a business objective (see Appendix B3), these findings provide support both for McClelland's thesis that nAch should be stronger among business minded people and for the contention that high nAch is present in non-business objectives (lifestyle or 'cashing in on past achievements'). Only item 4 (*satisfaction*) of the nAch scale discriminated significantly - between those with economic objectives, who were more dismissive of the notion of resting on ones' laurels, and the lifestylers - though this may also reflect an age-effect or life-stage effect. As with the enterprise trainees, older respondents more than 45 years of age were less inclined to disagree with the idea of conserving existing achievements. It is not surprising, therefore, that the measure of achievement objectives - growth-orientation - is clearly linked to achievement motivation as measured by the nAch scale.

Table D12. nAch by growth-orientation.
(t-test: growth-oriented v growth-averse)

Growth orientation	Number of cases	Mean	Standard Deviation	Standard Error		
Growth-averse	149	14.86	3.36	0.28		
Growth-oriented	156	16.57	2.93	0.23		
Pooled variance estimate				Separate variance estimate		
t	degrees of freedom		2-Tail prob.	t	degrees of freedom	
Value	freedom		prob.	value	freedom	
4.75	303		0.000	4.73	293	
						0.000

As McClelland might expect, both groups of small firm owners exhibited higher than average nAch scores (12 is the median score for the 4 scales) and the significantly higher and less dispersed nAch scores of people who want their firms to grow is right in line with McClelland's theory. However, the first item ('achievement' - a statement of a general desire to succeed) failed to discriminate significantly (p<0.19) which may be due to social-desirability or general low discrimination effects. The other 3 items, 'new goals' (p<0.025) and 'challenge' (p<0.017) were clearly significant in their discrimination and 'satisfaction' registered an even stronger level where the difference in means (a neutral average score of 3 for the growth-averse compared with a 4 to indicate disagreement for the growth-oriented) was significant at p<0.000. However, it is difficult to determine

whether strong achievement motivation (and growth-orientation also) represents more a desire or more a realistic expectation of attainment. Also the effects of already having achieved satisfaction - or a *satisfying* level of performance given the economic climate - are very difficult to determine and may be related to stage of personal or business development as well as personal expectations. In fact, the 2-factor nature of the nAch scale suggested in the previous section is more evident here with a straight varimax rotated principal component factor analysis of all the scores on the 4 nAch scales revealed two clear factors - an active striving 'achievement' factor and an apparently more passive 'satisfaction' factor.

Table D13. Varimax principal component factor analysis of nAch scales.

	Factor 1 'achievement'	Factor 2 'satisfaction'
succeed	.83292	-.04534
new goals	-.06958	.81803
challenge	.82900	-.07106
satisfied	-.04527	.82202

This represents a clear polarisation with the first factor obviously closer to McClelland's original concept of nAch. The second factor, however, is more psychologically interesting and directly related to the central concerns of this thesis. The concept of 'satisfaction' is clearly related to personal and business stages of development and may be closer to Simon's (1957) concept of *satisfying* behaviour. It is also likely to be related to the economic phenomenon of the *endowment effect* (more aggressive business behaviour is expected from firms seeking scarce economic factors of production or markets than those which already have them), a concept not dissimilar to Tversky and Kahnemann's notions on the *framing of risk*. Fundamentally, the stronger discriminative power of 'satisfaction' revealed in the following analyses of variance, provides strong evidence for the validity of these economic and psychological concepts and for Schumpeter's description of the entrepreneur's *life-cycle*.

Table D14. Oneway analysis of variance: growth orientation by nAch factors.

Factor 1; 'achievement'

Source	D.F.	Sum of Squares	Mean Squares	F Ratio	F Prob.
Between Groups	1	3.96	3.96	3.996	.0465
Within Groups	304	301.04	.99		
Total	305	305.00			

Factor 2: 'satisfaction'

Source	D.F.	Sum of Squares	Mean Squares	F Ratio	F Prob.
Between Groups	1	10.96	10.96	11.336	.0009
Within Groups	304	294.04	.97		
Total	305	305.00			

It is clear that small firm owners who are growth-oriented also see themselves as being more motivated to achieve and succeed but that growth intentions, in the sense of deciding not to grow, are clearly determined by the attainment of satisfaction as psychological motivation theory would predict. Indeed, given their stronger tendency to hold business matters as more psychologically-central, it is also clear that growth-oriented small firm owners will be more likely to measure achievement in terms of business success. However, this means that growth-orientation and achievement-motivation are unlikely to be independent variables for these people and, therefore, not so useful for predicting growth-orientation (or entrepreneurship). It would seem from these findings that the degree of satisfaction of personal goals and the different expectations associated with these different levels of satisfaction, as Davidsson suggested, may offer a more fruitful avenue for understanding entrepreneurial behaviour. Exploring further the importance of individual expectations, the following analysis of variance of nAch scale scores between respondents who expected their staff numbers to increase and those who did not is revealing.

Table D15. Oneway analysis of variance: nAch by employment expectations, Q4 1991.

Source of variance	degrees of freedom	sum of squares	mean squares	F ratio	F probability
Between groups	2	97.26	48.63	4.57	0.011
Within groups	283	3008.48	10.63		
Total	285	3225.49			

Multiple range Tukey-HSD test

* = p<0.05

Mean	group	1	2	3
15.98	1.expect up	-	-	-
15.36	2. same	-	-	-
17.08	3. expect down	-	*	-

The stronger nAch shown by the optimists, who are in any case more growth-oriented, is evident. The fact that there are no significant differences between those who expect to shed staff and those who expect to grow, suggest that achievement motivation is an underlying desire (or a 'generalised tendency') which is linked as much to mid-term as to

immediate attainment. Unfortunately, the effects of the recession (which were already clearly apparent) meant that average performance actually declined in the following quarter suggesting that some of the optimism and, therefore, some of the achievement motivation, was misplaced and perhaps not ground in realistic perceptions. In line with Davidsson's findings, it is therefore feasible to state that nAch is an ingredient in the entrepreneurial mix (in that business owners with economic objectives are more achievement oriented than those seeking mainly to secure their livelihoods) but that it leaves some of the largest and potentially more interesting gaps unexplained. Areas for future research should pursue the modification or raising of expectations including questions of realistic assumptions and different planning time horizons among small firm owners with the assumptions that entrepreneurs will be more realistic and more capable of forward planning.

APPENDIX E: PERSONAL CONSTRUCTS OF ENTREPRENEURSHIP

E1. Construing the content of enterprise training.

(i) Rationale.

The effectiveness and applicability of using personal construct analysis to explore the psychology of enterprise training was demonstrated clearly in a preliminary study of a young graduates enterprise development course in Salerno, southern Italy. According to many accounts, the most successful small business sector in Europe is that of northern Italy. During the mid 1980s, Italy was the only major economy in Europe to register a net growth in its manufacturing sector (an increase of 105,000 firms, 1971-1981). There is little doubt that much of this success is due to the small firm sector (Amin et al., 1986; Storey and Johnson, 1988). Self-employment accounts for one third of the workforce and nearly 60 per cent of manufacturing employees work in firms with fewer than 100 employees - compared with less than half (43 per cent) in France and less than one quarter (22 per cent) in Britain.

Small manufacturing firms in Italy are more actively involved in foreign trade than similar firms in Britain. More than three-quarters of the large manufacturers in both countries are active exporters but in Britain no more than 14 per cent of small manufacturers (and only 3 per cent of other small firms) actively export. In Italy, almost one third (32 per cent) of the manufacturers with 11-20 employees and more than half (55 per cent) of the manufacturers with 21-100 employees export their products (Mediocredito Centrale). Italy's export successes are in clothing, textiles, shoes and mechanical goods (clothing and textiles had climbed from 10 per cent of total exports in 1970 to 13 per cent in 1986), with footwear and clothing dominated by firms with 10-99 employees. However, Italy's economic success is mainly a phenomenon of the north and central regions.

The *mezzogiorno* region of southern Italy, suffering Europe's worst unemployment (especially among young people), remains economically underdeveloped. The rate of unemployment in the south (19 per cent) is more than double that of the centre-north (8 per cent). Home to just over one third (36 per cent) of Italy's population, the south accounts for roughly half (49 per cent) of the registered unemployed but only 19 per cent of the national workforce. Significantly, little more than one quarter (27 per cent) of Italy's 3 million or so small enterprises (employing fewer than 100 workers) are located in the south yet nearly 70 per cent of the workforce work in the micro-firms with fewer than 20 employees. These micro-firms, which account for just half the workforce in the north, survive on low labour costs and are relatively unproductive in terms of per capita

sales, value added and investments (Agenzia Industriale Italiana). Just 18 per cent of the more dynamic small firms in the 20-100 employee size-band are located in the south.

Hardly surprisingly, the *mezzogiorno* has produced only one quarter of the national wealth (24 per cent of GDP) over the past 30 years. A number of reasons - historical, cultural, economic - have been advanced to explain the relative poverty of the south. Among the factors which could be improved by public policy are the poor communications due to deficient telephone, postal and transport services, lack of skills both technical and managerial, a shortage of local suppliers and a relative absence of business services. One of the features of under-development in the *mezzogiorno* is the lack of reasonable local management cadre. The economic dominance of northern Italy (roughly a Milan, Turin, Genoa, Bologna bloc) firstly means that virtually all managerial opportunities for potentially able southern managers are in the north and, secondly, that most industries in the *mezzogiorno* are branches of northern firms. The consequence is that southern managerial and, to some extent, entrepreneurial talent (at least that engaged in legitimate business activities) is drawn to the north. A third reason often advanced by Italian sociologists is that the training and education structures in the *mezzogiorno* are geared towards the demands of government, academic and large-scale nationalised industry bureaucracies.

To counter this strong tendency among southern graduates, the Italian employers organisation, Confindustria, and the state agency charged with developing training initiatives in the *mezzogiorno*, Formez, piloted a special one-year post-graduate enterprise training programme in 1986/87. The programme aimed to develop management skills and self-reliance and attracted more than 300 applicants from southern universities. Eventually, 31 applicants were selected after a series of personal interviews and batteries of various psychometric tests. The study reported here concerns an attempt to use personal construct psychology techniques to evaluate the programme and provide the course designers with some ideas for improving its relevance to the participants.

(ii) Methodology.

Towards the end of the second term of the one-year course, the course administrators agreed to participate in an evaluation study consisting of personal interviews, repertory grids designed to elicit how the participants construed course contents and tutor rating scales on the likely success in business of each participant. In summary, it can be said that the personal interviews revealed that the course was really viewed by the participants as part of their own career search and as providing an advantage in the labour market when competing with other graduates for jobs. A minority of participants had quite clear ideas about their preferred careers and the tutors' success-likelihood scales, which were

very consistent between the three main tutors, tended to confirm these participants as most likely to succeed. The personal constructs elicited through the grids also confirmed two distinct groups of participant.

The constructs are elicited by the subjects making a forced triadic choice between any three elements. Subjects are asked to describe how any one of the elements differs from the other two and are then asked to provide the opposite to that quality in the context of the forced choice. By continuing the series of forced triadic choices for different combinations of elements, eventually a number of bi-polar dimensions - the constructs - are elicited. The constructs were elicited in a group discussion (where there was dissension both constructs were used) but rated individually. The process of elicitation ceased when it became clear that no new constructs were being generated. The constructs can then be treated as bi-polar dimensions and each element can be rated across each dimension. In this study, a 5 point scale was used. The scores are then analysed to provide correlation and covariance matrices separately for the constructs and the elements. There are a number of computer programs available for grid analysis. Repertory grids were used to investigate their construal of the course contents by using the modules of the course curriculum as the elements in the grids. The participants divided neatly into the two groups which, as mentioned above, are very familiar to organisational psychologists - people-oriented and task-oriented. There seems little doubt that repertory grids are a valuable and subtle tool for conducting training evaluation (Pope and Keen, 1981).

Indeed, in the wider world of business, Stewart and Stewart (1981) give a number of examples of the growing use of repertory grids in marketing research and in assessing of training programmes. They also mention a number of interesting uses of grids in evaluating managerial effectiveness. In particular, a study which classified managers constructs according to psychogenic needs (nAch, nAff and nPow) revealed useful distinctions between top, mid-level and junior managers in the furniture and timber industries. Thus, apart from identifying similarities between individual grids, there are at least two different group approaches to grid analysis - discrimination on the basis of construct system integration and on the basis of construct-classification according to prior criteria. More interestingly from a psychological viewpoint, the study also examined the degree of integration of each participant's construct system. Previous research on training effects suggest that participants with a non-integrated (loose) system have not really assimilated the lessons of the training (Pope and Keen, 1981). Loose construing is associated with uncertain anticipation so we would expect entrepreneurs - who are noted for their persistence, task orientation, concentration on their business, and so on - to have fairly tight systems, but not so tight as to lead to inflexibility. To obtain

some measure of the relative importance of the different course modules from the course designers' viewpoint, each of the three course coordinators ranked the modules in order of relevance to good managerial practice.

(iii) Results

The three sets of rankings, plus their averaged rankings, are shown alongside the elements in the following table. The elements are listed in their order of frequency as a main element for the subjects. The number of subjects for whom each element was most centrally symbolic of the course is also shown.

Table E1. Modules as central element plus coordinators' rankings.

<u>Modules.</u>	<u>Subjects.</u>	<u>Co-ordinator rankings</u>
1.Organisation of people.	5	4
2.Accounting analysis.	4	3
3.Use of computers.	3	8
4.Information systems.	2	6
5.Sectoral analysi	1	5
6.Marketing.	0	2
7.Production.	0	7
8.Business planning.	0	1

The course coordinators' rankings have been averaged but the variance in their ranking was not wide. As each of the coordinators was responsible for a different area of the course, some differences might be expected in their rankings but, apart from 'accounting analysis', there was no great variance in their rankings. However, the importance given to 'business planning' and 'marketing' by the coordinators is apparently not shared by the subjects. Furthermore, the modules 'organisation of people' and 'business use of computers' appear to have made a strong impact on the participants despite their relative lack of strong importance in the eyes of the course organisers. A cluster analysis of preference ratings divided subjects into two distinct module clusters. As the following table shows, the first cluster, which was central for 8 subjects, was a grouping of the more technical modules while the second cluster seems more socially oriented.

Table E2. Main module clusters.

<u>Cluster</u>	<u>Modules.</u>	<u>Number of subjects.</u>
1.	Accounting analysis. Business use of computers. Sectoral analysis.	8
2.	Organisation of people. Marketing. Information systems.	7

Although the clustering of modules is interesting in suggesting a clean split between technical-orientation and social-orientation, it is the constructs which reveal how the

management students actually view the world of business. The eight different constructs which were elicited during the group session have been listed below. By convention, the first pole of the construct which emerged during the triadic first choice, known as the emergent pole, is written on the left while its opposite, termed the implicit pole, is written on the right side. In the following table, the constructs are not written in the order they were elicited but in the order of frequency with which they appeared as a central construct for different subjects. The number of subjects for whom the construct was central is written beside the construct and where the frequency of construct centrality was equal the frequency of the construct as the second most important contributor to variance is taken into account in determining its ranking.

Table E3. Constructs in order of frequency of centrality.

<u>Rank.</u>	<u>Emergent pole</u>	<u>Implicit pole</u>	<u>Subjects.</u>
1.	Dynamic	Static	4
2.	Less human contact	More human contact	3
3.	Instrumental	Autonomous function	3
4.	Organisational	Technical	2
5.	Global	Sectoral	2
6.	Internal to firm	External to firm	1
7.	Using information	Seeking information	0
8.	Less power	More power	0

There are two points of immediate interest about these constructs. The first point is that 'less-more power', which may seem to be central to the role of a manager did not, in fact, rate as central for any of the subjects. The second point is that the two most central constructs, 'dynamic- static' and 'less-more human contact' are rather broad constructs which may be expected to embrace a broader range of convenience than just the contents of the management course. With only one exception, the participants divided neatly into two groups, with most subjects (9) using a 'dynamic, social - static, technical' construct and the others (5) a type of 'global, practical- particular' construct. The constituent constructs in each superordinate construct are listed in the following table, with the poles reversed for those constructs (inside brackets) which correlated negatively with the core constructs.

Table E4. Group super-ordinate construct clusters.

<u>Cluster</u>	<u>Construct</u>		<u>Subjects.</u>
1.	Dynamic	- Static	9
	(More human contact)	- (Less human contact)	
	Organisational	- Technical	
2.	Instrumental	- Autonomous function	5
	Global	- Sectoral	
3.	Internal to firm	- External to firm	1

These clusters correspond to the main types of manager identified in organisational research but, from a psychological perspective, it is also interesting to examine the

degree of integration of each participant's construct system. Previous research on training effects suggest that participants with a non-integrated (loose) system have not really assimilated the lessons of the training (Pope and Keen, 1981). While it was clear that there was no exact correspondence between 'tightness' or 'looseness' and either of the construct or element clusters, some patterns emerged. For instance, most subjects who had the general construct 'dynamic-static' as their central construct also had tight construct systems. The same was also true for most of those who had the more course-specific construct 'instrumental-autonomous function' as the central construct. Most subjects who had the general construct 'dynamic-static' as their central construct - by which they contrasted the instrumental, mediating tasks required to get things done with the more structured, technical tasks and skills needed to implement successful routines - also had fairly tight construct systems and were expected to have successful business careers by their tutors.

(iv) Discussion

These results support current organisational research findings and views of managers' roles. It is now generally recognised that a manager's style should be determined by the needs of different situations and types of task rather than by quirks in the manager's personality or by a set of prescriptive rules (Gordon, 1983). A complex task may best be coordinated by a socially aware manager who encourages a participative approach while a routine task can sometimes be more effectively dealt with in a more structured manner by a manager who may be autocratic but certainly pays close attention to functional and technical details (Schein, 1981). These open questions are reflected in the dual structure of many management training programmes, contrasting technical with social skills, and in the often conflicting roles that managers are required to perform in real firms. *Functional* demands, which are technically necessary, can sometimes clash with *organisational* demands. Even though some tasks are more strategic and others more routine, it is fundamental to the role of all good managers that they are able to strike the appropriate balance, for each task, between the shifting functional and organisational demands of their firms (Schein, 1981; Gordon, 1983).

It is interesting to note, therefore, that this dichotomy in real managerial practice found a reflection in the participants' construing of the course content. Even though the course was presented to the participants as an integrated modular whole, the modules were construed as *functional/technical*, representing more routine tasks, or *social/operational* for the more strategic. In terms of attitudes towards the course, the participants tended to either use social/organisational constructs or more general/instrumental constructs. In terms of managerial style, the larger group appears to correspond to a routine task-oriented type while the smaller group seems to construe the role of a manager as more

strategic - perhaps involving the planning and coordination of the activities of others. An entrepreneur, however, must be able to manage across a whole repertoire of situations and be capable of swiftly switching from one managerial mode to another, if the business is to grow. On other occasions, however, the need for adaptability may clash with the entrepreneurs persistence and single-mindedness. The notion of neat, rigid personality traits does not rest comfortably with the dynamic reality of an entrepreneurial approach to business. Repertory grids and personal construct theory provide rich opportunities for exploring these elusive - and at times contradictory - personal qualities of successful entrepreneurs.

E2. Enterprise trainees construals of 'the entrepreneur' and themselves.

(i) Rationale

A repertory grid study was conducted among the GEP III and Firmstart enterprise trainees (see Appendix B) to evaluate the effects of training on would-be entrepreneurs rather than to assess how the participants construe themselves as entrepreneurs.

(ii) Methodology.

Repertory grids were used to explore not only subjects' construal of themselves as entrepreneurs but also the development of their self-concepts. The study also used the locus of control measures reported in Appendix C to explore not only their construal of themselves as entrepreneurs but also the development of their self-concepts. Most of the subjects, in keeping with entrepreneurial theory, exhibit internal locus of control, as measured by Rotter's IE and an adaptation of Levinson's IPC, and most claim a high need for achievement (nAch) - as measured by questions which have been employed in many Swedish studies (Davidsson, 1987). In an effort to explore the conflicting predictions of Kets de Vries and Super in relation to the role of parents more thoroughly, the elements of the grids are: self, ideal self, mother, father, business rival, a (known) successful entrepreneur and a (known) successful big business executive. Following the study reported by Stewart and Stewart (p.104), each subject's constructs - apart from the overly general (eg, 'good-bad') or specifically business (eg, 'cost aware, pricing - not cost or pricing aware') - were classified according to Murray's (1938) psychogenic needs - nAch, nAff and nPow.

(iii) Results.

Altogether 11 grids were completed by subjects in the Firmstart sample (1 female, 10 male; average age 34 years) and 14 were completed by the GEP sample (2 female, 12 male; average age 26 years). Each of the subjects completed individual grids presented in a group on how they construe themselves as entrepreneurs. The first group generated an average of 9 constructs per participant while the second group, the recent graduates, generated an average of 11 constructs per participant. The rankings across the bi-polar

Appendix E

constructs for each element were then factor analysed (product moment with varimax rotation) to produce 'second order constructs'. As is usually the case, most of the variation was explained by the first two second order constructs (which, in practice, consist either of separate clusters of apparently linked constructs or distinct focal points between sets of constructs). Usually, the main second order construct (which is generally loaded heavily with 2-5 constructs) accounts for most of the explained variance. The following table shows the element loadings on the main second order constructs labelled by principal first order construct in the cluster for each subject.

Table E5. Correlation of 'super-constructs' with elements.
Firmstart

	Main 2nd order <u>construct</u>	self	success <u>entrepr.</u>	unsucc. <u>entrepr.</u>	big <u>manager</u>	rival	mother	father	ideal <u>self</u>
GB	social skills	-	0.8	-	0.7	-0.5	-0.8	-1.0	1.00
SC	motivated	-	0.6	-0.8	0.6	-	-	-1.0	0.5
BK	business experience	-	0.4	-	0.5	-	-1.0	-1.0	0.5
NK	persistent	-	0.7	-1.0	0.7	-0.5	0.6	-1.0	0.9
WM	expertise	0.5	-	-0.8	0.4	-	0.6	-1.0	0.6
TM	business experience	-1.0	0.4	-1.0	0.5	0.9	-	-0.9	0.9
AR	foresight	-	0.6	-1.0	-	-	-0.7	-	0.7
GS	business sense	-	0.5	-0.7	0.6	0.6	-0.6	-	-0.7
PS	sales confidence	-0.3	0.6	-0.8	0.7	0.6	-	-1.0	0.5
JS	sales skill	-0.7	0.8	-	0.5	-0.4	-0.5	-0.4	1.0
QW	efficient	0.6	0.7	-0.6	-	-	-1.0	-1.0	0.9

GEP III

RA	enthusiasm	-	0.5	-1.0	0.4	-	-1.0	-	0.7
CD	self-motivated	-	0.5	-0.6	0.3	-	-1.0	-	0.5
AG	organised	-	0.6	-1.0	0.4	-	-	-0.9	0.6
PH	determined	-1.0	0.5	-0.7	0.7	-	-	-	0.6
CL	patient	-0.5	-	0.8	0.6	-	-	-	-1.0
O	arrogant	-	0.7	-1.0	0.8	-	-0.8	-0.7	0.8
JP	committed	0.5	0.5	-	0.4	-	-1.0	-0.8	0.7
SP	ambitious	-0.4	1.0	-0.9	-	-	-0.7	-	1.0
NP	competitive	-	0.8	-1.0	0.5	-	-0.9	-	0.6
JR	bureaucratic	-	-0.7	1.0	0.5	-	0.4	-	-0.8
PS	non-directive	-0.7	-0.6	1.0	0.9	-	-0.5	0.7	-0.8
AT	enterprising	0.5	0.5	-	-0.4	-0.4	-1.0	-	0.5
MW	analytic	-	0.5	-1.0	0.5	-	-0.8	-	-
KW	ambitious	-	0.8	-0.7	-	0.9	-1.0	-1.0	-

Even on this simplified presentation it can be seen that the pattern of responses for each subject is quite complex. However, certain features stand out. Few members of each group had been trading more than one year (indeed, most of the graduates had not even begun trading) and the lack of a strong sense of themselves or of their rivals as entrepreneurs is evident. This bears out the finding of the repertory grid in Salerno (reported in the previous section) that many people attending enterprise training courses,

which aim to teach general skills unrelated to a particular job or technical requirement, are actually engaged in a part of their career search strategy. Very few of the respondents had tight construct systems. Indeed, another feature to emerge from the study was the lack of clear precision in the *entrepreneurial construct*. For many subjects, the central super-construct was that entrepreneurs are experienced business people and display business acumen. At the level of providing some degree of support for the conclusions and picture constructed of the current entrepreneurial function as described in the main body of the thesis this is reassuring but as informed analysis of their goal on the part of enterprise trainees a sort of 'good at business' construct seems rather banal and almost trite.

When the other constructs are included, more considered constructs seemed to group as a (committed, determined, ambitious) construct, an (organised, efficient) construct and a (social, communicator) construct which fits in with, though offers no new insights to, existing entrepreneurial theory. Clearly, it would be more useful to conduct this sort of study with contrasting growth-oriented and growth-averse small firm owners but strong organisational difficulties prevented this being considered for the present purpose (though it is a definite area for future research). It would be wrong to conclude that the present study, however, did not yield useful data. It provided an insight into the process of enterprise training and suggested that the effects may not be very profound or long lasting. Grids were administered during the beginning of Firmstart and during the final sessions of the 8-month Graduate Enterprise course. As Firmstart was designed for new or existing firms with clearly identified problems, the fact that few participants had tight construct systems about their own role as potentially successful small business owners indicates that the recruitment procedures were inadequate in that the participants' aims were not so much development but more a last ditch attempt at surviving a crisis. The fact that few of the graduates had tight construct systems at the end of their course indicates either a similar recruitment problem or the failure of this particular programme to change perceptions. Comments from the organisers and informal conversations with participants (see Appendix A) lent support to both these conclusions. A 'de-briefing' with the course tutors and organisers more than one year later revealed that many participants had either stopped trading or never started (as in Salerno, many graduates used the experience to obtain employment in larger firms).

Even when the elicited constructs were content analysed according to Murray's (and McClelland's) psychogenic needs categories, the quality of both programmes as breeding grounds for the enterprise culture was open to grave doubt. There were significant differences between the two groups on their central super-constructs. nPow super-constructs were clearly more powerful for the existing businesses while nAch was

revealed to be higher in the main super-constructs of the graduate group (Mann-Whitney U difference significant at $P < 0.05$ level). The differences between the types of initial constructs obtained during grid elicitation can be clearly seen in a proportional analysis of the different types of individual constructs in each group (see Table E2). Few of the constructs presented classification difficulties with typical nAch constructs - 'ambitious-unambitious' (8 subjects in group 1, 7 in group 2), 'successful-unsuccessful' (4 in group 1, 9 in group 2) or 'motivated, committed-lack of motivation or commitment' (4 in group 1, 9 in group 2) - reflecting the relative importance of personal or business success. Typical nAff constructs - 'supportive, caring or considerate-not supportive, caring or considerate' (1 in group 1, 8 in group 2) or 'group, organised-loner, disorganised' (2 in group 1, 10 in group 2) - referred to social concerns. The typical nPow constructs - 'authority, dominate and leadership-subservient, follow' (10 in group 1, 5 in group 2) or 'business experience-ignorance, inexperienced' (16 in group 1, 8 in group 2) or 'rich, respected-poor, unknown' (10 in group 1, 4 in group 2) - were those connected with control or with high business or social status. The differences can be clearly seen in the following proportional analysis of the different types of individual constructs in each group.

Table E6. Psychogenic classification of enterprise trainees' constructs.

<u>Needs</u>	<u>Firmstart</u> (column percentages)	<u>Graduates</u>
nAch	31	44
nPow	54	29
nAff	9	26
Others	6	1
Total %	100	100
Total constructs:	98	154
Total subjects:	11	14

The higher number of constructs generated by the recent graduates probably reflects their higher educational levels and the higher degree of socialisation at university or college than to be found in many small businesses. The well-documented isolation of small businesses is also reflected in their lower proportion of nAff constructs. One remarkable difference between the two groups was the total absence among the new and established businesses of constructs relating to risk-taking and innovation which were well represented among the recent graduates. Existing businesses were more concerned about power (the difference between the groups was significant at the $p < 0.01$ level on the Mann-Whitney U) and, not surprisingly, revealed considerably more constructs relating to experience and business knowledge than the start-up graduate group. Finally, it is worth noting that high nAch is also a feature of academic success (Atkinson, 1957) so it is not surprising that the recent graduates displayed more nAch constructs. This supports

the view that achievement motivation is a significant and independent variable in entrepreneurial development (though not necessarily an outcome of enterprise training). The effects of cultural or family influences on career choice and on attitudes towards success were present but not clearcut.

If these influences are significant, it might be expected that course participants from self-employed families would construe self, ideal self and either parents similarly. The Super developmental approach would predict a positive correlation among the construals of these elements. However, the Kets de Vries model (which sees the psychodynamic process of entrepreneurial development more in terms of *reaction formation* rather than *identification*) should predict no (or even negative) correlation between self-concept as entrepreneur and concept of mother or father as entrepreneur. Not all participants in each group managed to complete a satisfactory grid but the differences between the two full groups according to their family background is clear with two-thirds (14/21) of the recent graduates having much more strongly pronounced family traditions of self-employment. The sample of 25 subjects who did complete grids split fairly evenly into those without self-employed relatives (13), those with self-employed parents (10) and those with other self-employed relatives (2). Confining the analysis to those who completed grids, there were no significant differences on the psychogenic classifications of primary individual constructs (nAch, nAff, nPow) or on the secondary super-constructs produced by factor analysis. Nor were there significant differences between those with or without self-employed relatives on how centrally the subjects construed either parent. However, in a finding which reflects the strength of the *independence* motive among actual small firm owners who claim no outside influence or parental traditions in their decision to manage their own firms (see Tables A7 and A9 and, in particular Table B20), the construal of *self* as an entrepreneur was more central to those without self-employed parents than to those whose parents also work for themselves (Mann-Whitney U, $p < 0.05$). Also, mothers were more centrally construed by the graduates than by the owners of existing businesses (Mann-Whitney U, $p < 0.0001$), a finding which is consistent with those from various psychological developmental studies in the United States which also reveal stronger maternal influences on work styles if not job choices (Brown and Brooks, 1984).

Table E7. Family self-employment differences.

	Existing firms	Graduates	Total		Total
	<u>number</u>	<u>number</u>	<u>firms</u>	<u>(%)</u>	<u>grids</u>
No family	10	7	17	(47)	13
Parents	3	10	13	(36)	10
Other relatives	2	4	6	(17)	2
Total firms:	15	21	36	(100)	
completed grids:	11	14			25

In keeping with the findings reported in Tables A7, A8 and A9 (and B20), the proportion of participants with self-employed parents (36 percent) is far higher than the percentage of self-employed in Britain's labour force (roughly 12 percent) or general household surveys (around 8 percent) suggesting, in line with Super, a strong positive family influence. However, the effects of parental influence in these matters is clearly more complex and goes more to the heart of the participants' occupational-concepts and self-concepts. If the enterprise trainees are really motivated to become entrepreneurs and if they have genuine entrepreneurial aptitudes, their construals of *self* should positively correlate with their construals of successful entrepreneurs and negatively with unsuccessful entrepreneurs. Furthermore, their high internal LoC and nAch scores imply that *self* and *successful entrepreneur* should be central to their construct systems in relation to 'being an entrepreneur'. However, there were no significant correlations between self and successful or unsuccessful entrepreneurs for either the primary individual constructs or secondary-order constructs produced through factor analysis, though there were significant differences between the family and non-family groups on the construed primary psychogenic profiles of successful and unsuccessful entrepreneurs (Mann-Whitney significant at $p<0.01$) which seems to imply cultural influences in the social representation of the entrepreneur. This could account for differences in identification with entrepreneurs which could be seen as being a more or less attainable status by different groups. Finally, many participants from both family and non-family groups rated their parents negatively on their own entrepreneurial constructs which strongly suggests that inner family dynamics and tensions may well obscure and complicate the other cultural and family effects on the development of self- and occupational- concepts.

On the central issue of the effects of enterprise training, if the training had its intended effects and if the participants were clear and honest about their occupational intentions, it should be expected that the participants' construals of *self* would shift close to *ideal self*. In turn, this should be close to successful entrepreneur or successful big business manager (depending on each participant's individual ambition). Given the professed objectives of both courses, it was not surprising to find significant positive correlations between the constructs of *ideal self* and of the *successful entrepreneur* (primary

constructs: $r = 0.8$, $p < 0.001$; secondary-order constructs: $r = 0.5$, $p < 0.01$) and negative correlations with the *unsuccessful entrepreneur* (though only at the primary construct level where $r = -0.5$, $p < 0.01$, suggesting that while there may be differences in relation to the *entrepreneurial concept* the concept of *non-entrepreneur* is even less precisely defined). The *ideal self* was seen as significantly more central for the existing business owners (Mann-Whitney U, $P < 0.01$) but no difference on the *self*, which was not high for either group. Indeed, there were no significant correlations between *self* and *ideal self*, nor between *self* and *successful entrepreneur*, on either the primary individual constructs or their secondary super-constructs.

(iii) Conclusion.

The impression is that the *enterprise culture* campaign has changed the social representation of the entrepreneur is clearly not sustained by these findings. There were strong links between how all participants construed their ideal selves and how they construed successful entrepreneurs but most of the participants appeared to have rather weak *self-concepts* of themselves as entrepreneurs, probably reflecting strong cultural differences between participants on the occupational-concept of the entrepreneur. The overall *social representation* of the entrepreneur seemed fairly stable with broad agreement between the two rather different groups on the types of constructs and on the predominance of nAch and nPow constructs. The difference in the proportions of nAch and nPow between the groups can be explained by cultural influences such as the prior achievement-oriented, competitive, academic environments of the recent graduates. The effects of actual business experience on the perceptions of the existing business owners is also likely to account for much of the difference between the groups although some of the graduates had already started their businesses.

Neither of the two types of enterprise training course appear to have affected the patterns of construal in the two groups in the direction expected of enterprise culture policies. The most remarkable feature is the wide gap between how the participants construe themselves as entrepreneurs (*self*), actual entrepreneurs and themselves as they would like to be (*ideal selves*). This strongly suggests that enterprise training by itself is insufficient to alter the self-concept though training effects need to be tested against actual business performance over a period of time. Another point to consider is that the courses were designed for different purposes. The GEP is a much longer and more analytic training course than the Firmstart course for existing businesses. Given the relative inexperience of the graduates as a business group, it is not surprising that few of them had constructs to do with business experience, expertise, acumen and so on, but had instead such constructs as analytic, methodical and rational which were not present in the existing business group. The graduates were encouraged to think of the course as a

gateway to a challenging career while the existing businesses usually approach their course because they are experiencing some business difficulties. Hence, the lack of the constructs relating to risk-taking and innovation/imagination among the existing business owners which were rather common among the graduates. Existing business owners' relative weak concepts of themselves as entrepreneurs may reflect their inability to cope with current business problems.

This reinforces the point observed in the Salerno study that many enterprise trainees may approach their courses less for technical information and more for career choice information or self-validation. New small business owners who take the trouble to plan and attend courses form a tiny minority of all those who start or run their own businesses. High failure rates attest to a general lack of preparation and aptitude. Indeed, a significant proportion of enterprise trainees subsequently change their minds and seek paid employment (Gray and Stanworth, 1985). The relatively strong, central position of their ideal selves in the construct systems of these enterprise trainees would reflect cultural influences on their levels of aspiration to succeed (nAch) rather than actual performance. Yet, despite strong family influences of self-employment, parents generally lay outside the range of convenience of most participants' *enterprise* construct systems. Actual entrepreneurial performance or otherwise of these enterprise trainees will not become manifest for another couple of years and, if entrepreneurial success were mainly to occur to those who already construe themselves in entrepreneurial constructs this will provide strong support for a Super-style career development model but not much for the enterprise culture model. On the basis of this evidence, it seems reasonable to conclude that enterprise training courses can have a strong role to play in the occupational-search process and that the concerns of enterprise trainees go beyond the need to acquire technical business skills but that their role in shifting attitudes is strictly limited.

APPENDIX F. SCALES AND QUESTIONNAIRES

F1 Small Firms Training Needs Questionnaire

F2 Business Attitudes Survey (trainees)

F3 Rotters IE Control Scale

F4 Locus of Control (internal, powerful others and chance) Scales

F5 Repertory Grid Form

F6 SBRT Quarterly Survey (growth)

F7 SBRT Quarterly Survey (motives and objectives)

F8 Small Business Attitudes Survey

All responses will be treated in total confidence please indicate if you would like to participate in future research on the use of training by small business as a means of improving performance.

If you are prepared to help with future reseach phase: Name Tel No

Please circle one of the appopriate numbers.

1 The Location

- 101 The North

102 Yorkshire & Humberside

103 North West

104 East Midlands
- 105 West Midlands

106 East Anglia

107 South East

108 South West
- 109 Wales

110 Scotland

111 Northern Ireland

(Please write your post code)

2 Activity

- 201 Agriculture, Forestry, Fisheries

202 Manufacturing, Processing

203 Transport

204 Construction
- 205 Wholesale Trade

206 Retail Trade

207 Business services (e.g. Finance, Computer Bureau, Insurance, Recruitment, Estate Agents, etc.)
- 208 Other Services

209 Catering and restaurants

210 Other, not classified in any of above (please specify)

Please describe in a few words the precise nature of your business (e.g. manufacturing electronic equipment, hairdressing etc.)
If you are involved in more than one field, please state that which constitutes the major proportion of your turnover.

3 Employment

- The number of people (including yourself) who work full-time in the business?

301 Number
- The number of those who work part-time?

302 Number
- The number of out workers/freelancers

303 Number

4 Annual Turnover (excluding VAT)

- 401 Less than £20,000

402 20,000 - 49,000

403 50,000 - 149,999

404 150,000 - 349,999
- 405 £350,000 - £749,999

406 £750,000 - £1,499,999

407 £1,500,000 and over

5.1 How do your present sales turnover and employment figures for this quarter compare with the same quarter one year ago?

- Full-time
- Part-time
- Outworkers/
Freelancers

5.2 How many years has your firm been trading?

(years:)

Sales

Up	Down	Same

6 Approximately, what percentage of your turnover do you currently spend on all forms of training?

- 601 Nil

602 less than 1%

603 1 - 2%
- 604 2 - 3%

605 3 - 4%

606 4 - 5%
- 607 5 - 10%

608 More than 10%

7 How important is training to you as a means of improving your business performance?

- 701 Very important

702 Quite important

703 Not important

704 Waste of time

8 Apart from practical experience, what training have you had to help you manage your business?

- 801 No formal training

802 Specialist/technical training in the field

803 General business or managerial training
- 804 Training in a specific business skill (please specify)

.....
- 805 Other (please specify)

.....

9 If you have had business training, where did you do it?

- 901 College/Polytechnic/University

902 Private training organisation

903 Business consultant
- 904 Government business training scheme

905 Enterprise agency

906 Open/distance learning
- 907 Books at home

908 Other (please specify)

.....

10 If you have not had any business training, please describe in a few words, why you feel that training is inappropriate for your business.

11

- 1101 Selling
- 1102 Quality Control
- 1103 Time Management
- 1104 Organising People
- 1105 Organising Premises
- 1106 Marketing
- 1107 Accounting
- 1108 Using Design

Please write the most important area for you

12

- 121 Extremely useful 122 Quite useful 123 Unsure 124 Not so useful 125 Not at all

13

.....

.....

.....

14

[illegible]

F2:

SMALL BUSINESS ATTITUDE SURVEY

1. NAME
2. ADDRESS
3. TELEPHONE
4. AGE
5. SEX
6. Main Business Activity
7. Please state which of your close relatives, if any, have run their own business
8. How old is your business?
9. How long have you been working?
10. Employment Status (Please circle appropriate number)

	10.1 Present	10.2 Immediate Past	10.3 Intended Future
Student	1	1	1
Unemployed	2	2	2
Self-Employed	3	3	3
Small Firm Manager	4	4	4
Big Firm Manager	5	5	5
Small Firm Employee	6	6	6
Big Firm Employee	7	7	7
public Sector Employee	8	8	8
Other	9	9	9

Please indicate how strongly you agree that the following statements describe your attitudes by a percentage value ranging from strongly disagree (0 - 25%), mildly disagree (25 - 45%), not sure or neutral (45 - 55%), mildly agree (55 - 75%), strongly agree (75 - 100%).

11. I am responsible for my own behaviour _____%
12. I was born the way I am _____%
13. My behaviour is the result of my past _____%
14. My behaviour is a reaction to the behaviour of others _____%

Events happen in my business life because of:

15. My own behaviour _____%
16. Decisions by bigger firms _____%
17. A combination of chance happenings in the outside world _____%
18. I have always wanted to succeed and accomplish something in my lifetime _____%
19. I find it hard to understand people who keep striving for new goals when they have already achieved all the success they could imagine _____%
20. To face new challenges and to manage to cope with them is important to me _____%
21. I am sufficiently satisfied with my life-achievement that I now confine myself to keeping what I have. _____%

ROTTER'S I E Scale

QUESTIONS 1 TO 29 ARE ABOUT THE WAY IN WHICH CERTAIN IMPORTANT EVENTS IN OUR SOCIETY ARE INTERPRETED BY DIFFERENT PEOPLE. EACH ITEM CONSISTS OF A PAIR OF ALTERNATIVES. PLEASE SELECT THE ALTERNATIVE IN EACH PAIR WHICH YOU MORE STRONGLY BELIEVE TO BE TRUE AS FAR AS YOU ARE CONCERNED.

PLEASE ANSWER ITEMS CAREFULLY BUT DO NOT SPEND TOO MUCH TIME ON ANY ONE ITEM. INDICATE YOUR ANSWER BY CIRCLING THE NUMBER ADJACENT TO YOUR SELECTED ALTERNATIVE. BE SURE TO ANSWER EVERY ITEM.

REMEMBER: PLEASE SELECT THE ALTERNATIVE WHICH YOU PERSONALLY BELIEVE TO BE TRUE.

I MORE STRONGLY BELIEVE THAT:

- | | | |
|----|----------------------------------------------------------------------------------------------------|---|
| 1. | CHILDREN GET INTO TROUBLE BECAUSE THEIR PARENTS PUNISH THEM TOO MUCH | 1 |
| | THE TROUBLE WITH MOST CHILDREN NOWADAYS IS THAT THEIR PARENTS ARE TOO EASY WITH THEM | 2 |
| 2. | MANY OF THE UNHAPPY THINGS IN PEOPLE'S LIVES ARE PARTLY DUE TO BAD LUCK | 1 |
| | PEOPLE'S MISFORTUNES RESULTS FROM THE MISTAKES THEY MAKE | 2 |
| 3. | ONE OF THE MAJOR REASONS WHY WE HAVE WARS IS BECAUSE PEOPLE DON'T TAKE ENOUGH INTEREST IN POLITICS | 1 |
| | THERE WILL ALWAYS BE WARS NO MATTER HOW HARD PEOPLE TRY TO PREVENT THEM | 2 |
| 4. | IN THE LONG RUN PEOPLE GET THE RESPECT THEY DESERVE IN THE WORLD | 1 |
| | UNFORTUNATELY, AN INDIVIDUAL'S WORTH OFTEN PASSES UNRECOGNISED NO MATTER HOW HARD HE OR SHE TRIES | 2 |

5. THE IDEA THAT TEACHERS ARE UNFAIR TO STUDENTS IS NONSENSE 1
- MOST STUDENTS DON'T REALISE THE EXTENT TO WHICH THEIR MARKS ARE INFLUENCED BY ACCIDENTIAL HAPPENINGS 2
6. WITHOUT THE RIGHT BREAKS ONE CANNOT BE AN EFFECTIVE LEADER 1
- CAPABLE PEOPLE WHO FAIL TO BECOME LEADERS HAVE NOT TAKEN ADVANTAGE OF THEIR OPPORTUNITIES 2
7. NO MATTER HOW HARD YOU TRY SOME PEOPLE JUST DON'T LIKE YOU 1
- PEOPLE WHO CAN'T GET OTHERS TO LIKE THEM DON'T UNDERSTAND HOW TO GET ALONG WITH OTHERS 2
8. HEREDITY PLAYS THE MAJOR ROLE IN DETERMINING ONE'S PERSONALITY 1
- IT IS ONE'S EXPERIENCES IN LIFE WHICH DETERMINE WHAT THEY'RE LIKE 2
9. I HAVE OFTEN FOUND THAT WHAT IS GOING TO HAPPEN WILL HAPPEN 1
- TRUSTING TO FATE HAS NEVER TURNED OUT AS WELL FOR ME AS MAKING A DECISION TO TAKE A DEFINITE COURSE OF ACTION 2
10. IN THE CASE OF THE WELL PREPARED STUDENT THERE IS RARELY IF EVER SUCH A THING AS AN UNFAIR TEST 1
- MANY TIMES EXAM QUESTIONS TEND TO BE SO UNRELATED TO COURSE WORK THAT STUDYING IS REALLY USELESS 2
11. BECOMING A SUCCESS IS A MATTER OF HARD WORK, LUCK HAS LITTLE OR NOTHING TO DO WITH IT 1
- GETTING A- GOOD JOB DEPENDS MAINLY ON BEING IN THE RIGHT PLACE AT THE RIGHT TIME 2

12. THE AVERAGE CITIZEN CAN HAVE AN INFLUENCE IN GOVERNMENT DECISIONS 1
- THIS WORLD IS RUN BY THE FEW PEOPLE IN POWER, 2
AND THERE IS NOT MUCH THE LITTLE MAN CAN DO ABOUT
13. WHEN I MAKE PLANS, I AM ALMOST CERTAIN THAT I CAN MAKE THEM WORK 1
- IT IS NOT ALWAYS WISE TO PLAN TOO FAR AHEAD 2
BECAUSE MANY THINGS TURN OUT TO BE A MATTER OF GOOD OR BAD FORTUNE ANYHOW
14. THERE ARE CERTAIN PEOPLE WHO ARE JUST NO GOOD 1
- THERE IS SOME GOOD IN EVERYONE 2
15. IN MY CASE GETTING WHAT I WANT HAS LITTLE OR NOTHING TO DO WITH LUCK 1
- MANY TIMES WE MIGHT JUST AS WELL DECIDE WHAT TO DO BY FLIPPING A COIN 2
16. WHO GETS TO BE THE BOSS OFTEN DEPENDS ON WHO WAS LUCKY ENOUGH TO BE IN THE RIGHT PLACE FIRST 1
- GETTING PEOPLE TO DO THE RIGHT THING DEPENDS UPON ABILITY; LUCK HAS LITTLE TO DO WITH IT 2
17. AS FAR AS WORLD AFFAIRS ARE CONCERNED, MOST OF US ARE THE VICTIMS OF FORCES WE CAN NEITHER UNDERSTAND, NOR CONTROL 1
- BY TAKING AN ACTIVE PART IN POLITICAL AND SOCIAL AFFAIRS THE PEOPLE CAN CONTROL WORLD EVENTS 2
18. MOST PEOPLE CAN'T REALISE THE EXTENT TO WHICH THEIR LIVES ARE CONTROLLED BY ACCIDENTAL HAPPENINGS 1
- THERE IS REALLY NO SUCH THING AS "LUCK" 2

19. ONE SHOULD ALWAYS BE WILLING TO ADMIT HIS/HER MISTAKES 1
- IT IS USUALLY BEST TO COVER UP ONE'S MISTAKES 2
20. IT IS HARD TO KNOW WHETHER OR NOT A PERSON REALLY LIKES YOU 1
- HOW MANY FRIENDS YOU HAVE DEPENDS UPON HOW NICE A PERSON YOU ARE 2
21. IN THE LONG RUN THE BAD THINGS THAT HAPPEN TO US ARE BALANCED BY THE GOOD ONES 1
- MOST MISFORTUNES ARE THE RESULT OF LACK OF ABILITY, IGNORANCE, LAZINESS, OR ALL THREE 2
22. SOMETIMES I CAN'T UNDERSTAND HOW TEACHERS ARRIVE AT THE MARKS THEY GIVE 1
- THERE IS A DIRECT CONNECTION BETWEEN HOW HARD I STUDY/STUDIED AND THE MARKS I GET/GOT 2
23. A GOOD LEADER EXPECTS PEOPLE TO DECIDE FOR THEMSELVES WHAT THEY SHOULD DO 1
- A GOOD LEADER MAKES IT CLEAR TO EVERYBODY WHAT THEIR JOBS ARE 2
24. MANY TIMES I FEEL THAT I HAVE LITTLE INFLUENCE OVER THE THINGS THAT HAPPEN TO ME 1
- IT IS IMPOSSIBLE FOR ME TO BELIEVE THAT CHANCE OR LUCK PLAYS AN IMPORTANT ROLE IN MY LIFE ANYMORE 2
25. PEOPLE ARE LONELY BECAUSE THEY DON'T TRY TO BE FRIENDLY 1
- THERE'S NOT MUCH USE IN TRYING TOO HARD TO PLEASE PEOPLE, IF THEY LIKE YOU, THEY LIKE YOU 2

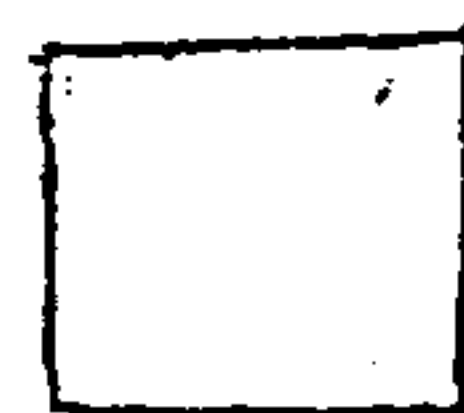
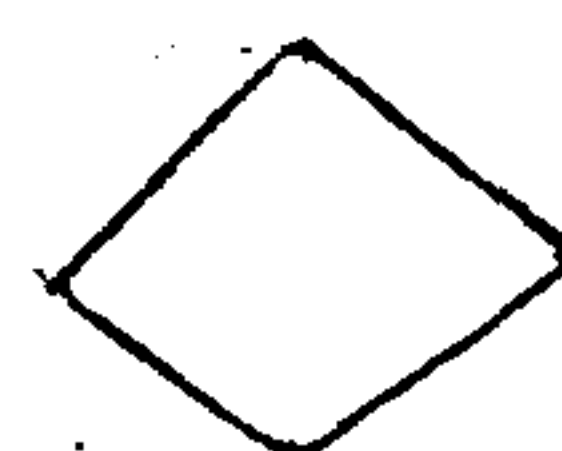
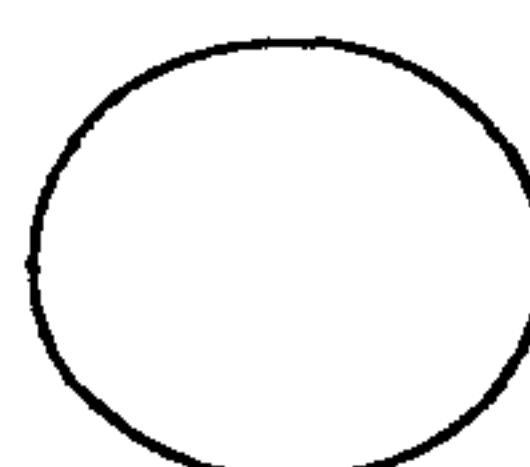
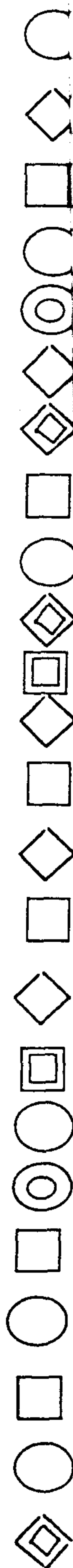
26. THERE IS TOO MUCH EMPHASIS ON ATHLETICS IN SCHOOLS 1
TEAM SPORTS ARE AN EXCELLENT WAY TO BUILD 2
CHARACTER
27. WHAT HAPPENS TO ME IS MY OWN DOING 1
SOMETIMES I FEEL THAT I DON'T HAVE ENOUGH CONTROL 2
OVER THE DIRECTION MY LIFE IS TAKING
28. MOST OF THE TIME I CAN'T UNDERSTAND WHY 1
POLITICIANS BEHAVE THE WAY THEY DO
IN THE LONG RUN THE PEOPLE ARE RESPONSIBLE FOR 2
BAD GOVERNMENT ON A NATIONAL AS WELL AS ON A
LOCAL LEVEL
29. WITH ENOUGH EFFORT WE CAN WIPE OUT POLITICAL 1
CORRUPTION
IT IS DIFFICULT FOR PEOPLE TO HAVE MUCH CONTROL 2
OVER THE THINGS POLITICIANS DO IN OFFICE

F4: I PC Scale

NAME

Please tick each statement in the appropriate column.

Item	Strongly agree	Tend to agree	Neutral	Tend to disagree	Strongly disagree
1 Whether or not I get to be successful in business depends mostly on my ability					
2 To a great extent my life is controlled by accidental happenings					
3 I feel like what happens in my life is mostly determined by powerful people					
4 My behaviour will determine how successful I will be in business					
5 When I make plans, I am almost certain to make them work					
6 Often there is no chance of protecting my personal interests from bad luck happenings					
7 When I get what I want, it's usually because I'm lucky					
8 Even if I were good at business, I would not become a success unless I play up to those in positions of power					
9 How many friends I have depends on how nice a person I am					
10 I have often found that what is going to happen will happen					
11 My life is chiefly controlled by powerful others					
12 It is impossible to say how successful I will be in business					
13 People like myself have very little chance of protecting our personal interests when they conflict with those of powerful other people					
14 It's not always wise for me to plan too far ahead because many things turn out to be a matter of good or bad fortune					
15 Getting what I want means I have to please those people above me					
16 Whether or not I get to be succedssful in business depends on whether I'm lucky enough to be in the right place at the right time					
17 If important people were to decide they didn't like me, I probably wouldn't make many friends					
18 I can pretty much determine what will happen in my life					
19 I am usually able to protect my personal interests					
20 How successful I'll be in business depends on other people who control my markets					
21 When I get what I want, it's usually because I worked hard for it					
22 In order to have my plans work, I make sure that they fit in with the desires of people who have power over me					
23 My life is determined by my own actions					
24 It's chiefly a matter of fate whether or not I have a few friends or many friends					



F 5

(1)

SELF
(as I am now)

A successful entrepreneur
I know

An unsuccessful
entrepreneur I know

A successful big
company manager

My most important
business rival

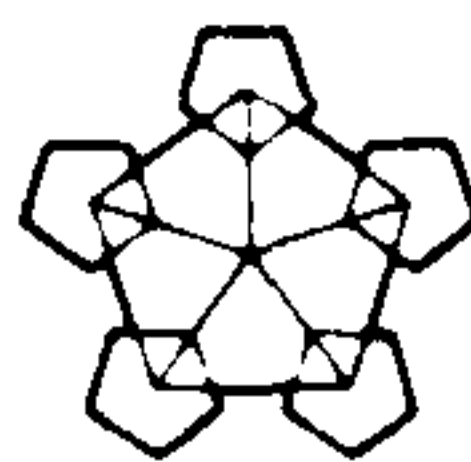
My mother as a
businesswoman

My father as a
businessman

IDEAL SELF
(as I would like to be)

(5)

SMALL
BUSINESS
RESEARCH
TRUST



SMALL BUSINESS RESEARCH TRUST
Survey Section
c/o Graham Bannock & Partners Ltd.
FREEPOST 19
LONDON W1E 1QZ

F 7

Please circle the appropriate numbers or fill in the blanks.
Your answers will remain confidential.

1 Please indicate the location of your business:

- a. North

b. Yorkshire & Humberside

c. North West

d. East Midlands
- e. West Midlands

f. East Anglia

g. South East

h. South West
- i. Wales

j. Scotland

k. Northern Ireland

What is your Postcode?

2 Employment:

The number of people (including yourself) who work in the business
The number of these who work part-time
The number of outworkers and freelancers

- a. Number
- b. Number
- c. Number

3 Annual Turnover (excluding VAT)

- a. Less than £20,000

b. £20,000-£49,999

c. £50,000-£149,999
- d. £150,000-£349,999

e. £350,000-£749,999
- f. £750,000-£1,499,999

g. £1,500,000 and over

4 a. How many years have you personally been in business?
b. How many years has your present business been trading?

5 Please classify your business activity by circling one or more of these categories:

- a. Agriculture,Forestry,Fisheries

b. Manufacturing,Mining,Processing

c. Transport

d. Construction
- e. Wholesale Trade

f. Retail Trade

g. Catering & Restaurants

h. Business Services (Finance,Consultants,Designers,etc)
- i. Other Services

j. Other, not included above:

(Please specify)

Please describe in a few words the precise nature of your business (e.g. manufacturing electronic equipment, hairdressing, etc.) If you are involved in more than one field, please state that which constitutes the major proportion of your turnover:

6 Which of the following is closest to your main motivation for running your own business?
Please circle ONE only:

- a. No alternative

b. Family tradition

c. Independence
- d. To create security

e. Making money

f. Other (Please specify)

7 What is the main objective of your business? Please circle ONE of the following:

- a. Growth in sales

b. Growth in profit

c. Growth in employment

d. Achieve a certain standard of living
- e. Protect your future

f. Build up asset for your children

g. Life style (doing something you like, living where you like, etc...)

h. Other (Please specify)

8 How did your sales turnover and average employment in the past quarter compare with the same period in 1989? What do you expect to happen in the next quarter?
Please complete the following table by ticking 4 boxes only.

	Jan, Feb, March 1990 compared with the same period 1989			April, May, June 1990 compared with Jan, Feb, March 1990		
	UP	DOWN	SAME	UP	DOWN	SAME
Sales Turnover						
Average Employment						

9 What is the most important problem facing your business today?
Please circle ONE of the following:

- a. Inflation

b. Interest Rates

c. Access to finance

d. Lack of Skilled/Trained Employees

e. Total Tax Burden

f. Low Turnover/Lack of Business
- g. Gov't Regulations and Paperwork

h. High Rates of Pay

i. Shortage of Material, Supplies, etc.

j. Internal Management Difficulties

k. Cashflow/Payments/Debtors

l. Premises, Rents and Rates

m. Other (Please specify)

Thank you for completing this confidential survey questionnaire.
Please return to the Small Business Research Trust by 30th March 1990.
~~Please note that this is a~~ FREEPOST address (no stamp required).

Small Business Attitude Survey

NB All replies are treated in the strictest confidence but should you wish to participate in further research in this area or receive a summary of the findings there is a space to write your name and address at the end of the questionnaire.

1. Brief Description of Your Main Business Activity:
2. Postcode: 3. Your position in the Business
4. SEX: 4.1 Male 4.2 Female (please circle appropriate number)
5. AGE: 5.1 16-24 5.2 25-34 5.3 35-44 5.4 45-54 5.5 55-64 5.6 65+
6. How old is your business: years 7. How long have you been a director/manager: years
8. Which of your close relatives, if any, have run their own business:
8.1 Father 8.2 Mother 8.3 Both parents 8.4 Brother or Sister 8.5 Grandparents, Uncle, Aunt 8.6 Spouse 8.7 None
9. Who do you feel was the most important influence on your choice of intended career?
9.1 Father 9.2 Mother 9.3 Other relatives 9.4 Spouse 9.5 Friends 9.6 Teacher 9.7 Former employer 9.8 Nobody 9.9 Other
10. Employment Status (please circle appropriate number)

	10.1 Present	10.2 Immediate Past	10.3 Intended Future
1 Student	1	1	1
2 Unemployed	2	2	2
3 Self-employed owner	3	3	3
4 Small firm director/manager	4	4	4
5 Big firm manager	5	5	5
6 Small-firm employee	6	6	6
7 Big firm employee	7	7	7
8 Public sector employee	8	8	8
9 Other (including voluntary sector)	9	9	9

Please indicate how strongly you agree that the following statements by writing: 1 = strongly disagree, 2 = mildly disagree, 3 = not sure or neutral, 4 = mildly agree, 5 = strongly agree.

- 11 In general, I behave the ways I normally do because: (please write appropriate number below)
- 11.1 I am responsible for my own behaviour
- 11.2 I behave as I do because I was born the way I am
- 11.3 My behaviour is a result of my past earlier experiences
- 11.4 My behaviour is a reaction to the behaviour of others
- 12 Events happen in my business life because of:
- 12.1 My own behaviour
- 12.2 Decisions by bigger firms
- 12.3 A combination of chance happening in the outside world
- 12.4 A response to change and trends in the broader economy
- 13 My attitudes towards business success are summed up by the following:
- 13.1 I have always wanted to succeed and accomplish something in my lifetime
- 13.2 I find it hard to understand people who keep striving for new goals when they have already achieved all the success they could imagine

(please write appropriate
number below)

- 13.3 To face new challenges and to manage to cope with them is important to me
- 13.4 I am sufficiently satisfied with my life-achievement that I now confine myself to enjoying what I have
- 14 *In general, a successful business career depends on the following changes:*
- 14.1 Whether or not I get to be successful in business depends mostly on my own ability
- 14.2 To a great extent my life is controlled by accidental happenings
- 14.3 I feel that my work life is mostly determined by other powerful people
- 14.4 My own behaviour will determine how successful I will be in business
- 14.5 When I make my own plans, I am most certain to make them work
- 14.6 Often there is no chance of protecting my personal interest from bad luck happenings
- 14.7 When I get what I want, it is usually because I am lucky
- 14.8 Even if I were good at business, I would not become a success unless I play up to those in positions of power
- 14.9 I have often found that what is going to happen, will happen
- 14.10 My life is chiefly controlled by powerful others
- 14.11 It is impossible to say how successful I will be in business
- 14.12 People like myself have very little chance of protecting our personal interests when they conflict with those of powerful other people
- 14.13 It is not always wise for me to plan too far ahead because many things turn out to be a matter of good/bad fortune
- 14.14 Getting what I want means that I have to please those with some power over me
- 14.15 Whether or not I get to be successful in business depends on whether I am lucky enough to be in the right place at the right time
- 14.16 If important people were to decide they did not like me, my business would suffer
- 14.17 I can pretty much determine what will happen in my life
- 14.18 I am usually able to protect my personal interests
- 14.19 How successful I will be in business depends on other people who control my markets
- 14.20 When I get what I want, it is usually because I worked hard for it
- 14.21 My life determined by my own actions
- 15 *The following statements are about in the way in which certain important events in our society are interpreted by different people. Each item consists of a pair of alternatives. Please select the alternative which you more strongly believe to be true as far as you are concerned or, if you do not find either statement particularly accurate please circle the alternative you personally feel to be least untrue. Please answer items carefully but do not spend too much time on any one item. Indicate your answer by circling the letter (a or b) adjacent to your selected alternative. Be sure to answer every item but only circle ONE alternative (the one you personally believe to be the most accurate).*
- 15.1 Many of the unhappy things in people's lives are partly due to bad luck a
People's misfortunes result from the mistakes they make b
- 15.2 One of the major reasons why we have wars is because people do not take enough interest in politics a
There will be always be wars, no matter how hard people try to prevent them b
- 15.3 In the long run people get the respect they deserve in this world a
Unfortunately, an individual's worth often passes unrecognised no matter how hard he tries b

15.4	The idea that teachers are unfair to students is nonsense	<i>a</i>
	Most students do not realise the extent to which their grades are influenced by accidental happenings	<i>b</i>
15.5	Without the right breaks one cannot be an effective leader	<i>a</i>
	Capable people who fail to become leaders have not taken advantage of their opportunities	<i>b</i>
15.6	No matter how hard you try, some people just do not like you	<i>a</i>
	People who cannot get others to like them, do not understand how to get along with others	<i>b</i>
15.7	I have often found that what is going to happen will happen	<i>a</i>
	Trusting to fate has never turned out as well for me as making a decision to take a definite course of action	<i>b</i>
15.8	In the case of the well prepared student there is rarely if ever such a thing as an unfair test	<i>a</i>
	Many times exam questions tend to be so unrelated to course work that studying is really useless	<i>b</i>
15.9	Becoming a success is a matter of hard work, luck has little or nothing to do with it	<i>a</i>
	Getting a good job depends mainly on being in the right place at the right time	<i>b</i>
15.10	The average citizen can have an influence in government decisions	<i>a</i>
	This world is run by the few people in power, and there is not much the little guy can do about it	<i>b</i>
15.11	When I make plans, I am almost certain that I can make them work	<i>a</i>
	It is not always wise to plan too far ahead because many things turn out to be a matter of good or bad fortune anyway	<i>b</i>
15.12	In my case, getting what I want has little or nothing to do with luck	<i>a</i>
	Many times we might just as well decide what to do by flipping a coin	<i>b</i>
15.13	Who gets to be the boss often depends on who was lucky enough to be in the right place first	<i>a</i>
	Getting people to do the right thing depends on ability; luck has little to do with it	<i>b</i>
15.14	As far as world affairs are concerned, most of us are the victims of forces we can neither understand nor control	<i>a</i>
	By taking an active part in political and social affairs the people can control world events	<i>b</i>
15.15	Most people do not realise the extent to which their lives are controlled by accidental happenings	<i>a</i>
	There really is no such thing as 'luck'	<i>b</i>
15.16	It is hard to know whether a person really likes you	<i>a</i>
	How many friends you have depends on how nice a person you are	<i>b</i>
15.17	In the long run the bad things that happened to us are balanced by the good ones	<i>a</i>
	Most misfortunes are the result of the lack of ability, ignorance, laziness, or all three	<i>b</i>
15.18	With enough effort we can wipe out political corruption	<i>a</i>
	It is difficult for people to have much control over things politicians do in office	<i>b</i>
15.19	Sometimes I cannot understand how teachers arrive at the grades they give	<i>a</i>
	There is a direct connection on how hard I study and the grade I get	<i>b</i>
15.20	Many times I feel that I have little influence over the things that happened to me	<i>a</i>
	It is impossible for me to believe that chance or luck plays an important role in my life	<i>b</i>
15.21	People are lonely because they do not try to be friendly	<i>a</i>
	There is not much use in trying too hard to please people, if they like you, they like you	<i>b</i>

- 15.22 What happens to me is my own doing a
- Sometimes I feel that I do not have much control over the direction my life is taking b
- 15.23 Most of the time I cannot understand why politicians behave the way they do a
- In the long run the people are responsible for bad government on a national as well as a local level b
- 16 *The following statements are about views commonly expressed by business people. Which is MOST true of you? Circle only ONE alternative (a or b).*
- 16.1 I take my business seriously but my home, community or leisure activities are probably my main concern a
- I value my home, community or leisure activities but I must admit I am more absorbed by my business b
- 16.2 I like not having to report to a boss a
- I like taking responsibility for my own business decisions- whether right or wrong b
- 16.3 I prefer to participate personally in all important business decisions on my firm a
- I prefer to concentrate on a few very important areas of the firm, leaving less crucial areas for others to manage b
- 16.4 I prefer not to compromise my right to make key business decisions by having to refer to outside investors a
- I am happy to accept support from outside investors or staff if it enables me to achieve my objectives b
- 16.5 I am proud of my business success and I am happy to let others know a
- I regard success in my business mainly as a stepping stone to other areas of interest in my life b
- 17 *The MOST important ingredient in business success is: (please circle only one a, b or c)*
- 17.1 Keeping control of costs while increasing sales a
- Developing profitable products for good customers b
- Getting the best, and just a little bit more, out of staff and colleagues c

If you would like some general feedback from this survey or if you are willing to participate on direct personal studies concerning business management or entrepreneurship please write your name and telephone number. If you are interested in feedback you will find it helpful to take a photocopy of your completed questionnaire before mailing it in the pre-paid envelope.

Name: Telephone no:

Feedback ☐ Participate ☐

Thank you very much for the time and attention you have given to help us with our research.