

Research at the Marketing/ Entrepreneurship Interface

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**MARKETING/ENTREPRENEURSHIP INTERFACE –
CONCEPTS AND ISSUES**

THE DYNAMICS OF IMPLEMENTATION OF MARKET AND ENTREPRENEURIAL ORIENTED STRATEGIES IN SMES

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ABSTRACT

The objective of this proposed research project is to develop and test a dynamic process model pertaining to how small to medium-sized enterprises (SMEs) formulate, implement, and change their marketing strategies.

INTRODUCTION

Business success of small to medium-sized enterprises (SMEs) is vital to the health of the economy and the well being of society. Marketing and strategy scholars have long engaged in searching critical success factors for firm performance. Among these success factors are market orientation (MO) and entrepreneurial orientation (EO). MO refers to a guiding principle for a firm's management team, which focuses on customers and competitors (Narver and Slater 1990; Kohli and Jaworski 1990). Recent meta-analyses report that prior studies generally support that MO has a robust and long lasting positive influence on firm performance (Cano, Carrillat, and Jaramillo 2004; Kirca, Jayachandran, and Bearden 2005). EO refers to firms' predispositions to being innovative, proactive, and risk-taking in their strategies. EO has also been found to have positive influences on firm performance (Covin and Slevin 1991; Jauch, Osborn, and Martin 1980; Lumpkin and Dess 1996; Lyon, Lumpkin, and Dess 2000).

More recently, researchers reveal that while both MO and EO are positively correlated with firm performance, they assert their influences via different paths, and that the strategic choice is not "either-or", but combinations with different emphasis (Zhang, Bruning, and Sivaramakrishnan 2007). A number of contextual factors that may steer managerial emphasis on combining MO and EO were also identified (Zhang 2006).

There are disconnections, however, between academic research and managerial practice. In May 2007 and February 2008, the author was invited to participate in rural entrepreneurship forums sponsored by Manitoba Department of Agriculture, Food and Rural Initiatives. Through conversations with many of the entrepreneurs, and listening to their presentations, a number of issues became apparent. First, there is a gap between having the intention of becoming market-oriented or entrepreneurial-oriented and actually behaving in a market-oriented or entrepreneurial-oriented fashion. Sometimes these entrepreneurs wanted to but could not do it because of certain circumstances. It becomes a research question, then, what factors would help or impede the implementation of marketing strategies? Second, these entrepreneurs seem to have changed their strategic orientations over time. There were noticeable differences between the newer entrepreneurs and the entrepreneurs who have been in the business for a number of years. Could these differences be results of the life cycle of the company? Or, could these changes have been the results of calculated decisions?

On the topic of implementation, several scholars have acknowledged the gap between the managers' knowing of what *ought* to do and what they *actually* do (Gainer and Padanyi 2005; Kirca 2007). However, no research to-date has systematically investigated the strategies and processes of implementation of strategic orientations that have been established as desirable by academicians, and specifically, the implementation of MO or EO. Austin and Bartunek (2003) theorized motors of strategy implementation. However, no research to-date has produced a dynamic longitudinal model of organizational learning and strategy change in the context of marketing strategy. Thus, this proposed research is intended to investigate the implementation process of MO and EO, and the critical antecedents that lead to successful implementation of MO and EO in SMEs.

On the topic of change, as numerous scholars have argued, even the most recent models in the stream of marketing strategy research remains static (Baker and Sinkula 2007; Ketchen, Hult, and Slater 2007; Zhang, Bruning, and Sivaramakrishnan 2007). Baker and Sinkula (1999) argue that organizations are constantly engaged in learning processes, where they would try certain strategy, learn from the experience, and take corrective actions and modify their strategies to achieve optimal performance. A firm's generative and adaptive learning can shape and re-shape the firm's strategic priorities. This view is consistent with theory of teleological motor of change (Van de Ven and Poole 1995), where

learning drives the cycle of goal formulation, execution, appraisal, and revision. However, there has been limited empirical evidence to support such theories. Thus, there is a pressing need to empirically investigate the evolution of organizational strategies and the dynamic between contextual circumstances and strategic choices. A longitudinal research design with dynamic models would be required in order to systematically track the strategy evolution over time.

LITERATURE REVIEW

Market Orientation

The marketing concept has been a fundamental guiding principle for contemporary marketing management. MO has led to a shift from a firm-centric focus on products and production within the company to a market-centric focus on the customers. Kohli and Jaworski (1990) define MO as the organization-wide generation, dissemination, and responsiveness to market intelligence. Narver and Slater (1990) further argue that market-oriented firms need to have both customer- and competitor-orientations. Research generally show that MO has a positive influence on any firms', including entrepreneurial firms, performance (Jaworski and Kohli 1993; Narver and Slater 1990; Cano, Carrillat, and Jaramillo 2004; Ketchen, Hult, and Slater 2007; Kirca, Jayachandran, and Bearden 2005; Zhang, Bruning, and Sivaramakrishnan 2007).

Entrepreneurial Orientation

Entrepreneurship in the management literature often refers to the act of new entry, such as starting a new company, entering into a new market, or developing a new product. EO includes processes, practices, and decision-making activities that lead to such a new entry, as well as the on-going management predisposition towards being innovative, proactive, willing to take risks, and aggressively pursuing market opportunities (Lumpkin and Dess 1996). Research shows that EO also has a strong positive influence on the on-going success of entrepreneurial firms (Lumpkin and Dess 2001). Particularly, entrepreneurial firms are more likely to develop pioneering-innovation (Manimala 1992). It has been demonstrated that corporate level entrepreneurship is not only a desirable strategic orientation for start-ups and small firms, it is also a means for growth and strategic renewal for larger and mature firms as well (Guth and Ginsberg 1990). The positive influence of EO on performance is extensive; and the strength of the relationship increases over time. Therefore, researchers argue that investment in entrepreneurship is financially worthwhile, as it will pay off over an extended period of time (Wiklund 1999).

Integration of MO and EO

MO and EO often go hand-in-hand. Market-oriented firms are committed to better understanding their customers' needs and wants, and finding better ways of satisfying them. In doing so, they are motivated to continuously develop new products and services to satisfy the customers' ever changing requirements. Thus, market oriented firms can be potentially more innovative. Market-oriented firms are also committed to serving their customers better than their competitors. Their constant monitoring of the competitors, benchmarking, adopting best practices often result in more pro-active competitive positions.

There has been evidence suggesting that entrepreneurial firms are more likely to place an emphasis on marketing efforts, and that larger firms tend to have formal marketing departments (Morris and Paul 1987). These more entrepreneurial firms are more likely to have marketing professionals in senior executive positions; they regularly engage in marketing research, and hold the belief that marketing should play a major role in innovation and the strategic direction of the firm. Thus, MO and EO are often positively correlated.

Slater and Narver (2000) investigate the influences of MO and EO on business profitability and find that when considered individually, both MO and EO have significant and positive influences on profitability, but when considered together, only MO is a statistically significant predictor for current year profits. Slater and Narver offered a few possible explanations, for example, EO's influence on profitability might be indirect, via product and market development, or time-lagged. Examining the joint influences of MO and EO in the context of commercialization of new product, researchers found that firms that adopt a combination strategic orientation that combines MO and EO out-perform firms that are only focused on either one of strategic orientations (Atuahene-Gima and Ko 2001). Zhang et al. (2007) reveal that that while

both MO and EO are positively correlated with firm performance, their influences follow different paths. Market-oriented firms achieve market success by first appealing to their customers, ensuring customer satisfaction, and cultivating customer loyalty. In comparison, entrepreneurial-oriented firms opt to aggressively pursue product related innovation, even if it means sacrificing the satisfaction of existing customers. Zhang (2006) also identifies a number of contextual factors that may steer managerial emphasis on MO and EO, including external industry factors, such as industry munificence, competitive intensity, and market and technological turbulence, and internal organizational factors, such as tolerance for ambiguity.

Implementation, Learning, and Change

While there is a growing body of knowledge on the interplay of MO and EO, the most recent models in this stream of research are perceptual and static (Baker and Sinkula 2007; Ketchen, Hult, and Slater 2007; Zhang, Bruning, and Sivaramakrishnan 2007). These models are largely perceptual because their development and empirical testing primarily involve asking the managers about “what do you think your strategies are”, and “what do you think your performance is”, and so on. Another gap in the extant literature is that these models are largely descriptive and illustrate correlations at one single point in time. For example, it has been shown that in a munificent environment, firms are more likely to be entrepreneurial-oriented; vis-à-vis in an intensely competitive environment, firms are more likely to be market-oriented. There is no research to demonstrate, however, whether firms would become increasingly more market-oriented as competition intensifies, or vice versa.

As Gainer & Padanyi (2005) and Kirca (2007) have argued, there are differences between organizational perceptions and the actual implemented activities. Prior research has identified several factors for the successful implementation of a market-oriented strategy, including transformational leadership (Menguc, Auh, and Shih 2007), endorsement by and commitment from top management (Osarenkhoe and Bennani 2007), cooperation and collaboration among departments (Bohling et al. 2006), and organizational change capability (McGuinness and Morgan 2005). Prior models are static because they can only describe factor “A” being correlated to factor “B” at one single given point in time. Causalities and directions of influences are inferred, at best. Baker and Sinkula (1999; 2007) suggest that learning occurs in organizational processes and should be accounted for in theoretical models. A firm’s generative and adaptive learning can shape and reshape the firm’s strategic priorities. However, such propositions are yet to be supported by empirical evidence. Thus, there is a pressing need to investigate the evolution of organizational strategies and the dynamic between contextual circumstances and strategic choices, and more importantly, the reasons for such change. A longitudinal research design with dynamic models would be required in order to systematically track the strategy evolution over time. In-depth interviews would provide the kind of internal validity to support the inferences of causalities.

Theories of the Processes of Change and Implementation

Van de Ven (1992) proposes that a process can be viewed as the sequence of steps that describes the pattern over time. Van de Ven and Poole (1995) theorized four motors of change, including Evolution, Dialectic, Lifecycle, and Teleology.

Evolution theory of organizational change echoes Darwinian theory of biological evolution – naturally occurred variation in strategies, competition selects the fittest to survive. This theory cannot explain, however, the survival unfit strategy choices. Life cycle theory predicts that any strategy would go through the start, grow, harvest, and termination life cycle, just as any organization or organism would. This theory, however, unable to predict the relative effectiveness of strategic choice. Dialectic theory of change allows for pluralistic strategy choice, and continuous conflict and confrontation. However, allowing for diversity and not making predictions may potentially lead to tautology. The teleological motor of change describes a constructive change process within a single entity, where learning drives the cycle of goal formulation, execution, appraisal, and revision steps. Dass (2004) reports that this perspective is one of the most frequently employed approach in recent empirical studies in strategy management. Few empirical studies have reported or illustrated these theories at work, or compared and contrasted the explanatory power of various theories.

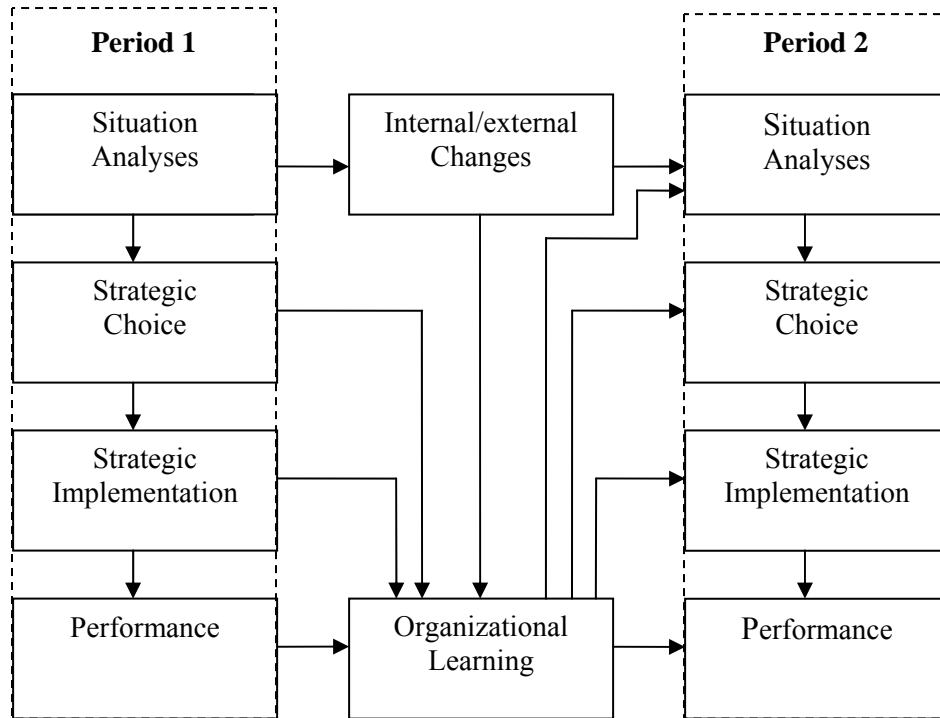
From a more practical-oriented angle, Austin and Bartunek (2003) delineate four motors of implementation, which include employee participation, leader self-reflection, rhetorical intervention, and action-based research. An action-based research, for example, involves both solving real problems and contributing to theory at the same time. The principle investigator of this proposed research has worked with government agencies that are trying to help entrepreneurs to grow their businesses. Hence, opportunity exists for conducting action-based research program that not only develop knowledge

of how managers of SMEs implement marketing strategies, but also help some of the managers in implementing marketing strategies more effectively.

Propositions

Based on our preliminary review of the extant literature, we propose a time-series processing model that incorporates implementation and change of organizational strategies (See Figure 1). This model posits that, for example, in a given time period, an organization would go through a multi-step process of situation analysis, strategy choice, strategy implementation, which leads to performance and performance evaluation. As time goes on, changes in the environment may occur; and the organization would learn from its past experience. In the next time period, the organization would then move through the decision-making and implementation cycle again, this time with prior information incorporated into the decision process.

Figure 1: Proposed Time-Series-Model of Strategy Implementation and Change



METHODOLOGY

This research will employ a multi-stage iterative approach combined with qualitative in-depth interviews and quantitative national surveys. In-depth interviews on multiple occasions over time would provide rich data that can be helpful in better understanding the underlining relationships between constructs, and provide enhanced internal validity of the relationships discovered (Eisenhardt 1989). However, the in-depth interview method can potentially preclude obtaining a larger sample and thus sacrifices the external validity and potential generalization of the findings. Thus, this proposed study will also employ a cross-sectional survey-based method to verify the patterns of behaviour found in case studies. Like interviews, surveys are effective in systematically collecting opinions and perceptions. Surveys are also efficient in collecting data from a large number of respondents (Babbie 1973; Fowler 1995). When used correctly, the survey method can be the least susceptible to researcher biases in data collection, analysis, and interpretation (Busha and Harter 1980; Fowler 1995). The research strategy for the proposed project involves several phases:

Phase 1 – Model Development

The research team will survey literatures from marketing, management, entrepreneurship, organizational behaviour, economics, sociology, and psychology to gain a clear understanding of the potential processes through which SMEs formulate, select, implement, evaluate, and change firm strategies. Based on the theoretical predictions drawn from the extant literature, and discussions with experts in the field, a dynamic process model of marketing strategy implementation will be formulated. More concrete and specific actions will be identified for every steps outlined in the above mentioned model.

Phase 2 – Model Validation

Through the networks between our Universities and the business communities, a select group of entrepreneurs and senior business managers of SMEs will be identified, contacted, and interviewed. All interview recordings will be transcribed and analyzed with a qualitative data analysis program, such as NVivo, which can help to identify key concepts and the relationships among them. These concepts and relationships revealed from the interviews will be used to empirically validate, modify, and enhance the theoretical model developed. The action-based research approach is also embedded in these in-depth interview/conversations with these managers. Wherever possible, the researcher would introduce the most recent research findings to the managers, and discuss what might be the best solutions for problems at hand.

Phase 3 – Model Testing

Once the model is developed and revised, we will conduct a national survey. The sample of Canadian SMEs will be drawn from the business directory supplied by ProfileCanada. Companies will be selected using stratified sampling procedure. Selection criteria would include geographic location, industry sector, and company size. Our target is to survey 4000 companies, and obtain at least 400 responses, assuming a 10% response rate. The responses will then be entered into a database, and analyzed with quantitative programs, such as SPSS and SEM. SEM, in particular, is suitable in this line of research because it allows the researcher to specify and test models that involve multi-path, multi-level, simultaneous relationships, and calculate direct and indirect relationships among constructs. It is very likely to be the case that our qualitative research will reveal multiple constructs, and multiple simultaneous relationships. Our quantitative research would further test such constructs and relationships.

Phase 4 – Developing a Dynamic Model

After one year has passed, we will go back to the informants we interviewed in Phase 2, and assess the results of the implementation processes. Also, we will identify the changes that have occurred during the year and develop a model that specifies the causes and results of the changes, and the actions associated with the changes. Van de Ven and Poole (1995) identified 4 motors of change. We have predicted a teleological stepped process. Our in-depth interviews in this phase would provide empirical evidence as to how such changes take place. Results of this interview data will be analyzed to aide the refinement and modification of our processing model of strategy change.

Phase 5 – Testing Dynamic Time-Series Model

Are the changes identified by these managers in Phase 4 idiosyncratic and firm specific? Do they represent a pattern of behaviours among SMEs? In order to find the answers to these questions, we will survey the 400 informants who participated in our survey in Phase 3. We anticipate receiving 200 responses in this phase, assuming a 50% drop-out rate.

Phase 6 – Making Sense

Qualitative data collected through interviews in Phases 2 and 4 will be transcribed and analysed using NVivo. Quantitative data collected through survey methods in Phases 3 and 5 will be analysed using structural equation modeling (SEM). SEM technique has been widely employed in marketing and strategy research, and particularly in the studies of market structure, orientation, and performance relationships (Conduit and Mavondo 2001; Prescott, Kohli, and Venkatraman 1986; Reger, Duhaime, and Stimpert 1992). SEM is appropriate for this study to identify the magnitude of direct and indirect effects, and time-series models for the relationships among strategic orientations, its antecedents and consequences, and changes over time.

PRELIMINARY FINDINGS

The initial model as presented in Figure 1 is descriptive and possibly tautological, hence not testable. In order to explore the possible combinations of strategy choice and implementation, and generate testable hypotheses, interviews and discussions with business owners and senior managers were carried out. The researcher interviewed a convenient sample of participants at a government sponsored rural agricultural entrepreneurship conference in Canada.

Situation Analysis

Finance. It may not come as a surprise that financial limitation is one of the most frequently mentioned constraints among the rural start-ups.

Market Size. In its inherent nature, the rural entrepreneurs in the sample tend to target their markets primarily at the local markets. Their operation philosophy of “produced locally” provided them a competitive advantage. However, such point also imposes and limitation for expansion. Therefore, smaller scale organic farmers face this dilemma, either to stay “local-organic”, with limited market access, or to pursue growth, and potentially compromise some of their personal business philosophies.

Human Resources. Several of the entrepreneurs pointed out that the lack of “good people” willing and able to work in the industry is a major road-block to the expansion of entrepreneurial firms. As a reaction, the entrepreneur had to “work incredible hours” himself. However, the limitation for this approach is obvious. Some companies have tried to “attracting competent enthusiastic staff” by offering “paying an above average wage rate”. Still, the business owners would have to “work more hours”. The second solution is more interesting, that is, seeking “try to automate & improve processes”. Thus, a human resource related problem becomes an inspiration for procedural innovations. As one wrote, “Every year, we find ways to work smarter, not harder”.

Weather Conditions. This issue is rarely mentioned in the mainstream urban-based industrial research. Rural agri-businesses are still limited by weather conditions. Even though green houses and other modern technologies have helped, at the end, Mother Nature is still one of the most important factor in determining the success or failure in rural agri-entrepreneurship.

Strategic Choice

Both EO and MO and their combinations thereof can be observed in the field. Naturally, many of these entrepreneurs have high levels of EO. They highly regard their product of procedural based innovations as competitive advantages.

For example, one would-be entrepreneur has a family recipe of garlic and honey based beverage that supposedly has health benefits. Her conviction and determination of such qualities is so strong that she sees no benefit in consulting customers or potential customers for their inputs.

A partner in a cabinet maker business explained to me her opinion on MO and EO:

Sure we have a designing department. You should see some of the stuff these guys came up with. I mean, personally, I am a fan of Picasso, but you really don't want a kitchen that is all twisted. At the end, only the designs that can sell are good designs, no?

Learning and Strategy Change

Whether it is evolutionary, or life cycle, entrepreneurs change their strategies. One entrepreneur wrote, “...we continue to add and change our product mix...some works, some doesn’t”.

An interesting theme emerged from the interviews is that sometimes the entrepreneurs are not always the passive actor being selected by the environment. Rather, their participation in the industry has the potential of structuring and changing the environment. This is particularly the case among emerging industries. For example, an organic farmer wrote, “We want to educate the general public about nutrition, but at the same time, meet the needs and requests of existing customers”. Thus, entrepreneurs can actively participate in the reshaping of environment. At the present time, the Canadian government has

taken a ground-up approach, and involved organic farmers to formulate the guidelines for organic farming certification processes.

Another entrepreneur wrote, "Education programs have given my company an edge". Such education program may serve as an augmented part of product and services. It would not only persuade more customers to switch to use our products and service, but also a tool for building a long lasting relationship between the customers and the providers.

Other entrepreneurs have actively engaged in organizing co-ops in the hope for shared transportation logistics, and improved bargaining power.

POTENTIAL IMPLICATIONS

Recent studies show that both MO and EO are positively correlated with firm performance (Atuahene-Gima and Ko 2001; Zhou, Yim, and Tse 2005; Slater and Narver 2000); and they assert their influences via different paths (Zhang, Bruning, and Sivaramakrishnan 2007). A number of contextual factors that may steer managerial emphasis on MO and EO have been identified (Zhang 2006). However, the gap between the desire for MO and EO, and the implementation thereof, has not been adequately addressed. This proposed research investigates the implementation processes of market-oriented and entrepreneurial-oriented strategies and explores the critical success factors in such implementations.

The potential *theoretical contribution* from this proposed research is that we can better understand organizations' strategic formulation and change over time through a learning perspective, hence creating new knowledge of the dynamic nature of the interactions among industry environment, organizational factors, and managerial decisions.

The potential *managerial implication* from this proposed research is that practitioners can learn from the experience of others by understanding what the other managers have gone through, what are their critical success factor, and what might be the pitfalls to avoid. The potential limitation of this research may include a limited geographic boundary and a short time span. In the future, a larger scale research that involves international collaboration, over a longer period of time would help to enhance the validity and generalizability of the findings.

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RENEWING THE MIX OF MARKETING CHANNELS: AN EVOLUTIONARY ORIENTED APPROACH

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ABSTRACT

This paper addresses how mixes of marketing channels are renewed by combining a resource-based view and an evolutionary oriented approach. Mainstream research on marketing channels is mostly normative. However, in this paper businesses' mixes of marketing channels is seen as unique combinations of resources. It is here questioned whether there in order to re-combine these resources in new ways is just one proper end, as suggested in traditional literature. The emphasis on marketing channels as path-dependent entities that, based on knowledge and experience, use the available resources to take action can be traced back to key themes in Thorstein Veblen's and Edith Penrose's writings.

INTRODUCTION

According to the American Marketing Association, a marketing channel is a set of institutions and activities necessary to transfer the ownership of tangible goods or services downstream from manufacturers or service providers (point of production/suppliers), often via middlemen, to end-users (point of consumption), payment upstream and information and feedback in both directions (Bennett, 1995). On condition that a marketing channel could be defined as an entity that consists of all the actors, resources, capabilities and services involved in the process of creating, dialoging, performing sales, transferring and consuming value propositions. However, businesses that produce tangible goods have for decades been using more than one marketing channels to offer their value-propositions to end-users, e.g. using a mix of direct mail, catalogs and physical stores. Moreover, with globalization and Internet-based commerce multi-channel marketing has become a major force in marketing channel management (Coelho and Easingwood, 2003; Wilson and Daniel, 2007) confirming the prediction that "use of multiple channels is now becoming the rule rather than the exception" (Frazier, 1999, p. 232). Today end-users can interact with suppliers over various interface technologies; web sites, wireless devices etc, and they have more choices of different marketing channels to choose from than a decade ago (Dholakia, Zhao, and Dholakia, 2005; Rangaswamy and Van Bruggen, 2005). Therefore, the mix of marketing channels as an entity is the entity of interest in this paper. A business' mix of marketing channels is here defined as an entity that consists of all the different types of channels, which of course include all actors in all channels and all activities and all resources. Interestingly, Rosenbloom claims that customers all over the world are demanding more channel options for gaining access to offered value propositions (Rosenbloom, 2007).

The role of marketing channels is maybe even more important for a business today in light of the increase of possible channel options available, e.g. forced by the globalization and Internet technology explosion (Rangaswamy and Van Bruggen, 2005; Hennig-Thurau, Henning, Sattler, Eggers, and Houston, 2007; Kabadayi, Eyuboglu, and Thomas, 2007; Rosenbloom, 2007; Webb and Lambe, 2007). However, even with the Internet technology explosion the individual business has bounded access to information about alternative opportunities for the next step. That can be classified as businesses operating under conditions of genuine uncertainty. And likewise, in the global competitive economy it is more difficult than ever for a business to create a sustainable competitive advantage by focusing on developing the core product or focusing on lower prices. Goods can be copied or even improved in a relatively short period of time, and there is almost at all times somewhere around the globe where the same goods can be manufactured even cheaper and/or priced lower (Sharma and Mehrotra, 2007). Instead, a business' mix of marketing channels becomes one of the issues to be focused upon (Rodríguez-Díaz and Espino-Rodríguez, 2006) since well-integrated and well-designed marketing channel mixes are much harder for competitors to copy (Rosenbloom, 2007). A business' mix of marketing channels needs to be seen as a complex entity, an adaptive system with many actors, relations, know-how, experience-based knowledge, valuable contacts and personal networks, etc. This complex entity is very hard to copy, especially the intangible assets. The visible structure of a mix of marketing channels could be imitated, but copying the visible structure and missing the experiences, relational capabilities and knowledge inside is like making sponge cake with all ingredients except baking powder - the copy will most likely not be as good as the original. Hence, it can be assumed that striving for an as good as possible mix of marketing channels is important. It is, of course, as Professor Rosenbloom points out, important to "face the challenge of formulating strategies to achieve an optimal channel mix while avoiding conflict" (Rosenbloom, 2007, p. 4), but it is also important to be able to portray how those mixes evolve – not only to anticipate the "best" final outcome. Moreover,

in view of the fact that still today in the literature of marketing channels, a majority of researchers are engaged in static and/or normative research which is not fully evolutionary, it is certainly relevant to inquire about a framework of concepts that can be used to describe the evolution of a business' mix of marketing channels. This evolution might, from a resource-based view of the business, be determined by both internal and external development forces. As such, the purpose of this paper is to try to add a new dimension to the literature by introducing a tentative evolutionary oriented analytic framework that might be fruitful to use when researching forces that could determine how mixes of marketing channels evolve. By combining a resource-based view and an evolutionary oriented approach in a marketing channel context the understanding might be advanced.

As touched on previously, the framework is intended to describe the evolution of a business' mix of marketing channels. Although there is a lack of space in this single paper both to develop the framework and to use it in a case study I will here only illustrate some critical features. Throughout this paper empirical examples are brought in from the Swedish business Nutriguard AB. Originally based in Gothenburg, Sweden, Nutriguard was founded in 2003. On Jan 1st 2004 they launched their value propositions: Daily packets of dietary supplements for men and women. Target groups are persons that want to ensure that they have a sufficient intake of nutrients every day, without having to worry about ideal cooking. The philosophy is to stress that their packets contain the correct combination and levels of vitamins and minerals. Simplicity and trustworthiness is important to their customers. Seven people are employed, and their turnover last year was an estimate 4 MSEK. Already from the start the products were sold as monthly subscriptions: Every month Nutriguard sends a box with thirty daily packets to every subscriber through direct mail. These subscribers either agree to a fixed period of commitment (usually 3 to 6 months) or a non-fixed commitment with a period of notice (1 month). However, when Pierre Andersson was appointed their CEO the mission did not include a clear strategy or plan for how to build a solid base of subscribers. Nevertheless, Andersson has, over the past five years step-by-step based on intuition and sometimes by chance, created, developed and renewed Nutriguard's mix of marketing channels. Today, Nutriguard seeks continuing dialogue with their existing subscribers when serving them through a telephone-based helpdesk, exhibition and field salesmen while at the same time perform new sales and brand building activities through various marketing channels; exhibitions, web shop, web advertising campaigns, lectures with sport clubs, physical stores, sponsorships and field salesmen. According to Andersson, the channels serve different purposes.

The rest of this paper is organized as follows: Firstly, in the next section, the state of the mainstream contemporary literature is discussed and the limitations opening for another dimension is revealed. Secondly, the characteristics of an evolutionary oriented approach is traced back to its 19th century Veblenian roots and recontextualized to the context of modern marketing channel issues. Thirdly, the key concept development force borrowed from the Swedish 20th century Professor Erik Dahmén is introduced and further defined. Fourthly, findings from Edith Penrose and from more contemporary resource-based research are used to add elements and framing the conceptual framework. Finally, key concepts and characteristics of an evolutionary oriented framework is discussed and unitized into a tentative conceptual framework. Throughout the paper experiences from the Nutriguard case will be used to exemplify empirical based aspects.

WHY AN EVOLUTIONARY ORIENTED APPROACH IS WANTED

When 'marketing channel' issues occurred in conceptions in the 1950s, researchers, e.g. Wroe Alderson, used a functional-oriented perspective focusing on issues like discovering functions performed by a marketing channel and explaining when and why these functions are effective (Anderson and Coughlan, 2002). Later the concepts of marketing channels gradually came to be viewed as "the set of interdependent organizations involved in the process of making a product or service available for use or consumption" (Stern, El-Ansary, and Brown, 1989, p. 5). This institutional-oriented perspective of marketing channels focuses upon the channel members, e.g. suppliers, wholesalers, distributors, etc, that perform the delivering functions (Anderson and Coughlan, 2002; Gundlach, Bolumole, Eltentawy, and Frankel, 2006). From the institutional-oriented perspective marketing channel management is about planning, organizing, coordinating and controlling efforts of the channel members involved (Anderson and Coughlan, 2002). However, the functional-oriented, the institutional-oriented perspective and more recently introduced alternatives, e.g. consumer-oriented approaches, focus mainly on the static structure issues and not on the process of establishing the mix. To describe how things – e.g. a structure, a relation or a behavior – are in one moment of time is a static view. It does not focus on the process of building that structure or that relationship, or what makes a pattern of behavior develop. Moreover, a static view takes no notion about momentum in a process: Two mixes of marketing channels could at one time have the same

structure, just as two flowers could look the same. By tracing how they step-by-step evolve, it could be uncovered that it was an equifinality. With an evolutionary oriented approach it might be possible to uncover that the two entities in this example were developing in different directions; e.g. one was recruiting new middlemen and the other was in a process of disintermediation.

In recently published articles it is declared that customers that use more than one channel for shopping spend more money and provide higher revenues (Kumar and Venkatesan, 2005). A multi-channel shopping behavior can be stimulated, e.g. by store locators online, free store pick-up while purchase online or discount coupons to use in another channel (Verhoef, Neslin, and Vroomen, 2007). Moreover, according to (Kumar and Venkatesan, 2005) the higher the number of communication channels a supplier uses to contact a customer, the higher the likelihood of that customer shopping through multiple channels. That was only three examples of valuable, but static, marketing channel research from recent years. However, what is a good configuration today will not necessarily be the best in the future. The Nutriguard case can serve as a good example: Three years ago the telemarketing channel was selling a majority of new and renewed subscriptions for Nutriguard. An independent company, i.e. a middleman, was hired to perform the calls and the selling process. But attitudes towards telemarketing changed, and during 2006 Nutriguard received enough complaints to take the decision by the end of that year to stepwise terminate the telemarketing channel and re-bundle untied resources to elaborate the Internet-based channel. The Nutriguard case shows here that while the environment changes quickly, e.g. new competitors enter the stage or new techniques offer new “better” routes to the market and new kinds of possible intermediaries arrive, the one “proper end” proposed by static oriented research is just valid in turbulent markets for a very short period of time.

Even though it is claimed in the literature that designing a big scale mix of marketing channels takes a long time and often requires long-term commitment and large investments in technology and human skills (Rosenbloom, 2007), and that organizational learning across the mix of marketing channels to handle rapid changes in dynamic markets is necessary to maintain competitive advantages (Lee and Trim, 2006) and other dynamic or process oriented management guidelines, it does not focus on how this path-dependent unfolding sequence of decisions and work is done in real businesses.

The general shift in marketing theory is going away from transactional exchange to include exchange relationships (Gummesson, 2007). In marketing channel theory it has been more emphases on relational interactions instead of competitive interactions among actors comprising the marketing channel (Johnson and Sernes, 2004). This change in marketing channel research perspective has “fundamentally altered the scholarly landscape and practice of marketing channels and marketing channel management” (Gundlach et al., 2006, p. 435). Another trend in the contemporary literature is a broadening and an expansion of perspective in theory from that focusing on individual institutions and single channels to that of more complex units of analysis; dyad, triad and network systems of participating actors and their relationships and interactions. This trend, going from understanding and managing one institution in one channel at one point of time to larger configurations of relationships comprising a channel over time (Gundlach et al., 2006), is promising because it focuses on how channels and the people within the channels over time could build and defend competitive advantages. Altogether Gundlach et al. claim that this shift and broadenings is a “considerable progress in understanding the institutions and functioning of marketing channels” (Gundlach et al., 2006, p. 435). However, neither the shift in marketing theory nor the broadening of perspective to larger and more complex units of analysis has changed the literature enough in favor of more evolutionary oriented approaches and less striving for normative laws. Even though much research is done a majority is still concerned with finding recommendations about the final outcome, the “best” mix of marketing channels or the proper integration policies etc (Rosenbloom, 1991; Frazier, 1999; Lee and Trim, 2006; Palmatier, Miao, and Fang, 2007; Rosenbloom, 2007; Sharma and Mehrotra, 2007; Venkatesan, Kumar, and Ravishanker, 2007).

Accepting Rosenbloom (2007) as the mainstream contemporary researchers’ spokesman on this subject, it could be argued that contemporary marketing channel researchers are inquiring the “normal case”. Playing the role of an example of such a research, Hennig-Thurau et al. (2007) found that by adjusting the configuration of marketing channels and the price of DVDs, the mean American movie studio can in the normal case increase its profit by an average 16.2 % in the US market by making the movie simultaneously available in cinemas, as home video rental and through download-to-rent, followed three months later in the home video sales channel at the price of 22 USD. The point is, by using an evolutionary oriented approach, there is no state of normality or no by average numbers constructed “normal case”. Though, the evolutionary oriented approach is not better or worse than the normative or the static. This paper does not try to conclude that. However, when marketing channel issues have become increasingly important to business success, and businesses have

greater opportunities with globalization and Internet-based commerce than ever to create a unique and highly diversified mix of marketing channels (Coelho and Easingwood, 2003) the differences between mixes are supposed to increase. This situation makes the mixes even more unique and the one and only proper end more and more unrealistic when propositions is based on a constructed average “normal case” that fits fewer businesses’ reality.

The Nutriguard case have shown that calculations based on mean situations, mean behavior or mean relations could be far from many small and medium size entrepreneurial businesses’ situation. Andersson said that the mix of marketing channels that Nutriguard coordinate today is a result of five years of learning by doing and every step has been important in creating this mix. The combination of brand building channels, cheap volume sales through the Internet-Based channel, and more expensive “qualitative sale” through the field sale force channel and all other informal marketing activities performed by both customers and employees in their private networks is developed stepwise. As such, we can claim the mix to be complex, unique and path dependent. Moreover, shown by the Nutriguard case the life history of a business’ mix of marketing channels could be seen as a cumulative process of adaptation. To survive in the long run and serve their increasingly demanding customers Nutriguard not only have to be competitive and do the proper things for the moment, they also have to be able to develop, renew and combine their entity-specific and heterogeneous capabilities and resources into new innovative marketing channels, while continuously integrating new and well-established marketing channels into seamless unified units. Therefore, it is possible to assume that every mix of marketing channels has its own unique characteristics, its own resources and capabilities. Furthermore, at Nutriguard the trend two years ago was towards building more mass-market focused channels, e.g. Internet-based shopping channel, with less expensive human interaction with each subscriber, but in recent time Andersson said they have employed on a trial basis field salesmen to go out and have real life demonstrations. The momentum today is going towards a full range of channels. Therefore, instead of providing guidelines or researching the optimal marketing channel structure or asking how many marketing channels are the best for a “normal” business to use under average conditions, the evolutionary oriented approach can not only elaborate the marketing channel literature by inquire “why” the mix is formulated this way it can also hopefully, with proper concepts and tools available, be possible to find momentum in this evolution.

CHARACTERISTICS OF AN EVOLUTIONARY ORIENTED APPROACH TO MARKETING CHANNEL ISSUES

More than a hundred years have passed since the Norwegian-American sociologist and economist Thorstein Veblen (1857-1929) claimed in his seminal article “Why is not Economics an evolutionary science?” that social science in general, and economic and business related sciences in particular, had not become evolutionary sciences (Veblen, 1898). Instead of researching motor forces, determinants of the evolution and direction in a continuing evolutionary process, e.g. researching which sequences of events led to the state of today, he declared that the late 19th century mainstream economists were engaged in refining equilibrium models and searching for solutions that reduced the number of factors that disturbed metaphysical “natural laws” stated from constraining “normality”. Veblen claimed that his opponents were unable to break with the tradition of pre-Darwinian taxonomic science (Veblen, 1898). In this section the Veblenian thoughts about what the characteristics of an evolutionary oriented approach is, is introduced in contrast to what Veblen refers to as taxonomic, or pre-Darwinian, science. Even though Veblen himself never explicitly uncovered the characteristics this way, ten characteristics are deduced from Veblen’s seminal article:

1. An evolutionary oriented approach must be based on empirical facts (Veblen, 1898). However, this requirement is often met if we accept Rosenbloom, Stern, Verhoef or Kumar as the spokesman for contemporary marketing channel research.
2. Veblen requests that all evolutionary sciences need “a close-knit body of theory” that could be used for explaining an “unfolding sequence”, and not only an “enumeration of data” (Veblen, 1898, p. 374). Veblen wrote that the economists then “followed the lines of pre-Darwinian speculations on development rather than lines which modern science would recognize as evolutionary” (Veblen, 1898, p. 388). By only delivering a narrative survey of the phenomena the economists did not succeed in giving a report of an “unfolding sequence”. Marketing channel literature have for at least fifteen years been focusing on issues that in some sense is process oriented (Gundlach et al., 2006; Rodríguez-Díaz and Espino-Rodríguez, 2006; Wilson and Daniel, 2007). In spite of that, theories of processes also existed in natural sciences long before they where regarded as evolutionary.

3. Veblen argued that a big difference between the two approaches is the “terms which were accepted as the definitive terms of knowledge” (Veblen, 1898, p. 377). According to Veblen an evolutionary research question inquires “why” and always requests answers in terms of causation and sequences, instead of metaphysical predestinated “natural laws”. Veblen wrote that an evolutionary science cannot accept any “spiritually legitimate ends”. Therefore, we can claim that our evolutionary oriented approach should not presume a “final end” or try to suppose a normative “proper end”, since with the evolutionary oriented approach change continues forever. Veblen pointed out that within an evolutionary oriented theory there is “no place for a formulation of natural laws in terms of definitive normality … Neither does it leave room for that other question of normality, what should be the end of the developmental process under discussion” (Veblen, 1898, p. 392).

4. Connected with the latter, an evolutionary oriented approach is dynamic in the sense that it is going further than that of mere classification or describing the existing structures when studying the process. Veblen wrote: “In the natural sciences the work of the taxonomist was and continues to be of great value, but the scientists grew restless under the regime of symmetry and system making. They took to asking “why” and so shifted their inquiries from the structure of the coral reefs to the structure and habits of life of the polyp that lives in and by them” (Veblen, 1898, p. 384). Within the specific domain of marketing channels the difference between a static taxonomic theory and a dynamic evolutionary theory is that the former describes how the outer structure of a mix of marketing channels is organized or should be organized to maximize return, e.g. how many channels there are or how many middlemen there should be to maximize rents, while the latter asks why a business’ mix of marketing channels is organized in that way by trying to enlighten the inner cumulative sequences of decisions and events involved in shaping the structure. Therefore, an evolutionary oriented approach will describe how the mixes of marketing channels evolve; i.e. a dynamic view, instead of how they are at a specific time; i.e. a static view. Veblen himself put it this way: “All the talk about cytoplasm, centrosomes, and karyokinetic process, means that the inquiry now looks consistently to the life process, and aims to explain it in terms of cumulative causation (Veblen, 1898, p. 384) …what is the cytoplasm, centrosome, or karyokinetic process to which we may turn, and in which we may find surcease from the metaphysics of normality and controlling principles?” (Veblen, 1898, p. 387).

5. Path-dependency is a building block of every evolutionary theory. The life history of a business’ mix of marketing channels is “a cumulative process of adaptation of means to ends that cumulatively changes as the process goes on” (Veblen, 1898, p. 391). Consequently, the mix, the focal business, the competitors and the surrounding community are “at any point the outcome of the past process” (Veblen, 1898, p. 391).

6. Similar to the founding fathers of modern resource-based approaches Veblen claimed that “changes in the material facts breed further change only through the human factor”, i.e. the resources themselves do not change as much as the human understanding about the properties of the resources. As such, “It is in the human material that the continuity of development is to be looked for; and it is here, therefore, that the motor forces of the process of economic development must be studied” (Veblen, 1898, p. 388). Therefore, in a Veblenian evolution theory it is important to dissect the human action, e.g. the bundling and re-bundling of resources forced by new knowledge and experiences from doing things. Similar to Penrose (1959) Veblen argued sixty-one years earlier than her that “productive goods [services] are facts of human knowledge, skill, and predilection; that is to say, they are, substantially, prevalent habits of thought, and it is as such that they enter into the process of industrial development. The physical properties of the materials accessible to man are constants: it is the human agent that changes - his [the human being’s] insight and his appreciation of what these things can be used for is what develops” (Veblen, 1898, p. 387f).

7. A preconception that a customer, or any other actor, in the mix of marketing channels are only passive; determined in that sense that they only react to exogenous stimuli, could not be accepted in an evolutionary oriented theory. Veblen did not accept the assumption that man is such an easy controlled and passive creature. Instead, Veblen argues that the characteristic of a human being is “to do something, not simply to suffer pleasures and pains through the impact of suitable forces” (Veblen, 1898, p. 390). He refused the old conception of man as “a lightning calculator of pleasures and pains, who oscillates like a homogeneous globule of desire of happiness under the impulse of stimuli that shift him about the area, but leave him intact” (Veblen, 1898, p. 389). For him this false conjecture of human nature was a key explanation to why scientists then had not succeeded in formulating a truly evolutionary economic theory. Therefore, an evolutionary oriented approach could not accept models of explanation like the totally rational utilitarian economic man, rather in the Veblenian model a human is a habitual unit of tendencies and behavior which seeks externalization in different activities. According to this view, human activity “is not apprehended as something incidental to the process of

saturating given desires". That desires "under whose guidance the action takes place are circumstances of temperament which determine the specific direction in which the activity will unfold itself in the given case" (Veblen, 1898, p. 390). As a result, human activity, e.g. change, could be both proactive and reactive, and human desires determine a direction of change. Accepting this as true for individuals we can claim that it is true for a business or a mix of marketing channels too, since such an entity is directed by humans. Consequently, we can from Thorstein Veblen's writings tentatively conclude that the evolution of the mixes of marketing channels is determined by both internal forces, e.g. proactive actions from an entrepreneur, and external forces, e.g. new laws, new technical opportunities since the entity is embedded in community at large. Furthermore, "temperament which determine the specific direction" indicates that there is momentum in an evolutionary oriented approach, since past experiences and events have a cumulative effect on decisions.

8. If combining the latter characteristic with our assumption number three that there is no final or proper end, we can conclude that theories that state an equilibrium as the "normal state" is disqualified from being evolutionary. Veblen considers equilibrium models to be "spiritual frameworks" and refuses all speculations about general metaphysic underlying forces which guide an entity towards a natural end, equilibrium, in one ironic phrase: "When the force of the impact is spent, he [the hedonistic man] comes to rest, a self-contained globule of desire as before. Spiritually, the hedonistic man is not a prime mover. He is not the seat of a process of living, except in the sense that he is subject to a series of permutations enforced upon him by circumstances external and alien to him" (Veblen, 1898, p. 390). Echoing Veblen, Edith Penrose (1959) points up that equilibrium models is not acceptable, since businesses are never resting; resources can be used in several ways and through learning and experience businesses continue to change. However, Veblen did not disagree that equilibrium could be in place for a moment. Hence, he thought that approach was less interesting.

9. An evolutionary oriented approach does not consider the entity under investigation to be living in vacuum. Except that actions and habits are path-dependent and adaptive Veblen argued that "the economic interest does not act in isolations" (Veblen, 1898, p. 393) since all kinds of interests are linked when the human "enters into each successive action as a whole" (Veblen, 1898, p. 393). The characteristic of a business, or a human, as an adaptive system which is embedded in the community and opened to change, corresponds to high methodological complexity, which makes a theory heavy to handle (Scott and Davis, 2007).

10. As a consequence from the nine preceded characteristics above, even though not mentioned explicitly by Veblen, normative guidelines about how managers ought to manage marketing channels could be claimed to be, although they are proved to be general theories at one time, always momentary. With an evolutionary oriented approach the scientist is not pleased with an abstract "normality", or claims that are derived from a constructed average "normal case". Therefore, the approach leaves no room for formulation of grand theories about an optimal structure of the mix of marketing channels valid for all mixes. Instead, the individual case and the dynamic community that the case is embedded in is the level of analysis.

Over the past 100 years there has been a debate over the relevance of borrowing concepts from biology. If business actions can be explained with Darwinian concepts and models from biological evolution is still a controversial question. One crucial issue is the analogues to biological theory of genetic variation and principles of selection. In biological evolution the variation is renewed by randomly occurring mutations or new genetic combinations. Edith Penrose were one of the skeptics when writing about interpreting innovations as by chance occurring mutations: "[that] leaves them essentially unexplained, while to treat them directly as purposive attempts of men to do something makes them far more understandable" (Penrose, 1952, p. 818). Moreover, in nature genetic intersection occurs only at one time in every generation. This makes human beings genetically adapt slow to the surroundings compared to how fast mixes of marketing channels can adapt to change in the surrounding community in the social world. Besides that, when our complex modern society changes in several aspects at the same time and customer demand is different and changing, processes of natural selection is prevented to choose "the fittest" for survival. Although "the detailed mechanisms of change at the social level are quite different from those described in biology, socioeconomic evolution is still Darwinian in several important senses" (Hodgson, 2005, p. 901). Moreover, according to Hodgson (2005) the universal Darwinism "upholds that there is a core set of general Darwinian principles that, along with auxiliary explanations specific to each scientific domain, may apply to a wide range of phenomena" (Hodgson, 2005, p. 900). However, neither the characteristics concluded from Thorstein Veblen's writings, nor the definition of a universal Darwinism given by Hodgson, gives us an explanation of the mechanisms, e.g. the motor forces, that shapes the mixes of marketing channels.

Therefore, an evolutionary oriented approach is still wanted when researching the renewal of the mixes of marketing channels.

THE DEVELOPMENT FORCE

The Swedish professor in economics Erik Dahmén (b. 1917 – d. 1995) argued in the spirit of Veblen that an evolutionary oriented perspective was needed (Dahmén, 1985; Dahmén, 1986b; Dahmén, 1994). In contrast to the more common used term relative competitiveness, as can be reached due to lowering wages or a, for the moment, advantageous currency (Dahmén, 1986a), Dahmén used in his more recent writing the interesting concept Development force¹, by which he meant the power and potential an entity, e.g. the earth, a society, a business, have to renew itself with, thereby increasing the value added in the value proposition out of the same amount of input (Dahmén, 1985). Veblen (1898) never goes that far. He never explicitly points out the optimal direction or says that fast evolution is better than slow or that evolution is the same as progress. Dahmén (1985) asserted that the entity's long-term welfare depends on its development force, since the development force determines, he argued, at what salary level full employment can be maintained. High development force reconciles competitiveness, big profits and high salaries. Unlike many other economists, which Dahmén stressed had "got caught in the tool shed"; he meant that processes of change can not fully be understood on the macro level. Similar to Veblen, Dahmén emphasized that it is crucial in order to understand what creates and limits the evolution of the entity to methodically examine what is happening within the entity, i.e. on the individual business level (Dahmén, 1986b). The problem with the term Development force is that nobody really had defined it, since Erik Dahmén himself passed away before he fully examined a clear definition. Dahmén could have intended a business ability and power to, either through proactive renewal (innovation) or through reactive renewal (adaptation), adjust to changed conditions in the surrounding community and to create and take advantage of opportunities (Westberg, 2006).

In classic physics, Isaac Newton's first two laws of forces can be stated like this: 1) An object – an entity - is resting, or continues to move in a state of constant velocity, unless acted upon by a resultant force, and 2) change in the objects momentum is proportional to the size of the force acting upon it and in inverse proportion to the mass of the object (Newton, 1999). Therefore, it can be claimed that, in social science, with some abstract thinking, that forces acting upon an entity, e.g. a business or a mix of marketing channels, and that the entity is renewed in that direction as the forces pull it.

The term development is somehow harder to find a clear definition to. According to Schumpeter, development is to take ideas about new combinations into practice (Schumpeter, 1934). Furthermore, Penrose (1959, p. 25) claims that it is not the individual resources in hand of the entrepreneur one by one that is the true motor that forces growth. Instead, she claimed, it is how the resources are bundled together and used that determines growth. However, it has been asserted that 'an idea about a new combination' is equivalent to 'new knowledge' (Hayek, 1937). Moreover, to 'take something into practice' can in the business context be synonymous to 'to commercialize'. Consequently, the term development force can here briefly be described as: The pace and the direction in which new knowledge are generated and commercialized. Furthermore, the development force is seen as the resultant force that is determining the renewal pace and direction of a business' mix of marketing channels. As a resultant force, i.e. the net force, the development force is the result from all different kinds of underlying, external and internal, forces. E.g. in the Nutriguard case, the mix of marketing channels was not renewed directly when a pressure occurred from the customers to use less or non telemarketing. We can assume that there were other forces, e.g. contractual bindings to the telemarketing middlemen or habits of thoughts among the employees, which made the size of the development force null. In contrast to the relative competitiveness, which is a static concept measuring the entity's performance in relation to the competitors in one juncture, development force is an evolutionary oriented concept. One possible way to further recontextualize Dahmén's writing is to divide underlying forces that acts upon a business' mix of marketing channels into three different levels; the community level, the mix level and the business level.

Firstly, on the community level there are external forces like institutional flexibility, legislation, norms and behavior in the outer community (Westberg, 2006). Community level forces that could accelerate the pace of renewal of a business' mix of marketing channels, i.e. increase the size of the development force, are e.g. increased opportunities to start new

¹ "Utvecklingskraft" in the original Swedish texts, my own translation.

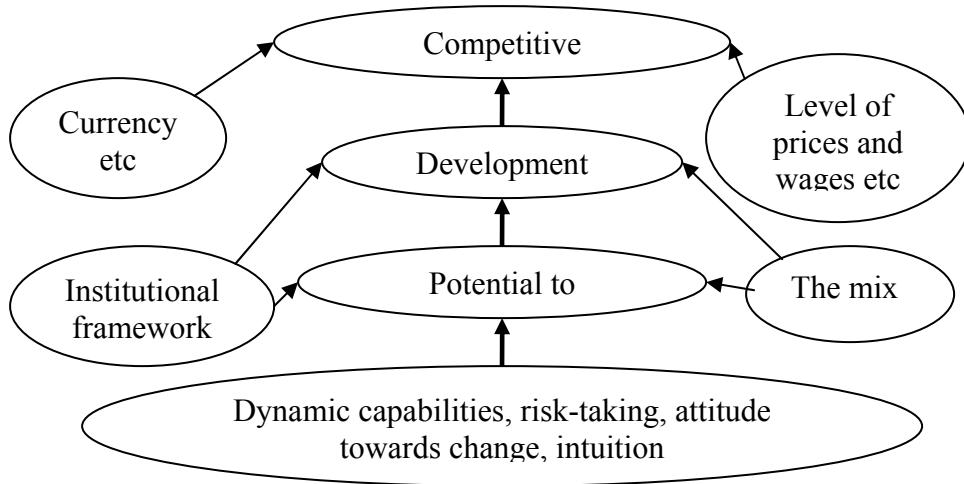
business, opportunities to get higher return on investment in foreign countries or better monopoly profits on innovations. In contrast, community level forces could also decrease the pace of renewal, i.e. decrease the size of the development force, e.g. inflexible laws or long periods of notice (Johansson and Karlson, 2006). The regulated Swedish commercial and industrial life could be considered as such an opposite force that decreases the development force for Swedish businesses (Grufman, 2006).

Secondly, in between the business level and the community level there is a meso level consisting of the network (Johansson and Karlson, 2006), e.g. the mix of marketing channels and suppliers, that is positioning the focal business in relation to the community. Therefore, we can call this level the Mix level. Mix level forces can influence the focal business in different ways. In the Nutriguard case they had contractual bindings to the telemarketing operator that could not be ended directly when the consumer attitudes towards telemarketing change, with the effect that negative words of mouth about this channel start to occur, i.e. in that situation we had two mix level forces that were directing in the opposite direction. The result was that at first there was no evolution, since the resultant force was null, i.e. no changes happened until the negative words of mouth grew bigger and the contract was able to be terminated. Moreover, another example, within the internet-based channel Nutriguard shares intangible resources, e.g. knowledge and experience, with both their software supplier and their middlemen that are directing traffic to the e-commerce website. When the software supplier generated new knowledge from another job submitter about how to build more customer-friendly applications this could be seen as a mix level force that act upon Nutriguard to change their mix of marketing channels towards more Internet-based commerce and less telemarketing commerce. The latter example also shows that when an actor, e.g. a supplier, a competitor or a customer, within the mix of marketing channels changes her position, i.e. evolves in any sense; this changed position becomes a force that acts upon the focal business. This is typically when core innovations need supporting innovations to reach its full potential and a process of cumulative change starts within this network (Eliasson, 2004), e.g. a mix of marketing channels. When one actor in the mix of marketing channel will commercialize new combinations of resources it often requires help from both the other direct actors within the mix, and indirect members of the mix such as the bank, to increase the development force and overcome the retention force within the entity necessary to start changing. It could be argued that all actors within such a “Competence bloc” (Eliasson, 2004) could either accelerate or decrease the development force of all the others. Therefore, cooperation in the same direction is important if the mix is to have a big development force. In addition, when a competitor innovates and puts pressure on the focal business this could be seen as a mix level force. Such relative turbulence in the marketplace and the turbulence due to channel competition could be underlying forces that influence the total development force of an entity on the meso level.

Finally, at the business level are those internal forces that come from within the focal business, e.g. proactive capabilities, “dynamic capabilities”, potential innovations and the spirit of the entrepreneurs, the owners and the employees. There will never be any development force if not the internal forces from within, e.g. the resistant to change, is smaller than the outer external force, except if the internal force is proactive. This leads to the conclusion that change could either be proactive, i.e. initiated from within the entity, or reactive, i.e. due to pressure from the outside. This idea fits equality with Veblen’s notion that man “is not simply a bundle of desires that are to be saturated by being placed in the path of the forces of the environment, but rather a coherent structure of propensities and habits which seeks realization and expression in an unfolding activity” (Veblen, 1898 p. 390). In both Veblen’s and this interpretation of Dahmén’s concept development force actors are not only passively determined in the sense that they only react to exogenous stimuli. According to this view, human and business activity should not be held as something incidental. On the contrary, internal forces are substantial forces of the evolution of a mix of marketing channels. When the negative word of mouth about the telemarketing channel starts to spread, Andersson took the final decision to make a change based on a combination of this outer pressure to do something and an intuition that his prioritized segment of customers was ready to do business online. It was clearly a risk, but due to the pressure and his past experience he thought it was a good idea to try. It is possible that his passed experience of renewal processes made his inner retention force towards change smaller compared to a businessman less used to change. Previous experiences, and learning from earlier processes of change – e.g. “learning by doing” – is considered a dynamic capability that force evolution (Eisenhardt and Martin, 2000; Wilson and Daniel, 2007). Similarly, a positive attitude towards change, past experience of renewal processes, capability to adaptation and risk-taking creates a potential for innovation and change, but this is limited by the institutional framework and the opportunities that are possible to identify in “the network” (Westberg, 2006). In this context, network regards to the mix of marketing channels and the suppliers that the focal business have.

To summarize, development force can be defined as the resultant of both internally created potential to innovate effected by the capability to renew, i.e. forces coming from inside the unit of analysis, and the external occurring forces from the mix of marketing channels (and suppliers) and the institutional framework.

Figure 1: Schematic Picture of the Development Force that Acts Upon a Business Involved in a Mix of Marketing Channels



ELEMENTS OF AN EVOLUTIONARY ORIENTED FRAMEWORK

With the characteristics of an evolutionary oriented approach from Veblen, and the key concept development force in hand, we are now ready to turn to Edith Penrose and modern resource- and competence-based views in search of additional concepts to further be able to describe how the mixes of marketing channels are renewed. Present-day competence-based approach is sometimes presented as the “modern Veblenian approach” (Foss, 1998). Edith Penrose herself never aimed to provide useful strategic guidelines, instead she contributed to science with models describing patterns of growth. Even if it is not based on metaphors from natural Darwinism, Penrose (1959) “The theory of the growth of the firm” could be read as an evolutionary oriented theory. Penrose concepts of growth patterns are compatible with the ten deduced characteristics from Veblen. Penrose agreed with Veblen on a dynamic disequilibrium approach, where the unfolding sequence of growth is more important than to simply comparing a start with an end (Penrose, 1952; Penrose, 1955; Penrose, 1959; Penrose and Pitelis, 1999; Augier and Teece, 2007). Additionally, she highlights the important role of the entrepreneur as the motor of change, thus resembling the evolutionary oriented approach characteristic of human beings as proactive movers with genetically-derived motivations (Penrose, 1959).

Even if Penrose (1955, 1959) does not claim that there could be an optimal structure of a business or an optimal end to strive towards, she claims that an optimal pattern of business growth may exist. This optimal pattern of growth requires a perfectly balanced use of internal and external resources in a particular sequence, which in our marketing channel context could be the trade-off between developing new channels and at the same time integrating them into a unified entity. However, neither Penrose nor Veblen point out a general optimal direction in the details of the process of development. Consequently, although development force is a dynamic evolutionary oriented concept that is measuring pace and direction of the innovation and adaptation towards increasing the value added in the value proposition out of the same amount of input (Dahmén, 1985), the concept is not meant to implicate what kind of structure a business’ mix of marketing channels ought to have. Similar to Dahmén, Penrose (1959) focuses on creating resources and knowledge as a motor force to growth rather than to use resources to isolate competitors and relatively to them offer more valuable propositions to generate rents (Wernerfelt, 1984; Barney, 1991). Consequently, Barney (1991) and Wernerfelt (1984) primarily were interested in resources as a source of the momentary competitive advantages, while Penrose (1955, 1959) represents a dynamic view similar to Dahmén’s concept of Development force. Penrose approach does not focus on pursuit of rents or how to isolate competitors, but rather on an optimal growth pattern from a point of unique business specific starting points (Rugman and Verbeke, 2002; Kor and Mahoney, 2004). Knowledge about new combinations, or experience-based knowledge, from using productive services is not, according to Penrose (1959), objective. Instead experience is an image of the organizational interpretations based on their habits of thoughts and routines. And if this

process of learning is organized in a way that even the administrative framework, the bone structure of the business, could change as the resource base of the business, and the surrounding, change, the potential for integrating new actors, e.g. a new marketing channel or a new middleman, is increased. Penrose (1959) draws attention to relationship with new actors, because new member could be seen as new resources which when they develops could render new services or help the business to descry new opportunities.

The Opportunity Set

A business may be viewed as an evolving collection of resources (Penrose, 1959). Accepting that a marketing channel and a mix of multiple marketing channels are a set of businesses and activities necessary to transfer the value propositions, payment and information between supplier and end-user, a business' mix of marketing channels could also be viewed as an evolving collection of resources.

Resources themselves are not defined as inputs in production. Instead a service produced by a bundling of resources is “a function of the way in which they are used ... in combination with different types or amount of other resources” (Penrose, 1959, p. 25). Resources can be bundled in innumerable ways, and therefore render multiple services. Those services bundled by the resource are used in production. What they can be used for, or how to re-bundle them, is depending on the manager's, e.g. the entrepreneur's, changing consciousness and capacity to understand (Penrose, 1959; Foss, 1998) the character and capacity of the mix of marketing channel's dynamic Opportunity set. Penrose (1955) points out that managerial capability, e.g. a manager's capability to understand what the employees knowledge and know-how could be used for, is a limit of the business' growth pace.

The Opportunity set is in this tentative framework seen as the area within which it is possible for the focal business to renew its mix of marketing channels in a relatively short period of time without gaining additional resources, i.e. the Opportunity set includes all possible bundling of resources that the focal business understand as a possible way to re-bundle the existing resources into new services. As such, the opportunity set is momentarily limited by both the business' existing resources and the business' dynamic capability to see and take advantages of the resources opportunities. The theory of dynamic capabilities corresponds to key parts of the discussions about internal forces underlying the development force. Dynamic capabilities could briefly be defined as the proactive ability to create new combinations of resources which leads to innovations and more economic value. Dynamic capabilities is seen as a result of the managers', the employees' and the business-level's knowledge, skills, experience and creativity etcetera (Teece, Pisano, and Shuen, 1997; Eisenhardt and Martin, 2000; Kor and Mahoney, 2004; Wilson and Daniel, 2007); e.g. a entrepreneur's talent to renew the mix of marketing channels, re-combine channel integration, create new innovative channels and bind them together with the old ones. New knowledge and unoccupied resources render potential for renewing (Penrose, 1959; Augier and Teece, 2007). However, we may inquire if dynamic capabilities also could be of a reactive nature. Teece (2007) points up that “not all enterprise-level responses to opportunities and threats are manifestations of dynamic capabilities” since “best practice that are already widely adopted cannot be themselves in a competitive market situation enable an enterprise to earn more than its cost of capital, or outperform its competitors” (Teece, 2007, p. 1321). Consequently, and in unison with the interpretation of development force, dynamic capabilities is the proactive internal forces that endogenous renewing the mix of marketing channels.

Penrose (1959) point up ‘intra-firm learning’ as a way to create more resources, and with the outcomes of that continuing process – new internal capabilities –elaborate the opportunity set. In the domain of marketing channels, shared experience from working within the same mix of marketing channels renders entity-specific relational capabilities that are unique to relations between actors across a mix of marketing channels. Relational capabilities are nontransferable and inimitable and they are lost if one part in the relation is substituted (Rodríguez-Díaz and Espino-Rodríguez, 2006). Relational capabilities could be seen as outcomes of a process of ‘intra-mix learning’. Therefore, both learning at the business level and learning on the mix level evolve the opportunity set. The opportunity set is in every moment an outcome of the last change, a cumulative causation. When Schön (1995) found that a period of structure crisis is decreasing the development force action upon the business; because the budget for investments in new combinations is decreasing, it could be seen as the opportunity set decreases.

The Visual Field

The network of actors across a mix of marketing channels in which the focal business works has often more resources and capabilities and a bigger contact area to the rest of the community than the business alone. Ten eyes can see more than two. Therefore, the mix of marketing channels can be used to identify new opportunities and to generate new knowledge. Erik Dahmén used the concept of a ‘visual field’², introduced to him by his doctoral thesis supervisor Johan Åkerman. In relation to the opportunity set the visual field is bigger: All possible new combinations that the actors in the mix of marketing channels can see and understand are included, even though they do not have the resources or opportunity to take advantages of them for the moment.

Just as the opportunity set, the visual field is dynamic and changes due to a process of cumulative causation of knowledge and attention. In organizational behavior/learning theory cognitive capacity among leaders/managers limits what organizations think is the rational thing to do, i.e. what to strive towards, when setting out goals and visions (March and Simon, 1958). Therefore, the visual field could presumably change due to several reasons; through evolution in the cognitive capacity of the existing actors across the mix of marketing channels to understand opportunities or through the process of evolution of the mix itself, because if new actors are added to the mix they have a unique bundling of resources and specific experience that is changing the contact area to the rest of the community, or a combination of the two. Although “best practice that is already widely adopted” by competitors (Teece, 2007) is not a proactive internal force it could definitely be a strong external force influencing the focal business. However, as soon as a new combination becomes adopted or known as a possible alternative, e.g. in the Nutriguard case when the negative word of mouth of telemarketing became obvious to the entrepreneur, it will not widen the visual field any more. Instead, a way to proactively try to widen the visual field is to constantly scan for opportunities by searching and exploring both the own business, the mix and across other markets in hope of identifying and shaping new opportunities, e.g. transferable technology, customer trends, new demands or yet for the business unknown demands domestic or international (Nelson and Winter, 1982).

The Acting Space

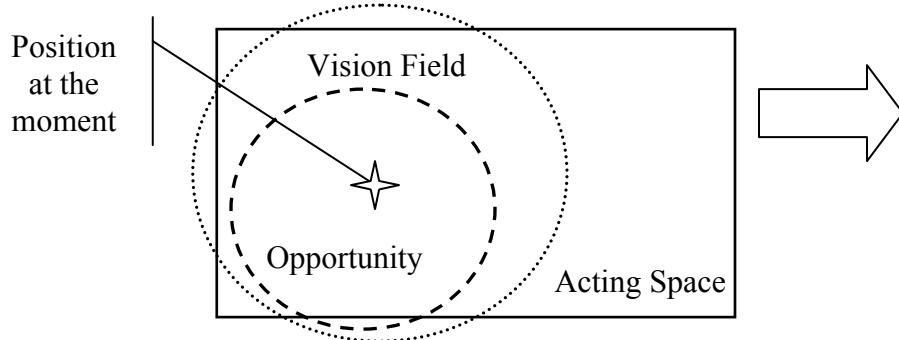
What is understood by an entrepreneur as a possible direction of evolution is not always accepted by the rest of the community. Communities have social contracts, laws and limits to what is considered an accepted behavior (Westberg, 2006), and even between actors in a relationship in the mix of marketing channels there is, as the Nutriguard case shows, sometimes contractual commitments to middlemen with a period of notice, i.e. resources are locked in special services, that could limit the area within it is legitimated and accepted for a business mix of marketing channels to evolve. Accordingly, the Acting Space is the area within the mix of marketing channels can evolve for the moment. However, a contract comes to an end, laws become changed and customers evolve new trends, i.e. the acting space is an evolutionary oriented element.

TOWARDS AN EVOLUTIONARY ORIENTED FRAMEWORK

Finally, this section tries to put the elements together towards a tentative evolutionary oriented conceptual framework that could be used to answer the question “why” an entrepreneur develops his or her business’ mix of marketing channels in terms of an unfolding sequence of events and decisions determined by the development force which in this paper is seen as the resultant force of the dynamic internal forces, of both proactive and reactive nature, and dynamic external forces from across the mix of marketing channels and from the surrounding community.

² “Blickfält” in the original Swedish texts, my translation.

Figure 2: A Momentarily Conceptual ‘Orienteering Map’ for the Sequence of Renewal



Both Veblen and Dahmén have been criticized for unfocused texts that have little practical implication. Hopefully this paper could elaborate the literature by adding a small step towards more concrete implications of their work in the specific domain of marketing channels. In the previous section three limitations to change were introduced, where according to this idea the opportunity set is the area closest to the momentarily position of the entity. Within the opportunity set it is possible to develop without gaining more knowledge or resources. Opportunity set is a part of the bigger Vision field: The area limited by the actors cognitive capacity. To evolve outside the opportunity set, towards an recognized position of hopefully more sustainable performance in the other end of the vision field, additional resources must be gained. Further, possible actions are also framed by the business' Acting space influenced by external forces and relations to other actors across the mix, suppliers and the community.

The Nutriguard case can again serve as an example: When their telemarketing channel was selling a majority of new and renewed subscriptions, attitudes towards telemarketing changed in the outer community, i.e. the acting space changed; and an external force rose that put pressure on Nutriguard to react. However, they could not at that time legally terminate the contract with the telemarketing actor: To terminate that channel directly would have been to step outside of the acting space. So for several months the actors and the activities in the mix of marketing channels were not renewed, even though the force from negative words of mouth grew stronger: The development force was null. Then, when it was possible to terminate the telemarketing channel, while at the same time the complaints from customers raised, the development force acting upon Nutriguard was enough to start a process of renewal: The speed of the renewal accelerated in the direction towards putting almost all freed up resources into developing the Internet-based channels. Since, at least in this case, it seems to have been a momentum in the process of change similar to what Isaac Newton's second law on physical forces predict, because the striving towards e-commerce continued even though the force from negative words of mouth had stopped acting. Moreover, the process of change continued outside of the opportunity set that was present at the time when the process of renewal begun. Hence, it is possible to argue that new knowledge and experiences from building the Internet-based channel elaborated the opportunity set, and that those new actors, e.g. web programmers and Internet advertising specialists, which had entered the mix had helped Nutriguard to widening the visual field.

Someone may argue that an additional element is needed in the framework; an area that consist of all possible new combination of the business' momentarily existing resources; an area that is not limited by what the business could see and take advantages of. However, the preconception of unlimited information; that man could be totally rational, does not match with the Veblenian evolutionary oriented approach. Consequently, the opportunity set will always be within the vision field.

In this framework the preconception about equilibrium or state of normality is neglected. Instead, it is assumed that marketing channels are dynamic entities and that the human beings within, e.g. entrepreneurs, proactively strive toward their own shifting goals along an unfolding sequence of cumulative causation where every small step departs from where the last step arrives. As such, all elements in the framework and the development force itself are inherited from earlier steps. Moreover, compared to e.g. Penrose (1959), the contemporary dynamic capability literature is focusing less on growth and instead introduces sustainable performance as motivator for business to change (Teece et al., 1997; Eisenhardt and Martin, 2000; Teece, 2007). Therefore, sustainable performance could be seen as the evolutionary selector in this evolutionary oriented framework for mixes of marketing channels. Those mixes of marketing channels that are adapting to change on the community level have a chance to survive.

This paper comes to an end here. This framework is only tentative and conceptual, so in order to understand how business' mix of marketing channels is renewed deeper, much additional research is essential to gain an enlarged understanding of the sequences and forces determining those sequences of change. Overall, a very central but yet unfinished mission is to take a closer look at the development force and try to empirically investigate the forces underlying it. However, the paper implicates that an evolutionary approach - and both internal and external forces acting upon the business' marketing channels - deserves to be taken into consideration in future studies within the field, because in the global competitive economy, adapting an unique mix of marketing channels to the community and the business' own resources can become one of the issues for businesses to be focusing upon in struggling for survivor among the fittest.

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IS IT TIME FOR PLACING MARKETING THEORY AT THE CORE OF INNOVATION THEORY?

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ABSTRACT

Some researchers define innovations as new ideas. Others claim that ideas must be “put into practice,” if we should use the word innovation. However the original meaning of innovation was innovative concepts introduced in society and/or on the market. The success depends on the driving actor (the novel value offered and promotion capabilities) and the external world (market and “X-factors”). Marketing therefore could be regarded as belonging to the core of innovation. However marketing is not central in mainstream innovation theories. Two cases are used to support the discussion: the formation of an opera scene and a DNA-technology adventure.

INTRODUCTION

Traditional frames of references in innovation literature tend to have bias towards technical context. Compare widespread models such as Cooper (1971) or van de Ven (1986). The time dimension is sometimes included in innovation models. But the widespread national system of innovation model (see Freeman, 1982) focus more on structures and networks not processes over time. It is interesting also to observe the postulates in economic theories regarding what external factors (from focal innovators point of view) are considered as important. Most models define the external world as primarily consisting of customers, competitors and suppliers (see Porter 1980). It is, for some reason, often taken for granted, that these factors should be endogenous, and other factors exogenous in the models.

The most important critique on traditional innovation theories that this author puts forward is that many writers have not understood the true meaning of innovation. As a consequence marketing theory has not been at the core of the innovation discourse. Before this paper goes in to this discussion more deeply, two case studies will be presented.

RESEARCH METHOD

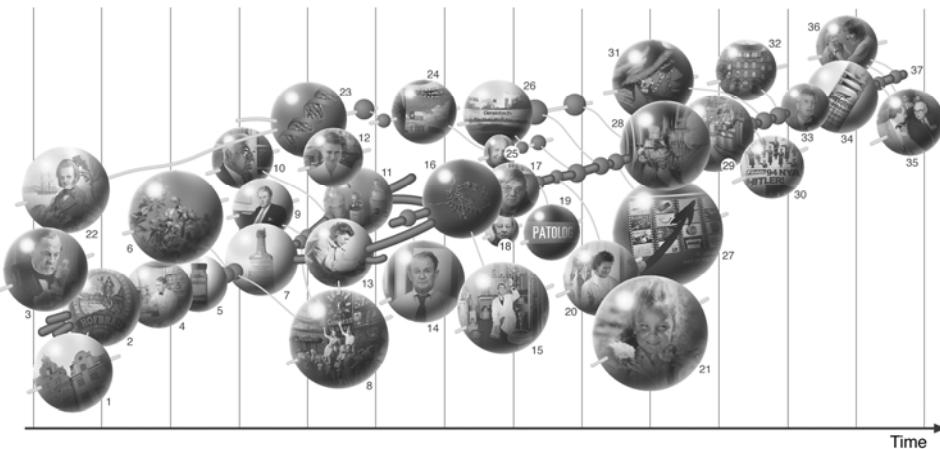
The groundwork for the analysis is connected with two empirical studies. The first one is an in-depth study of “the Pharmacia Company track” in the Pfizer Corporation. The central time period studied is about 50 years. The empirical work begun in the early 1990s and parts of the results have been published in books, articles (see Frankelius 1999a; 1999b; 2002; 2007), and also as a documentary film (Wrangnert 2007). The empirical material consists on both written sources and interviews. As a study object Pfizer-Pharmacia of course represented a very high-tech context and also a case representing high complexity. One of the research challenges connected with the empirical work was to understand the technology context in the case. Another was to manage the problem of getting access to the inside story.

The other study was an offspring from the research project *Innovative Processes*. That project was funded by the Swedish Government and published in Gidlund & Frankelius (2003). The study included an international literature survey on innovation theories. Over a two year period, case studies on innovation were conducted, and the researchers focused not only on technical or business domains. One of the cases in the study was Dalhalla. The line of events in the Dalhalla case was, to a great extent, fuelled by one person at the early phase; therefore, the research after 2003 continued and focused on deepening the empirical data from the innovator’s point of view. The researcher conducted semi-structured interviews with Margareta Dellefors to collect narratives of the process. The data collection method also included participation, photographing and archive-work. This work was done during 2004–2007. The empirical material was then used as a source from which the extract presented here was derived. The condensation process of the fully empirical material was not finished until spring 2008.

THE PFIZER (PHARMACIA) STORY

The story of Pfizer (the Pharmacia-track of that company) includes probably the first project ever when DNA-technology was used in order to produce a medical drug, growth hormone. The process is quite complicated. See the model shown in figure 1 as a structure for the condensed text description. The numbers inside parentheses in the text refer to this figure.

Figure 1: A Model of Pharmacia's Development



The development of society and the urban expansion – creation of cities – during the 19th century (1) are examples of processes, which powered growth of the brewery industry. These processes led to the establishment of the Stockholm Breweries (1889), which specialised in Bavarian type beers (2). Louis Pasteur's (3) pioneering discoveries within the field of microbiology interested the then managing director of the Stockholm Breweries, Bertil Almgren, and led him to commence research into brewing processes taking a scientific approach. He established a well-equipped laboratory.

Harry Lundin (4) began his employment in 1919, and became instrumental in the development of the laboratory. He ensured that his best student from the KTH (The Royal Institute of Technology), David Isaksson, was employed by the laboratory. Isaksson was extremely competent and well respected, and was later to become managing director of the company "Kärnbolaget", which was the jumping off point (in 1934) of the laboratory activities. Lundin and Isaksson concentrated their research efforts into the field of vitamins – and thus towards medicines and pharmaceuticals. As well as Fervin B (a vitamin B product) (5), introduced in 1936, other vitamins including vitamin C were produced. Rose hips (6) were found to be a rich natural source, which was used in the manufacture of vitamin C. New and advanced methods for the drying of rose hips led to an increased knowledge and awareness of drying techniques applicable to other sensitive biological material. It became a core competence that, even today, is of great importance to the company.

One of the consequences of the Second World War for the company was that in 1941, it was requested to develop a process for drying blood plasma (7). At the end of the war (8), large stocks of dried plasma were still in Swedish emergency supply depots. Professor Sven Brohult at the LKB company (9) suggested that the Kärnbolaget should use these supplies to investigate the possibility of fractionating blood plasma. The background was research carried out for defence purposes during the war by the USA. A leading researcher was professor Edwin J. Cohn, who introduced a fractionating process in 1947 (10). Henrik Björling studied fractionating under Cohn, and the result was the plasma product – Albumin, first produced by the company in 1947 (11).

In 1957, the company commenced production of the coagulation factor Fibrinogen, and following this, Factor VIII, both of which were the result of collaboration with, amongst others, Margareta Blombäck at the Karolinska Institute (12). Plasma products and blood coagulation products became of increasing importance in development of the company's research programmes, leading to in-depth competence within the field of proteins, which contributed greatly to the development of the forthcoming growth hormone project.

The company's involvement with penicillin commenced about 1945 as a result of research carried out in Great Britain and the USA during the war years. The picture (13) shows an analysis of Penicillin G in Stockholm in 1948. Antibiotics

became another important research field, which generated vital knowledge for the subsequent concentration on DNA technology – for instance the cultivation of microorganisms.

In 1951 Kärnbolaget changed its name to Kabi. At the end of the 1960s, professor Rolf Luft (14) at the Karolinska Institute persuaded Hans Dahlström – the company research and development director – to become interested in, and examine the possibilities of commercial production of growth hormones. The project was made possible by the methods developed by professor Paul Roos at Uppsala University for the production of growth hormones from pituitary glands of deceased humans (15). This method was published in 1963, and was first implemented and used by Kabi about 1969. This led to the creation and development of the growth hormone molecule which was later proven to be worth its weight in gold (16).

Professor Bertil Åberg (17) was a driving force in the new growth hormone project. He was recruited to the company, as research and development director, following the purchase in 1969 of a large interest in the form of shares by the Government. The then Minister of Industry, Krister Wickman, was instrumental in the recruitment of Åberg.

The growth hormone was ready for production in 1969, and in 1971 the product was launched under the name Crescormon. It was the first growth hormone in the world to be registered as a pharmaceutical. Swedish – and later on pathologists in other countries – collected pituitary glands to be used by the company (19) in the production of Crescormon. In conjunction with the launch of Crescormon, new contacts were established with paediatricians and endocrinologists (20). When treated with Crescormon, children suffering from stunted growth due to hormone deficiency could be seen to grow centimetre by centimetre. It was regarded as a miracle.

Biological research was making enormous progress at universities throughout Europe and the United States. Theories of evolution and heredity as proposed by Darwin (22) and Mendel, were part of the background to the development of biological research, which led to the mystery of the DNA molecular structure finally being solved by James D. Watson and Francis H. C. Crick in 1953. This achievement has been called the greatest scientific triumph throughout history. Further biological research resulted in the genetic code being cracked in 1966. The discovery of restriction enzymes, together with other related discoveries during the 1970s, opened the gateway to the present DNA engineering technology. This “biological revolution” was followed and well documented in scientific literature (24), and was carefully monitored from a very early stage by Tord Carmel, who was stationed in the United States by AB Statsföretag. These actions by Tord Carmel were an example of state-of-the-art in business intelligence and information management.

Genentech was founded in 1976 and was the first company in the world to specialise exclusively in the field of molecular biology and DNA technology. Carmel with his creative thinking, global perspective and conviction was instrumental in the contacts between Kabi and Genentech, which resulted, in 1978, in a company alliance, its first results being a DNA modified plasmid, which enabled the colon bacteria *Escherichia coli* to produce human growth hormone. This achievement was regarded as a sensation throughout the world. The project was Genentech’s first major breakthrough, and paved the way for future development, which was to be unusually profitable. Before their alliance with Kabi, Genentech could not even afford the cost of air tickets. It may be noted that not many references to this are to be found in American literature. The fulfilment of this project would not have been possible without the venture capital supplied by the Swedish State Investment Fund (27). Without access to this, the project would probably never have been completed.

In about 1979, the company’s research activities also included DNA modified and developed organisms, which called for great investments in high technological laboratory facilities (28). In 1981, the company inaugurated their new and very advanced production facilities in Strängnäs for the cultivation of genetically modified bacteria (29).

Public opinion, questioning the new DNA engineering technology, grew in strength following a suggestion by US research scientists in 1977 that a moratorium should be imposed on further research into DNA technology, until a full investigation into the implications and aspects of safety had been made. This public debate was mirrored in Sweden (30), and Åberg used all possible means to counteract the negative opinions.

In 1985, it was revealed that some patients had contracted the fatal Creutzfeldt-Jacob disease (31). Those patients had been treated with growth hormones (extracted from pituitary glands) produced at a university research institute in the USA. The disease had initially been identified in New Guinea as a result of cannibalistic rituals, in which the natives consumed raw brains and thereafter became infected. (Therefore the choice of picture of a cannibal in the figure.) This

scare led the company to voluntarily withdraw Crescormon from the market (in spite of the fact that no connection as a result of treatment with Crescormon could be identified or proved), which resulted in an immediate loss of sales of SEK 150 million in a six-month period.

These incidents caused fundamental changes in the public attitude to DNA technology, as well as in the attitude of the legislative authorities. The use of genetic engineering suddenly appeared to produce “safer” medicines, than those produced from biological sources – a mental sea-change could be said to have taken place.

In 1985, the growth hormone Somatotropin, which was produced by the use of DNA technology, was approved by the licensing authorities. It was identical with the human body’s own growth hormone, except for the addition of one amino acid in the sequence. The cooperation with Genentech, nevertheless, led to the introduction, within a short period of time, of Genotropin – which contained molecules identical with the human growth hormone.

The new DNA technology attracted many powerful competitors into the growth hormone market. Bo Ahlstrand (33) together with his collaborators formulated what was to prove a very successful marketing strategy. This was launched in 1986, and made possible by the support given by CEO Jan Ekberg. Patient convenience, mainly based on the twin chamber cylinder (34) was one of the bases of the strategy. Growth Service including liaisons with opinion leaders (35) was another, and clinical research was the third base. These three major bases interacted on several points, and were seen and appreciated by the target group as a unified solution of positive developments, in which they themselves actively participated, and were instrumental.

Conferences and symposiums formed a large part of this process. The company identified, targeted, and went to great lengths to create positive relationships with those carefully chosen individuals, who within different activities and disciplines were either involved in growth hormone treatment, or who could detect problems due to growth hormone deficiency at an early stage in the patients life processes. This strategy can be called “surgical marketing.”

The company then experienced a period of extremely rapid expansion, and soon became a global pharmaceutical concern/group, which to a great extent was due to the success of the growth hormone, but can also be attributed to other products (Fragmin, Detrusitol, Xalatan etc.). In 1990 Kabi merged with Pharmacia following Procordia’s (Kabis owner) take-over of Pharmacia. The merger between the Swedish Pharmacia and the American Upjohn Company took place in 1995 (37). In 2002 Pharmacia & Upjohn merged with Pfizer.

During 2007 it was the 20 year anniversary of the growth hormone Genotropin. The company hired the Aula Magna at Stockholm University and many people came to watch the launch of a documentary film. As a concluding reflection regarding the pioneering years Linda Fryklund said: “We were in a hurry every day, every weekend, every time.”

The company today has the name Pfizer Inc. and is the world's largest research-based pharmaceutical company.

THE DALHALLA STORY

The Dalhalla Story is quite different from the Pharmacia story. But both cases are about innovation processes and advanced entrepreneurship. Here is the story of the creation of an opera scene in a middle of nowhere:

Outside Rättvik in Sweden, there was a limestone quarry whose business ceased in 1991. A gigantic hole was left in the bedrock after centuries of digging. What would become of this monument from the heyday of mining? Could it perhaps be used as a municipal rubbish dump? Another idea was hatched on 18 May 1991, from an opera singer, later a radio producer, named Margareta Dellefors, then aged 65. The idea was to create a summer stage for opera in the enormous quarry. She had been responsible for the opera production department at the Swedish radio since 1980 and this job had included reportage-visits to different festivals round Europe, such as Verona, Bregenz, Glyndebourne and Savonlinna. Dellefors reconstructs that moment of imagination: “As soon as I saw it I knew: this is the place for the international opera festival place I had been looking for quite some time.”

But how, really, was Dellefors connected with the limestone quarry? Let her words speak: “I started to try finding a place for a similar festival in Sweden, but maybe something different. I have a summerhouse in Rättvik and knew that there, in

the beginning of last century, was the limestone industry.” During some years she had asked different people for tips of a good place. In November 1990 she explored the woods around Rättvik searching for old quarries. She had a local map, but she did not find any of them. They were well hidden, partly because of safety reasons. One of the persons Dellefors asked was Rättvik’s cultural director, Åsa Nyman, in a phone call around new years day 1990/91. On 18 May Dellefors got the strategically critical information about the site Draggängarna from Nyman. They went to the quarry the same day. When she came to the place, she sang and recited poetry. Let her memory speak: “Draggängarna was beautiful. The cliffs had different pastel colours because of different kinds of rocks in vertical lines … black, pink, bluish, white and brown. At the bottom of this emerald there was a coloured little lake, not ever ceasing, because it was under groundwater level. And the enormous size!”

Lots of activities started after the first impression. “I got a kick from the very first moment I set eyes on it. To be sure I invited lots of friends – conductors, musicians, singers – people whose judgement I could trust and started to work for my, as I thought, splendid idea.” Dellefors wanted second opinions – confirmation – from people she trusted. At the same time, she wanted to market the project to opinion leaders. How did she choose these opinion leaders? “As I had a long career behind me in the Swedish music world I knew persons or organisations I thought could be of value for my idea. And most of them knew who I was.” Not least one should remember Dellefors had been an opera singer for 15 years. Dellefors was aware of the fact that this coincidence was “very good timing for my project.”

After having taken photos of the place, she magnified the best one and went to a bookshop to buy transparent paper. She wanted to visualize her vision by drawing on the photos taken. She drew a scene in the middle of the lake, and a grand stand opposite it. This pedagogical trick was to be used at a forthcoming meeting in September with a construction company, and in December with decision makers from the municipality of Rättvik.

Among the chosen opinion leaders there were some journalists. Did she communicate different with them? “No, everyone who was interested in Dalhalla was important for me, but – of course – those who had the opportunity to even write about it, got perhaps some written material, for instance the little brochure I soon wrote.” Besides herself and opinion leaders in the music sector, there were many more people to convince in this very early part of the process, not least the locals: “Everyone in the little country town of Rättvik considered me more or less crazy, but as I presented letters and documents from musical and well-known Swedish authorities. I did manage to overcome the first scepticism.”

The period between the first visit in May 1991 and the first written project plan in July 1992 was about intense marketing, including hundreds of contacts and meetings. The project plan in the summer of 1992 had many targets: It was addressed “to those who were able to make this idea develop,” and the key was the county community of Rättvik.” The county community was a very vital part of the social context of the innovative process.

Besides marketing, much work was devoted to investigating the conditions and practical problems in detail. The fascinating hole was found to be 400 metres long, 175 metres wide, and as deep as 60 metres. Its walls were nearly vertical and the acoustics were on a par with Greek amphitheatres. Moreover, it lay far from the noise of cities, roads and factories.

But a lot of money was needed, and the main problem was to find and persuade sponsors. In retrospect, about 50 million Swedish crowns should be needed to fulfil the dream. But Dellefors confirms: “The first 100 000 were the most difficult to get, as they were the key to the whole project.” She needed to convince a lot of people of her vision. The perfect marketing concept for that, she thought, was to arrange a test concert. Such event costs a lot of money. “After about two years I managed to raise the necessary money to make a test concert, which would prove, among other things, the extraordinarily good acoustics Dalhalla had.” The fund-raising process, thus, was crucial. The problem was that many observers did not believe that Dellefors was serious. She reflects: “It always arises suspicions when something new is initiated. ‘We cannot do this, it has never been done before’, ‘We must do this, because, that is what we always have done’, ‘Opera – that is something where people only shout and you can’t hear a word of what they are singing’, ‘And who is she, who wants to come here and tell us, what we shall do’”.

Others thought it was a nice idea, but would never have dreamt of investing money in such a project. Dellefors encountered resistance from sceptics including experts in engineering and economy. Articles in newspapers were also written about the impossibility: “I don’t know if that was because I was a woman with Stockholm as my home address, or my age. And as opera is something so out of nowhere for most – I would say particularly people in Dalarna, the landscape

of Swedish folk music.” Yet she did arouse great enthusiasm from a few. In January 1993 the County Administrative Board, decided to support the project with 50 000 Swedish crowns. The Municipality then also decided to support it with the same amount.

In May 1993 it was time for a meeting: “I invited the local people to a meeting in the library hall in Rättvik on Tuesday 25th May, and showed a video taken by my brother. I talked about all possibilities and what it could mean also economically for little Rättvik.” She got unexpected support: “One person – totally ignorant of classical music or opera – was curious enough and asked some very important questions: Roland Pettersson.” He was a local automobile dealer and embraced the idea even though he himself had never set foot in an opera. He also helped her with the coming trial concert. How did the meeting come into place? The meeting was made known through advertising in *Rättviksnytt* and *Leksandsbladet*, two free papers for every household in this area. And the library hall was crowded.

The first years Dellefors mostly worked alone with the project. One helping hand arrived in December 1992; the architect Erik Ahnborg: “I remember one occasion, when Ahnborg was discussing with the NCC engineer at one end of the table and I at the other end was talking to Boverket [the Swedish state agency for living matters] in Karlskrona negotiating for more money. That was in the spring 1994, were 400 000 crowns were still missing.” Altogether, Dellefors was able to gradually awaken commitment by numerous people, both private individuals and foundations. But even so, very much money was needed.

A project group was appointed in the spring 1993. They managed to get more and more money from sponsors. The Barbro Osher Pro Suecia Foundation, situated in San Francisco, gave Dalhalla 2 million for opera production. Later the Barney Osher foundation also gave money and a first class text machine. An important part of the financing process was the ability of Dellefors to get help from professionals.

On 18 June 1993, a trial concert was held with a specially invited audience. How did they choose the persons to invite to this concert? “I and K-G Holmén, the chairman of the [County Administrative Board], decided on whom we should invite. He on the local plane, I on the national level.” She adds: “And I choose people who were connected with music and opera in particular and music writers and critics and of course people connected with state organizations who supported culture with money.” In total there were 120 persons on the list. The trial concert was successful. To take the edge off the criticism that the idea did not suit Rättvik’s folk music, Dellefors spiced the programme with traditional fiddlers and birch-bark horn blowers. She will never forget this concert: “The local people ... had contributed with big bowls full of wonderful wild summer flowers and were all there in their national costumes. Birgit Nilsson sat there in her mink coat. I introduced the programme by singing the first lines of Elisabeth’s aria from *Tannhäuser*, ‘Dich teure Halle, grüß ich wieder...’ Big!” Eight young singers sang opera arias, folk music was played, and a choir of Latvian singers sang ‘Hallelujah’ from *Messiah* by Handel.

The trial concert was a vital ingredient in the strategy: “The aim was to prove the substance in the project for everyone that mattered in Swedish music life.” That was not only musicians and opera managers, but also the head of the Royal Academy of Music and of course the press and television, both local and nationwide. In fact, part of the problem was also to convince the members of the project group that Dellefors really *had* the important contacts she talked about. The first fund raising phase has been to finance this concert. The second phase started on the next Monday, 21st June 1993. That Monday Dellefors applied for the name Dalhalla. And more things were done: “I do not know, how many applications I have written. It must be a couple of hundreds. But the initial money of only 100 000 crowns, was the most difficult.” Every success during the process was used to promote later steps to fulfil the vision. Dellefors continues: “After the important and successful test concert I invited people to become members in the Society of Friends of Dalhalla. It soon became a very big society with today more than 3,000 members. Our world famous Wagner soprano Birgit Nilsson, my great friend, was our honorary chairman.”

The test concert was also followed by concrete construction. What, then, happened the following year? Dellefors tells: “For the summer 1994 we had got enough money to do the first real test, if Dalhalla would become an asset for the opera lovers of Sweden. They were invited to an opera concert on 23 July.” A provisory stage had been built on the sea. The canal between the stage and the audience was there and there were seats for 1,620 people. The concert was sold out in no time. And the reason was that now Dalhalla had gotten the recognition from the state, as the Ministry of culture had given Dalhalla 250 000 crowns. In their press release they had described Dalhalla as the future Verona of the north, an attribute

that still is connected with Dalhalla.” But all this needed boosting marketing. Dellefors comment: “I advertised in the big national papers and of course in the local ones.”

In the summer of 1995 the audience capacity was expanded to 2,670 seats. Parking places were arranged and a protected path was laid down into the quarry. The stage, with an aesthetic roof of sailcloth, was placed on a peninsula in the emerald-coloured water, farthest down in the quarry. About 40,000 tons of limestone masses were exploded and used as material for the stage. The 11 metre broad canal between stage and audience was ready.

The official inauguration of Dalhalla took place on 21 June with a major opera concert that was broadcasted on Swedish Television. Unfortunately, that very day, the area suffered an awful storm and the concert had to be stopped halfway through. Dellefors comment: “But – as someone said – A dramatic place like Dalhalla must have a dramatic overture.” Despite (or partly because of?) the disaster Dalhalla soon became known throughout Sweden and its fame spread abroad like wildfire. The broadcast by the television was very important. Dellefors confirms: “The Swedish television did manage a whole planned programme, even if the total concert had not taken place. From the very beginning TV has shown a lot of Dalhalla, which of course has been of gold’s value, as you don’t exist if you are not on the telly.”

The activities became more intense and more formalized. In May 1996 a company called Dalhalla Production was established, wholly owned of the Society of Friends. This company should take care of the productions. The workload was rising. The company got a CEO Håkan Ivarsson (employed half time), and Dellefors as responsible for art direction. All facilities were still owned directly by the society. The place was owned by the Rättvik municipality.

In the summer 1999 a tornado destroyed the expensive sail-roof. More money was needed to cover this and other needs. The fund-raising process was always in focus. Dellefors fills in: “11,4 million Swedish crowns were given by a rich couple.”

In June 2000 Dalhalla had become a well-planned opera arena. They had a big concert on June 7th with the Swedish king and queen invited. At this time Dalhalla had 4,000 seats, heating for the orchestra pit from the depth of the mountain – and likewise in the house behind the stage for the artists. A steady roof was supported with pylons secured down deep in the ground 26 meters. They had a professional light system and a smaller stage going up and down using hydraulic power.

As mentioned only a few of the locals were positive in the very beginning of the project. But the attitudes changed. Dellefors reflects: “It has been a long struggle, but a good one. Most of the time I have felt an enormous sympathy and got encouragement from the local people, who have really been proud of their contribution to the Swedish summer festivals.” Since the start, numerous opera performances and concerts have been staged in Dalhalla.

THEORETICAL DISCUSSION

The way we think about innovation has changed over the last 50 years. As an example the so-called linear model has been exchanged with the innovation system model, thus a network perspective. However, there are still some “truths” that are not questioned very much. One of these is that innovation is about creative thinking or “imagination/fabling” to cite Hjorth (2008, p. 3). This perspective can be called the DaVinci paradigm. Thinking or re-thinking something, however, is not enough for bringing innovation into existence. It is one thing to think of an opportunity and another to transform that thinking to the act of creation.

When transforming a novel idea into action, financial resources most often are needed. One skill that is important for this transformation is marketing. The “driving actor” has to sell the vision so that work on concept development can be financed and therefore done. This is true not only in films like Jurassic Park, but in reality as well. We can conclude that neither Dellefors nor Ahlstrand at Pharmacia used a traditional marketing strategy in the sense of trying to reach as many people as possible. Rather they used what in Sweden has been called surgical marketing: targeting a few, but well chosen persons, and then addressing a lot of communication energy to each of them, including formation of tailored messages (Frankelius 2002). An illustration of the kind of professional market communication was when Dellefors persuaded some opinion leaders to visit the sight and see it with their own eyes – or hear it with their own ears. The formulation of the very successful marketing strategy by Bo Ahlstrand together with his collaborators in 1986 was another illustration. This marketing strategy was very complicated and included an interplay between the areas of patient convenience, growth

service, and clinical research. The extremely complex organizing of international symposia required as much competence as the laboratory work – and the last mentioned was not an easy thing.

Innovation is not only about Technology

Researchers and innovation professionals (including policy makers) often stress the importance of technology when discussing innovation. A EU vision document, for example, set the scene in this way: “Technology research and development will play an increasingly central role in the way in which our societies develop.” (Caracostas & Muldur 1998, preface). When von Hippel wrote his introduction section in a recent book he pointed only at technical contexts such as medical equipment, semiconductors, sports equipment and information systems (see von Hippel 2005). In fact most innovation literature focuses on technology contexts (see Cooper 1971, van de Ven, 1986 or Fagerberg *et al* 2004). The postulate in this refereed literature stands in contrast to the Dalhalla case. An innovation is something new, but not necessarily technical. Innovation can for example happen in cultural contexts.

Still another truth in literature on innovation is that the main problem, when it comes to technical contexts, has to do with technology itself (Dahmén 1950, is one example). One effect of these postulates is that entrepreneurship issues tend to fall outside the analysis of innovation. The technology bias in the innovation literature can be questioned in the following way: As maintained by *Oxford English Dictionary* (2002), one of the first to use the term “innovation” was King Edward VI in 1548. Part of the meaning of the term was “something newly introduced.” An innovative process has not been fulfilled until the novelty in question has been acknowledged by customers or others for whom it may be of benefit.

Therefore such knowledge as leadership, customer care and customer communications is at least as important as technical or product development. The Pharmacia case showed that *marketing issues were just as essential and just as complex as technology development – even in a context when natural or technical science components is central*. This conclusion has an important consequence: Research into areas such as recruitment, management, new ways to increase an understanding of customers’ aspirations and needs, or new ways to advance contacts and interaction with customers ought to be defined as at least strategic research as traditional tech-focused research. This conclusion is very opposite from, for example, the policy in Sweden during the last 50 years.

The External Environment is not only about Economic Factors

Innovation is a phenomenon in which a driving actor (or team of actors) tries to bring a novelty into society, and the outcome of that process of course partly depends on external factors. It is common in innovation and entrepreneurship theory to define the business environment as mostly consisting of other buyers and sellers in relation to the central actor. In the line of a long tradition the entrepreneurial context or environment has been defined as a phenomena limited to kinds of actors like customers, competitors or suppliers (Dill 1958; Emery & Trist 1965; Aldrich 1979). It has not escaped notice that this perspective is present in most networks models – and these models are very popular these days. In contrast the cases here point at a need of widening the context definition to include also a) other social actors than business partners, and b) other than social factors, such as natural factors. I want to stretch the conclusion to the point that it can be impossible to understand social processes when the theoretical frame excludes non-social components such as nature (compare the storm in the Dalhalla story) or manmade physical artifacts (compare the manmade lime-stone quarry or the television program).

There are many factors in the real world that are at least as important as the old traditional economic factors. Nature factors of different kinds have already been mentioned connected with the Dalhalla case. Overall Dalhalla is a mix of culture and nature. Nature factors were central also in the Pharmacia case (compare the collection of Rose-hips or extraction of genes from biological material). This notion of connection between economy and nature fit well with the rising interest around natural environment in society. An early theory on the interplay between innovation and nature factors was developed by Carl Linnaeus in the 18th century. Linnaeus’ model can probably inspire future development including an attempt to meld economic theory with natural science (see Frankelius 2007).

Among the social external factors there were many in the cases related to traditional economic factors (customers, suppliers and competitors). But there were *also other kind of social actors involved*, like the media and donors in the Dalhalla case or public opinion-leaders in the Pharmacia case. These are not common in mainstream economic theory. External factors that are important for an innovative process, but at the same time not in focus in traditional economic

theory, can be called *X factors*. Many modern researchers in innovation or entrepreneurship focus on only social factors (an example is Steyaert and Hjorth 2003). This postulate regarding relevant external factors is a different way of looking at the world.

The Time Dimension Matters

Models of innovation systems (Freeman 1982; Nelson 1987; Lundvall 1988), networks (Håkansson 1987) or industry structures (Porter 1990), are very common since List (1840), among others, set the stage. The positive side is that these models are pedagogical and easy for students and practitioners to understand. The negative side is that they do not include an explicit time axis.

Both the Pharmacia and Dalhalla case were illustrations of how processes develop over time. The time dimension has many shapes in the cases. One aspect is the importance of timing, for example to start a project one specific year or arrange a test concert a specific day. Another aspect of time is that mental maps take time to form in the mind of interest groups (compare public opinion around DNA-technology). Therefore the empirical studies call for a need of an explicit time dimension in theory. By process I do not mean slow general (or evolutionary) processes in society (compare Veblen 1899 or Hannan and Freeman 1977), but the more concrete change processes occurring when an entrepreneur moves ahead through time, interwoven in a lot of external processes (well illustrated through the Pharmacia case).

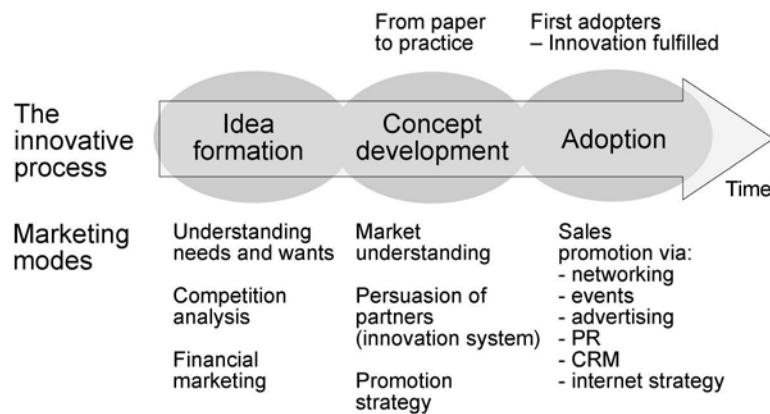
CONCLUSION

Not least from the Dalhalla case we learn that an innovation is something new but not necessarily technical. Moreover, to be defined as an innovation a novelty needs to “break in” to society, or in other words to be introduced and adopted. In most cases that means succeeding on a market. Thus, a new innovative concept (product, service, business model, method of production or piece of art) is not an innovation by definition. The new concept has to be adopted by users or customers if someone wants to call it an innovation. Adoption, however, is not something that always – or even most often – happens automatically. The success or failure depends on both the driving actor (the value created and promotion capabilities) and the external world (market and X-factors). Marketing, thus, could be regarded as belonging to the core of the processes that bring innovation into reality.

Marketing includes two processes: the first is the intended direction of development of values departing from understanding user needs and wants. The second is processes, aiming to promote products, services, and companies to customers, financiers, potential employees and others. The first process is important because it can both detect opportunities and in many ways affect the value created (or the design of the offer). The second mode of marketing, promotion, is important because it stimulates the information about the novel concept to reach potential users. Promotion does not only stimulate “raw information.” It also affects the desire and action of potential users (Strong 1925). Action refers here to people starting to buy or use the novelty. Besides these two modes, it should be mentioned that marketing also could be used as a tool for stimulating investors in early phases of innovation processes. All three modes of marketing – see figure 2 – were very obvious in both the Pharmacia and the Dalhalla case.

In sum, time has come to redefine the frame of reference of innovation in a way that marketing becomes part of the core.

Figure 2: Marketing as Integrated Part of the Innovation Process



EPILOGUE

I mentioned some notes on the origin of the innovation concept. During an ongoing research project I have found that the term has its roots long before the King Edward time as *Oxford English Dictionary* claims. In fact I can trace the term to the Latin expression “res novae.” This expression became widely used during the first century B.C. – the time of Marius, Caesar, Cicero and Horace. One interesting aspect of the original meaning of the term was the often-mentioned connection between “something new” and “the news about that new thing.” Innovation probably cannot be separated from information flows. Because marketing to a large extent is about diffusion and exchange of information to/with customers and others, marketing really is related to the true meaning of innovation. However, only a small part of new concepts are radically different from present concepts introduced on the market. Therefore I conclude that almost all innovations need marketing, but only a small part of all marketing is related to innovations. Research on this topic will continue, and I appreciate all comments. Please mail per.frankelius@oru.se.

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STRATEGY: TOWARDS STRUCTURE, DYNAMICS AND TAXONOMY

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ABSTRACT

The taxonomy of strategy is not well defined and as a result the discussion of strategy addressing the organisation, its internal and external opportunities, has not been well addressed. We conceptualise strategy as intervention. Whilst there is a vast literature on strategy and planning, reviewed by Mintzberg (1994) and subsequent authors, we aim to critically draw upon these literatures as a means to conceptualise the organisation's structure, external and internal arena and taxonomy. We use system dynamics influence modelling to articulate our taxonomy, its structures and dynamics. The purpose of this paper is to use this taxonomy to provide a basis for organisational strategic thinking by covering the literature areas between the theory of the firm or organisation and control systems.

INTRODUCTION

It might be said that the contemporary organisation is no longer a combination of capital and labour to fulfil its internal goals, but rather a configuration of stakeholders with expectations which cannot be ignored. This makes the organisation a complex, interesting and active system (Forrester, 1961; Sterman, 2000) which can be studied through a dynamic systems approach (Davis, Eisenhardt & Bingham, 2007). To fulfil its market goals and achieve its revenues it has become a complex system with a strategy of simple rules (Brown & Eisenhardt, 1997, 1998; Davis et al., 2008). Our purpose in this paper is to take a 'bird's eye' view of the academic and applied strategy literature domain with the objective of 'patching' areas where we believe it is possible to do so. Through this process we move towards suggesting some simple structure, dynamics and taxonomy. We do this by using the logics of system dynamics to tell our story.

The management literature is very broad in its discussion of performance. For example, Davis et al., 2008:19 link performance to an organisation's ability to 'capture opportunities in its surrounding environment' arguing that 'when enough of these actions match the opportunity, the opportunity is captured and firm performance increases by the value of opportunity'. Managerial attention spans are finite and limited (Cyert & March, 1963; Ocasio, 1997; Davis et al., 2008), and so the organisation has a limited number of actions that it can take in any 'timestep' (Brown & Eisenhardt, 1997; Davis et al., 2008). A prime focus and contribution of Eisenhardt's work over the last twenty years is her understanding of the organisation's opportunity to interface with the market opportunities and the dynamics of this interface. Whilst this addresses the generative aspects of the organisation there is also the side of the organisation's external, government, regulatory and societal requirements that take effort and resources, yet cannot be avoided. These too create complex tensions which need to be captured.

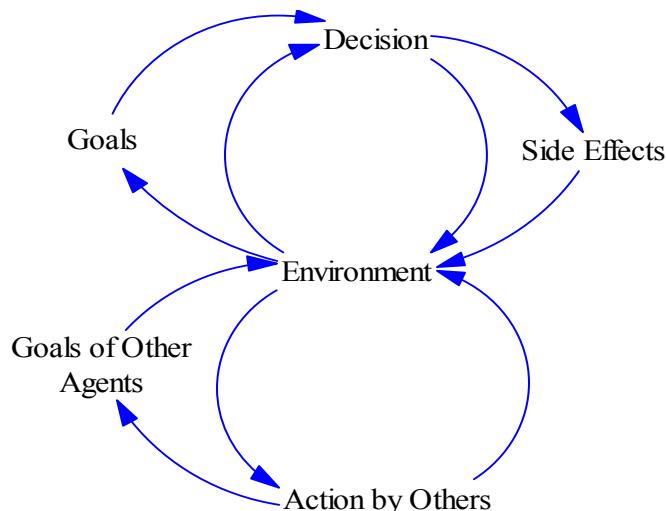
Geursen (1999) identifies that strategy in the small organisation is fundamentally driven and triggered by the liquidity situation in which the organisation finds itself. A manager may have visions or wishes for actions but for these to be actioned liquidity is required. This finding is not an approach readily evident in the strategic literature, but does make sense in the wider organisational context as it is an unavoidable fact that an organisation can only continue as long as it can pay its bills. Hofer (1986) identifies the importance of liquidity in turnaround strategies and further literatures note its importance as an informational fundamental (Rappaport, 1982; Lawson, 1992; Lee, 1993). Yet, even the current active discussion by Chua (2007) of the accounting literature linking strategy and accounting (Chapman, 2005; Chenhall, 2005; Langfield-Smith, 2005), fails to identify the role of cash flow as central in the strategy discussion, preferring to consider performance from an organisational objective-achieving perspective. The interfaces with an organisation's stakeholder groups influence the quantum and timing of cash flows and hence what and when strategies can be implemented. Therefore a structure for strategy has liquidity at its core, and in particular the cash flow from operations (CFO). This is because the achievement of CFO does not set up subsequent responsibilities. Cash flows from borrowing sets up debt which must be serviced; cash flows from the sale of assets has implications on borrowing availability as it affects gearing. A cash flow structure requires stakeholders as it is their capabilities and demands which form the structures amongst which the strategy functions. How strategy operates is a function of how the stakeholders engage, interact, respond and intercede in the process.

Brown & Eisenhardt (1998) identify the intellectual tension between pragmatism and change as an ever-developing dialogue between strategy, organisations and change. Change embraces the social, technological and institutional perspective of an organisation (Van de Ven and Hargrave, 2004). Organisations constantly initiate and undergo change in all their different facets in order to remain relevant to their various stakeholders, hence change is a critical component of a strategy structure. Mintzberg & Walters (1985) and Mintzberg (1994) assert planning as deliberate and emergent, adding a further dimension to strategy. As we identified in the previous paragraph, liquidity is a critical issue because it is a requirement for both the inputs and outputs of strategy. Therefore the amount, timing of cash coming in and going out affects the liquidity of the organisation. Liquidity is a primary issue for the organisation and is therefore critical to the strategy discussion. For an organization to operate on ‘simple rules’ (Davis et al., 2008), it needs to focus its controls needs and focus them on the most fundamental construct of performance which is liquidity. This focus is not the common view taken in the literature which tends to focus on measurements related to strategic outcome achievement as the control focus (Jensen & Meckling, 1976; Ouchi, 1979; Merchant, 1985; Chapman, 2005; Chua, 2007) and in a number of instances profit. For example, Narver and Slater (1990) considering used profit as their performance indicator but failed to demonstrate the link between market orientation and profit because of the complexity of this accounting term. A more general approach in the literature is that performance relates to achievement of goals (Ouchi, 1979; Govindarajan & Fisher, 1990; Chapman, 2005; Chua, 2007), or to agency considerations (Jensen & Meckling, 1976), or to criteria such as resource usage (Barney, 1986). A further group consider performance to be linked to the general health and operation of the organisation to achieve internal and external outcomes (for example, Brown & Eisenhardt, 1997, 1998; Davis et al., 2008). The views presented in the control and performance literature does not appear to come to grips with the unavoidable fact that the organization liquidity is what determines its ability to continue and hence it should be the primary focus of control particularly in operations our structural thinking about control. From the elements above we structure strategy and identify its dynamics in order to provide a framework for strategy.

A Dynamic rather than Stable Structure

Sterman (2000:11) notes that ‘our decisions lead to new decisions, but also trigger off side effects, delayed reactions, changes in goals and interventions by others. These feedbacks may lead to unanticipated results and ineffective policies’. Indeed small events can snowball into major disasters (Weick, 2003; Randolph & Repenning, 2002). However, the fundamental dynamics of strategic decisions and their impact are shown in Figure 1.

Figure 1: Sterman’s Dynamic Systems View of the Strategy Environment



We argue that contemporary organisations operate in an internally and socially generated culture interacting with external cultures in ways where the whole is relevant to the different stakeholder groups. In a changing structure the task of strategy is to maintain or improve the array of relevancies with stakeholder groups and at times experiment selectively with individual relevancies for particular stakeholders’ needs or requirements. This is not, as economics would have us believe, a cross-system optimisation focused on efficiency, but rather is a set of initiatives based on an engaged discussion between the different elements at that point in time. Brown & Eisenhardt (1998) provide one ‘roadmap’ for revenue and

internal organisation's behaviour where agility is critical. Mintzberg, Ahlstrand & Lampel (1998) provide ten different organisational cultures which influence how an organisation approaches strategy. Van de Ven & Hargrave (2004) present an augmented view of the industry landscape and its connections. It is a clear schema of the landscape, indicating the substantial complexity of interconnections that are involved if we are to consider strategy (also see Nadler 1988; Rivkin 2001) as a tool or method for exploring elements behind a general framework.

STAKEHOLDER STRUCTURE

Much of the management literature is based upon Barney's (1986, 1991) resource-based theory which, because it assumes the manager is in control, fails to recognise the different stakeholder groups and the influence individual groups might have on the strategic structure. Similarly, the concept of core competence (Prahalad & Hamel, 1994), whilst addressing efficiency in resource allocation, does not provide a framework for overall strategic requirements of a firm or organisation. To create a model of strategy, a structure which groups stakeholders on the basis of demand drivers is therefore required.

Geursen (1999) conceptually proposes the existence of a 'stability condition' which identifies a fundamental structure of stakeholder groups when the organisation is in a sustainable bill paying position. As noted earlier, the organisation's ability to continue is determined by its liquidity; it is this that sustainability condition addresses. Geursen (1999) argues that entity survival is a function of the level of positive balance between cash inflow (revenue) and outflow (costs). This condition might be considered as the pivotal point around which applied strategy functions. The relationship described by Geursen (1999) can be expressed as:

$$\Psi(f) \geq C(Ii) + C(Ie) \quad \text{Sustainability Condition 1}$$

Where:

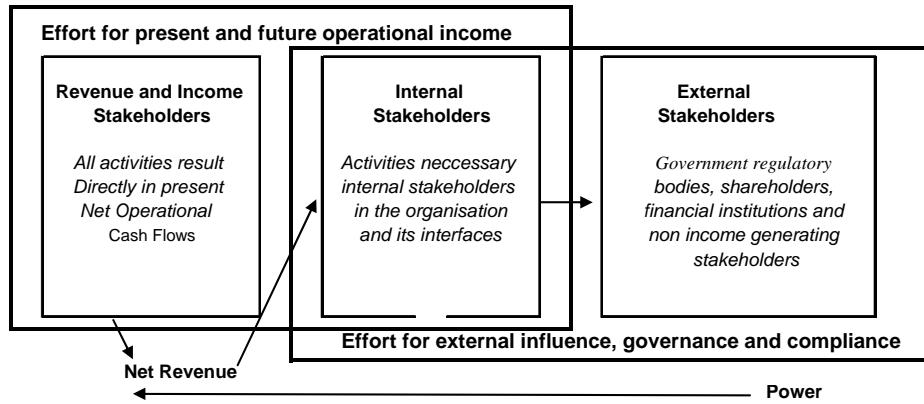
$\Psi(f)$ = Net cash flow generated in the revenue domain

$C(Ii)$ = Costs of servicing stakeholders inside the organisation
(internal interfaces)

$C(Ie)$ = Costs of servicing stakeholders external to the organisation
(external interface)

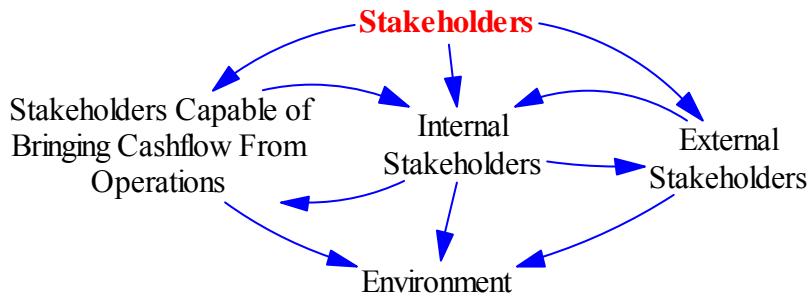
In Condition 1 the stakeholder groups are divided into two: the generative group and the distributive group. The function of the products and services an organisation provides is generative because it is the source of revenue or the cash flow from operations; it may therefore be defined as a key stakeholder group (Geursen 1999). The distributive group are the consumers of the cash generated. However these stakeholders further divide into those who are internal to the organisation, and those who are external. The internal group (managerial operational and administrative) service the organisational and the interface needs of the other two groups. The external stakeholder group are the rent extractors of the structure. From an economics perspective they impose constraints (government, regulatory bodies, and societal pressure groups), but this group also includes those that provide capital which the organisation has not earned through operations and therefore are in a position to extract finite rentals from the organisation. The dichotomy of the organisation is that whilst revenue, upon which the organisation is dependent, is generated from the revenue and income stakeholders, power over the organisation and its actions is strongest amongst external stakeholders. This leaves the internal stakeholders situated in between these two groups. The internal stakeholder group can thus be portrayed as providing three functions: efforts for present and future operational cash flows; efforts for external influences, governance and compliance; and efforts to service internal cultural needs in the organisation. We can show this structure in the Three Domain Model, Figure 2.

Figure 2: Three Domain Model of the Organisation



The three domain model is more useful than Barney's (1986) resource model because it provides a structure to the stakeholders by grouping them in relation to function. It thus identifies the drivers in the dynamics of the organisation. From the perspective of strategy as structure and dynamics, it provides a clear contribution to modelling strategy dynamics; this provides the first step in our system conceptualisation model as shown in Figure 3:

Figure 3: Model Step One (System Model of Stakeholder Dynamics and Structure)



The three stakeholder groups structure addresses the focus question of Van De Ven & Hargrave (2004:86) who state that 'in institutional design what actions and roles do individual actors undertake to create or change an institutional arrangement' cover the internal and external environment of the organisation. Figure 2 provides a structure for 'patching' which provides a strategic foci for the environment.

The environment is either stable or changing. If it is stable it is up to the organisation to provide initiatives which are either incremental or radical for the path it might strategically wish to proceed along. If, on the other hand it is changing, again the organisation's strategic address may be radical or incremental. This is because, in an organisation responding to and undergoing change, it is the agility and behaviour aspects, advocated by Brown and Eisenhardt (1998) and observed by Kanter (1989), Wieck (1995), Luscher and Lewis (2008) and many others, which are the critical aspects.

CHANGE DYNAMICS AND STRUCTURE

Change is at the core of the organisational phenomena as a consequence of human and environmental interaction (Forrester 1961; Sterman 2000) creating the dynamics in figure 1. Schumpeter's (1934) creative destruction concept is about change and its purpose is to fit with stakeholder requirements or relevance achievement. The organisational cash and stakeholders' 'licence to exist' is dependent on how well it achieves stakeholder relevancies and maintains those relevancies in the future. If an organisation cannot maintain market relevance through its products or services, its revenue will drop, triggering further consequential organisational effects. If it cannot maintain relevance with its internal stakeholders they will leave it. If it cannot maintain relevance for its very powerful external stakeholders they will force the organisation to comply or 'squeeze' it out of existence. In a fundamentally unstable environment (Sterman, 2000) change, whether it is internal or external, is unavoidable.

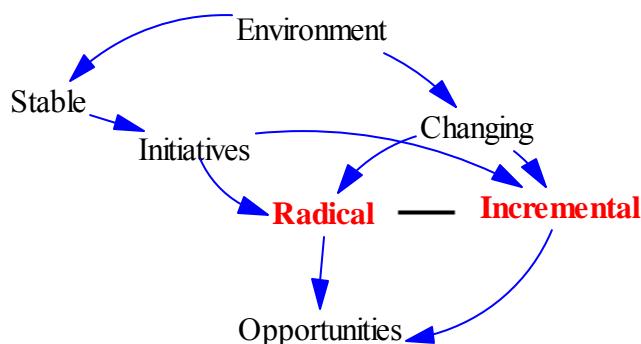
The literature on change covers social, technical, and institutional considerations (Van De Ven & Hargrave, 2004), as well as how we might study change (Van de Ven & Poole, 2005). However, the literature has two key themes which are important to the dynamics of an overall conceptualisation of a structure and dynamics in the taxonomy of the organisation. These themes relate to the issue of time by considering change as incremental (Simon 1978; Quinn 1992) or radical (Tushman & Anderson, 1986; Anderson & Tushman, 1990; Gersick, 1991; Romanelli & Tushman, 1994; Greenwood & Hinings, 1996). The nature of change is that it takes time (Senge, 1990, 2004). In the case of the Louvre Museum in Paris the finite vision to recreate the ‘Grand Louvre’ took twenty years to achieve (Gombault, 2008). In Hewlett Packard, Singapore, a nurtured process of twenty two years was required for that vision of a Asian integrated business unit was achieved (Brown & Eisenhardt, 1998). From a systems perspective, delays are therefore a critical phenomena. These phenomenological perspectives are currently being not only described but tested in dynamic structures, for example, the interrelationships of how to compete (Brown & Eisenhardt, 1998) or the entrepreneurship network system (Wouter & Elfin, 2008).

By looking at change in this manner, the literature is limited because it does not cover a dynamic process which can have both incremental and radical components. In other words, we argue that change is an axis where one end is typified by radical change, and the other end by incremental change. This concept is discussed by Brown & Eisenhardt (1998) who identify that the degree of change in a situation determines the degree to which the existing and new elements in the organisation should be intermixed. These authors argue that existing employees and structures are particularly appropriate when you need to retain the organisational culture, values and beliefs that have contributed to the relative success of the organisation. On the other hand, when an organisation is attempting to do something radically new, the existing organisational culture can present a barrier to change (Senge, 1990). Therefore, it is appropriate to develop radically new structures and the human capital within them using only limited current organisational resources to form the required communication link between the new initiatives and the existing parent organisation (Brown & Eisenhardt, 1998; DiMaggio & Powell, 1983). The third area of discussion has been with regard to how change has been implemented (see for example, Van de Ven & Poole’s (1995) discussion of motors) and the aspects of change covered in the entrepreneurial literature (see for example Burgelman, 1993 on internal entrepreneurship and Baron, 2008 on effect). In fact, one could see entrepreneurship as a synonym for change. Entrepreneurship viewed in this way is essentially about putting elements of the organisation and markets together in a different way to achieve success through improved relevance. This represents a distinction between the change literature and the entrepreneurial literature.

There are technological theories of change which are about frame breaking and fit destroying (Siggelkow, 2001). These are complex areas and not extensively researched (Luscher & Lewis, 2008). This complexity, which Baum et al. (2000) discuss from a modelling perspective, has been thoroughly developed in systems dynamics modelling by Sterman (2000).

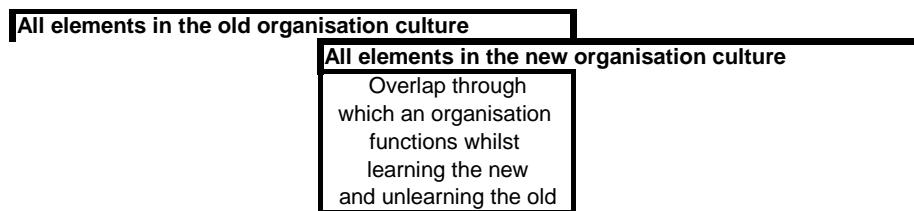
As authors that ascribe to the Learning School (Senge, 1990; Nonaka & Takeuchi, 1995) note, the moving of an organisational culture and the requirements of stimuli to achieve change are complex and difficult. However, we would argue that for these reasons, rather than see change as either radical or incremental, we should consider an organisation confronted with change as having to cope with a mixture of situations from totally radical to totally incremental. Hence, our argument for the conceptualisation of change is that it is an axis and the points along that axis represent mixes between radical and incremental change (Figure 4).

Figure 4: System Model of Change



Furthermore, in an organisation's strategic context there are multiple changes occurring at any one time. Some of these will be radical and some incremental, whilst yet others are a mixture of these two ends of the change axis. All the social, technical and institutional elements and characteristics (Van de Ven & Hargrave, 2004) noted in the discussions above will exist in the change situation and it is difficult for the participant stakeholders to make sense out of the interrelationships which occur during the change process (Luscher & Lewis, 2008). However, Geursen (1996) argues for a cognitive mechanism for change through a 'parental structure' of common relevancies between the old and the new acting as the mechanism through which learning and unlearning occurs, therefore facilitating change.

Figure 5: Geursen (1996) Parental Structure of Organisational Change



Furthermore, Brown and Eisenhardt's (1998) regenerating notion of evolving tomorrow's market offering is the same argument in the product area and is a strategic implementation of the parental structure. Hence, our argument of an axis, with radical at one end and incremental at the other and combinations of both at various levels in between, appears to be a pertinent way in which to conceptualise the various change activities occurring in an organisation at one particular time.

Planned and Emergent Strategy Axis (Seeability)

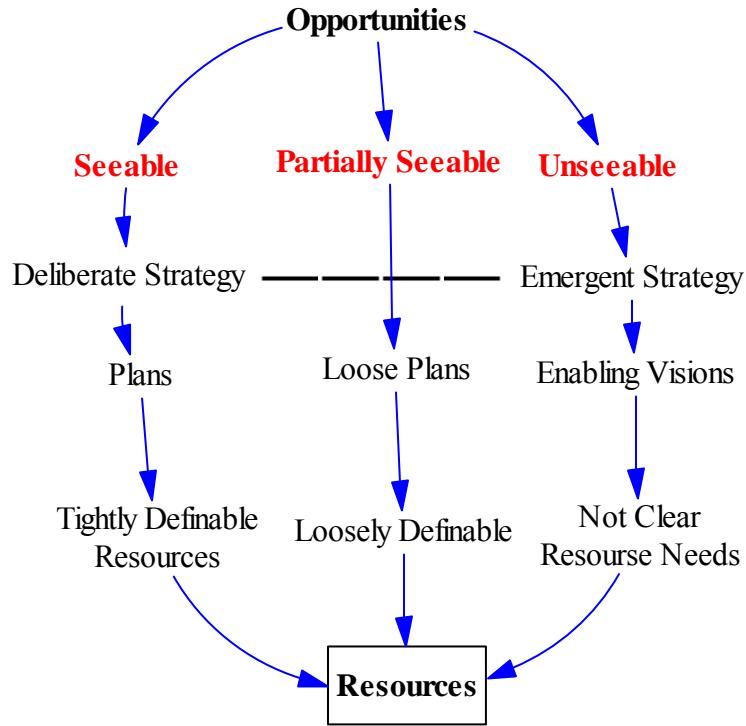
The aspect of the ability to plan, and the role of planning, is fundamental to the strategy literature and indeed to strategy. Mintzberg's (1994) use of Kirkegaard's horse example—which describes the situation of a rider riding backwards on a horse which is going at full gallop forwards—to demonstrate the fundamental issue of what can and cannot be seen to describe the issues is particularly useful to illustrate the concept of seeability.

Authors such as Brown and Eisenhardt (1998), Mintzberg (1994), Mintzberg et al (1998), Kanter (1989), and Quinn (1992) assert that contemporary organisations operate in environments of rapid and unpredictable change, and therefore place an emphasis on agility and operating with emergent opportunities. On the other hand, the classic strategy literatures (for example Ansoff (1988); Steiner (1979); Lorange (1979); Miles and Snow (1978); Porter (1980); Drucker (1985)), contend that strategy is a planning sequence which gives structure and managerial control and thus leads to performance. Fundamentally, supporters of the planning school see the firm environment as basically stable in the short term, with some events requiring plan adjustments which they view as responses to contingencies. The focus for the Design, Planning and Positioning schools is to monitor plan implementation. For the Emergent schools, the focus is to enable managers to act in an empowered environment. It is likely that contingency theory is appropriate to cover issues relating to *control*, but it is questionable whether this theoretical concept is broad enough to cover *enabling* issues when it is applied in dynamic environments (Quinn, 1992; Mintzberg, 1994; Brown and Eisenhardt, 1998). It might therefore be observed that managerial requirements appropriate to planned and emergent decisions are substantially different.

From a managerial perspective the core proposition of Mintzberg (1994), Mintzberg et al., (1998), Kanter (1989) and Quinn (1992) is that firm performance outcomes are substantially affected by the contributions from planned managerial initiatives and reaction to emergent opportunities. Mintzberg (1994) considers that reliance on planned strategy is inappropriate because the gap between planned and realised strategy is very substantial for two reasons: firstly, managers fail to comprehend all the factors at the planning stage of strategy (refer Mintzberg's 'unrealised strategy'). Secondly, and more importantly, managers cannot incorporate into plans any factors and opportunities which emerge subsequent to plan development as was seen in Figure 1, featured earlier in this paper. Strategies are deliberate but affected by environmental change (Mintzberg & Walters, 1985; Mintzberg & McHugh, 1985). The degree to which strategies can therefore be planned depends on the degree of 'seeability', which, in turn, acts as the driver of strategic approach. The polar approach in the strategy literature of planned or emergent change hinders the conceptualisation of combinations. Many situations that Weick (1993) identifies are a combination of seeable and unseeable factors (see discussion of Weick's data by Rudolph and Repenning (2002)). Strategic areas are therefore seeable, unseeable or some combination of both. Thus they can be viewed

as an axis with seeable and unseeable at either end and different proportional mixtures occupying the space between. Following Mintzberg (1994) and Brown and Eisenhardt (1998) the strategy structure can be developed as follows:

Figure 5: Strategic Approach Structure



A further issue is that an organisation is required to act on a range of strategic fronts simultaneously. Van de Ven and Poole (2005, figure 2) identify a range of stakeholders to whom the organisation must respond and engage albeit at different levels. The strategic approach structure model above, Figure 5, indicates a range of seeability and the implications these have on the strategic approach. Hence, borrowing from Kaufman (1993), strategy is operating in a structure consisting of a series of nodes with substantial interactions. The organisation at any given time is therefore responding to a series of issues simultaneously, with different seeabilities. This applies to wide range of situations requiring strategy but at the same time different strategic approaches—an ideal condition for the internal entrepreneurial initiatives (Burgelman, 1993).

The Control System

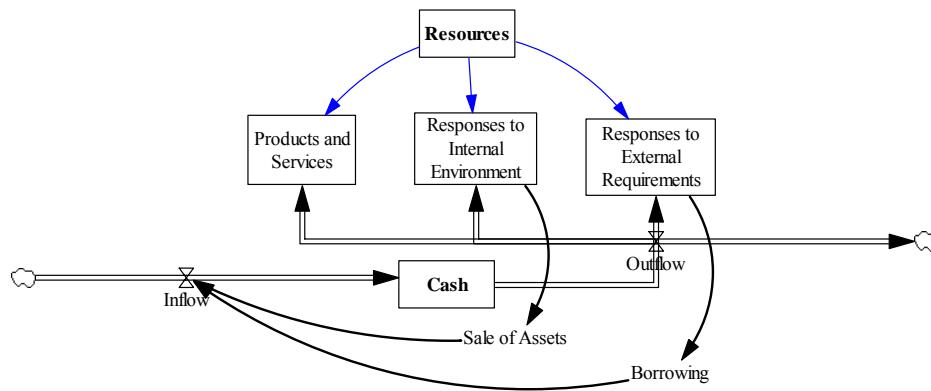
The ‘genius’ aspect of contemporary large public organisations, to which Jensen (1989) refers, is the shift from a manager’s agency responsibilities to the stockholders being replaced by an operational focus where strategically useful information predominates. At the beginning of this paper the issue of liquidity and its importance to the organisation was identified. Liquidity, or the possession of it, is the prime prerequisite that allows the organisation to continue. In particular, cash flow from operations is the long term aspect of the organisation that allows it to pay its bills. This is not the concept of profit in an accounting or economic sense but cash flow from operations is the organisational component from which all other financial details are structured. It is at the core of asset calculations, with the timing of inflows and outflows being the major issue of liquidity. Because of liquidity’s direct link to bill-paying power, we argue it should be the first component of the control system. The liquidity situation, more than anything else, determines whether, and to what extent, the organisation can participate in strategy initiatives. Hofer (1986) identifies the possibilities of turnaround strategies in terms of cash flow effects. Yet the role of cash flow and liquidity and its effects on the strategic process and behaviour of entities, appears to have been largely been ignored in the published management literature. This is especially so in the area of entrepreneurship and small business, where the emphasis has been on venture capital acquisition rather than its role in the dynamic ongoing business.

Accounting has a three part cash flow model which identifies the sources of cash flow, but this model is strategically and severely limited because it terminates at the point when cash flow is provided to the entity. Whilst accounting recognises three sources of cash flow as cash from operations, investments and financing, it is cash flow from operations which provides the basis for medium and long term entity viability (Lee, 1993; Lawson, 1992). Lee (1993) and Lawson (1992) identify the central element crucial to continued entity function in the medium or long term as: the adequacy of cash flow from operations to cover the outflow requirements. They argue liquidity as the absolute minimum requirement for survival. Yet, as identified in the accounting literature discussion earlier, a range of authors (Merchant, 1985; Chapman, 2005; Chennall, 2005 Langfield-Smith, 2005; Chua, 2007) have missed the liquidity implications on strategy and management control. The cash flow impact of a strategic initiative and particularly its effect on liquidity is the determinant of organisation ability to operate (Geurzen 1999). A prime consideration in the strategic discussion should be concerned with when cash comes into the organisation and when it leaves. It is therefore difficult to understand why this aspect of strategy appears to be substantially missed in the management literature.

We argue the need to extend the cash flow discussion beyond its ‘source’ perspective to reflect a dynamic behaviour and control role as a strategic function. An extended conceptualisation requires that the financial information components relevant to strategy are identified with their role in a dynamic system, encompassing cash entry, passage and exits from the entity. This comprehensive conceptualisation might be more productive than the accounting three source model because it explores committed and uncommitted portions of cash inflow in the organisation. The uncommitted or ‘free cash flow’ is therefore a resource available for strategic activity.

The concept of ‘free cash’ or ‘free cash flow’ is not new and discussion can be found in the literature on public corporation finance, valuation and agency issues (Kaen 1995; Harris & Raviv, 1990; Kaplan, 1989; Jensen, 1989). Essentially, finance and agency literature consider ‘free cash flow’ as liquidity which is surplus to the legitimate economic requirements of the entity. Brealey and Myers (1988) for example consider ‘free cash flow’ as: Revenue minus Costs minus Investments. Kaen (1995:19) tightens the capital investment discussion by restricting such expenditure to ‘replacement (ordinary) capital expenditure’. All remaining monies, including internally generated capital monies, management considers necessary for expansion, are considered as ‘free’ by Kaen (1995). This definitional discussion is very compatible with the concept that entity value to shareholders is rooted in the underlying available cash flows of the entity. By freeing up the definition of ‘free cash flow’ to include all funds available, and projections of these calculations, funding for discretionary or strategic activity is exposed. Overall our argument about liquidity indicates that the completion of our model should reflect the dynamics of liquidity as follows in Figure 6.

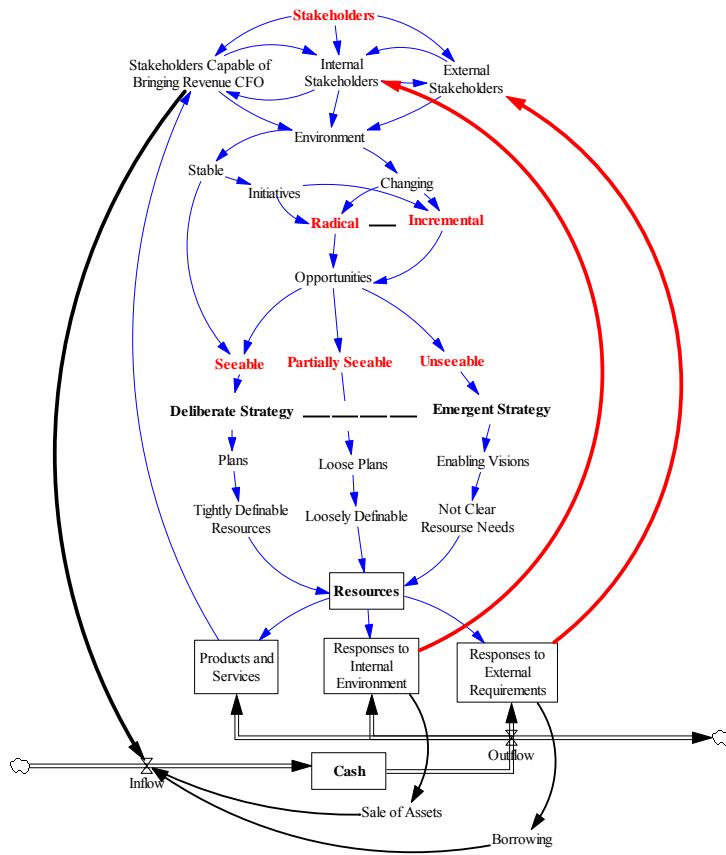
Figure 6: Control Systems



THE COMPLETE MODEL

The components of strategy have been identified, our purpose being to provide a framework through which the components of strategy can be conceptualised and components brought together into a conceptual model identifying its fundamental structure and dynamics. We finally bring the component models together into the whole as a full conceptual model below (Figure 6).

Figure 6: Conceptualisation of Strategic Structure and Interfaces in the Organisation



The overall model indicates the feedback loops which exist when the bottom and the top in the system are connected. The inflows of liquidity are connected to the outflows and the liquidity is identified as a stock of cash. This is what is available for strategic initiatives. The liquidity requirements of the internal stakeholders and the external stakeholders are also connected to reflect the dynamics as a whole system. The structure and dynamics of strategy are thus portrayed.

CONTRIBUTION

The contribution of this paper is that it provides focus and structure to the vast discussion of strategy. From a bird's eye approach we asked those in the organisation firstly to carefully articulate the liquidity situation at the starting point of the strategic process, recognising the organisation can only continue as long as it can pay its bills. Secondly, we identified a stakeholder structure of three fundamental groups. This structure provides a focus for strategic discussion on who the stakeholders are and what issues must be addressed in the management of each stakeholder group. It also assists in identifying priorities by its identification of the dichotomy between revenue and power and the dynamics of the condition under which the organisation can continue in the longer term. Thirdly, for strategy the organisation needs to address each stakeholder group's requirement and recognise where a chance is required and its nature. How radical or incremental it is will determine the degree of difficulty in achieving an outcome and thus the opportunity to maintain relevance to that stakeholder group. Fourthly, the organisation can now address strategy by recognising the degree to which the future and elements of each stakeholder requirements are 'seeable'. This determines how they can be addressed—thus deliberate and emergent initiatives can be provided for, resources allocated, and implementation tasks identified. Finally the model highlights the role of liquidity to service the requirements of each stakeholder group and the critical organisational requirement of its present and progressive requirements. The focus on liquidity, particularly liquidity from operations simplifies the control emphasis because it forces the initiatives in the organization or its stakeholders to be considered in the light of whether they can be funded and how they contribute to the future of the organization in the most fundamental way- what they do to the organizations present and future ability to pay its bills. The paper thus contributes a structure, dynamics and a new taxonomy to the strategy literature.

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VALUE CO-CREATION IN SWEDISH-CHINESE BUSINESS RELATIONSHIPS

-A CONCEPTUAL DISCUSSION-

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ABSTRACT

This paper contains a conceptual discussion regarding value co-creation in dyadic Swedish-Chinese business relationships, by considering cultural aspects specifically associated with Chinese business contexts. The discussions held in this paper suggest that the interaction approach combined with the notion of guanxi provides an appropriate theoretical foundation of how business relationships and the interplays between Swedish and Chinese companies can be interpreted. By gathering input from the value literature, the first steps towards developing a research model is taken, where culture is made an integral part of the perceived value model.

INITIAL REMARKS

A rainy day in the middle of September 2006, my family and I left Sweden for three years in China, one of the fastest growing economies in the world. My husband was offered work establishing a new subsidiary of the company that he had been working for in Sweden, a development that many Swedish companies have acknowledged over the past few years. During our first months in China, I wrote the concluding chapters of the first part of this research project (see Hasche 2006) dealing with co-creation of value in dyadic business relationships. At the same time, I started to think about different possibilities for further research. I asked myself how my research could fit into this new context. The first part of this research project resulted in a model containing a vocabulary designed to understand value co-creation in business relationships. Accordingly, my intention with this paper is to develop my area of interest further by discussing value co-creation in Swedish-Chinese business relationships.

INTRODUCTION

Since China opened its doors to the outside world through the “open door” policy in 1978, many Western companies have acknowledged the abundant opportunities now presented by “*the workshop of the world*” (Stockelberg 2007 p. 22). Thus, Western business people have eyed the huge Chinese market for centuries, due to the potential market size, often described as the “*one billion customers*” (Woo & Prud’homme 1999). China is Sweden’s biggest trading partner in Asia and foreign investments are pouring into the country at a rate of more than 37 billion SEK each month (www.di.se [2006-11-02]). However, most literature that discusses business relationships between Western and Chinese companies point towards the fact that doing businesses in China can be more difficult than is anticipated by many foreign businessmen, due to cultural differences. During a discussion about Swedish companies operating in China, one Swedish manager stated, “*cultural differences are tricky to understand. Sometimes it requires much more than you thought at the beginning, but the rewards can be much higher than expected or even desired.*” Thus, these are among the reasons why it is vital to develop the understanding of value co-creation in Swedish-Chinese business relationships by considering Chinese cultural aspects with regard to the value co-creating process.

Business Relationships and Culture: A Contextual Introduction

The phenomenon of interest in this paper is value co-creation in customer-supplier relationships in general and value co-creation in Swedish-Chinese customer-supplier relationships in particular. Relationships are often built on a cultural platform, which means the route to developing a good relationship can be very different in Western compared to Eastern cultures. Not only routes to relationship building are different, the relative importance of the attributes which make up the relationship are valued differently in different parts of the world (Buttery & Wong 1999).

Engaging in a business relationship is a trade-off situation between benefits and sacrifices, where both the customer and the supplier not only consider what they will “get” from the relationship, but also what they will have to “give up.” When

engaging into a business relationship both parties expects that the benefits of the relationship will be greater than the sacrifices made. (Ulaga & Eggert 2001) However, there are often differences in the perceptions of the customer's and the supplier's views on why they do business together. One actor in the relationship does not always know the motives behind decisions made by the other part, the aspects of an offering that is appreciated by the counterparty, how one actor positions the relationship in comparison to other relationships that the partner has or even if any comparisons are made at all. Thus, with value perceptions differing between customers and suppliers, within organisations, between tangible and intangible offerings, in different situations and between cultures, identifying and bridging perceptual gaps become critical steps in the value co-creating process (de Chernatony et al. 2000; Ulaga & Chacour 2001).

Thus, culture, "*the collective mental programming of the people in an environment*" (Hofstede 1980), becomes an important issue in the discussion of value co-creation in Swedish-Chinese business relationships. Hofstede (1980; 1991) describes five dimensions of culture i.e. power distance, individualism versus collectivism, masculinity versus femininity, uncertainty avoidance and long-term orientation. Power distance reflects the willingness of subordinates to depend on the decisions and instructions of their superiors. China ranked highly on this score, meaning that Chinese are more willing to accept a hierarchy of authority and more easily depends on the decision of their subordinates without questioning than Swedish people. In an individualistic society, the task is supposed to prevail over any personal relationship, whereas in a collectivistic society, the personal relationship prevails over the task and should be established before the task. In the dimension individualism versus collectivism, Sweden ranks high on individualism, while China ranks high on collectivism. The gender perspective of masculinity versus femininity is another universal dimension. A masculinity society stress results and rewards on the basis of equity and performance, while feminine societies are more likely to reward on needs. In a masculine society people tend to live in order to work while people tend to work in order to live in a feminist society. China is a masculine society, while Sweden is classified as a feminist society. Uncertainty avoidance deals with a society's search for the truth and the fact that the future is uncertain. It should not be mixed or confused with risk avoidance. Rather than reducing risks, uncertainty avoidance reduces the level of ambiguity. Both China and Sweden scored low at the uncertainty avoidance dimension. In the long-term orientation dimension, China was at the top of the list compared to Sweden. This indicates that Chinese tend to plan for the future and take time to ensure that everything is in place to support the plan. (Hofstede 1980; 1991, www.geert-hofstede.com [2008-04-15]) There are obvious differences between Sweden and China in all the dimensions except uncertainty avoidance. Thus, one would expect that these cultural differences affect relationship development and value co-creation in Swedish-Chinese business relationships. Accordingly, the purpose of this paper is "*to discuss value co-creation in dyadic Swedish-Chinese business relationships by considering Chinese cultural aspects with regard to the value co-creating process and its appurtenant vocabulary*"³.

BUSINESS RELATIONSHIPS IN WESTERN AND CHINESE CULTURES

Interactions

The emphasis on relationships is a common denominator in service marketing and industrial marketing. The interest in relationships as the context for interactions between customers and suppliers is shared by scholars within the Nordic School of Service Management and Marketing, and researchers belonging to the Industrial Marketing and Purchasing (IMP) Group (Grönroos 2000). Service marketing has in the past mainly focused on consumer markets. However, researchers (see e.g. Holmlund 1997) have lately extended service marketing theory into business markets, investigating interactions between dyadic actors. Research conducted within the tradition of the IMP Group has since the 1960s–1970s been directed towards the study of industrial relationships (Blankenburg & Holm 1990). Early work consisted of studies of the dyadic relationship between customers and suppliers (Håkansson 1982). However, later research has moved from single business relationships to a wider network perspective, in order to fully understand an organisation's relationships. The dyadic relationship between a customer and a supplier is not managed in isolation from the other relationships that each company has. Additionally, the customer-supplier relationship can be connected both directly and indirectly with other relationships which have bearing on the relationship between the customer and the supplier, as a part of a larger business network (Anderson et al. 1994). The IMP tradition has been addressed towards finding the variables which best describe relationships, how these relationships evolve over time, the variation of the nature of the relationships in different

³ As earlier discussed, the first part of this research project resulted in a model containing a vocabulary designed to understand value co-creation in business relationships (see Hasche 2006).

circumstances, the atmosphere within which the interaction takes place, the contact patterns between the parties and the bonding which occurs between the companies (Turnbull et al. 1996).

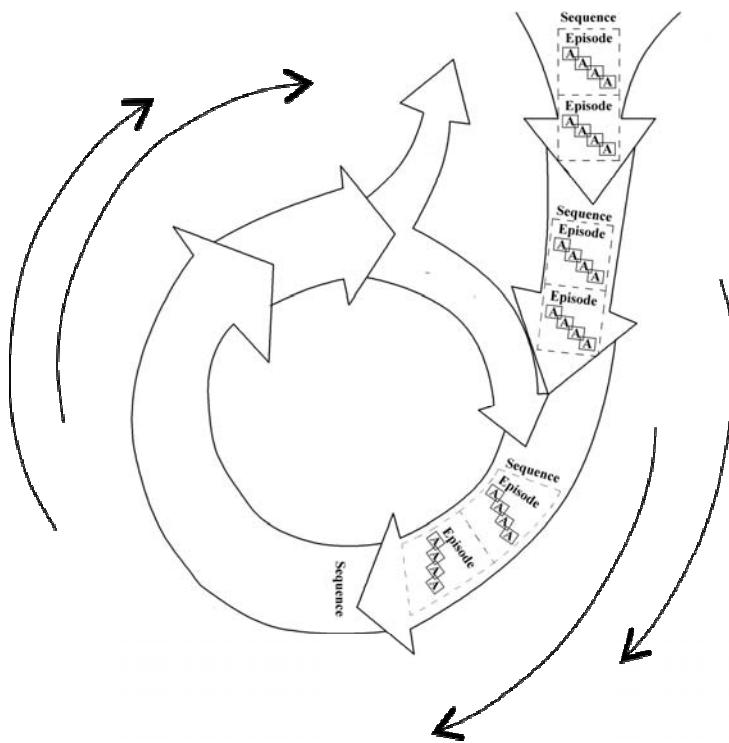
"In business markets, we are not just dealing with active sellers who try to attract the attention of a passive market. It is not a case of action and reaction, but one of interaction. Sellers do seek out buyers and try to influence them to buy. However, buyers also have to search for suppliers that can and are prepared to meet their requirements, which may often be complex or idiosyncratic." (Ford et al. 1998 p. 5)

The interaction model describes the relation and interaction that take place between two companies within a certain context. The model consists of the environment within which the interaction takes place, the atmosphere, the participants and the interaction process. Each of these four groups of variables is in turn subdivided and stands in a mutual relationship to one another. (Håkansson 1982) The interaction model is based on a customer-supplier relationship and contains both an individual and organisational level, where both levels constitute the entirety. The interaction model describes both short-term and long-term aspects of the business relationship. The relationship is created by a series of exchanges, which together can be viewed as the foundation of the relationship. However, interaction is more than exchanges; it is actions that connect two companies in a mutual, dynamic process, which shapes both the relationship and the involved parties. The interaction model makes the business relationship between two companies visible, where both parties have their needs fulfilled (Ford et al. 2002). The interaction approach illustrates the complexity of relationships, where no relationship is the same as another (Turnbull et al. 1996). In this paper, the model functions as one part of the theoretical base in order to give a better understanding of the customer-supplier relationship and the reciprocal interplay between two organisations.

Relationship Development

When studying continuous exchanges, a picture develops of how different episodes form and create customer-supplier relationships, which can be interpreted as a dynamic process. These episodes occur in different sequences and form the relationship and its character (Holmlund 1997). Accordingly, actions, episodes and sequences are all elements of a business relationship (see Figure 1). Actions consist of individual initiatives, and a number of interrelated actions can be grouped into an episode. A series of connected episodes form a sequence, while a number of sequences create a relationship. Actions, episodes and sequences connect two companies in a mutual, dynamic process that evolves over time, influenced by its history and its anticipated future. (Holmlund 2004) Describing a dynamic process in sequences, with a beginning and an end, can be questioned. The beginning and the end of one sequence is often the same as the end of a preceding sequence and the beginning of a subsequent sequence. In other words, there is an overlap between different sequences, even if it is not visible in Figure 1.

Figure 1: Elements of a Business Relationship (Hasche 2006)

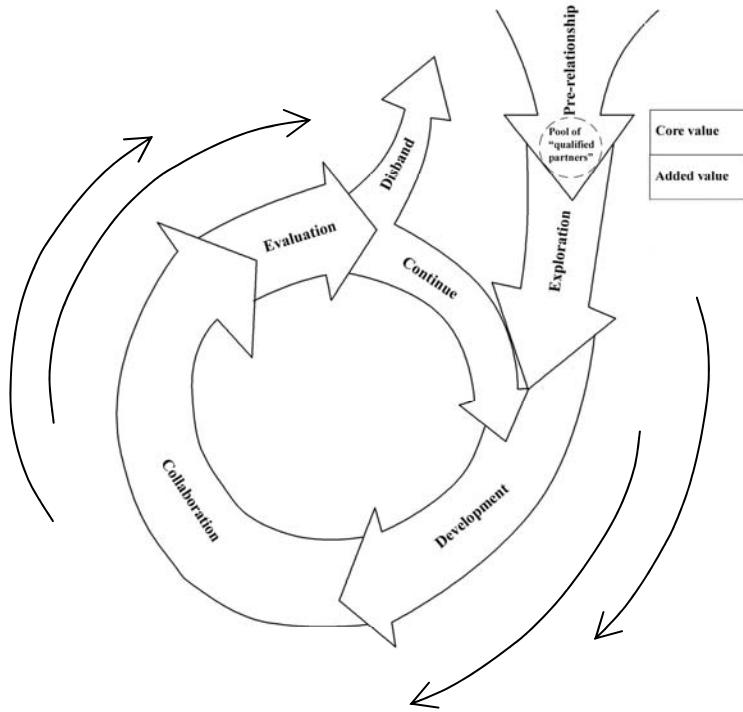


Figures 1, 2 and 5 are shaped as a wheel, where the external, thin arrows symbolise the direction of movement. The process of co-creating value can be described as an interconnected course of actions which point towards change and development over time. The wheel turns as the relationship develops. Thus, the first round of the value co-creating process is not the same as the second, third or fourth round, due to change and development of the business relationship (Hasche 2006).

Figure 2 describes a business relationship as a dynamic process, where the focus shifts from the individual performance of one organisation to the joint actions performed by two partners in relation to each other. A business relationship often starts out by searching for and evaluating new partners. All aspects of evaluating a future potential relationship is described in the literature as difficult, since the distance between those involved reduce their understanding of each other (Dwyer et al. 1987). Ulaga (2003) has found that many customers' pre-select suppliers in advance, based on the customers' minimal expectations. The sanctioned actors are then added to a pool of "qualified partners", where all actors are able to offer the customer more or less the same core value. For potential partners to perceive the benefits of a specific offering it must contain certain additional value properties, i.e. the added value has to contribute something of significance that makes a difference to both parties. The trade-off situation between benefits and sacrifices can be interpreted as a scale of balance, where the customer as well as the supplier considers the sacrifices to be made in order to derive the future benefits from the relationship (Monroe 2003). Many authors (see e.g. Ford 1980; Dwyer et al. 1987) refer to these initial contacts between companies as a *pre-relationship sequence*⁴ (see Figure 2).

⁴ The different sequences described in Figure 2 are principally based on Ford (1980) and Dwyer et al. (1987). Some sequences have been renamed but the content described is in line with descriptions made by authors mentioned earlier.

Figure 2: Business relationship - A Dynamic Process (Hasche 2006)



Over time, the pre-relationship develops into an *exploration sequence*, where the customer and the supplier are engaged in serious discussions and negotiations concerning future potential exchanges. These early interactions are crucial in determining whether the relationship will expand, diminish, remain the same or dissolve (Lambe et al. 2001). There is an explicit exchange of information and mutual learning about such things as offering requirements. In this stage the relationship will appear to be costly (in monetary terms as well as non-monetary terms e.g. time, effort, energy (Lapierre 2000)) and the future benefits uncertain, particularly when compared with already existing relationships. There will also be a lack of trust and concern about the commitment of the counterparty. Each party involved need to commit to the relationship in different ways and in that way earns the trust of its partner for the relationship to develop further. As the value of the rewards given by one party increases, the receiving party must reciprocate benefit increases as well. (Ford 1980; Dwyer et al. 1987)

In the *development sequence*, the relationship changes in character in a positive way. The uncertainties of the two companies about each other's ambitions and abilities will have been reduced by the interactions between them. In this stage, learning is likely to be more directed towards the specifics of the relationship and finding out about the investments and adaptations that are required and appropriate for each company to make. As the relationship develops, their mutual adaptations increase and their commitments to each other grow (Ford 1980; Dwyer et al. 1987).

The *collaboration sequence* occurs when the companies have reached certain stability in their learning about each other and in their commitments to the relationship. (Ford 1980; Dwyer et al. 1987) A series of positive outcomes increases the trust between the interacting parties and the commitment to the exchange relationship, which over time also produce exchange norms and expectations that govern the relationship (Lambe et al. 2001; cf. Håkansson 1982). The value created in the relationship depends on a mutual awareness of the rules, routines and procedures that each actor in the relationship needs to follow (Gulati et al. 2000). Sooner or later, all relationships enter an *evaluation sequence*, where both parties have to question themselves whether to continue the relationship or disband the relationship.

Guanxi Relationships

One of the fundamental philosophies in East Asia is Confucianism that advocates a structured society in which people are bound to each other by the moral ties of five relationships; ruler-subject, father-son, husband-wife brother-brother and friend-friend. Confucianism deals with how people handle human relationships based on moral principles. (Leung & Wong 2001; Fang 2005) The concept of gunaxi is tacitly embedded within the Confucius philosophy and it subtly defines the Chinese moral code. Guanxi seems to be the lifeblood of the Chinese business community, extending into politics and society. Many authors have chosen to translate guanxi as “personal connections/relationships” (Davies et al. 1995; Arias 1998; Wong & Tam 2000; Leung & Wong 2001; Fang 2005; Buckley et al. 2006) Specifically, it refers to a special type of relationship that bonds exchange partners through reciprocal exchange of favours and mutual obligations (Lee et al. 2001).

Guanxi can be described as a result of institutional weakness, poor development of property rights and contractual law as well as individual personal gain in a society of tight control (Arias 1998; Wong & Chan 1999). Commercial law in China has been non-existent. Thus, lacking laws and regulations, the legal and judicial system has not been reliable for the enforcement of business deals. China is a highly centralised bureaucratic state where administrative processes are ill-defined and decision authority is spread across a number of overlapping central, provincial and local governmental bodies and party officials. Thus, the usage of personal connections is often the only way to get things done within a reasonable timeframe as well as passing quickly and smoothly through official channels (Arias 1998; Woo & Prud'homme 1999).

Guanxi includes the notion of continuing reciprocal obligation over an indefinite period of time, involving the fulfilment of specifications of the agreement as well as personal favours (*renqing*) and sustaining each other's reputation and social status (*mianzi*). Favours are banked, to be repaid when the time is right, if ever. The relationships are built between individuals and not organisations. Accordingly, it is a social network built on interactions consisting of social exchanges as well as business exchanges. The social relationship is a prerequisite to get involved in a business relationship (Davies et al. 1995).

To understand guanxi, it is important to discuss unique terms as “*renqing*” and “*mianzi*”. The term *renqing* involves exchanges of favours following certain social norms and behavioural rules. People who share a guanxi relationship in business are committed to each other by the social obligation of reciprocity in that if an exchanging partner receives a favour, he or she owes *renqing* to the counterpart and should be ready to pay back once circumstances permit. Chinese recognise that *renqing* can be paid back in the long run with an exception that the relationship will last into the unforeseeable future. (Wang 2007) *Mianzi* or “face” can be defined as the recognition by others of an individual’s social standing and position. Having *mianzi* means having high status and prestige in the eye’s of others. It is a mark of personal dignity. *Mianzi* can be given, earned, taken away or lost. Within a relationship it is important to protect a person’s *mianzi* or dignity and prestige. Accordingly, all parties of a business relationship must show respect to and save *mianzi* for each other. (Buckley et al. 2006) In a business relationship, a person’s *mianzi* is not only his own but also the *mianzi* of the organisation that he represents (Woo & Prud’homme 1999). The *renqing* rules set behavioural norms guiding exchange parties based on face-saving and mutual insurance rather than the belief of exchanges partners’ integrity and honesty. Failure to return *renqing* will not only result in loss of face but also result in the loss of future exchange opportunities with all members in the guanxi network (Wang 2007).

There are three different types of guanxi relationships; expressive tie, mixed tie and instrumental tie. Expressive ties are permanent and stable relationships based on egalitarian norms. This means that the allocation of resources is determined by individual need rather than individual contribution. Expressive ties exist among members of an extended family and close friends. Instrumental ties, on the other hand, are unstable and temporary. In these types of relationships, the allocation of resources to outsiders or strangers depends on individual contribution. It can be referred to as simple selling and buying with the goal of self-profit maximisation. Mixed ties are in between. These relationships are moderately permanent and stable. They are personal and affective relationships between exchange partners. The major norms of mixed ties are the reciprocity of favours, *renqing*, and giving the partner face, *mianzi*. (Wong & Chan 1999; Lee et al. 2001) Thus, mixed ties are of special interest in this study as they refer to close business relationships amongst otherwise strangers. The expressive tie, mixed tie and instrumental tie are not mutually exclusive as they represent a concentric circle of contacts (Lee et al. 2001).

Guanxi Development

The term guanxi is made up of two Chinese characters; i.e. “gate” and “connect”. “*One must pass the gate before one can establish the connection with business partners in the network*”. (Wang 2007 p. 85) To develop guanxi is to form the basis for a gradual transition from being an “outsider” (i.e. not being part of the guanxi network), to becoming an “insider” (i.e. belonging to the guanxi network).

Guanxi relationship building undergoes a series of eight stages as shown below in Table 1. The first stage, A₁ Availability, refers to locating the right “gatekeeper” of a guanxi network. The difficulties lie in selecting the appropriate network members to be associated with. If the Chinese party views the counterpart as an outsider, tough bargaining takes place. If the Chinese regard the counterpart as belonging to the same network, negotiations are easier. After the gatekeeper is located, each party will try to accept the other through a period of experimenting as outsiders or relying on experience as insiders. The third stage, A₃ Acceptance, is a critical stage. In the case of outsiders, both parties clarify their position and expect the other party to understand their strengths and weaknesses. From an insider perspective, both parties compromise by accommodating their mutual beneficial cooperation. At the fourth stage, A₄ Affectivness, both parties will be assured of the potential of strengthening the ties by fitting-in with the requirements of the other party, from the outside dimension. However, in insider relationships, the parties may ensure the possibility of fine-tuning or consolidating each party’s resources to optimise the pool of expertise and experience. Stage five, A₅ Affordability, is another important stage in order to determine if each party can afford the risk of furthering the relationship. Both parties face the dilemma of whether to accommodate the stability of working together or to continue searching for an alternative stand-by counterpart. Within the insider’s circle, both parties assimilate their resources or give up their self-interest for mutual benefits. A₆ Affirmation; this stage is a feedback stage and an outsider is probably not willing to invest more resources into developing a closer relationship with the counterpart, since this still is a trial period. On the other hand, insiders enter a stage of mutual trust. At stage seven, A₇ Assurance, each party is assured of the possibility of enhancing a long-term relationship. The difference in the mode of cooperation between outsiders and insiders is that the former expect to achieve a convergence of conflicting interests, while the latter promote mutual commitment. The final stage, A₈ Adaptation, is when adaptation is achieved. From the perspective of an outsider, both parties work closely together, but psychologically, both parties still prefer to maintain some distance. The relationship has advanced into a fiancé stage (cf. figure 3). From the insider’s point of view, a friend (old) stage (cf. figure 3) is reached if both parties actualise the relationship with a higher level of commitment and mutual trust (Wong & Chan 1999).

Table 1: Guanxi and Outsider-Insider Dichotomy (Wong & Chan 1999)

Process	Outsider	Insider
A ₁ Availability	Bargaining	Belonging
A ₂ Association	Experimenting	Experience
A ₃ Acceptance	Clarifying	Compromise
A ₄ Affectiveness	Fitting-in	Fine-tuning
A ₅ Affordability	Accommodation	Assimilation
A ₆ Affirmation	Trial	Trust
A ₇ Assurance	Convergence	Commitment
A ₈ Adaptation	Fiancé	Friend (old)

To summarise, the stages A₁-A₃ are perceived to be the mutual searching, familiarisation and reciprocity stages, while stage A₄-A₆ refers to deciding whether the parties involved become friends or remain outsiders. The key functions of stage A₇ and A₈ are to reconfirm and to appreciate the values of the adaptation that has been achieved (*Ibid*).

Fencer, Fiancé, Favourable Partner and Friend (old)⁵ (Buttery & Wong 1999; Wong & Chan 1999) constitute the process of guanxi development (see Figure 3). In the Fencer quadrant, each party tests the other party's intentions and reactions. Initial contacts are taken between the customer and the supplier, such as exchange and testing of sample products. Each party regards the other as an outsider. If the progress is favourable, the parties may either enter the Fiancé quadrant or the Favourable Partners quadrant depending on whether the relationship is regarded as an outsider or insider one. In the Fiancé quadrant, the parties are entering a critical trial period, where each party has to decide whether to continue and develop the relationship or disband the relationship. Each party bargains with power, which, in turn, depends on how each party evaluates its dependence on and level of trust of the other party. The movement from Fiancé to Favourable Partners is a major step of development between the interacting partners. The partners are not viewing each other as outsiders anymore, but as insiders belonging to the close network of friends. The matching of interests and the degree of cooperation intensifies as the relationship progresses from the Favourable Partners quadrant to the Friend (old) quadrant, which reflects the mutual trust between the interacting parties. An old friend is someone who has proven to be loyal and trustworthy over time and it is someone in whom one can confide. This last stage of development requires substantial relationship-specific investments (Buttery & Wong 1999; Wong & Chan 1999; Wong & Tam 2000).

Figure 3: The Development of Guanxi (developed from Wong & Chan 1999)

	Outside	Insider
Adaptation process	Fiancé	Friend (old)
	Fencer	Favourable partner

The longest route of guanxi relationship development can be described as a Z-shaped route (i.e. fencer - fiancé - favourable partner - friend (old)). However, there are shorter routes from fencer to friend (old). These routes are often achieved by introductions of one person's old friend to another person who may also be an old friend. In this case, the trust is implied and the bonding process can be much shorter (Wong & Chan 1999).

VALUE CO-CREATION IN BUSINESS RELATIONSHIPS

Value – A Challenging Concept to Define

The meaning of value is a subject that has been widely discussed by businessmen, politicians and scholars. The difficulties in defining value stem from the subjectivity of value, variations between actors, within actors, between cultures, in different situations and between tangible and intangible offerings (de Chernatony et al. 2000). Value is a dynamic concept that evolves over time (Flint & Woodruff 2001; van der Haar et al. 2001). Many researchers have acknowledged the difficulties involved in defining value and the literature on the subject is fragmented (see e.g. Woodruff 1997).

Although the value concept is somewhat ambiguous in nature and the marketing literature contains a number of value definitions, most authors agree that it pertains to a trade-off between benefits and sacrifices (de Chernatony et al. 2000). Ulaga (2003) identifies four recurring characteristics in the various definitions of value: (1) value is conceptualised as a trade-off between benefits and sacrifices, (2) benefits and sacrifices can be many-sided, (3) value is in the eyes of the

⁵ I have used the terms fencer, fiancé, favourable partner and friend (old) in this paper, since this vocabulary best fits the vocabulary used in Table 1. However, fencer, fiancé, favourable partner and friend (old) have in later articles been renamed to testing, trail, teaming and trust (see Wong & Tam 2000). However, the content of the four quadrants are the same in all the articles.

beholder and (4) value perceptions are relative to competition. In this paper, I find it fruitful to conceptualise value in its broadest term by viewing value as a trade-off between benefits and sacrifices, taking into account the multidimensional construct of value, the subjectivity of value and that value perceptions are relative to competition.

Approaches to Value in Business Markets

According to Ulaga (2001), three different perspectives of value creation are used in marketing research, i.e. the *buyer's perspective*, the *seller's perspective* and the *buyer-seller perspective*. The majority of marketing research concerned with value creation applies the *buyer's perspective*, which focuses on how suppliers create value for their customers and how customers perceive the value created for them. Walter et al. (2001) state that suppliers need to produce value to customers but at the same time gain benefits from customers. Thus, the *seller's perspective* deals with issues such as the need to consider customers as key assets of the selling company to gain an equitable return for the value the supplier delivers to customers (Ulaga 2001). It is a question of estimating the revenue received from a customer and the sacrifices of serving that customer (Möller & Törrönen 2003). Finally, the *buyer-seller perspective* focuses on co-creation of value in business relationships. Normann and Ramirez (1993) as well as Ramirez (1999) state that value co-creation is an interactive process, where the interacting parties create value jointly. The buyer-seller perspective differs from both the buyer's perspective and the seller's perspective. The customer is no longer viewed as a user of value. The supplier is not seen as a producer of value. The customer and the supplier are co-creators of value in interaction with each other. (Normann 2001)

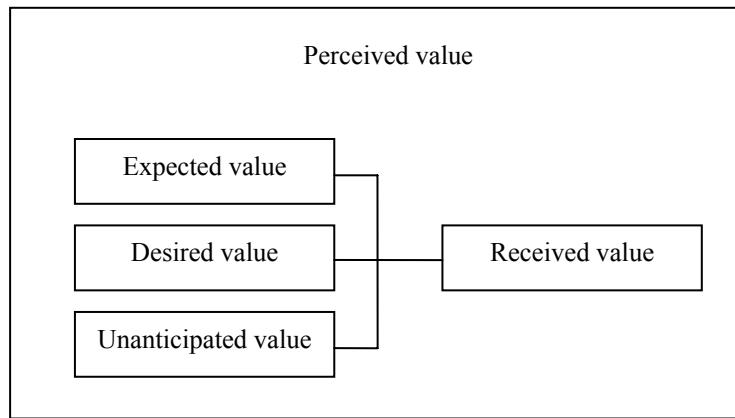
Most of the research on the value construct in business markets has been conducted from the buyer's perspective, where both empirical and conceptual research has been carried out. Scholars have concentrated their effort on three major areas, i.e. value perceptions of customers (customer perceived value) (see e.g. Ford & McDowell 1999; Ulaga 2003), the occurrence of changes in customer perceived value (see e.g. Flint et al. 1997; Flint & Woodruff 2001) and different measuring techniques for assessing customer perceived value (see e.g. Lapierre 2000; Ulaga & Chacour 2001; Ulaga & Eggert 2001; Van der Haar et al. 2001). Interest in investigating the supplier's perception of value, i.e. how and what type of value that buyers create for suppliers, as well as the understanding of how focal buyer-seller relationships co-create value, has so far been limited (see e.g. Ford & McDowell 1999; Walter et al. 2001).

As earlier discussed, this paper examines value co-creation in dyadic Swedish-Chinese business relationships by considering Chinese cultural aspects with regard to the value co-creating process and its appurtenant vocabulary. Accordingly, a focus extending beyond one actor is required. Therefore, the perspective used in this paper is the buyer-supplier perspective, meaning that the focus shifts from the actual activities performed by a company to the activities co-created in a relationship. The old image of the customer as a user of value and the supplier as a producer of value becomes irrelevant, since value is co-created in interaction between the customer and the supplier (Normann & Ramirez 1998; Normann 2001). Actors help each other, and help each other to help each other, to perform their respective activities. Co-creation of value deals with relieving and enabling activities between the actors. In a relieving activity, someone (the supplier) does something for the counterparty (the customer), thereby relieving him from doing it himself. Relieving constitutes freeing up resources that can be better used elsewhere. Enabling activities, on the other hand, expand the counterparty's possibilities of doing what he does better. (Normann & Ramirez 1998)

Different Notions of Value Co-Creation⁶

Many authors (see e.g. de Chernatony et al. 2000; Woodruff 1997; Hasche 2006) acknowledge that the value construct changes at different times depending on situation. Woodruff (1997) explains that the customer's opinion of the value of an offering may be altered when making a purchase decision in contrast to experiencing the offering during or after use. Making a purchase decision requires customers to distinguish between alternative offerings and evaluate which one is preferred. On the other hand, when experiencing the offering during or after use, the customer is more concerned with the performance of the chosen offering in specific use situations. Hence, when discussing the different notions of value co-creation, it is important to remember that all types of value are based on perceptions, i.e. perceived value (see Figure 4; van der Haar et al. 2001).

Figure 4: Perceived Value (Hasche 2006)



Butz and Goodstein (1996) describe the *expected value* as the level that is normal compared to business or industry standard. Furthermore, the authors state that there is nothing particularly memorable about an offering providing solely the expected level of value, since it is difficult to differentiate an offering from another at this level. The *desired value* is not expected nor based on business or industry standards. Instead, desired value is described by Butz and Goodstein (1996) as the features adding value to the counterparty. According to Flint et al. (1997), desired value can be explained as a wish⁷ regarding fulfilment of a specific need in a specific kind of use situation, i.e. what a customer wants to happen when interacting with a supplier or using the supplier's offering. Butz and Goodstein (1996) extend the discussion by including the *unanticipated value*. At this level, the organisation finds ways to add value that is beyond the customer's expectations or even desires. In other words, it is a question of creating a need that has not been in the mind of the counterparty earlier, i.e. triggering a latent need.

Some authors (Woodruff 1997; van der Haar et al. 2001) distinguish between desired value and *received value*. As discussed earlier, desired value refers to what a customer wants to happen when interacting with a supplier or using the supplier's offering. Received value, on the other hand, means judgements or assessments of what a customer perceives he or she has received from a supplier in a specific purchase or use situation. (Woodruff 1997) Other scholars (see e.g. Vargo

⁶ Similar discussions can be found in service quality literature. Grönroos (1984) was the first scholar to conceptualise perceived service quality. The quality of a service is not just determined by what the customer is left with when the service interaction is completed. The technical quality is complemented by functional quality, i.e. how the customer experiences the service process. The level of expected quality is influenced by market communication, image, word-of-mouth and customer needs. Thus, the total perceived quality is not just the outcome of the technical and functional quality, but rather the gap between expected and experienced quality.

According to gap models of service quality (see e.g. Parasuraman et al. 1985), customer assessments of service quality result from a comparison of service expectations with actual performance. The zone of tolerance illustrates the range of performance of a service that a customer considers acceptable. The tolerance zone is demarcated by the lower level of an adequate service (i.e. expectations of acceptable performance) and the upper level of desired service (i.e. what the customer hopes to get). As long as the performance is kept within these limits, the customer will be satisfied (Zeithaml et al. 1993).

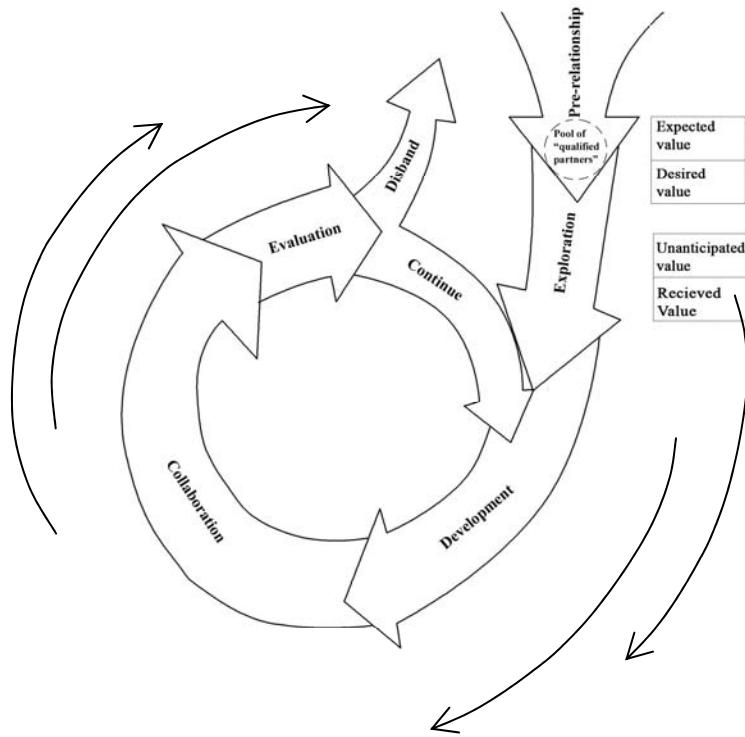
⁷ Wishes and desires are used interchangeably in this paper.

& Lush 2004, p. 7) use the term *value in use* to describe the same phenomenon, i.e. “*the actual usefulness as perceived by the customer.*”

The Value Co-Creating Process

As earlier discussed, the value co-creating process can be described in different sequences (cf. Figure 1 & 2). The pre-relationship sequence can be described in terms of a two-step mechanism, where both parties have some hopes of each other. The customer has certain requirements that have to be met first, to allow the selling company to act as a potential supplier in competition with other companies (Hultman 1998; Bjerke & Hultman 2002). Once added to the pool of “qualified partners”, the customer expects the qualified partners to be able to provide more or less the same core value, an *expected value* that often is compared to business or industry standard (see Figure 5; Butz & Goodstein 1996). Accordingly, the expected value can be described as the counterparty’s minimal expectations.

Figure 5: A Conceptual Model of the Value Co-Creating Process (Hasche 2006)



Since, all the qualified partners offer more or less the same core value and are able to fulfil the counterparty’s generic requirements, something more is needed. Why should A and B engage in a relationship, instead of A and C? Within a business relationship, each actor has a special need structure that ranges from a generic need to a unique need (Pels et al. 2000). All qualified partners can fulfil the generic need but who can fulfil the unique need? Calculations of a future value are impossible to do in advance, but all actors have desires, i.e. wishes regarding fulfilment of a unique need in a specific kind of use situation (Flint et al. 1997). The *desired value* is not expected nor based on business or industry standards. Instead, desired value is described as the features adding value to the counterparty.

It is also possible that a business relationship results in *unanticipated value*, i.e. value that is beyond the counterparty’s expectations or even desires (Butz & Goodstein 1996). Figure 5 also contains *received value*, which can be interpreted as judgements or assessments of what one actor perceives he or she has received from the counterparty in a specific purchase or use situation (Woodruff 1997). It is important to remember that expected, desired, unanticipated and received value is based on perceptions, i.e. perceived value (van der Haar et al. 2001). As earlier discussed, some authors argue that value perceptions change over time depending on situation (see e.g. de Chernatony et al. 2000; Woodruff 1997; Hasche 2006).

Ravald and Grönroos (1996) state that the perceived value of an episode (cf. Figure 1) in a relationship, cannot be viewed solely from activities within the episode in question, but must be considered in relation to earlier episodes and anticipated future episodes as a part of the history and the future of the customer-supplier relationship. A poor episode value can be balanced by a positive perception of the relationship as a whole (Lapierre 1997), or the parties may never experience positive episode value if the perceptions held of the relationship are negative. The experience of a single episode can radically change attitudes, which may then prevail over a long period of time. Accordingly, the longer-term relationship between the two parties is developed by each episode. Over time the episodes lead to clear expectations and responsibilities in both parties (Håkansson 1982).

DISCUSSION

Western versus Chinese Views of Business Relationships

The emphasis on relationships is a common denominator in Western and Chinese business cultures, where the focus is on the relationship itself rather than on single transactions; exchange partners have long-term perspectives; exchange partners make efforts to preserve the relationship; exchange partners try to resolve conflicts in harmonious ways and exchange partners try to fulfil promises and develop trustworthy relationships. Even though, there are similarities between Western and Chinese concepts of business relationships, the content of the promises given within the relationship, the timeframe of which the promises must be fulfilled as well as the guiding principles differ significantly.

The western philosophy of business relationships operates on an organizational level and promises exchanged between business partners include tangible as well as intangible entities. However, guanxi implies personal relationships among individuals. Promises exchanged within a guanxi relationship may not only be of business nature, but also of personal nature. Thus, guanxi relationships include reciprocal exchange of personal favours, mutual protection and enhancement of social status. In Western cultures, promises within business relationships usually have a well defined deadline when to be fulfilled. The promises given between business partners are meant to extend profitability and competitiveness over a long period of time, but the relationship is evaluated once in a while, e.g. at the end of contract period or after finishing a joint project etc. On the other hand, in guanxi relationships, favours are banked and create an obligation (promise) of reciprocity. Favours should be repaid when the time is right, if ever. Chinese recognise that favours can be paid back in the long run extending into the unforeseeable future. Western business relationships are often guided by laws and regulations, contracts and common business practice. In Chinese cultures, trusting the counterpart is often as important as contractual agreements and in some cases even more important. Davies et al. (1995) state that the most common contrast between Western and Chinese business practises lies in the emphasis placed on written contracts and procedures in the former, compared with trust and personal relationships in the latter. Hence, the guiding principles of guanxi relationship are morality and social norms.

Outside – Inside Dichotomy

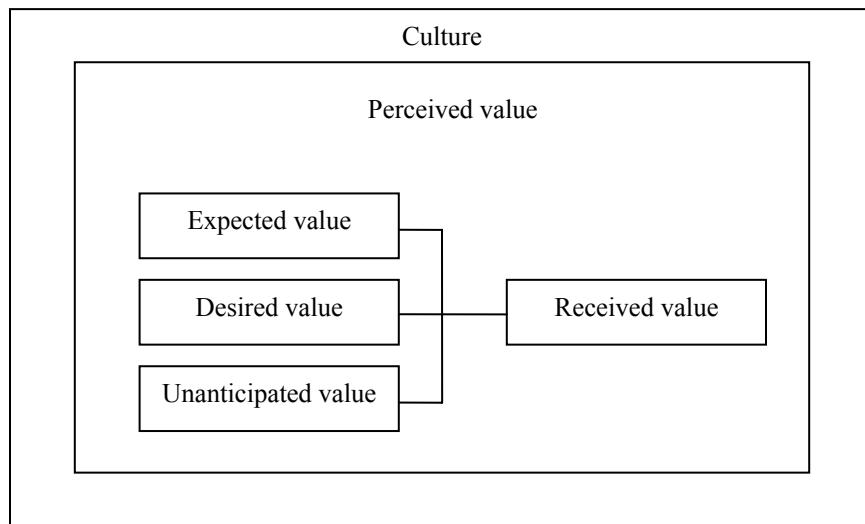
As earlier discussed, the term guanxi is made up of two Chinese characters; i.e. “gate” and “connect”. *“One must pass the gate before one can establish the connection with business partners in the network”*. (Wang 2007 p. 85) To develop guanxi is to form the basis for a gradual transition from being an “outsider” (i.e. not being part of the guanxi network), to becoming an “insider” (i.e. belonging to the guanxi network). The ambition in guanxi relationships is to become an insider that belongs to the close network of friends. The route of reaching that kind of status looks differently from relationship to relationship. The longest route of guanxi relationship development can be described as a Z-shaped route (i.e. fencer - fiancé - favourable partner - friend (old) (cf. Figure 3)). However, there are shorter routes from fencer to friend (old). These routes are often achieved by introductions of one person’s old friend to another person who may also be an old friend. In this case, the trust is implied and the bonding process can be much shorter. The outsider – insider dichotomy can also be traced in the discussions suggested by Hasche (2006). Many customers pre-select suppliers in advance, based on the customers’ minimal expectations. The sanctioned actors are then added to a pool of “qualified partners” (insiders), where all actors are able to offer the customer more or less the same core value. For potential partners to perceive the benefits of a specific offering it must contain certain additional value properties, i.e. the added value has to contribute something of significance that makes a difference to both parties. It can be described in terms of a two-step mechanism, where both parties have some hopes of each other. The customer has certain requirements that have to be met first, to allow the selling company to act as a potential supplier in competition with other companies (Hultman 1998; Bjerke &

Hultman 2002). Once added to the pool of “qualified partners” (insiders), the customer expects the qualified partners to be able to provide more or less the same core value, an *expected value*. The *desired value* is not expected nor based on business or industry standards. Instead, desired value is described as the features adding value to the counterparty. (Butz & Goodstein 1996) Thus, the pre-relationship sequence in Figure 2 and 5 describes the transition from being an outsider to becoming an insider. However, Figure 2 and 5 implies that the business relationship continues with one specific partner out of the ones belonging to the insider group (cf. Pool of “qualified partners”).

Culture and Value Co-Creation

As earlier stated in this paper, the value co-creating process between customers and suppliers can be describe in terms of expected value, desired value, unanticipated value and received value (Hasche 2006). Expected value is interpreted as the counterparty’s minimal expectations, which often is compared to business or industry standard (cf. core value) (Butz & Goodstein 1996). The desired value is understood as the features that add value to the counterparty (cf. added value) (Flint et al. 1997), while the unanticipated value can be described as value that is beyond the counterparty’s expectations or even desires (Butz & Goodstein 1996). Received value is explained as judgements or assessments of what has been received from the counterparty in a special situation (Woodruff 1997). Expected, desired, unanticipated and received value is all based on the counterparty’s perceptions, i.e. perceived value (van der Haar et al. 2001). It is also stated earlier in this paper that, value perceptions differ between customers and suppliers, within organisations, between tangible and intangible offerings and in different situations (de Chernatony et al 2000; Ulaga & Chacour 2001; Hasche 2006). However, value perceptions also differ between cultures (de Chernatony et al 2000; Ulaga & Chacour 2001).

Figure 6: Culture and Perceived Value



Thus, in order to be able to discuss value co-creation in Swedish-Chinese business relationships, adjustments of Figure 4 is required. It is important to make culture an integral part of the model, since culture “*the collective mental programming of the people in an environment*” (Hofstede 1980), influences the perceived value in different business relationships all over the world (see Figure 6).

FINAL COMMENTS

This paper contains a conceptual discussion regarding value co-creation in dyadic Swedish-Chinese business relationships, by considering cultural aspects specifically associated to Chinese business contexts. The paper starts out with a contextual introduction describing Hofstede’s (1980; 1991) five dimensions of culture. The paper continues by presenting Western and Chinese views of business relationships by discussing interactions and guanxi. Value, approaches to value in business markets, different notions of value co-creation and the value co-creating process between customers and suppliers are also discussed.

It is stated in the paper that the emphasis on relationships is a common denominator in Western and Chinese business cultures, where the focus is on the relationship itself rather than on single transactions. Other similarities discussed in the paper are the long-term perspective of exchange partners, engagement and jointly actions to preserve the relationship, the importance of conflict solving and the fulfilment of agreements. Even though, there are similarities between Western and Chinese concepts of business relationships, the content of the promises given within the relationship, the timeframe of which the promises must be fulfilled as well as the guiding principles differ significantly.

As earlier discussed, the value co-creating process between customers and suppliers can be described in terms of expected value, desired value, unanticipated value and received value, where all of them are based on the counterparty's perceptions, i.e. perceived value (Hasche 2006). Thus, with value perceptions differing between customers and suppliers, within organisations, between tangible and intangible offerings, in different situations and between cultures, identifying and bridging perceptual gaps become critical steps in the value co-creating process. Accordingly, adjustments of the perceived value model (cf. Figure 4) are made by making culture an integral part of the model (see Figure 6).

The discussions held in this paper suggest that the interaction approach combined with the notion of guanxi provides an appropriate theoretical foundation of how business relationships and the interplays between Swedish and Chinese companies can be interpreted. By gathering input from the value literature the frame of reference is further elaborated. Accordingly, a future challenge is to empirically test the frame of reference in a number of Swedish-Chinese business relationships where both parties' views of the value co-creating process are of interest.

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AFFINITIES IN CORPORATE ENTREPRENEURSHIP – A LITERATURE REVIEW

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ABSTRACT

This paper is a literature review of the research field of corporate entrepreneurship. As the term is growing in popularity previous research has seen the field as disparate and that the lack of consensus is evident. Only a few researchers have, more or less, focused on commonalities or similarities. In this paper a comparative analysis of the literature is made through a lens of affinities and some conclusions are made, e.g. when it comes to notions, methodology and the use of perspectives.

INTRODUCTION

Research on corporate entrepreneurship has grown rapidly over the past decade (Dess, Ireland, Zahra, Floyd, Janney and Lane, 2003). But corporate entrepreneurship seems to many entrepreneurship scholars a contradiction in terms (Stevensson and Jarillo, 1990). When reading the literature on entrepreneurship, which corporate entrepreneurship should be to some extent related to, there is an implicit definition of entrepreneurship as something which is radically different from corporate management. Some researchers find it to be the opposite of corporate management. Thus, the very concept of corporate entrepreneurship sounds to many entrepreneurship scholars' as something of an Oxymoron (Stevensson and Jarillo, 1990; Thornberry, 2002). As a result, the two areas have mostly been developed in isolation of each other. One explanation given is that large firms mostly are bureaucratic and that entrepreneurial and bureaucratic activity has been considered essentially opposite forms with little if any connection (Burgelman, 1983).

There also appears to be no consensus on the notion of corporate entrepreneurship (Guth and Ginsberg, 1990; Zahra, 1996; McFadzean, O'Loughlin and Shaw, 2005; Kuratko, 2007). Some scholars emphasize its resemblance to new business creation by individual entrepreneurs and view corporate entrepreneurship as a concept that is limited to new venture creation within existing organizations. Others argue that the concept of corporate entrepreneurship should encompass the struggle of large firms to renew themselves by carrying out new combinations of resources that alter the relationship between them and the environment (Burgelman, 1983).

Thornberry (2002) identifies four categories of corporate entrepreneurship: (1) *Corporate venturing* - starting of new business within a business. (2) *Intrapreneuring* - take the mindset and behaviours of external entrepreneurs to create and build businesses inside an existing and usually large corporate setting. (3) *Organizational transformation* - corporate renewal or transformation. This type of entrepreneurship involves innovation, a new arrangement or combination of resources and results in the creation of sustainable economic value. (4) *Industry rule-breaking* - is a subset of transformation, but involves not only transformation of the enterprise but also the competitive environment of the industry, that should transform into something significantly different than it was.

Dess, Ireland, Zahra, Floyd, Janney and Lane (2003) prefer to divide corporate entrepreneurship in four slightly different categories, which are: (1) *Sustained regeneration* - develops cultures, processes, and structures. (2) *Organizational rejuvenation* - internal processes, structures and capabilities. (3) Strategic renewal - strives to change its competitive strategy. (4) *Domain redefinition* - proactively strives to create a new product market position.

These categories of Thornberry (2002) and Dess et al, (2003) can be fitted into the two categories of corporate entrepreneurship given by Guth and Ginsberg (1990) and Kuratko (2007), which are: (1) *Corporate venturing* - The birth of new businesses within existing organizations, e.g. internal, cooperative, external. (2) *Strategic entrepreneurship* - The transformation of organizations through renewal of the key ideas on which they are built, e.g. strategic renewal, sustained regeneration, organizational rejuvenation, business model reconstruction, domain redefinition.

Wolcott and Lippitz (2007) refer to four models of corporate entrepreneurship, with different settings that have their own challenges: (1) *The Enabler* - the firm provides funding and senior executive attention to prospective projects. (2) *The*

Producer - the firm establishes and supports a full-service group with a mandate for corporate entrepreneurship. (3) *The Opportunist* - the firm has no deliberate approach to corporate entrepreneurship, internal and external networks drive concept selection and resource allocation. (4) *The Advocate* - the firm strongly evangelizes for corporate entrepreneurship, but business units provide the primary funding.

METHOD

This paper is a literature review and a selection of papers and articles that discuss corporate entrepreneurship as studied through the lens of affinities. Among earlier researchers there is more or less consent that corporate entrepreneurship is disparate and that there is a lack of consensus. Only a few have expressly studied commonalities or similarities, e.g. Stopford and Baden-Fuller (1993) and Thornberry (2002). Therefore it could be of interest to study the literature on corporate entrepreneurship through the lens of affinity. In search for affinities there is also a possibility to identify gaps that can contribute to suggestions on further research.

To find affinities a comparative analysis was made by summarizing the notions and key element of the content in the selected literature for this study. Thereafter a comparison was made between the summaries to see what affinities that could be found. The selection of literature for the analysis takes its beginning in the 1990's when the research field of corporate entrepreneurship started to become accepted and enhanced in interest among both researchers and practitioners. The phenomenon of corporate entrepreneurship is not new, but it took some time for it to establish.

A limitation can be seen regarding that the only search term that has been used is corporate entrepreneurship. This means that research in similar areas has not been included or research that has not used the term corporate entrepreneurship in the paper or article.

DISPOSITION

After the introduction and the method discussion a summary of the development of corporate entrepreneurship is presented to give the reader a view of how the research field of corporate entrepreneurship has grown and developed during the years in the literature. Going through the history should bring some further sense to why corporate entrepreneurship is seen as disparate and lacking in consensus.

Thereafter the comparative analysis of the content in the corporate entrepreneurship literature is presented, categorized by the most commonly used methods, perspectives and notions. This section follows by a summary of the analysis. At last there will be some conclusions made and some recommendations on further research.

DEVELOPMENT OF CORPORATE ENTREPRENEURSHIP

The earliest paper in this literature review goes back to 1969 and Steven Westfall - *Stimulating Corporate Entrepreneurship in U. S. Industry* - who meant that entrepreneurship should be seen as a business function in existing corporations and can be applied in management strategies. Other authors to notice the need for corporate entrepreneurship were Schendel and Hofer (1979), in the book, *Strategic Management: A New View of Business Policy and Planning*. They suggested new ways of doing business, e.g. through entrepreneurship and venturing.

In the beginning it was more sporadic with literature that used the term corporate entrepreneurship. In the 1980's the most refereed researchers are Burgleman and Miller, which still are referred to by many researchers. Based on observations, Burgleman (1983) concluded that organizations if they want to be sufficient and competitive must support a degree of entrepreneurial activity. This is because as firms grow larger their capacity to maintain a certain growth rate, in their mainstream area of business reduces and sooner or later they have to find new areas of business in marginally related or unrelated areas (Burgleman, 1984). With the growth and complexity of organizations, there is continually a need for organizational renewal, innovation, constructive risk-taking, and the conceptualization and pursuit of new opportunities, see Miller (1983). A central imperative is that strategies for venturing and new venture divisions is an important organizational innovation to facilitate corporate entrepreneurship (Burgleman (1985). Miller (1983) and Burgleman

(1983) agreed that the condition under which different organizations design for different types of corporate entrepreneurship is important for the understanding of entrepreneurship as a driving force in established firms.

In 1987, Knight tried to show that a shift in paradigm had been made. Where once large corporations were known for their avoidance of entrepreneurs, the same corporations now tried to hire or encourage entrepreneurship within the organization. Corporate entrepreneurship is enabling individuals to use creative processes that allow them to apply and invent technologies that can be planned, deliberate, and purposeful in terms of the level of innovative activity desired (Burgelman, 1983). Furthermore, the understanding of the process of corporate entrepreneurship may help the development of new managerial approaches and innovative administrative arrangements to facilitate the collaboration between entrepreneurial individuals and the organizations in which they are willing to exert their entrepreneurship.

During the 90's corporate entrepreneurship exploded and started to be recognized as a legitimate path to high levels of organizational performance, e.g. for growth, profitability, innovation, competitive advantages and renewal (c.f. Stevenson and Jarillo, 1990; Zahra, 1995; Zahra, 1996; Kuratko, 2007). Zahra and Covin (1995) argue that research on corporate entrepreneurship and its implications for company financial performance is fast emerging as an exciting area of scholar inquiry. During the 90's there also appeared some research in the area of corporate entrepreneurship that focused on small and medium sized firms (e.g. Naman and Slevin, 1993).

In the beginning of the twenty-first century researchers began to concentrate more on specific parts of corporate entrepreneurship and different perspectives are used to understand the phenomena. For example, Barringer and Bluedorn (1999), McFadzean et al. (2005), Heidemann, Gertsen and Riis (2006) are questioning how the notion of innovation is used in conjunction with corporate entrepreneurship. They all think that innovation is an important part of corporate entrepreneurship, but as Heidemann, Gertsen and Riis (2006) wrote "...within the field of entrepreneurship research it is seen that [...] innovation is merely addressed as one factor amongst others without clearly establishing a link to innovation theory." Opportunity recognition is also a popular notion, when talking about entrepreneurship and innovation. It is addressed to give higher customer value (Miles, Paul and Wilhite, 2003). Echols and Neck (1998) also concluded that to make opportunity recognition possible there is a need for structure, which in turn is a necessity for corporate entrepreneurship to work.

Perspectives becoming more popular to use to better understand the phenomenon of corporate entrepreneurship are competence, knowledge, learning and cognition (e.g. Adenfelt and Lagerström, 2006; Hayton and Kelly, 2006; West 2007). Yiu and Lau (2008) also use a network-based perspective in conjunction with corporate entrepreneurship. Otherwise a lot of scholars argue of the importance of middle management behavior, e.g. Kuratko et al. (2005), who studied the link between middle management and successful corporate entrepreneurship. There are also discussions about the entrepreneur as an individual or as a set of individuals, i.e. entrepreneurial teams (e.g. West, 2007).

Definitions

Burgelman (1983) defined corporate entrepreneurship as the process whereby firms engage in diversification through internal development. Furthermore, such diversification requires new resource combinations to extend firms activities in areas unrelated, or marginally related, to its current domain of competence and corresponding opportunity set. Burgelman (1984) connected corporate entrepreneurship with strategy and strategic behavior in large established firms, which identify entrepreneurial activity as a natural and integral part of the strategic process. Jones and Butler (1992:733) also define corporate entrepreneurship as a process "...by which firms notice opportunities and act to creatively organize transactions between factors of production to create surplus value." Another is Wolcott and Lippitz (2007:75) that define the term as "...the process by which teams within an established company conceive, foster, launch and manage a new business that is distinct from the parent company but leverages the parent's assets, market position, capabilities or other resources." Furthermore, it differs from corporate venture capital although it often involves external partners and capabilities, including acquisitions, it engages significant resources of the established company, and internal teams typically manage projects. It is also different from spinoffs, which are generally constructed as stand-alone enterprises that do not require continuous leveraging of current business activities to realize their potential. Yiu and Lau (2008:38) propose that corporate entrepreneurship is "...a resource capital configuration mechanism in emerging markets."

Knight (1987) equalizes intrapreneurship with corporate entrepreneurship and presents a definition that suggests that an intrapreneur is a corporate employee who introduces and manages an innovative project within the corporate environment,

as if they were an independent entrepreneur. He also denotes that this individual often is a chief executive officer, or at least at the corporate level. Echols and Neck (1998) also think that corporate entrepreneurship and entrepreneurship are similar and involve fostering entrepreneurial behaviors within an established organization. The more the organization can exhibit entrepreneurial properties and its people believe in behaving entrepreneurially, the greater the firm's ability to achieve maximum innovation or entrepreneurial success. Similarly McFadzen et al. (2005) think it is important to note that corporate entrepreneurship can be used interchangeable with intrapreneurship. They define corporate entrepreneurship "...as the effort of promoting innovation from an internal organisational perspective, through the assessment of potential new opportunities, alignment of resources, exploitation and commercialisation of said opportunities" (2005:352).

Guth and Ginsberg (1990) have a broad definition of corporate entrepreneurship connected to changes in the pattern of resource deployment and new combinations of resources that can transform the firm into something significantly different from what it was before. This transformation of the firm from the old to the new reflects entrepreneurial behaviour. For Hayton and Kelly (2006) corporate entrepreneurship is a set of firm wide activities that concentrate on the discovery and pursuit of new opportunities through innovation, new business creation, or the introduction of new business models.

Thornberry (2002) states that corporate venturing, or new business development within an existing firm, is only one of several possible ways to achieve strategic renewal. Corporate entrepreneurship can be a powerful antidote to large company staleness, lack of innovation, stagnated top-line growth, and the inertia that often overtakes the large, mature companies of the world.

ANALYSIS

In this section of the paper the results of the comparative analysis of the content in the studied corporate entrepreneurship literature is presented, categorised by the most commonly used notions when describing corporate entrepreneurship. There is also a comparison made regarding the methods used to collect the empirical results because it has an effect on what is seen as important when discussing corporate entrepreneurship. The main purpose with the analysis is to find affinities.

A Quantitative Approach on American Corporations

Previous research in the area of Corporate Entrepreneurship has more or less taken a slightly narrow direction. Instead of getting a qualitative understanding of the phenomena, most researchers have been focusing on quantitative methods by collecting statistical data from a large amount of corporations and mostly from U.S. firms (e.g. Zahra, 1990; Naman and Slevin, 1993; Zahra, 1995; Zahra and Covin, 1995; Mosakowski, 1998; Barringer and Bluedorn, 1999). Constructions of hypotheses are also a commonly used approached to get some answers regarding corporate entrepreneurship, e.g. West (2007) did that in combination with surveys. Yiu and Lau (2008) is one of the few that have collected empirical evidence through a survey of established firms in China.

Kenney and Mujtaba (2007) concluded that additional qualitative research needs to record the experienced corporate entrepreneurs. They stated that a mixed methodology research study could explore the emotional components of intrapreneurship quality and measure its impact on employee performance and turnover quantitatively. Only a few papers are written with empirical data from Europe with a qualitative method (e.g. Stopford and Baden-Fuller, 1994; Badguerahanian and Abetti, 1995; Adenfelt and Lagerström, 2006; Heidemann et al., 2006; Guadamilas, Donate and Sánchez de Pablo, 2008). Darroch et al. (2004) and Covin and Miles (2007) have partly used empirical data from Europe, i.e. Sweden and United Kingdom, and collect it through personal interviews.

Perspectives

There are lots of scholars in the area of corporate entrepreneurship that take on a resource based view, e.g. Guth and Ginsberg (1990) choose to focus on new resource combination as a foundation for strategic renewal. They argue that all changes in firms' patterns of resource deployment from the carrying out of new combinations should be considered in the domain of corporate entrepreneurship. McFadzean et al. (2005) and Darroch et al. (2004) also take on a resource based perspective based on Schumpeter's view on the entrepreneur. Yiu and Lau (2008) denote that corporate entrepreneurship

performs a unique role of resource capital configuration and transformation in emerging market firms. Other researchers that have a resource view are Zahra and Covin (1995) and Mosakowski (1998).

Hayton and Kelly (2006) argue that given the unique requirements of corporate entrepreneurship, a competency-based approach to assessing organizational human capital needs is superior to more traditional job-analytic methods. Yiu and Lau (2008) think it is important to renew firm competence so that a changing environment can be reached. Drawing on existing literature, they outline a competency framework for supporting corporate entrepreneurship and infer the underlying, measurable knowledge, skills, and abilities that contribute to these competencies. Another perspective connected to learning is cognition, e.g. West (2007) has researched the cognitive nature of new venture strategy and dealt with the characteristics of the top managers who run new ventures. Adenfelt and Lagerström (2006) studied how organizational rejuvenation is used to increase and support knowledge exploitation in multinational enterprises.

Corporate Venturing in Focus

Kuratko (2007) identified two main areas of corporate entrepreneurship that is corporate venturing (internal, cooperative, external) and strategic entrepreneurship (strategic renewal, sustained regeneration, organizational rejuvenation, business model renewal, domain redefinition). From this classification of corporate entrepreneurship most of the scholars have chosen to focus on corporate venturing. Kenney and Mujtaba (2007) concluded that the literature in the area of corporate entrepreneurship tends to weigh the benefits and risks of new ventures in terms of stakeholder wealth creation. Researchers as Zahra (1995), Dess et al. (2003), Darroch et al. (2004), West (2007) and Yiu and Lau (2008) have focused on corporate venturing. When it comes to strategic entrepreneurship there are only a few researchers, e.g. Guth and Ginsberg (1990), Naman and Slevin (1993), Adenfelt and Lagerström (2006).

Entrepreneurship

To some extent it seems trivial to mention that entrepreneurship is the foremost common referenced element in the area of corporate entrepreneurship. But it can also shed some light upon the fact that corporate entrepreneurship is seen as disparate and lacking in consensus among scholars, because the same problems exist regarding entrepreneurship. There are researchers who think there are as many definitions on entrepreneurship as there are scholars. Stevensson and Jarillo (1990:18) conclude that “The plethora of studies on entrepreneurship can be divided in three main categories: *what* happens when entrepreneurs act; *why* they act; and *how* they act.”

The entrepreneurial firm is generally distinguished in its ability to innovate, initiate change, and rapidly react to change flexibly and adroitly. The competitive pressures on large companies to become lean and agile have helped many of them to survive (Thornberry, 2002). Entrepreneurship can also be seen, according to Covin and Miles (1999), as one path for creating superior value in the marketplace by leveraging innovation to create products, processes, and strategies that better satisfy customer needs. Many organizations need improved means of increasing the skills and effectiveness of entrepreneurial management and assisting their development into more successful organizations (Naman and Slevin, 1993).

Some researchers like McFadzean et al. (2005) choose to see the entrepreneur in corporate entrepreneurship as either creative imitators or as a creator of something original and new. Darroch, Miles and Paul, 2004, also believe that imitation to a certain extent can be entrepreneurial and shows that conceptually, there are two basic entrepreneurial activities: (1) Entrepreneurial activities that create rent or proactive innovation, and (2) Exploitative activity by reactive innovation, or imitation.

Other researchers concentrate on the idea that corporate entrepreneurship involves fostering entrepreneurial behaviors within an established organization (Echols and Neck, 1998). Thornberry (2002) indicates that managers can be trained to act like entrepreneurs and that these actions can result in significant new value creation. However, firms need to be aware of the pitfalls and problems that can happen when newly trained corporate entrepreneurs re-enter the organization. There are also researchers that choose to see entrepreneurship as a team effort, e.g. West (2007) has suggested a method for assessing entrepreneurial top management team cognition. Mosakowski (1998) thinks that entrepreneurial resources can be distributed by one or a few individuals i.e. an individual entrepreneurial resource or a team of individuals as an entrepreneurial resource.

There are not only positive observations on entrepreneurship. Miles, Paul and Wilhite (2003) have observed that many leading companies have had big losses linked to results from entrepreneurial activities and less successful entrepreneurs. "Entrepreneurial processes are inherently probabilistic, so successful entrepreneurial outcomes can seldom, if ever, be guaranteed" (Covin and Miles, 2007:195). But usually entrepreneurship in earlier research is closely connected with some form of success.

Strategy and Management

The development of corporate entrepreneurship for strategic management is a crucial key element. It is reflected in top management's risk taking with regard to investment decisions and strategic actions in the face of uncertainty (Zahra, 1995). It is seen as a strategic help for renewal of existing firms (Zahra and Covin, 1995), a renewal that is best achieved through risk taking, innovation and proactive competitive behavior (Guth and Ginsberg, 1990). Some managers use leveraged buyouts as a strategy to be entrepreneurial and take risks, e.g. the acquisition of another company using a significant amount of borrowed money, bonds or loans, to meet the cost of acquisition. Leverage is often associated with corporate venturing.

In a model of Guth and Ginsberg (1990), based on studies of earlier research, the environment is seen as an important factor that could affect the organization and trigger entrepreneurial behavior and changes in strategy, especially in a hostile environment with fierce competition. In order to behave entrepreneurially, strategic leaders on the top and middle levels are important, their values and beliefs are often crucial. New leaders of corporate entrepreneurship initiatives are often surprised by how much time they spend talking with corporate and business-unit management. Nevertheless, such communication is essential (Wolcott and Lippitz, 2007). Furthermore, executive engagement is also essential for employees to trust that the process of corporate entrepreneurship is being taken seriously and those good ideas will be developed and commercialized.

Several studies also show that corporate entrepreneurship as a strategy is positively associated with the firms' financial performance. Both in the United States and Europe researchers have found that corporate entrepreneurship is related to sustainable and superior returns (Guth and Ginsberg, 1990; Zahra and Covin, 1995; Elfinger, 2005). However, Barringer and Bluedorn (1999) believe that no study so far has specifically focused on the relationship between a company's application of strategic management and its entrepreneurial strength. They feel that studies instead have explored organizational characteristics that enable entrepreneurial behavior on a broad range of variables, which resulted in no deeper insight being obtained.

Challenging Bureaucratic Structure

Another thing that earlier researchers have in common is that corporate entrepreneurship shall challenge bureaucratic structure. For example Covin and Slevin (1990) conclude that entrepreneurial business managers must remember that the structure should be organic and amorphous, which does not include bureaucratic structures. Bureaucracy and management processes are widely known as an abomination when it comes to innovation and change within organizations (Barringer and Bluedorn, 1999). However, Guth and Ginsberg (1990) think this may not always be true and strive after more rigorous empirical studies on the combined effects of organizational structure, strategy and core-beliefs regarding corporate entrepreneurship.

Competitive Advantage

There is an implicit agreement that competitive advantages are important in the corporate entrepreneurship literature, but how to identify these advantages are a different question and there are plenty of answers to find. For example, Hayton and Kelly (2006) and Kenney and Mujtaba (2007) think that corporate entrepreneurship is an important source of competitive advantage and to achieving economic growth and success in the market. Bhardwaj and Sushil (2007) conclude that competitive strength is more important than ever to get as the competition becomes more dynamic with the globalization. Kuratko, Ireland, Covin and Hornsby (2005) also noticed the influence globalization had on corporations' willingness to use corporate entrepreneurship as strategy to gain competitive advantages.

Zahra and Covin (1995) argue that the interest in corporate entrepreneurship arises from its potential advantages as a means to renew established organizations and increase their ability to compete in their chosen markets. Furthermore it can

increase shareholder value by creating a work environment that supports individual and business growth by giving employees the opportunity to use their creativity, speed up the companies response to the market and create a culture that promotes cross-border cooperation (Zahra, 1996).

Miles, Paul and Wilhite (2003) have taken initiative to develop a general theory of entrepreneurial competitiveness. They think that theories of entrepreneurial competition are fundamentally different from theories of price competition. In addition to the risks that are associated with entrepreneurial activities there are also differences in incentive structures, which are the foundation for corporate entrepreneurship. Darroch et al. (2004) denote that corporate entrepreneurship creates competitive strength through rent of activities. The creation of economic rent has become an important area in the literature to understand the motives that shape business and the level of business strategies.

Covin and Miles (1999) method to generate entrepreneurial rent are: (1) Maintaining regeneration through constant and radical product innovation. (2) Organizational rejuvenation by radical process innovation. (3) Strategic renewal by innovation of business concepts. (4) Domain redefinition through the creation of new product markets.

Innovation

Previous research shows that innovation is an important key element of corporate entrepreneurship (e.g. Barringer and Bluedorn, 1999; McFadzean et al., Darroch et al.; 2005; Hayton and Kelly, 2006). Innovations renew companies, enhance their competitive advantage, spur growth, create new employment opportunities, and generate wealth (Hayton and Kelly, 2006). Innovations are in most cases mentioned in conjunction with entrepreneurship. However, according to McFadzean et al., (2005) there have been very few comments in the academic literature on the relationships between entrepreneurship and innovation. They argue that entrepreneurship and innovation are two processes, interdependent of one another; corporate entrepreneurs challenge bureaucracy and move the innovation process forward (McFadzean et al., 2005). Heidemann, Gertsen and Riis (2006) think there is a missing link between corporate entrepreneurship and innovation theory.

Barringer and Bluedorn (1999) argue that corporate entrepreneurship is based on management, which embraces a behavior that encourages innovation. Corporate entrepreneurship is also, according to Guth and Ginsberg (1990), responsible for stimulating innovation in the organization by exploring the potential of new opportunities, resource acquisition, implementation, exploitation and commercialization of new products or service. Zahra (1990, 1995) denotes that corporate entrepreneurship also includes various attitudes and events that expands the ability of firms to take risks, seek opportunities and innovate. Similar as with entrepreneurship, firms can innovate and create corporate entrepreneurship in two ways (c.f. Darroch et al., 2005). (1) Totally new products to get onto the market, like when the microwave oven and the portable tape player were introduced. (2) Innovation through imitation, i.e. to succeed in producing the same product as the competitor but at a better price resulting in increased value for the customer.

Opportunity Recognition

As mentioned during the discussion on innovation the concept of opportunity recognition is also important for corporate entrepreneurship, e.g. to achieve greater returns and provide more value to the customer (Miles, Paul and Wilhite, 2003). Corporate entrepreneurship is the discovery and pursuit of new opportunities through innovation (Hayton and Kelly, 2006) and structures that allow opportunity recognition are necessary for successful corporate entrepreneurship (Echols and Neck, 1998; Kuratko et al., 2005). In most cases when researchers discuss the notion of entrepreneurship and innovation, they also mention opportunity recognition, which is also seen in this paper.

SUMMARY

As seen in the beginning of this paper there are many definitions and different ways to categorize corporate entrepreneurship, which makes the research field disparate and the lack of consensus evident. The notions of venturing and strategic entrepreneurship continue most of the earlier researchers' definitions and categories of the phenomena, but it is also a broad way to categorize and therefore is limited in use. Another problem remains the lack of consensus that corporate entrepreneurship includes a lot of theories from other notions like entrepreneurship and innovation where there

also is a lack of consensus. Despite this background there is a possibility to find affinities that show that the research field of corporate entrepreneurship might not be all that disparate.

A majority of researchers have focused on a specific subject concerning different forms of corporate venturing. Strategic entrepreneurship seems to be growing but venturing is foremost the most popular subject. The most commonly used perspective on corporate entrepreneurship is the resource based view. Thereafter it seems like learning in different shapes is becoming more important. A base in empirical studies on large firms and corporations is central for most of the researchers. When it comes to methodology there are foremost quantitative methods that are used from a large amount of U.S. firms. When personal interviews have been collected it is also done on a larger scale and conducting of hypothesis testing is normally used. When it comes to qualitative methods, like the case study, it is less or almost never used before the twenty-first century, still there are few but growing. There are also few researchers that use Europe for collecting empirical data.

Nearly all of the researchers in this literature review see corporate entrepreneurship as a way to challenge bureaucratic structure, to become more agile and flexible to meet future demands from the market. It is a way to grow, but it is also filled with risk management, but there are only a few researchers that have mainly looked at the risks. It seems that researchers commonly are more interested in doing research that acknowledges corporate entrepreneurship as a positive force of strategy to be more successful. To become successful, a majority of the researches think that management is important and their ability to become entrepreneurial, innovative and seek opportunities, both at the top and middle management levels. Most of the time the entrepreneur is seen as an individual, but during the past decade more researchers began to talk about entrepreneurial teams, often with a set of managers.

In this paper, affinities could foremost be found regarding research objects (large firms), research subjects (venting), methods (quantitative approaches through surveys and conducting of hypothesis testing) and choice of perspective (a resource based view). Otherwise there are key elements that can be seen as a foundation of corporate entrepreneurship, which are entrepreneurship, strategy, management, competitive advantage, innovation and opportunity recognition. One last affinity is that corporate entrepreneurship challenges bureaucratic structures to become more agile and dynamic.

CONCLUSION

The purpose of this paper was to study how the research field of corporate entrepreneurship has developed and if there are any affinities that could bring the research field closer. As many other researchers have shown in previous literature, it is hard to find consensus among different scholars. This paper has contributed by showing that the research field may be closer than first noticed when it comes to certain areas in corporate entrepreneurship.

The lens of affinities can also show where there may be some gaps in the literature that is in need of further research, e.g. when it comes to more qualitative approaches where practitioners can give their view of corporate entrepreneurship by telling their stories by repeated interviews. Most of the research has also taken place in the United States, which can suggest that it is of interest to get more empirical data from other continents, e.g. Europe and China. Furthermore, none of the researchers have taken on a perspective of the individuals or teams in the operating core and their ability to be entrepreneurial. In the literature they talk about the employees but with a close reading it is the middle management they refer to.

A limitation, in this paper is that this review needs to be further developed to include more of the literature in the area of corporate entrepreneurship. There are a lot of different literatures that are not included in this review. Perhaps there also is a need to widen the research to include more search terms, now the only used term is corporate entrepreneurship.

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MEASURING LEVELS OF ENTREPRENEURIAL MARKETING IN HI-TECH VENTURES: THE 'EMIO' SCALE

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ABSTRACT

This paper has arisen from research of small technology ventures and the developing literature on entrepreneurial marketing. Earlier market orientation literature uses scales of measurement designed for large firms and routinely applies them in the small entrepreneurial firm context. This paper collates a range of widely used market orientation, innovation and entrepreneurial orientation measures, and proposes an entrepreneurial marketing orientation scale by reviewing the dimensions from these scales. This is important because market orientation scales tend to omit proclivity to entrepreneurial activity and therefore fail to fully investigate market orientation in small technology firms managed by entrepreneurs.

INTRODUCTION

The macro-environment in which small firms operate is rapidly changing to what has been described by researchers as the new economic era, where competition is more intense and technological change is rapid, making environmental changes often difficult to predict. For any business to survive in a global economy, constant change and innovation are a necessity (Bjerke and Hultman 2002). Technology firms in particular operate in dynamic, highly competitive global markets where it is recognized that entrepreneurial activity is commonplace, yet the literature on technological entrepreneurship (Shane and Venkataraman 2003) and marketing in technology ventures has yet to be fully explored. What research there is, tends to focus on the interrelationship between market orientation and innovativeness (Romijn and Albaladejo 2002; Verhees and Meulenbergh 2004). There are also calls in the small firm marketing research literature for a new approach to market orientation that takes into the account the use of networks in the market orientation of small knowledge intensive, entrepreneurial firms (Renko 2003). This is because the current conceptualizations of market orientation are seemingly based on research that has been mainly conducted in the mass marketing arena of large US manufacturing firms, which has therefore created scales that have a strong focus on customers, competitors and information gathering (Ottosen and Gronhaug 2002).

Hills and Hultman (2008) describe marketing, innovation and entrepreneurship perspectives as the interface for the arena for research in entrepreneurial marketing citing Morris, Schindehutte, and Laforge's (2002, p.5) definition, '*the proactive identification and exploitation of opportunities for acquiring and retaining profitable customers through innovative approaches to risk management, resource leveraging and value creation*'. Whilst those researching in the marketing and entrepreneurship interface (Hills 1987; Hills, Hultman, and Miles 2008) are not seeking to limit the boundaries of entrepreneurial marketing by applying one definition as it is still in its discovery stage (Carson et al. 1995), it would be useful to develop a suitable framework that explores the dimensions that are identified by researchers as being the main constituents of the entrepreneurial marketing concept. This is because there is a need for some new and different perspectives through which behaviors and interactions in small firms that entrepreneurially market may be understood.

Consequently this paper takes the exploration of entrepreneurial marketing one step further and suggests that one of the reasons for the need to characterize entrepreneurial marketing in terms of a new scale is because there has been little adaptation of traditional market orientation scales to accommodate the small firm context in dynamic environments. Indeed, some might argue that the, in some cases worthwhile, attempts to explore the application of the concept of entrepreneurial marketing to large firms has yet further clouded the issue. Accordingly, in the interests of clarity in this paper, we focus on entrepreneurial marketing as marketing that is conducted in the context of small firms. We also argue that the application of un-adapted market orientation scales to small firms has led to conclusions that small firms are not market orientated (Harris 1998), despite the extensive research evidence that such businesses may have an innovation orientation (Verhees and Meulenbergh 2004) and an entrepreneurial orientation (Carson et al. 1995).

This conceptual paper commences with a review of the research on the development of market orientation scales. This analysis also identifies some scales that relate to measurement of innovation and entrepreneurial orientation. The next section summarizes the existing work and the links that researchers have made on aspects of market orientation, innovation orientation and entrepreneurial orientation, thereby strengthening the argument for an integrated scale. This exploration is used as the foundation for the proposal of a new market orientation scale, which leads to greater emphasis than previous scales to innovation and entrepreneurial orientation. It is proposed that such a scale offers a much more appropriate tool for understanding marketing in small technology firms that are entrepreneurial, and can also be used in larger organizations to investigate their entrepreneurial marketing orientation. The article concludes with recommendations for further research.

MARKET ORIENTATION - SCALES OF MEASUREMENT

Whilst market orientation scales have been vigorously developed and tested in large firms over the last two decades, there has been little application or development of market orientation scales in the small firm context, despite recognition in the literature that marketing is attributable to business growth and performance. It is questionable whether popular scales of measurement are entirely suitable for small firms, firstly as small firm business and marketing approaches tend to be sector specific, secondly because the terminology used in the scale items reflects the type of responses expected from professional marketers rather than from entrepreneurial owner-managers, and thirdly the routine application of quantitative research limits our understanding of the way in which small firms entrepreneurially market. Within the SME marketing literature the majority of market orientation investigations appear to focus on innovation, new product development and business performance (Im and Workman, 2004; Narver, Slater and MacLachlan 2004; Salavou and Lioukas 2003; Verhees and Meulenbergh 2004).

Most market orientation researchers tend to adopt one of two perspectives (Tajeddini, Trueman, and Larsen 2006; Verhees and Meulenbergh 2004), that of either Kohli and Jaworski (1990) or Narver and Slater's definition (1990). Kohli and Jaworski adopt a behavioral perspective, using marketing intelligence rather than a customer focus as the central element because it is a much wider concept that takes in the '*exogenous market factors that affect customer needs and preferences and current as well as future needs of customers*' (Kohli and Jaworski 1990, p.3). They adopt three themes of customer focus, coordinated marketing and profitability. Conversely, Narver and Slater (1990, p.21) focus on a cultural perspective, defining market orientation as '*the organization culture that most effectively and efficiently creates the necessary behaviors for the creation of superior value for buyers and thus, continuous superior performance for the business*'. Three identified behavioral components are embodied within this concept: a customer orientation; a competitor orientation; and inter-functional coordination. Whilst both models have been rigorously tested for their suitability in measuring market orientation in large firms, opinion remains divided as to which is the more suitable, Tajeddini, Trueman, and Larsen (2006) considered Narver and Slater's definition of a market orientation as receiving greater popularity, whilst Kohli and Jaworski's scale of measurement is considered by others to be favoured by researchers (Pitt, Carauna, and Berthon et al. 1996).

Deshpande, Farley and Webster (1993) developed a market orientation scale that was more customer orientated and based on a broader study that included the impact of corporate culture and organizational innovativeness on firm performance. Later Deshpande and Farley (1998) tested the following market orientation scales; Narver and Slater's scale (1990); Kohli, Jaworski and Kumar's MARKOR scale, (1993) and Deshpande, Farley and Webster's scale (1993). They found remarkable similarity in terms of reliability and internal and external validity and synthesized a managerially simplified scale from the three scales, which they called 'MORTN', however, no scale dimensions were articulated.

Various authors have redeveloped the measurement scales; Pitt et al. (1996) investigated the relationship between market orientation and performance using Kohli, Jaworski and Kumar's (1993) 'MARKOR' scale whilst Gray et al. (1998) utilized parts of different scales from Deng and Dart (1994), Jaworski and Kohli (1990) and Narver and Slater, (1990) to develop a valid instrument to measure market orientation. Recommendations for further research included using different modes of market orientation where combinations of customer and competitor orientation, inter-functional coordination, responsiveness and profit emphasis may be considered. Scales and their scale items of measurement that will be used in development of the new 'EMIO' scale are illustrated below, Figures 1 and 2.

Figure 1: Narver And Slater's Market Orientation Scale (1990)
Scale Dimensions-Customer Orientation, Competitor Orientation, Inter-functional Co-ordination.

1. Our salespeople regularly share information within our business concerning competitor's strategies
2. Our business objectives are driven primarily by customer satisfaction
3. We rapidly respond to competitive actions that threaten us
4. We constantly monitor our level of commitment and orientation to serving customer's needs
5. Our top managers from every function regularly visit our current and prospective customers
6. We freely communicate information about our successful and unsuccessful customer experiences across all business functions
7. Our strategy for competitive advantage is based on our understanding of customers needs
8. All our business functions (e.g. marketing, sales, manufacturing, R&D, finance/accounting etc.) are integrated in serving the needs of our target markets
9. Our business strategies are driven by our beliefs about how we can create greater value for our customers
10. We measure customer satisfaction systematically and frequently
11. We give close attention to after-sales service
12. Top management regularly discusses competitors' strengths and strategies
13. All of our managers understand how everyone in the business can contribute to creating customer value
14. We target customers where we have an opportunity for competitive advantage
15. We share resources with other business units

A review of the scales show that market orientation has aspects that may be attributable to the notion of entrepreneurial orientation and innovation orientation. Most scales show reactive rather than proactive approaches, however Narver, Slater and MacLachlan (2004) later developed a proactive marketing construct and reactive marketing construct within their 'MOPRO' scale, a refined scale based on the 'MORTN' scale.

Market orientation research into small firm behavior is limited, yet interest is of global concern (Harris 1998; Pelham 2000; Man et al 2002). Narver and Slater's (1990) market orientation scale and Kohli and Jaworski's (1990) scales are frequently applied to the small firm context without adaptation. Notable exceptions include the work of Blankson and Stokes (2002) who used Kohli and Jaworski's model (1990) and tested it for suitability in small firms, whilst Rexha, Burnnand and Ramaseshan (1988), Salavou, Baltas and Lioukas (2004) and Verhees and Meulenbergh (2004) investigated various aspects of small firm market orientation in their studies.

Figure 2: Kohli, Jaworski and Kumar's MARKOR Scale (1993)
Scale Dimensions-Intelligence Generation, Intelligence Dissemination, Responsiveness.

1. In this business we meet with customers at least once a year to find out what products or services they will need in the future
2. In this business unit, we do a lot of in house market research
3. We are slow to detect changes in our customer's product preferences ®
4. We poll end users at least once a year to assess the quality of our products and services
5. We are slow to detect fundamental shifts in our industry (e.g. competition, technology, regulation) ®
6. We periodically review the likely effect of changes in our business environment (e.g. regulation) on customers
7. We have interdepartmental meetings at least once a quarter to discuss market trends and developments
8. Marketing personnel in our business unit spend time discussing future needs with other functional departments
9. When something important happens to a major customer or market, the whole business knows about it in a short period
10. Data on customer satisfaction are disseminated at all levels in this business unit on a regular basis
11. When one department finds out something important about competitors, it is slow to alert other departments ®
12. It takes us forever to decide how to respond to our competitors price changes ®
13. For one reason or another we tend to ignore changes in our customer's product or service needs ®
14. We periodically review our product development efforts to ensure that they are in line with what customers want
15. Several departments get together periodically to plan a response to changes taking place in our business environment
16. If a major competitor were to launch an intensive campaign targeted at our customers, we would implement a response immediately
17. The activities of the different departments in this business are well coordinated
18. Customer complaints fall on deaf ears in this business unit ®
19. Even if we came up with a great marketing plan we probably would not be able to implement it ®
20. When we did find that customers would like us to modify a product or service, the departments involved make a concerted effort to do so ®.

There is still no consensus of agreement as to the most suitable scale for small firms and there have been calls for further development of such scales as they may not be suitable for small firms (Appiah-Adu 1997). Appiah-Adu used Pelham and Wilson's small firm market orientation scale (1996), partly based on Narver and Slater's (1990) model. A comparison between large and small firm market orientation was made. Market orientation was found to be as applicable to small firm performance and increased the likelihood of innovation in the form of new product and market developments, which in turn increased profitability and growth. Despite Appiah-Adu (1997) applauding Pelham and Wilson's scale, it has been much less used in the literature and scale items exclude many of the features shown in Kohli and Jaworski's (1990) model and any of the distinct marketing practices of SME marketing such as the use of network relationships or proactive, entrepreneurial marketing approaches.

Venkatesan and Soutar (2000) also sought to test the reliability of market orientation models to the small firm sector. Kohli and Jaworski's (1990) and Narver and Slatters (1990) market orientation models were applied to Australian SME s. Their research concluded that the behavioral and culturally based model of Narver and Slater was more suitable for SMEs as Kohli and Jaworski's model focused more on specialized activities which were less applicable to small firm due to the informal nature of their marketing activities. Despite Narver and Slater's model being described as suitable, one of the three constructs was eliminated in its entirety as the inter-functional construct was found to be unsuitable for the SME research context, as SME s were identified as lacking separate functions, such as production, accounting and marketing. Conversely, Kara, Spillan and Delshields (2005) when measuring the effect of market orientation on business performance in small-sized service retailers applied Kohli and Jaworski's (1990) scale describing it as more suitable to the data collection than other frameworks. They applied the scale without adaptation to the small firm context, however, Kara et al. concluded that this scale may not totally capture the full picture.

A key feature of historical market orientation measurement is the use of quantitative analysis. Blankson et al. (2006) developed a framework to identify the marketing practices of small firms using earlier work from Blankson and Omar (2002) based on Kohli and Jaworski's scale (1990) to develop open ended qualitative research questions, noting that apart from their own research all known research had used quantitative techniques. Blankson et al. (2006) argue that it is not

always desirable to use formal quantitative methods and concluded that their scale that used open ended questioning and qualitative analysis uncovered not only the business practices but also the rationale behind those practices, an approach previously overlooked by other market orientation studies (Laurent 2000; Gummesson 1999). This framework however contains a very limited focus on market orientation questions, asks for comparative data on competitors, when firms such as small technology firms are weak in their competitor awareness (Jones and Rowley 2007), and the framework has an organizational focus to the questioning that excludes consideration of entrepreneurial and marketing proactivity and innovation, seen as vital for technology firm growth and development.

Findings such as these illustrate the need to investigate and define what being market orientated means for small firms. The thoughtful restructuring of new constructs based on qualitative investigation, that encapsulate the nature of entrepreneurial marketing in small firms and their rationale for these approaches will prevent the risk of merely scraping the surface when investigating marketing practice in small firms, a view shared by Gilmore et al. (1999) who recommended qualitative research of small firms in order to expose a deeper understanding of the research phenomenon. It may also augment the market orientation literature and provide a new model of measurement for entrepreneurial marketing for both small and large firms. It is proposed that by using highly developed and suitable scale constructs of market orientation, innovation and entrepreneurial orientation, researchers may discover that small firms are not only highly market orientated but exhibit unique and distinct marketing behaviors and competencies of their own.

INNOVATION ORIENTATION

Authors such as Miles and Darroch (2004) consider entrepreneurial marketing activities to be closely coupled with competitive advantage, creating superior advantage by using innovation to create products, processes and strategies that better satisfy customer needs (Covin and Miles 1999). Although a great deal of the innovation literature has been derived from research in new ventures, small firms and the technology industry, there are limited innovation orientation measures to draw upon. Hurley and Hult's (1998) research on innovation proposes two innovation constructs that may be integrated into market orientation models, innovativeness and the capacity to innovate. Firstly innovativeness as part of the firm's culture, being a measure of the organization's orientation to innovate, characteristics being learning, participative decision-making, support and collaboration, and power sharing. Secondly the capacity to innovate is the ability of the organization to implement new ideas, processes or products successfully. The latter aspect has been measured in the literature in terms of measuring the number of innovations (in terms of patents, for example) an organization can produce or adopt successfully within a given timescale. This in some way serves to illustrate why there are few inter-organizational behavioral innovation orientation measures contained in the literature as innovation tends to be measured as an innovation output resulting from the effects of other influences under examination such as entrepreneurial orientation and market orientation. Aldas-Manzano, Küster and Vila (2005) examined market orientation in relation to the innovation in firms, devising specific innovation scales that used three dimensions of products, process and strategies scales based on a case study of manufacturing firms, based on Henard and Szymanski's measures (2001). Such measures that include, 'use of email' and 'video conferences' appear outdated when applied to the context of a technology companies and do not address innovation as a culture or behavioral orientation of the organization.

Siguaw, Simpson and Enz (2006), Figure 3, proposed a framework for studying innovation orientation, describing innovation orientation as a delineated knowledge structure composed of a learning philosophy, strategic direction and a set of trans-functional beliefs in the organization which are embedded in the company in areas of resource allocation, technology employees, operations and markets. They focus on innovation orientation as an overarching knowledge structure and organizational competencies shown as a set of inter-firm innovative behaviors. Proposals P.9-P.12 are excluded from the paper as they relate to outputs such as business performance and effects of the external environment. Siguaw et al.'s comprehensive research of the literature has drawn together pertinent strands of the innovation literature together to develop a framework of propositions for the measurement of innovation orientation. These scales are proposals and have not been tested for reliability, but in light of the fact that the innovation literature on innovation orientation is in its relative infancy, this framework provides a useful starting point.

Figure 3: Siguaw et al.'s Innovation Orientation Framework (2006)

Firms with a strong innovation orientation (i.e., overarching knowledge structure) are more likely to-

P.1. To devote resources to all areas of the firm in efforts that specifically encourage the creation, development and implementation of innovations

P.2. Are more likely to develop and deploy new technologies to stimulate and sustain innovation

P.3. Are more likely to implement formal and informal policies, procedures, practices and incentives specifically devoted to stimulate and sustain innovation-directed individual employee actions

P.4. Are more likely to implement policies, procedures, practices, and incentives specifically devoted to gathering and disseminating information about customer and competitor markets to stimulate and sustain innovation

P.5. Are more likely to organize and coordinate operational processes and structures and to engage in shaping the organizational culture to stimulate and sustain innovation

Firms with a strong innovation orientation will have organizational competencies that are more likely to-

P.6. Produce greater numbers of both radical and incremental innovations, although the relationship is nonmonotonic (not in any particular preceding set).

P.7. Produce more innovations in all of the innovation types—marketing, process and administrative innovations

P.8. Take innovation from inception to implementation at a faster rate, although the relationship is nonmonotonic.

ENTREPRENEURIAL ORIENTATION

Entrepreneurial orientation concerns an entrepreneur's inherent personality traits and most scales include the dimensions of risk taking, pro-activeness and innovation (Covin and Slevin 1991; Ginsberg 1985; Khandwalla 1977; Lumpkin and Dess 1996; Miles and Arnold 1991; Miller and Friesen 1983; Morris and Paul 1987; Naman and Slevin 1993). Small firm research of entrepreneurial orientation includes Salavou and Lioukas' (2003) investigation of market focus, technological posture and entrepreneurial orientation in SMEs and whether this would lead to more radical product innovations. Their research showed that, unlike larger firms, SME innovation orientation comes from the 'entrepreneurial push' rather than the market orientation or technology policy of the SME. Kreiser, Marino, and Weaver (2002) propose that such research should include the culture, innovation, risk taking and pro-activeness within the small firm whilst Khandwalla (1973) developed a popular nine item scale for measuring corporate entrepreneurship, the 'ENTRESCALE' which has been subsequently refined by Miller and Friesen (1978) and Covin and Slevin (1989) who are much cited in the entrepreneurial orientation literature. The 'ENTRESCALE' scale measures sub constructs of innovation and pro-activeness; elements of entrepreneurial proclivity and propensity for risk taking. These are facets of entrepreneurial orientation identified by other key authors. This scale is known for reliability and validity in numerous studies (Covin and Slevin 1989; Khandwalla 1977; Miles and Snow 1978). More recently Knight (1997) adapted the 'ENTRESCALE' to the 'ENTRE' scale (fig. 4) that is positively tested for reliability and uses a Likert scale with seven of the original nine items of the scale.

Figure 4: Knight's (1997) 'ENTRE' Entrepreneurial Orientation Scale

How many lines of products or services has your company marketing since...?	
No new lines of products or services.	Very new lines of products or services.
Changes in product or service lines have been mostly of a minor nature.	Changes in product or service lines have usually been quite dramatic.
In general, top managers in my firm favor...	
A strong emphasis on the marketing of tried and true products or services.	A strong emphasis is on R & D, technological leadership and innovations.
In dealing with competitors, my firm...	
Is very seldom the first business to introduce new products/services, operating technologies, etc.	Is very often the first business to introduce new products/services, administrative techniques, operating technologies, etc.
In dealing with competitors, my firm...	
Typically seeks to avoid competitive clashes, preferring a 'live and let live.'	Typically adopts a very competitive, 'undo-the-competitors' posture.
In general, the top managers at my firm...	
Believe that, owing to the nature of the environment, it's best to explore it gradually via careful, incremental behavior.	Believe that, owing to the nature of the environment, bold, wide-ranging acts are necessary to achieve the firm's objectives.
When confronted with decision-making situations involving uncertainty, my firm...	
Typically adopts a cautious 'wait and see' posture in order to minimize the probability of making costly decisions.	Typically adopts a bold, aggressive posture in order to maximize the probability of exploiting potential opportunities.

More recently Matsuno, Mentzer, and Özsomer (2002) drew on a wide range of entrepreneurial and entrepreneurial orientation literature and identified three main underlying dimensions of organizational predisposition to entrepreneurial management processes; innovativeness, risk taking and proactiveness. Using Miller (1983) and other works (Covin and Slevin 1989; Morris and Paul 1987), Matsuno, Mentzer, and Özsomer developed a seven item measurement scale (Fig. 5) that incorporated receptiveness to innovation, risk-taking attitude and proactiveness towards opportunities in order to assess the effects of market orientation and entrepreneurial proclivity on business performance.

Figure 5: Matsuno, Mentzer, and Özsomer's (2002) Entrepreneurial Proclivity Scale

Innovativeness
1. When it comes to problem solving, we value creative new solutions more than the solutions of the conventional wisdom.
2. Top managers here encourage the development of innovative marketing strategies, knowing well that some may fail.
Risk taking
3. We value the orderly and risk-reducing management process much more highly than leadership initiatives for change.
4. Top managers in this business like to 'play it safe.'
5. Top managers around here like to implement plans only if they are very certain that they will work
Pro-activeness
6. We firmly believe that a change in market creates a positive opportunity for us.
7. Members of this business unit tend to talk more about opportunities rather than problems.

ENTREPRENEURIAL MARKETING AND NETWORK THEORY

The review of the measurement scales shows that they omit some of the behaviors and characteristics of entrepreneurial marketing identified in reviews of the entrepreneurial marketing literature (Morris et al. 2002; Hills and Hultman, 2005). Therefore dimensions identified in the entrepreneurial marketing literature that have not been considered in previous scale developments have been added to the proposed new scale, whilst other entrepreneurial marketing behaviors such as 'calculated risk taking' and 'reliance on intuition and experience' (Hills and Hultman, 2006) are included under the 'risk taking' dimension identified by Matsuno et al. 2002. Thereby developing a richer understanding of 'risk' that relates more closely to the concept of entrepreneurial marketing.

The reviewed scales also lack some of the dimensions attributable to small firm marketing. Scales that refer to inter-departmental communication are inherently unsuitable for micro and some small firm research investigation whereas SME marketing theory recognizes the value of business networks and Personal Contact Networks (PCNs) to small businesses.

Therefore dimensions relating to business networking have been constructed and added to the proposed new entrepreneurial marketing scale. These are derived from themes emanating from the literature on small firm and entrepreneurial networks:

- Inter-firm behaviors, SME decision making being non-bureaucratic, informed, flexible and organic (learning culture/firm orientation), (Carson et al. 1995; Cegara-Navarro and Rodrigo-Moya 2007)
- Business networks that focus on SME alliances, enabling small firms to compete with larger business on a more equal footing, and supply chain (B2B) relationships (Schindehutte and Morris 2001).
- PCNs, business networks, industry and marketing networks (Aldrich et al. 1991; Birley and Cromie 1988; Carson et al. 1995; Hill 2001).
- The building of effective networks (Storey 1994; Carson et al. 1995; Lindman 2004) and, as a key feature of entrepreneurship (Collinson and Shaw 2001).
- Use of social networks as informal and social linkages that may provide a higher and more stable flow of information and resources than formalized business networks (Premaratne 2001).

ENTREPRENEURIAL MARKETING - A NEW ORIENTATION MEASURE

This section summarizes the existing work and the links that researchers have made on aspects of market orientation, innovation and entrepreneurial orientation, thereby strengthening the argument for an integrated scale. This exploration is used as the foundation for the proposal of a new entrepreneurial marketing orientation scale, the 'EMIO' scale which leads to greater emphasis than previous market orientation scales to entrepreneurial orientation. It is proposed that such a scale offers a much more appropriate tool for understanding marketing in small technology ventures that operate in challenging environments.

As yet, scales that include dimensions of market orientation, innovation and entrepreneurial orientation have been dealt with in a variety of approaches and in differing research contexts. The relationship between market orientation, entrepreneurial orientation and the environment have been investigated by researchers such as Miles and Arnold (1991), Miles and Burns (1994), Miles, Thompson, and Arnold (1992) and Morris and Paul (1987). Miles and Arnold (1991) consider market orientation to be a unique business orientation, whilst others suggest that marketing orientation may be improved by using aspects of entrepreneurial orientation, including innovation and adaptive behavior (Achrol 1991; Kerin 1992; Miles and Munilla 1993, cited in Miles and Burns 1994).

Market orientation has been considered in relation to innovation and performance measures (Han, Kim, and Shrivastava 1998) whilst Lukas and Ferrell (2000) considered the effect of market orientation on product innovation. Meanwhile researchers such as Atuahene-Gima and Ko (2001) used market and entrepreneurship orientation to examine product innovation in firms. Indeed, innovation has been viewed as a precursor to marketing effectiveness in small firms and a product (outputs such as patents) of successful marketing strategies that can be entrepreneurial in nature, yet in entrepreneurial marketing terms it is recognized as playing a major part in small firm development, creating new market opportunities and delivering customer value.

These examples illustrate the fact that although marketing and entrepreneurship are viewed as attributable to firm growth and performance, market orientation scales that have been developed and rigorously tested in firms over the last two decades largely ignore effects of the marketing environment and preclude the dimensions of entrepreneurial marketing. There are some notable exceptions in the literature where authors have measured the interaction between market orientation and entrepreneurial orientation (Atuahene-Gima and Ko 2001; Kwaku and Ko 2001; Matsuno, Mentzer, and Özsomer 2002) whilst Hult, Hurley, and Knight (2004) measured aspects that included innovativeness, market orientation and entrepreneurial orientation in markets of high turbulence. Their work illustrates the relevance of entrepreneurial marketing to such firms operating in markets of high turbulence, as results of their research included the significant effect of market orientation on innovativeness under these conditions, whilst entrepreneurial orientation was also positively related to innovativeness. Although there has been some attempt to consider entrepreneurial orientation with market orientation and innovation, it has not been considered directly from the entrepreneurial marketing viewpoint. In fact a review of the literature on market orientation scales show that they tend to omit proclivity to entrepreneurial activity (Blankson and Stokes 2002), therefore, arguably such scales will fail to appreciate and to fully investigate market orientation in small firms managed by entrepreneurs.

SCALE DEVELOPMENT

Synthesizing of a New Scale

There are certain caveats to designing of a new scale, however the process of collapsing and redesigning of scales is not without precedent in the literature. There has been a great deal of replication and adaptation of marketing scales in the literature using popular scales (Hart and Diamantopoulos 1993). Care must be taken to avoid the loss of reliability and whilst there is sometimes an unnecessary restriction of a constructs domain, the marketing literature does recommend the dropping of items from existing scales when the subject items do not correspond with the environment or capabilities of the research setting (Strutton and Lumpkin 1994). Zeller and Carmines (1980) also recommend using an economical approach when designing measures as is the rule of scientific theory, citing several key examples of purposeful item omission in the marketing literature. The merging of certain factors is also considered acceptable where they are considered as conceptually related an approach used by such authors as Blankson and Stokes (2002) and Hair et al. (1995). They state that the deletion or merger of a particular item can only be justified when the item(s) to be eliminated or merged are conceptually related to other groups of items, whilst Parasuraman, Zeithaml and Berry (1985) and Hair et al. (1995) observe that items can be eliminated in cases where, by merging them with others there was no improvement in the internal reliability, for example, there was no increase in the alpha value, a view taken by Blankson (2006) in his discussion of research methodology and Wright and Kearns (1998), who made suggestions for replications of existing marketing frameworks/constructs.

In view of the subjective nature of the study and in line with the methodology used by other authors including Blankson and Omar (2002) in their qualitative study of marketing practices in small businesses, validity of the proposed scale must be firstly be fully assessed. Such a scale needs developing and testing rigorously not least in the SME context because earlier component scales that have informed scale development have their roots in a notion of marketing that is grounded in ‘marketing as a profession’ and ‘marketing in large businesses’.

Scale Development Process

- The proposed scale has been developed in relation to entrepreneurial orientation, innovation orientation and market orientation, inspired by themes in existing scales and based on characteristics of entrepreneurial marketing identified in the literature. In doing this we were seeking to eliminate duplication by navigating back to the original dimensions on some scales.
- The proposed sub-scales were then compared for overlap of dimensions. In doing this, the dimensions were further refined.
- Dimensions were then relocated to the most suitable ‘orientation’ where the dimensions reoccurred in more than one sub-scale, to avoid duplication.
- New dimensions were added from the entrepreneurial marketing literature where previously the characteristic had been left unrecognized.

- The overall scale was revised in respect of the market orientation, innovation orientation, entrepreneurial orientation and entrepreneurial marketing literature for omissions. Using this approach entrepreneurial marketing and network marketing dimensions were identified as being excluded from the scales, despite a growing literature on the importance of networks in the SME context. These items were added as it was considered highly relevant in this context.

The proposed scale is shown in Figure 6. The key dimensions are shown, clustered by orientation with a brief statement of their meaning. These statements are indicative of the types of items that might be developed to measure each of the dimensions. In order to make explicit the links between this scale and previous scales, the prior authors that have informed the inclusion of the specific dimensions are cited alongside each item.

Figure 6: The Proposed ‘EMIO’ Scale

Entrepreneurial Orientation

1. Research and Development emphasis (Knight 1997).

Level of emphasis on investment in R&D, technological leadership and innovation.

2. Speed to market (Knight 1997).

Competitive stance- collaborator, follower, leader, defensive etc.

3. Risk Taking (Matsuno et al. 2002).

Calculated risk taking; Preparedness to seize opportunities; preference for incremental and transformational acts; reliance on intuition and experience.

4. Pro-activeness (Matsuno et al. 2002).

Commitment to exploiting opportunities; inherent focus of recognition of opportunities; a role for passion, zeal and commitment.

Innovation Orientation

5. Knowledge Infrastructure (Siguaw et al. 2006).

Individual employee actions; disseminating information

6. Innovation pervasiveness (Siguaw et al. 2006).

Covering all innovation types- new product, services, process and administration.

Market Orientation

7. Focus on proactively creating and exploiting markets (Hills and Hultman, 2005).

Vision and strategy are driven by tactical successes; planning, or lack of, in short incremental steps; exploitation of small market niches; flexible, customization approach to market; marketing decisions linked to personal goals and long term performance.

8. Intelligence generation (Kohli et al. 1993).

External (to the firm) intelligence gathering; informal market research generation.

9. Responsiveness (Kohli et al. 1993).

Responsiveness to customer feedback and behavior; speedy reaction to shifts in customer preference; responsiveness to competitor’s action

10. Communication and relationships with and to customers (Narver and Slater 1990).

Customer orientation; formal and ‘informal’ feedback gathering mechanisms; strives to lead customers.

11. Integration of business processes (Narver and Slater 1990).

Closely integrated functions, R&D, marketing, sales and promotion etc; sharing of resources; product/venture development is interactive, informal with little research/analysis; marketing that permeates all levels and functional areas of the firm.

12. Business networking (based on the extracted entrepreneurial network literature (Carson 1995; Cegara-Navarro and Rodrigo-Moya 2007; Premaratne 2001). Resource leveraging (Morris et al. 2002); capacity for building network and business competence; use of social networks (PCNs);

creation of value through relationships/alliances; market decision making based on daily contacts and networks.

13. Sales and Promotion (Hills and Hultman, 2005)

A focus on sales and promotional activities; often two way marketing with customers; customer knowledge often based on market immersion/interaction; marketing based on personal reputation, trust and credibility.

CONCLUSION

An exploration of the popular scales in the market orientation literature that were constructed from the early 1990s has illustrated that these scales may still offer reliability and validity in research but there is a question as to their suitability for use in the study of small technology software firms that operate in the dynamic environments. Such scales ignore the important aspects of entrepreneurial marketing that may take place in these types of firms as they exclude facets of innovation and entrepreneurship that are likely to take place in such firms. Based on a thorough literature review, an

analysis of popular market orientation scales has been made and familiar approaches to measuring innovation and entrepreneurial orientation are discussed. A research framework, the ‘EMIO’ scale is proposed that can be used as a basis for qualitative research investigation. The proposed framework is inspired by the dimensions of popular market orientation and entrepreneurial orientation measures which have been suitably tested in the literature and recognized for their reliability. In the research context of innovation, there are few suitable innovation orientation examples but Siguaw et al.’s proposals, although untested have been developed using a comprehensive review of the innovation literature and expert extrapolation of the main themes. The entrepreneurial marketing literature has also provided some behavioral characteristics and dimensions that are now included in the ‘EMIO’ scale.

The ‘EMIO’ framework embraces and integrates themes of entrepreneurial marketing accepting that market orientation, entrepreneurial orientation and innovation orientation operate dynamically together at an interface; this interface may be affected by a range of factors that include the influence of the entrepreneur, the market sector, stage of firm development and effects of the external environment. There is scope for considerable further research to both develop and apply the ‘EMIO’ scale, and thereby to contribute to the literature of entrepreneurial marketing. Specifically:

- a) the framework dimensions should be further refined and populated, initially through qualitative case based research.
- b) a quantitative version of the ‘EMIO’ scale should be developed as a tool for researchers and practitioners.
- c) the applicability of the ‘EMIO’ framework to large firms should also be investigated. If the ‘EMIO’ scale is found to be suitable then this would be likely to help inform researchers as to the behavior associated with corporate entrepreneurship.

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BORN GLOBAL SMES AT THE INTERFACE BETWEEN MARKETING AND ENTREPRENEURSHIP

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ABSTRACT

The aim of the study is to investigate born global business organizations which, from or near their founding, seek superior performance from the application of knowledge-based resources to the sale of outputs in multiple countries. We examined enabling factors that facilitate their internalization process since inception. Based on a multi-case analysis and interviews conducted with five born global enterprises, our study surmises that entrepreneurial capital, market orientation, entrepreneurial orientation, and innovation are the main sources of born global firms. Moreover, organizational structure and learning orientation are moderating factors which effect early internationalization.

INTRODUCTION

Earlier research on the internationalisation process of firms in the field of international marketing focused mainly on two approaches: the Uppsala Internationalization Model (Johnson and Vahlne 1992 and 1997), and the Innovation-Related Model (Simmons and Smith 1968; Bilkey and Tesar 1977; Cavusgil 1980). Both approaches are often referred to as the “stage model”, because they explained the internationalization process of a firm as an incremental and gradual process. However, rapid change in the global business environment during the last few decades has had a strong impact on the internationalization process of most companies around the world. Hence, for many small and medium sized firms, the internationalization process deviates from the stage model (Laanti, Gabrielsson and Gabrielsson 2007). In other words, there is a significant increase in the number of the firms that undertake international business from an early stage in their development (Weerawardena, Mort, Liesch and Knight, 2007). Because of the inconsistency between the stage theory and the empirical reality of a growing number of small and medium sized firms which tend to adopt a global focus from their conception, scholars in the field of entrepreneurship have questioned the universality of the stage-theory explanation of firm internationalisation (Etemad and Wright 2003).

This incremental and sequential approach is deterministic in nature. It is also path dependent, and it does not recognize the role of other firm profile factors such as the path-breaking strategic choice of internationally oriented entrepreneurial owner-managers (Weerawardena et all, 2007). Thus in view of the circumstances, internationalization is considered as an entrepreneurial process of behaviour (Jones and Coviello, 2005). As a result, the term “international entrepreneurship” has been discussed in the entrepreneurship literature. However, Oviatt and McDougall (1994) highlighted the importance of international new ventures among established and international firms. Despite being new and small with lack of financial, human, and other resources that characterize new business, these international new firms achieve considerable international success (Knight, Madsen and Sevail, 2004). Therefore, the study of international new ventures is becoming an important part of the growing international entrepreneurship literature (Rialp, Rialp and Knight, 2005).

As a result of this, a new stream of literature emerged on “international new venture” or “born global” in the early 1990s (McKinsey and Co 1993; Knight and Cavusgil 1996). Oviatt and McDougall (1994) also conceptualise the idea of born global small and medium firms who drive significant competitive advantages through the deployment of resources to foster international development. Following Knight and Cavusgil’s (2004) work, we use the term “born global” in this research to mean business organizations that, from or near their founding, seek superior international business performance from the application of knowledge-based resources to the sale of outputs in multiple countries (Knight and Cavusgil’s (2004, p.124).

Our main research question in the current study is predicated upon “having competitive advantages” or “superior international performance”. In order to have competitive advantages in an international market, a firm should have certain resources and capabilities. Consistent with recent research that highlights the importance of studying the role of resources and capabilities of the born global firms (Lannti et all, 2007; Jones and Coviello, 2005; Knight and Cavusgil, 2004; Moen and Servais, 2002), we analyse key enabling resources and capabilities that facilitate firms’ internationalization process in

their early age. Since the main focus of the paper is on resources and capabilities, we draw on the literature of dynamic capabilities in the conceptualization of born global firms.

Kundu and Katz (2003) point out that while born global is strong on the international aspect, it is somewhat lacking in terms of the birth and formation aspects. Thus with studies on new international firms in their early age, we believe it is premature to offer comprehensive models to account for the process. This study builds on the model for organizational emergence developed by Katz and Gartner (1988) and the person-and-firm approach of Gartner (1985); that specifies four properties of emerging organizations: intention, boundary, resources, and exchange. Boundary refers to the creation of a specified or formalized area from which the emergence can occur; resources, which are the building blocks of new organization; intention, which reflects a purposeful effort or ideation to have an organization emerge; and exchange, which involves the crossing of the boundary with intent to place outputs and secure new inputs (Kundu and Katz, 2003, p: 25). Amongst these properties, resources and intentions are given special consideration in the case of born global firms. Internationalization can only occur if the entrepreneur intends to sell internationally. Once intention is asserted, it requires additional recourses or recombination of current resources to come to fruition (Kundu and Katz, 2003). Thus, in keeping with Katz and Gartner (1988), this study considers variables at both the individual level and the organizational level where appropriate.

This paper is organized along with the following lines. In the first section, we will discuss the theoretical background of the term “born global”. The second section discusses the interface between entrepreneurship and marketing with reference to global born firms. In the third section we discuss the factors that enable born global firms to enter the global market just after their establishment. In the last section, methodology and multiple case study analyses are presented.

THEORETICAL BACKGROUND

Theoretical support for the born global phenomenon can be found from three main different, but commensurate, perspectives. First, resources that enable the generation of capabilities are especially important to born global firms. The resource-based view can be considered as theoretical support for the born global. Resource-based view helps to explain how resources and capabilities are developed and leveraged by enterprising firms (Knight and Cavugil, 2004). Being young, born global firms tends to lack substantial financial and human resources, as well as other physical resources that may have accrued to older firms. It is these primary tangible resources that older firms typically tend to leverage to succeed in foreign markets. In contrast, born global firms appear to leverage a collection of fundamental intangible resources, which comprises a specific constellation of strategic orientations such as market orientation, entrepreneurial orientation, and technological orientation. These resources may include trade secrets, embedded technological knowledge, managerial, marketing and production skills, which are valuable and difficult to imitate and provide the competitive advantages needed for internationalization (Loane and Bell, 2006).

However, resource-based view has come under recent criticism as much of the literature takes resource stocks as given, pay little attention to process of resource development (Loane and Bell, 2006). Moreover, the resources of an SME are essentially reduced to a single one, namely, knowledge. Since born global is defined as a business organization that, from or near their founding, seeks superior international business performance from the application of knowledge-based resource to the sale of outputs in multiple countries (Knight and Cavusgil, 2004). The second theoretical support for born global would be the knowledge-based view, which has emerged from the resource-based view of firm. In this perspective, knowledge can be considered as the most important resource, and heterogeneous knowledge bases across firms are the main determinant of performance differences. The development, integration, and transfer of knowledge should be regarded as a critical aspect of internationalization (Gassmann and Keupp, 2007).

Moreover, knowledge is at the core of the received wisdom on internationalization (Prashantham 2005). As Knight and Cavusgil (2004) emphasised, idiosyncratic knowledge of born global firms gives rise to their organizational capabilities. Weerawardena, et al. (2007) argue that for accelerated internationalization the firm must learn from multiple resources and that knowledge results from this learning. Dynamic capabilities are the routines through which the firm learns different resources such as marketing, the firm’s network of relationships and the learning that is harnessed internal to the firm itself. The third theoretical support for born global is the dynamic capabilities view. Dynamic capabilities is defined as the organizational and strategic routines by which firms achieve new resource configurations as markets emerge, collide, split, evolve and die. Moreover dynamic capabilities are linked with firm performance in that they change the

firm's bundle of resources, operation routines, and competencies. In other words, dynamic capabilities reflect path-breaking perspective. Since born global phenomenon is also path-breaking strategic choice, dynamic capabilities view seems especially suitable as a theoretical background of born global.

In addition to the theoretical perspective mentioned above, the other theme that appears to characterize born global firms is associated with the role of the networks such as personal connections and interorganizational arrangement. These networks help global born firm to overcome resource constraints that they encounter (Young, Dimitratos, and Dana, 2003). Network relationships also generate social capital which provides better access to resources and international opportunities, and means by which to overcome the liabilities of newness and foreignness (Coviello, 2006).

BORN GLOBAL AT THE INTERFACE BETWEEN MARKETING AND ENTREPRENEURSHIP

At the nexus of the interface between entrepreneurship and marketing are value creation and value appropriation within the market (Schindehutte, Morris and Kocak, 2008). The dynamic capability view of the firm explores how firms build, integrate and reconfigure valuable asset positions. Thus we examine the born global phenomena at the interface between marketing and entrepreneurship from the perspective of dynamic capabilities.

Zhou (2007) stated that many newly internationalized firms make an early leap into international marketplaces because of their unique organizational capabilities. In this study, marketing orientation (MO) and entrepreneurial orientation (EO) are considered as organizational capabilities (Buhan, Menguc and Bell 2003). Market orientation is defined as "the organization culture that most effectively and efficiently creates the necessary behavior for the creation of superior value for buyers and thus continuous superior performance for the business" (Narver and Slater, 1990). When the value creation is for foreign customers, it is conceptualized as international market orientation (Knight and Cavusgil, 2004). Similarly, international entrepreneurship is defined as "a combination of innovative, proactive, and risk-seeking behavior that crosses national borders and is intended to create value in organizations (McDougall and Oviatt, 2000).

By entering international markets, new firms acquire knowledge that can be used to build value creation skills (Zahra, Ireland and Hitt, 2000). Moreover, the entrepreneurial nature of born global firms is believed to have the ability to learn by actively seeking knowledge about international markets, potential customers and competitors, and issues of operations across national borders (Zhou, 2007). The knowledge about international markets can be obtained through entrepreneurial orientation and market orientation. Entrepreneurial orientation of born global firms can be invaluable to push forward-looking knowledge about foreign markets from multiple resources of information (Zhou, 2007). Similarly market oriented firms follow specific and identifiable routines and processes, such as generating information about customers through monitoring and assessing their changing needs and wants, disseminating that information throughout the firm, and revising business strategies to enhance customer value (Menguc and Auh, 2006).

One of the key characteristic of born global firms is that born global firms reflect proactive behaviour (Jantunen et al., 2008), an important dimension of entrepreneurial orientation. As Narver, Slater and MacLachlan (2000; 2004) suggest, market orientation can comprise either responsive or proactive behaviour. Proactive market orientation finds the firm attempting to discover, understand, and satisfy the latent needs of customers. We believe that proactive market orientation overlaps with born global phenomena.

The speed of internationalization is another characteristic of born global firms. Entrepreneurial characteristics, such as innovativeness, proactiveness and risk taking, may play a part in internationalization speed (Acedo and Jones, 2007). This can be done only by fostering marketing capabilities such as producing unique products.

Consistent with Shane and Venkataraman's (2000) opportunity perspective, Owiatt and McDougall (2005) defined international entrepreneurship as the discovery, enactment, evaluation, and exploitation of opportunities—across national borders—to create future goods and services. As Knight and Cavusgil (2004) emphasized that when entrepreneurial orientation is combined with other resources and capabilities such as strong marketing skills, it allows the born global firms to see and exploit opportunities in foreign markets.

CONCEPTUAL FRAMEWORK: MODEL DEVELOPMENT

McDougall, et al. (1994) emphasised that born global firms can be international from inception because their founders possess an unusual constellation of competences. It is also argued that the capability building process in born global firms is driven by entrepreneurial owner-managers with a global mindset (Weerawardena et al., 2007), experience and network (Laanti et al., 2007). Founders and managers of firms may have significant international experience prior to establishment of their own firms, and the use of this experience is an important driver for their international development (Nordman and Melen 2008). Zahra, et al. (2000), highlighted the importance of international experience and learning from international operations for building born global firms' competencies and achieving high performance. Experiential knowledge can also be from the network of founders of born global firms (Chetty and Hunt, 2004). These network relationships generate social capital (Coviello, 2006). As a result, it can be said that extensive experience, skill, network and mindset generated by the born global firm's founder are part of the key resources which help born global firms to create a competitive gap ahead of other international firms. Thus the resources held by the founder are important for born global firms. This brings us to the concept of entrepreneurial capital.

At the time of start-up, the founding entrepreneur is the source of entrepreneurial capital. Entrepreneurial capital includes human and social capital that together enable entrepreneurs to envision the future, recognize opportunity, pursue and mitigate risk, leverage and combine unique resource bundles, and demonstrate tenacity in exploiting a given opportunity (Schindehutte, Morris and Kocak, 2008). In other words, entrepreneurial capital allows the individual to be alert to internationalisation. Thus, entrepreneurial capital has implications for entrepreneurial orientation and market orientation.

Proposition 1: The born global process starts with entrepreneurial capital, and it is determinant of market orientation and entrepreneurial orientation.

Market orientation and entrepreneurial orientation as firm level processes refer to the practice, principles and decision making style (Janntunen et al., 2007), and they are seen as the main sources of competitive advantages (Kohli and Jaworski, 1990; Narver and Slater, 1990; Covin and Miles, 1999; Zahra, Nielson, and Bogner, 1999). Moreover, the ability to internationalise early and succeed in foreign markets is a function of the internal capabilities of the firm (Zahra et al. 2000). This highlights the importance of entrepreneurial orientation as an organizational capability, and, that entrepreneurial orientation supports opportunity recognition and exploitation in expansion to international markets (Janntunen et al., 2007). Since born global firms need new operating models that improve performance in international markets, entrepreneurial orientation can provide support for the new model. Dess et al. (1999), for example, argue that entrepreneurship is a key driver of organizational transformation and strategic renewal through the creation and combination of organizational resources. Similarly, Zahra et al. (1999, p. 169) suggest that entrepreneurial activities can provide a "foundation for building new competencies or revitalizing existing ones". At the same time, born global firms also need to generate and disseminate international market information, especially on current and future customer needs and on understanding competitive environments (Kohli and Jaworski, 1990; Narver and Slater, 1990).

George and Zahra (2002) argued that both entrepreneurial orientation and marketing orientation influence firm performance interactively. Hult and Ketchen (2001) showed that as a component of positional advantages, market orientation positively affects firm performance. However, they noted that the potential value of market orientation should be considered together with other important firm capabilities, such as entrepreneurship and organizational learning. Matsuno, Mentzer, and Ozsomer (2002) also found that entrepreneurship in combination with market orientation positively affects firm performance. And that the degree of market orientation and entrepreneurial orientation and its impact on performance is also examined (Atuahene-Gima and Ko 2001; Bhuiyan et al. 2005). Atuahene-Gima and Ko (2001) report that maximum positive effect on performance is achieved when a firm's market orientation and entrepreneurial orientation are aligned. On the other hand, Bhuiyan et al. (2005) find that the relationship between market orientation and entrepreneurship orientation is curvilinear. And that moderate level of entrepreneurship orientation has the most synergic effect on performance with market orientation.

In international markets, market orientation enhances a firm's future evaluation that provides the firm's fit in international environments (Kropp, Lindsay, and Shoham, 2006). Firms have achieved success by concentrating on latent needs and unserved markets. In this sense, proactive market orientation helps the firm attempting to discover, understand, and satisfy the latent needs of customers (Narver, Slater and MacLachlan 2000).

From the above, one can surmise that, marketing orientation and entrepreneurial orientation are important resources for born global firms (Kropp, Lindsay, and Shoham, 2006; Jantunen et al. 2008; Knight, Madsen, Servais, 2004; Dimitratos and Plakosyannaki, 2003; Jantunen et al, 2005; Ripolles, Manguzzato, and Scanhez 2007, Knight and Cavusgil, 2004).

Han, et al. (1998) found that market orientation affects the two core components of organizational innovativeness (technical and administrative). Lukas and Ferrell (2000) argued that both marketing and innovation are stimuli to economic growth and major components of competitive advantage. They found that each market orientation dimension has an effect on different innovation strategies. Verhees and Meulenbergh (2004) stated that innovativeness, an element of entrepreneurial orientation, stimulates market intelligence and market intelligence is related positively to product innovation. This gives rise to our second proposition that:

Proposition 2: Market orientation and entrepreneurial orientation are closely related with born global firms and lead to innovation.

We maintain that market orientation and entrepreneurial orientation as sources of competitive advantage are not enough to sustain competitive advantage. As Han, et al. (1998) point out, innovation is needed for competitive advantage. Mizik and Jacobson (2003) stated that, in order to sustain competitive advantages, firms need to have the ability to restrict competitive forces. Moreover, Rumelt (1984) asserts that the duration of competitive advantage of a firm is directly related to the strength of its isolation mechanism. One way of building isolation mechanism is innovation. Thus in the process of determining the international performance of the firm, innovation should be considered. As Knight and Cavusgil (2004) mentioned, the firm's innovative culture engenders the development of products or improvement of products and new methods for doing business. Young firms with a strong innovation culture and a proclivity to pursue international markets tend to internationalize early.

Proposition 3: Innovation, as a mediation factor, affects born global firms.

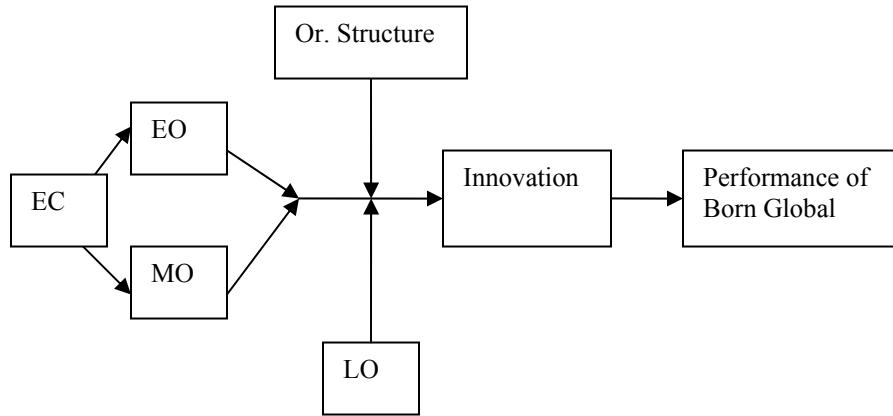
We also consider two moderator factors, namely organizational structure and learning orientation (LO), to determine the impact on the performance of born global firms. It is argued that entrepreneurial orientation and organizational structure, namely formalization, centralization, and departmentalization are negatively related (Ken, Mentzer, and Özsomer 2002). Lumpkin and Dess (1996) argue that entrepreneurially predisposed organizations value autonomy and freedom to encourage creativity and champion untested but promising ideas. Autonomy, in an organizational context, refers to action taken free of structural constraints that stifle risk taking, exploration, and out-of-the-box thinking. Thus, a greater degree of formalization, centralization, and departmentalization appears to be neither consistent with the generalized concept of entrepreneurial management processes nor conducive to the pursuit of entrepreneurial opportunities (Ken, Mentzer, and Özsomer 2002). Schindehutte and Morris (2001) also mentioned the adaptation process of SMEs depends on the organization's structure. Kohli and Javorski (1990) argued that the greater the departmentalization, formalization, and centralization, the lower the intelligence generation, dissemination, and response design. Auh and Menguc (2007) addressed the direct and moderating effects of centralization and formalization on customer orientation.

LO is also considered in the research. As we mention earlier, resources that enable the generation of capabilities are especially important to internationalisation. According to Resource-Based View, intangible resources are critical for competitive advantage, rather than physical resources. In this perspective, knowledge is the most important resource. Kropp, et al. (2006) point out the numerous benefits of LO. First, a LO can play a role in strategic renewal. Second, organizational learning serves as a buffer between firms and their environments, which is especially important for born global firms. Third, learning is forward-looking; it reduces the impact of major environmental jolts. Fourth, learning organizations maintain close contacts with stakeholders including customers, suppliers, and lawmakers, enhancing their ability to deal with unexpected environmental changes. Finally, organizational learning can play a major role in opportunity recognition. Zahra, et al. (2000) highlighted the importance of learning on international expansion and performance. Thus LO plays a critical role in this process. Thus this study, in addition to approaches mentioned above, also builds on dynamic capability (Teece, Pisano, and Shuen 1997; Eisenhardt and Martin 2000).

Proposition 4: The formation of a born global firm has a mediator effect between orientations and innovation.

Proposition 5: Learning orientation of a born global firm has a mediator effect between orientations and innovation.

As a result proposed research model is as follows:



METHODOLOGY AND ANALYSIS

Methodology

In this study, we use multiple case studies in conformity with Yin's (2003) approach. We decided to use the case study approach because this type of approach is generally preferred when "how" or "why" questions are posed (Yin, 2003). Since the born global phenomenon is a new research area, case study is an appropriate approach in this study. Moreover, qualitative data allow researchers to find richer explanation and a deeper insight into phenomena (Laanti et al. 2007). Multiple cases enable researcher to use both literal replication and theoretical replication. In the study, five cases were chosen on the bases of literal replication. In other words, cases were selected for extending existing theories by being typical representatives of the population rather than selected randomly (Laanti et al. 2007).

In order to increase the reliability of the study, before entering the field, a case study protocol was prepared according to Yin's (2003) suggestion. We conducted semi-structured deep interviews with founders of five Turkish born global SMEs. The interview times ranged 40-60 minutes. The interviews were recorded and a database was created to maintain the prepared case study protocol. In addition to deep interviews, we applied different sources to collect information about the firms, which increase the construct validity of the study.

Each firm was selected from different industries to understand whether factors that enable firms to enter international markets at their early age varies or not. We use the EU definition of SMEs which is a legal entity having a number of employees less than 250.

Case A is a medium sized firm involved in the business of snails, mushrooms and frozen fish and export to France, Belgium and Czech Republic. The company was founded in 1996 just for exporting. Amount of exporting in terms of tons has been increased from 250 to 1,500 since founding. Number of employees has been increased from 35 to 140.

Case B is of a firm producing anti-vibration buffers. The owner founded his company in 1988 just after retiring from a company which produced same product in Germany. He started with 12 employees and one product line. The company has been expanded to 220 employees and more than 200 products.

Case C is in the textile industry, founded in 1993. The owner had technical knowledge in the industry and had been in Europe for a long time, which drove him to export to EU countries, namely Germany, England, Switzerland, Belgium, Romania, Russia, Ukraine, and Algeria. The company first exported to Germany, Switzerland, and Belgium with 18 employees. Now the company exports to 8 countries with 45 employees.

Case D produces cotton thread. The company was founded in 2001 and started exporting simultaneously. At the founding date they exported to 3 countries, namely Italy, France, and Spain with 36 employees. Their export ratio was 25% of total

sales in 2001. Now it has reached 50% with 105 employees. The owner's knowledge comes from his family. He had also been in several EU countries as a worker.

Case E is of a furnishing company, founded in 2005. They are exporting 80% of their product to 6 Middle East countries. Among others, the company exported to close countries in terms of physical distance in the first year. Now they entered the Greece market. Their number of employees has increased from 15 to 30 since it was founded.

Table 1: Detailed Description of the Sample

Case	Year of Founding	Year of Entering Int. Market	Number of Employees	Number of Countries	Export Percentages
A	1996	1996	140	3	100
B	1988	1988	220	16	90
C	1993	1995	45	8	100
D	2001	2001	105	4	50
E	2005	2005	30	6	80

Analysis and Results

To analyze the data from the five case studies, cross case synthesis (Yin, 2003) is used to determine similarities and differences in terms of the factors mentioned in the model. Examples from all of the cases are shown in Table 2.

Entrepreneurial Capital

Founders and managers of the firms in this research have strong opportunity driven behaviours. Their starting histories show us that all founders leveraged limited resources to exploit the given opportunity in the international market. They have technical knowledge which is a driver for participating in the international market. However case A, besides others, has a lack of international market knowledge. Other than case A, all the cases have international experience prior to the internationalization process. All of them have a strong network in international markets, especially a social network. Although case A has never been in any foreign country, he had a strong relationship with foreigners at home before founding the company. His knowledge in the industry and his network drove him to the international market. On the other hand, cases B, D, and E have both technical knowledge and international market knowledge. Case C, with his network in the international market, learns internationalization by doing business in international markets after entering the markets.

Market and Entrepreneurial Orientations

While all cases have been gaining international experience by international operations, they show extensive market sensing and they arrange their marketing strategies according to market change. They all are growth oriented and leverage the resources to re-investment to have a competitive advantage. For example, case A developed a new unique process technology. They all have innovative tendencies, seeking new products and new markets. Case B has entered almost 16 EU countries in 8 years. Among the other cases, C and D represent responsive market orientation instead of proactive market orientation. They follow international market changes and competitors' actions, and then develop their response. The case is called the market driven firm. But it might be due to product characteristics in the industry. Both of them are innovative in entering new markets. Case E has strong market knowledge because of physical closeness (the company is located southeast of Turkey) and built strong relationships with foreign customers with their unique product in the market. They produce a special product which is new for the market and also a standard product which can be found everywhere. Case A proactively seeks success in the foreign market by having 20% market share of the EU market. There are 6 major competitors in the EU market. Two of them are big firms in terms of employees. Cases B and E are also major players in the industry. They aggressively pursue international success by differentiation. Cases C and D mostly use niche marketing strategies to have success in international markets. All cases emphasize quality. Providing valuable, quality-enhanced offerings show that they have strong marketing capabilities.

Organizational Structure

All cases in the study are family business, and founders are dominant in the firms. Besides case B, the other firms have institutionalization problems. Case B is the only firm which has professional departmentalization. They also have their own agency in Germany. However, case B is run by the third generation, but the founder still plays a dominant role. All firms have flexible structures.

Learning Orientation

All cases in the study are highly learning oriented. All founders are open-minded and committed to learning. All the cases attend the international trade show very often. Cases B and F also visit the countries where they export more than the others. Having benefits of learning about the international market, cases C, D, and E have increased their number of exporting countries. Cases A and B have reached high growth rates by learning about the international market.

Innovation

All cases in the study are innovative firms. Innovations of cases A, B, and E are predominantly radical innovations. On the other hand, cases C and D seem to be incremental innovative firms. Although case A produces one specialized product with specialized knowledge, they developed a unique production process which is the competitive advantage of the case A. Case B has its own R&D laboratory to develop new products in the industry. Case E also has a special product for the markets. Thus cases A, B, and E leverage their innovativeness and knowledge base to develop high quality products.

Table 2: Summary of the Factors of Case Firms

	A	B	C	D	E
E C	Opportunity driven, strong technological knowledge,	Opportunity driven, strong technological and market knowledge,	Opportunity driven, strong technological knowledge,	Opportunity driven, strong technological knowledge,	Opportunity driven, strong technological and market knowledge,
	Strong social network	Strong social network	Strong social network	Strong social network	Strong social network
M O	Proactive market orientation, high marketing capability	Proactive market orientation, high marketing capability	Responsive market orientation	Responsive market orientation	Proactive market orientation, high marketing capability
E O	Proactive, innovative	Proactive, innovative	Moderate level of entrepreneurial frequency and degree	Moderate level of entrepreneurial frequency and degree	Proactive, Innovative
		High entrepreneurial frequency and degree			High entrepreneurial frequency and degree
L O	High learning oriented	High learning oriented	High learning oriented	High learning oriented	High learning oriented
O S	Owner dominant, flexible	Owner dominant, flexible	Departmentalized	Owner dominant, flexible	Owner dominant, flexible
I N	Unique process innovation	Unique product and high rate product differentiation	Incremental innovation	Incremental innovation	Unique product

CONCLUSION

Our study set out to examine born global business organizations, which from or near their founding sought to be able to gain superior performance from the application of knowledge-based resources to the marketing of their outputs in multiple countries. We examined enabling factors that facilitate their internalization process since inception. Based on a multi-case analysis and interviews conducted with five born global enterprises, our study surmises that entrepreneurial capital, market orientation, entrepreneurial orientation, and innovation are the main sources of born global firms. Findings from this exploratory study engender a number of lines of enquiry for the next step in our research. First, would our research propositions hold in different contexts, such as in emerging and survival economies? How would specific variables interact in an environment different from that, which was obtained in our research setting?

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THE ROLE OF DIFFERENTIATION AND OPERATIVE EFFICIENCY IN TRANSFORMING BUSINESS CONCEPTS

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ABSTRACT

Value creation is considered the core of constructing new business concepts, a relatively new approach by which firms may attempt to bypass competition. In this respect, this study reports the findings of an empirical inquiry which addresses the role of differentiation and operative efficiency in the context of the transformation of one's business concept. Based on case research three different value creation formulas could be found.

INTRODUCTION

Since China in the end of the 1970s decided to enter into a more market-oriented economy, its international trade has been growing dramatically. In addition to China, a number of other Asian low-cost countries have occupied a conspicuous position in international trade and blurred the conventional boundaries of competition in more developed local markets. The underlying problem is that once foreign supplies enter into local markets, existing resources of localized industries tend to turn out to be obsolete and the mix of their strategic resources changes (Carpano, Rahman, Kendall and Michel 2006). As a consequence, the practice of doing business at the level of local firms has to be changed, indicating why the management of new business concepts becomes topical. In this study the acknowledged problem is approached via a case research methodology in order to increase our understanding of how firms in practice respond to competition and transform their business concepts - the way of doing business.

RESPONDING TO COMPETITION

Given the inherent dynamics of a business environment, entrepreneurship and entrepreneurial spirit are typically considered as the organizational solution by which firms can achieve desired ends (Herbert and Brazeal 2000). As Stevenson and Jarillo (1990) state more specifically, entrepreneurship means literally a process along which individuals - either on their own or inside organizations - pursue opportunities independent of the resources they currently control. The ability to recognize emerging opportunities forms thus a key dimension of new business development, in which respect any competitive pressures to be seen are conventionally managed by resorting to new product innovations (e.g. Owens 2006; Wong 2002). In being successful, they offer such product characteristics which make it possible to differentiate one's products from competitive offers and win popularity. From this point of view, the nature and role by which new products are related to innovative activities have their roots in the theory of monopolistic competition (Chamberlin 1956), stating that the establishment of a quasi monopoly is possible by differentiating one's product. Accordingly, product homogeneity is replaced by product heterogeneity up to the level which corresponds to the demand situation in the market. Depending on the prevailing diversity of market demand, development of proper market segmentation strategies becomes topical too (e.g., Smith 1995, Raaj and Verhallen 1994). Given that differentiation strategy typically calls for investments in R&D and marketing, the key management task becomes finding the right balance between the costs of differentiation and the price which customers are willing to pay. In addition to product innovations, emerging competitive pressures, which result from low-cost productive factors, can be managed by developing such new process innovations which have the potential to reduce production costs (e.g. Utterback 1994). Logically, there is also the possibility that a given product and process innovation emerges simultaneously, in which case a considerable improvement of competitiveness may turn out to be possible.

Whatever the case, focusing competition from a strategy point of view constitutes the classic advice that the best strategy is to evade competition (e.g., Ma 2003). Corresponding managerial solutions which are offered in the present management literature comprise the development of new business concepts (e.g. Kim and Mauborgne 2005; Canals 2005; Hamel 2002). Some conceptual grounds of what a business concept is all about have been established indicating that business concepts, when successful, make it possible to meet competitive pressures in a different marketing context or, at its best, the competition can be bypassed totally. Becoming a popular topics during the era of emerging e-businesses, the term business

concept has been interchangeably used to refer to a preface or proposition of a business model, a business model itself, a synonym of a business idea, a symbol for the organization or a value system (e.g. Häckner 1993; Alvesson 1998; Morris, Schindelhutte and Allen 2005; Schweizer 2005). As to the concept of the business idea in particular, firms can be considered as a whole in which products, customers and managerial procedures are set to work in a good harmony (Normann 1975). It means an array where a desired combination of knowledge and capabilities is worth linking and forms a coherent conformity. In linking customers, products and available resources in different ways into the way of doing business, firms express not only what is their view regarding the needs of their customers but how they create value to customers profitably too (cf., Van der Heijden 2001).

TERMS OF VALUE CREATION

A relevant literature review indicates that there are a number of different approaches tackling the essence of value and how value is created. As to the value for customers (e.g. Khalifa 2004; Slater and Narver 2000; De Chernatony Harris and Dall'Olmo 1998; Lai 1995), the importance of customer/market orientation has been emphasized, given that companies are the bodies which create value for customers. The term value in itself has originally comprised a number of different meanings depending on if the behavioural versus economic viewpoint is employed. In the latter case, trade and use of goods turn out to be the historical basis which forms the basis of value creation and utility (Ramirez 1999). Zeithaml (1988) in particular literally defines value as the overall assessment of the utility of a product in what has been received and what is given. Anderson and Sullivan (1993) propose that value is the perceived worth of the benefits of a product versus the price paid for the product. In particular, a distinction should be made regarding use value and exchange value, in which case the subjective assessment of customers and the value which is available at the moment of sales is what counts (Bowman and Ambrosini, 2000). Whether it is agreed that value can be considered as a trade-off between the perceived benefits relative to the perceived sacrifices made in order to purchase a product, Woodall (2003) summarizes that value for customers means a number of possible alternatives. According to him, all alternatives reflect the consumers' expectations, perception and experience with regard to using, purchasing or possessing a product.

As to the behavioural aspects of value creation, inherent mental dimensions of value focusing on human value formation have been extensively studied (e.g. Schwartz 1992; Maio and Olson 1995; Higgins 2006). Some in-depth attempts have also been made taking the modelling of the whole value structures as the target (e.g. Lin, Sher and Shih 2005; Heinonen 2004; Sweeney and Soutar 2001). When service quality and service value in particular are in question, perceived value is basically what has relevancy. Service quality enhances perceived value, which in turn contributes to customer loyalty (e.g. Tam 2004; Petrick 2002; McDougall and Levesque 2000; Parasuraman and Grewal 2000). As a whole, values influence choices and behaviour when value is cognitively activated and it is central to an individual's self-concept. (Verplanken and Holland 2002). Given that values do not influence behaviour by default and one does not always live up to one's values, psychic needs and fulfilling them can create exclusive value to the firm (Groth 1994). In the last hand, the key issue is to what extent consumers are ready to make sacrifices emanating from the pricing and cost of buying versus enjoying the benefits which may result from owning and using the product (e.g. Woodall 2003). Shortly stated, it is the firm's ability to create superior customer value that counts (e.g. Guenzi and Troilo 2007; Higgins 1998; Woodruff 1997).

The problem of how firms in particular create value has been intensively discussed since Porter (1985) introduced his concept of value chain. Applying Industrial Organization view of the firm – firms as users of resources and materials just produce products and are sellers of them – Porter's value chain concept takes it for granted that firms are functionally operating organizations having a sequential mode of doing and corresponding flow of materials. Customer value is created through all those activities which comprise the firm's key functions and their supporting activities. In this respect, two major dimensions of value generation – differentiation and cost leadership – exists. In the first case, differentiation is based on the fact that customers search product variety and not only the lowest price. In the latter case, the scale-effects come into fore due to their ability to lower unit costs which by definition enable better customer value through lower prices.

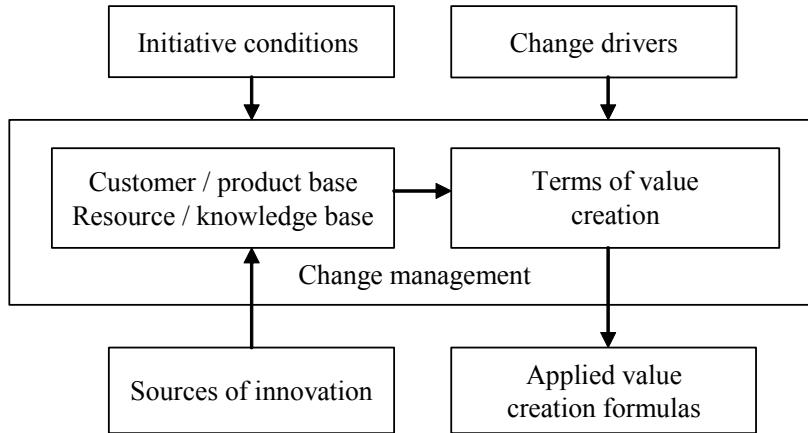
As a whole the value chain concept implies that due to the competitive pressures, one has to be capable of continuously reducing prices or creating differentiated products or to certain extent the both. Miller (1992) more specifically states that by combining differentiation and cost-leadership strategies one may avoid over-specialisation and enable the use of various capabilities. According to him, there also is the possibility that differentiation leads to higher market shares and corresponding cost benefits independent of the firm size. Contrary to the view that both major strategies can be combined in big firms only, Wright, Kroll, Kedia and Pringle (1990) have proved that combination strategies are possible also in small

firms. As a consequence the context, composition and terms by which the generation of new business concepts can take place become topical.

RESEARCH DESIGN AND METHODOLOGY

Given that value creation is the core of a business concept construction (Lindman 2007) and that more research work on business concept designs and the evolution of business models has been demanded (e.g. Zott and Amit, 2006; Schweizer 2005), this study focuses the terms of value creation which takes place through differentiation and cost management. Correspondingly, emerging events, development paths and patterns, which occur in the context of the transformation of a firm's business concept, are studied as it is indicated in Figure 1.

Figure 1: Research Setting



Acknowledging that the emergence of new business concepts may be originated by external initiatives, such questions as what are the initiative conditions, wherfrom new ideas have emerged, what are inherent enabling capabilities and, in particular, how differentiation and operative efficiency in practice has taken place will be tackled so as to identify any underlying value creation formulas which firms may implement successfully. As a whole, multidimensional, longitudinal phenomena is faced, which is why a case research methodology is applied (e.g., Kjellen and Söderman 1980). Based on Yin (1984) case study can be considered as an empirical way of collecting material when an existing phenomenon is examined in its real context and the borders of the phenomenon and its context are unclear. To Gummesson (1988) the advantage of a case study is the possibility to observe the studied process in a holistic way. Flyvbjerg (2004) states further, the closeness of the case study to real-life situations and the richness of the inherent details are important in order to develop a realistic view of the world to be understood. Further stated, a case study approach is applicable simply due to demands of learning. As Stake (1994) puts it, a case study can be considered both the process of learning about the case, as well as the end product of the learning.

The empirical material has been collected during the year 2005 as a part of a larger study aimed to establish a model of the business concept transformation. Given that as high representativeness as possible has been targeted and the consistency between case firms enhances the making of a comparative analysis, one Italian and two Danish case firms of the total five firms investigated form the final analytical basis of this report. The search of proper case firms was originally made discretionally having the preset criteria as the basis. Firstly, design intensive firms were targeted, given that design is generally considered the means by which extra value can be created to customers and/or to make differentiation of one's offer possible (e.g. Ravasi and Lojacono 2004; Drew and West 2002; Roy and Riedel 1997; Black and Baker 1987). Secondly, clear observable changing patterns of the way of doing business were required. Thirdly, firms had to be internationally oriented under the expectation that a heavy international competition calls for responses and, hence, form a strong driving force of change too. Such key persons who were familiar with the development processes inside the firm and whom could be personally interviewed constitute the main source of data. Interviews were recorded and transcribed for further qualitative analysis. A relevant case description of each case was written forming the basis of a preliminary case analysis and the compression of data up to the level of interpretation. Interviewing data was checked and compared with any other relevant information made available. For the management of interviewing and field work consistency three research workshops also were arranged among the involved researchers.

Table 1: Initiating Conditions

The original business base	Alpha	Mercans	Pictor
Products	Kitchenware household items	Home furniture	Cleanware
Customers	Consumers Households	Consumers Households	Hotels, hospitals and similar organizations
Enabling capabilities	Design experience Material knowlegde Innovativeness Craftsmanship	Serial production Update machinery Business experience	Product specialization

EMPIRICAL RESULTS

Initiating Conditions

The initiative background wherefrom the start-up of transformation has started is summarised in Table 1 above. As one may expect, the mix of each business composition varies considerably depending on the underlying firm history. The first case firm, Alpha, represents a family company with long experience in its field. The origins of the company lie in craftsmanship and an ability to work with different metals, forming the basis of the household items and kitchenware produced originally. In its earlier years the company came to be known through the high quality and durability of the products. The company started to develop its own product style gradually, the manifestation of which took place when the company opened its doors to external designers. Thereafter a number of successive innovation/design periods embedded by intensive search for new ideas on a socio-cultural basis have taken place. Consequently, substantial changes in product form and key materials became possible. The one which originated and was implemented in the 1990s stands for the basis of the case analysis.

The next company is originally a typical small scale furniture manufacturer which started in 1950s. Since its establishment the company operated for years more or less on a manual basis targeting domestic markets only. When the company grew, the product range extended to consist of conventional living room and dining room furniture. The company had to extend its market scope further when the domestic demand decreased due to the oil crisis and any compensating sales volume had to be searched for from export markets. In the 1980s new modern machinery was purchased increasing the degree of freedom in product design. This made it possible to introduce new product lines having a serial production technology as the basis. As a whole the products were of good quality, a fact which was also used as a sales argument. In order to increase its capacity the company took over in the 1980s a furniture manufacturer which had run into financial problems. The bought company made it possible to apply modern design orientation in terms of getting closer to end customers. In this respect, the opening of a new and own distribution channel in the early 1990s led to a substantial change of doing business and forms the basis of analysis of this study.

A typical image of a small business entrepreneur characterizes the origin of the third case. The problem of keeping the customer facilities tidy in a local hairdresser's shop led to the development of a specific single product which could offer a solution. It happened that when the product was in sight, some customers coming in became interested in the product wishing to have a similar one. As a consequence the product was started as made to order and a regular production on a small scale basis soon took place. This state of affairs basically continued for decades before a new management generation had to take the command in the 1990s. Thereafter a new era in the firm history opened and forms the basis of the case analysis.

Value Creation Through Differentiation

The identified basis of value creation practises along which differentiation has been targeted is summarized in Table 2.

Table 2: Terms of Value Creation

	Alpha	Mercans	Pictor
Value platforms	External cooperation with + designers + cultural society + research bodies Systematic innovation process Materials understanding Knowledge of consumers' cognitive behaviour	External cooperation with + designers + retailers Learning from + markets + customers Product design + trendiness + modularity + quality	Entrepreneurial visionarity + innovativeness Product strategy + product specialization Niche marketing + market learning Entry to new channels + new product experience
Value indicators	Product design + emotions + memories + functionality + novelty + innovativeness Technology + new materials Own retail flagships	Own sales outlet network + own display strategies + unified image + branding + closer customer interface	Product design + functionality + classic style Branding + new product meanings

Two case firms have resorted mainly to continuous product development in which respect the first company, Alpha, can be characterized as an innovative design house. Intensive cooperation with external designers and proper research institutes forms the basis of the new product development work and corresponding value creation. Specific to the development process is the close interaction with a number of culturally oriented societal bodies making it possible to identify if a proper product image and adoption rate is achievable. In general, highly innovative and pioneering new product forms are targeted in order to create a totally different product outlook; something which Verganti (2003) nominates as a new product language.

In the background can be seen the research work which enabled the identification of the cognitive processes through which consumers perceive value (cf. Zeithaml 1988). Emotions and memories which result from the actual living, in other words, produced customer value, which could be further manifested through owned retail flagships. A transformation of similar type which reflects the consumers' mental worlds can be seen behind the emergence of a new business concept of Pictor. As a typical niche business company its business basis was based on a single product line, its products were sold to professionals which conventionally could be expected to be the best customers. However, the same products were one day more or less incidentally demanded by a totally different sales shop which served typical consumers. Due to a trend which was emerging towards a professional product style in this product category, the product experience in the minds of individual consumers was so positive that the product started to sell well. In this respect, a totally different category of customers than before were faced, which is why the perceived experience between the product and customers changed. Given that consumer's emotional product experience of exactly the same product may vary a lot depending on the retail environment (Luomala and Lindman 2006), Pictor's product received a different meaning in the eyes of new consumers. In short, the company faced the challenge of reorientation and was able to re-establish itself as a brand business.

As to the case of Mercans, a company which was managed relatively well and profitably even before the transformation, is in question. Among others, personnel were allowed to participate in the decision making, new product development was systematically organized and the management was willing to learn from markets and customers. The products were basically acknowledged as quality products and external designers were employed to design trendy products. In this respect, the transformation towards a new business concept was started more or less by a lucky incident due to the fact that the manager of the company was approached at a fair by a student who was interested in studying the domestic furniture market. As the end result of this initiative, an option emerged which made it possible to open a retail shop, starting an era during which a retail network of one's own could be established. The evolution of a new business concept, which accordingly could be based on an increased degree of freedom in design, development of own display strategies and a much closer interface with customers, can also be seen behind the dramatic growth path which now took place. In this respect, the case evidence clearly

indicates that realization of existing entrepreneurial ideas takes place when the proper opportunity window is open (cf. Abell 1978).

Operative Efficiency

Given that costs can be, in general, controlled through the development of operative efficiency, the means by which case firms have responded to emerging price/cost pressures has been summarized in Table 3.

Table 3: Means of Cost Management

Means of cost control	Alpha	Mercans	Pictor
Productive advantages	Massproduction combined with high skills of innovative design	Product modularity Scale advantages	Subtraction Independence from manufacturing
Key sources of lower costs	Outsourcing	Outsourcing Development of distribution	Driving competition between sub-supplying sources
Integrative approaches	Development of an international distribution network	Streamlining the whole business chain for effective control	Solidarity between family members Development of own sales force

In this respect, product differentiation implies by definition that the reputation and image which advanced design may bring with, gives some freedom of pricing too. The case Alpha, in the contrary, expresses that there is a continuous need to search new low-cost supply sources independent of the cost benefits which the mass production of design products may bring with. Italian firms in particular have focused on the surrounding region when obtaining factors of production. In the background is the fact that the smaller the distance between the operators, the more the system reduces costs and brings flexibility. The case evidence, however, indicates that independent of the past value of the local regional networks, it is not enough anymore, given the export potential of the low-cost countries which today form the basis of global supply markets.

As to the other sources of lower costs, they can be based on scale advantages and the utilization rate of the capacity as the case Mercans witnesses. An approach of this type becomes nevertheless a highly problematic matter if the total product range is extremely wide. Facing this problem, Mercans solved it via product modulation by acknowledging that manufacturing which is based on modulation reduces the unit costs through bigger series and, besides, improves the customer's chances of customizing. A further indication to be seen is that as long as conventional low-cost operations are concerned, a number of other and mainly integrative actions becomes topical if one aims to manage the costs of running own distribution and sales operations on a large scale basis. As one may expect, this regards such operations as own stocking activities, scheduled transportations, and up-to-date following of transportations, which makes it possible to transfer production to market efficiently.

Being a relatively small company, Pictor prefers to rely on its independence by subcontracting the component manufacturing. This of course gives flexibility and the freedom to buy from any proper source and, besides, lets the suppliers compete against each other. In a small company the problem of how to manage the links between sales, production and stocking is typically approached less formally. Development of an own sales force was considered a more effective means than external agencies in terms of retailing. This was due to the fact that a rapid introduction of new products became possible via own sales people. It should also be acknowledged that given the entrepreneurial background, any inherent strategic questions are discussed and decided between the family members. The solidarity between family members in other words turns out to be an important asset in terms of time management and cost savings it may bring with.

MANAGERIAL CONCLUSIONS

The empirical analysis indicates that the mix of operations which makes the transformation of a given business concept or model possible is extensive indeed. As also Linder and Cantrell (2000) suggest, a considerable number of even small choices has to be made in order to construct a working business concept. Under this state of affairs, two strategically important directions - either concentrating on differentiation or lowering costs – exists and can be applied in terms of the proper way of doing business. A closer look towards the case data indicates that in a successful case, the transformation of a business concept implies that firms have to be capable of managing both directions. This is basically due to the fact that products have to satisfy the market's needs in several ways be it then the quality, reliability, style, novelty, comfort of use, service, or price. One may also expect that if the important requirements are not met, customers lose their interest, also explaining why competitive products often have same attributes. As a response, firms tend to differentiate their offering with a number of intangible attributes (e.g. Partridge and Perren 1994).

The case data suggests that the application of generic strategies, which may be due to the transformation of an existing way of doing business, makes it possible to develop specific value shift combinations. These in turn are capable of considerably changing the existing pattern of value creation which takes place through the interface between the product and consumer. In particularl, three separate value creation formulas emerges:

1. innovative design → new design language → totally new product experience
2. same design language → new experience environment → new product image
3. new display environment → close product/consumer interface → high product involvement

The case Alpha in particular indicates that when the role of value shift is given to products only, combining high design skills with innovative new product development makes it possible to offer a totally new product experience through new design languages. However, as the case evidence proves more closely, from the marketing point of view a close interface with the potential audience is basically a must in order to be successful as in fact the theory of diffusion of innovation indicates (e.g. Rogers and Shoemaker 1971). The case Mercans gives evidence that value shifts can as well be created through the establishment of such display environments where consumers have the possibility to acknowledge the products in a manner which makes a high product involvement possible. The case Pictor in turn indicates that given the same design language a considerable value shift can be created simply by changing the environment, where a different set of consumers' product experience becomes possible and simultaneously creates platform for branding. As a whole, the emerging value creation formulas imply that the terms of transformation are strongly dependent on the firm's existing experience base and the inherent initiative conditions. Even if an option to transform one's business concept may emerge via lucky incidents, the case evidence indicates however that any value platforms are typically built up gradually in the course of time.

As to the cost related issues, the case evidence clearly indicates that a successful transformation of a given business concept calls for a continuous development of operative efficiency. In this respect, management of supply markets and search for fluency of operation and cost-effectiveness turns out to be the two most important impetuses and is typically managed through integration of resources.

Given that the reported case analysis comprises three case firms only, some basic value creating formulas has been successfully identified. It is clear however that further empirical research work on a large scale basis is required in order to make any generalizations and to be capable of drawing more detailed and valid managerial conclusions, in addition to any hypothesis testing to which this paper may give any reason to.

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HOW PORTFOLIO ENTREPRENEURS PURSUE GROWTH: INTERNAL AND EXTERNAL FOCUS

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ABSTRACT

Business growth and performance are often defined within the context of a single business unit. The difficulty in defining growth is multiplied when one tries to apply these terms to a portfolio of businesses. Portfolio entrepreneurs are individuals who own and manage more than one distinct business simultaneously. This study identified a group of portfolio entrepreneurs each of whom could be regarded as successful in what they had done. The focus has been on exploring growth strategies behind the development of these portfolios. Based on a growth focus model with strategic focus on the business unit and the portfolio, the study presents how successful portfolio entrepreneurs pursue the development of their business empires. We report how portfolio entrepreneurs use internal and external strategies to pursue growth and identify when a combination of both may be warranted. Qualitative methods are used to reveal the strategies these entrepreneurs employ to pursue growth.

INTRODUCTION

The focus of this study is on portfolio entrepreneurs, those individuals who choose to own and manage more than one distinct business at the same time. The research objective is to explore the growth strategies of these entrepreneurs, an important area that has been neglected in previous research. A conceptual framework is introduced to identify, categorise, and explain the strategies used. It was the conversation reported in MacMillan (1986) that first pointed entrepreneurship researchers towards the study of habitual entrepreneurs, arguably the most practised of business founders, in order to derive lessons from their experiences. The need to focus on the individual rather than the business was given further impetus in the influential paper by Scott and Rosa (1996) and a stream of research can be traced back to this paper, including a growing number of studies on portfolio entrepreneurs, an identifiable sub-set of business founders (e.g., Rosa, 1998; Westhead & Wright, 1998; Rosa & Scott, 1999; Carter & Ram, 2003).

Despite their relatively recent emergence within the academic literature, portfolio entrepreneurs have been around for a long time and may indeed be the dominant form of entrepreneurial activity in some countries (Carter, Tagg & Dimitratos, 2004). These entrepreneurs also rate themselves as more creative and more innovative than other entrepreneurs, especially novices (Westhead, Ucbasaran & Wright 2005), and also appear to offer the more attractive growth prospects (Westhead, Ucbasaran, Wright & Binks 2005). There remains however a great deal that we do not know about the growth strategies used to develop these portfolios (Carter & Ram 2003; Iacobucci & Rosa 2005).

In this paper we explore how a group of established portfolio entrepreneurs have grown their portfolios with a particular emphasis on identifying *what* strategies were used, *why* they were chosen, and *how* these were implemented. In the sections that follow we present an overview of the field and identify where we believe our work can contribute to knowledge. This is followed by the development of the conceptual framework of the growth strategies available to portfolio entrepreneurs. Following an outline of our interview-based methodology, we report and discuss our findings. The paper then concludes and offers some suggestions for further research.

BACKGROUND IN THE LITERATURE

A number of studies have shown relatively high incidences of habitual entrepreneurship, e.g., 40% of Ronstadt's (1988) sample of US college alumni reported to have created more than one venture, while Schollhammer (1991) found that 51% of entrepreneurs surveyed in Southern California had started two or more ventures. In their Norwegian study, Kolvereid and Bullvag (1993) found that 37% of their respondents were experienced business owners, a finding for Norway that was consistent with those reported in an earlier three-country study on multiple business formation, viz., Norway - 34%; New Zealand - 18% and UK -13% (Shane, Kolvereid & Westhead, 1991). Birley & Westhead (1993) reviewed 13 studies conducted in the UK that focused on new firm founders and found that the incidence of multiple business ownership

ranged between 12% and 36%. More recently, using data from Scotland, Westhead, Ucbrasaran and Wright (2005) reported almost 25% of their sample to be portfolio entrepreneurs.

Rosa and Scott (1999) made a significant contribution to this area establishing that multiple business ownership is common in the small firms sector, and that its incidence rises with firm size. Further, they found that portfolio entrepreneurs are more likely to be associated with high growth companies. They also revealed the complexity of the portfolio development process in which their portfolio entrepreneurs created and developed business clusters for a myriad of different reasons including: positive diversification into a new market; plan forced diversification into new markets to spread risk or to overcome potential adversity; unplanned (opportunistic) diversification into new markets; business creation as a challenge or a hobby; ownership of additional businesses to protect a new area or brand name; ring fence a geographical diversification; ring fence risk; add value to existing ventures owned by entrepreneur; assist a friend or relative; to better manage income and profits or family assets; to obtain tax benefits; and cut costs and enhance internal efficiencies (Rosa & Scott 1999, p. 533). It is also in their 1999 paper that Rosa and Scott (p. 545) suggest that while external factors would dictate the size of any single business, the growth of a cluster of firms would depend much more on internal supply-side factors, i.e., the entrepreneur.

Two parallel but distinct paths have emerged in this literature and it is possible that neither will adequately encompass the growth issue. On the one hand we have studies of the genealogy of business portfolios and the relationships among the extant businesses (Rosa, 1998; Iacobucci & Rosa, 2005). This path does seek to confirm that portfolios are a result of entrepreneurial behaviour (in pursuit of opportunity) rather than of ‘survivalist’ reactions designed to avoid adversity. It finds that portfolio entrepreneurs do better by concentrating on internal development around core activities, with unrelated diversification being much less frequent and often attributable to hobbies or changes in direction (Rosa & Scott, 1999). The second path places more emphasis on identifying the characteristics and performance of the entrepreneurs themselves, with less attention to the nature and growth of the business portfolios as such. Recent findings here are that, despite their greater business experience, portfolio entrepreneurs do not appear to perform better than other types of entrepreneurs (Ucbrasaran, Westhead & Wright, 2006, pp. 188-197). Both paths converge however in advocating the use of in-depth case study research in order to better understand the growth strategies of portfolio entrepreneurs.

CONCEPTUAL FRAMEWORK

Our basic research questions pertain to *what* strategies these entrepreneurs used to pursue growth, and *why* and *how* these strategies were put in place. The nature of these questions led us to a positivist case study approach as described in Yin (1994), where even exploratory research must have a preliminary conceptual framework that organises the study and to indicate what is being explored and what we are looking for. Such frameworks can be theoretical or richly descriptive (Yin, 1994, pp. 28, 102-106). Just as we lack a complete theory for the growth of the single business (Dobbs & Hamilton, 2007), so we have no semblance of one for the more complex issue of portfolio growth which, in any case, subsumes growth of the single business.

Unlike single business owners and serial entrepreneurs who can rely only on growth through a single business, portfolio entrepreneurs also have the option of adding to the number of businesses in their portfolio. So, to form the basis for our study of their growth strategies, we propose a framework that contextualises growth in two different dimensions and so allows for four types of growth strategy. These strategies are depicted in Figure 1.

Figure 1: Growth Strategies Conceptual Framework

GROWTH FOCUS	STRATEGIC FOCUS	
	'INTERNAL'	'EXTERNAL'
BUSINESS UNIT Size of individual businesses within the portfolio	SPECIALISATION Organic growth or merger of individual businesses within the portfolio.	ASSIMILATION Growth by assimilation of a business external to the portfolio.
PORTFOLIO The number of businesses making up the portfolio	EXPANSION Growth of the portfolio by start-up of new businesses and de-mergers.	ACQUISITION Growth of the portfolio by acquiring existing stand-alone businesses

Individual growth strategies can have either an ‘internal’ or an ‘external’ focus. An internal focus applies to businesses that are already part of the portfolio or are created *de novo* within the portfolio. Taking the upper left-hand quadrant, individual businesses can be made larger via organic growth or *intra*-portfolio mergers. In either situation, one line of business is likely to increase its contribution to the portfolio and hence we label these concentration strategies as ‘specialisation’.

The lower left quadrant, labelled ‘expansion’, allows for growth in the number of businesses in the portfolio, either as a result of *de novo* start-up or from the de-merger of existing businesses. Depending on the relationship between any *de novo* entrants and the existing businesses, this ‘expansion’ strategy may also bring a degree of diversification to the portfolio, something that would be unlikely following the ‘concentration’ route.

Looking externally to the current portfolio, a portfolio entrepreneur may decide to expand by bringing into the portfolio a business that was hitherto operating outside of it. In any externally based growth strategy, the portfolio entrepreneur must first gain control of the target company. The next decision is to either assimilate this business with another business within the portfolio, e.g., a horizontal merger where business-level synergies can be gained, or to allow the acquired business to remain as a stand-alone acquisition within the portfolio. Hence, while ‘assimilation’ has the same concentration inducing effects as specialisation, the ‘acquisition’ route does offer considerable scope to diversify the portfolio into new lines of business.

Given that we intend to study the growth strategies of established portfolio entrepreneurs, current research on the relationships among businesses in such portfolios would lead us to expect a largely ‘internal’ strategic focus, with one or two businesses dominating the growth of portfolios. Where ‘external’ strategies are chosen, these could be pursued either by the assimilation of another business or through acquisition. While the assimilation strategy would almost always have to have a degree of relatedness to the portfolio activity, an acquisition strategy could involve either related or unrelated additions. We do expect however to find most ‘external’ strategies to involve acquisition rather than assimilation because the portfolio structure is more conducive to acquisitions than it is for assimilations. Indeed there is little evidence for merger/integration focus in the literature and presumably the portfolio structure would make acquisitions easier to absorb and manage (Rosa, 1998).

Having outlined the possible growth strategies that are available to the portfolio entrepreneur, it is of course most unlikely that portfolio entrepreneurs would restrict themselves to one growth strategy. A portfolio of businesses points indeed to the need for a portfolio of growth strategies and so we expect to find combined strategies in use at the same time where the entrepreneur seeks to increase the number of businesses (expansion and acquisition) and also grow the size of

individual businesses (specialisation and assimilation). This framework can also reflect the dynamic nature of portfolios by allowing for linkages among the quadrants, e.g., a business could be acquired, then assimilated into an existing portfolio business where, after a period of growth due to specialisation, the enlarged entity could be de-merged into separate units and so expand the size of the portfolio.

METHODOLOGY

The study was qualitative and designed to gain as much insight as possible into how portfolio entrepreneurs formulated and implemented growth strategies (Churchill, 1992; Gartner & Birley, 2002). The objective of this study was to explore the growth strategies of established portfolio entrepreneurs using the conceptual framework in Figure 1 and so identify, categorise, and explain the strategies used. Indeed, there were major differences among the portfolios in terms of their size, relatedness, and the number of business exited as a ratio of current portfolio size, all areas of which would merit further research.

The research approach was to allow the entrepreneurs to relate their growth strategies and a multiple case study design was deemed appropriate for this purpose, following Rosa and Scott (1999); Wright, Robbie and Ennew (1997); and Sarasvathy (2001). The selection started with a search of featured entrepreneurs from business periodicals and other publications, including the *New Zealand Business Who's Who*, and in consultation with individuals prominent in the local business community. The names of those selected were cross-checked with official records in the New Zealand Companies Office to confirm their status as 'portfolio entrepreneurs'.

The growth strategies of eleven successful portfolio entrepreneurs from the South Island of New Zealand formed the basis of this study, with businesses in a range of sectors including manufacturing, tourism, property, and information technology. Two of the eleven appear in the *National Business Review* Rich List of New Zealand; one has won a national Young Entrepreneur of the Year Award; and most of the participants already have or are intending to set up overseas operations. All of these entrepreneurs were also the founders of the original business and, indeed as required by our definition of portfolio entrepreneur, each had retained on ongoing managerial involvement with the businesses. Indeed, from the interviews, it was striking just how close and well-informed the founding entrepreneurs were about the businesses in their portfolios.

The field study involved semi-structured interviews using open-ended questions which allowed the interviewees to expand on different issues if they wished. The interviews, each of which took between two and three hours to complete, were audio-taped and then transcribed for coding using both QSR6 and N-Vivo software, supplemented by hand and visual coding. The nature of the analysis undertaken here follows in part that reported in Scott and Rosa (1998) and Sarasvathy (2001) where coding and interpreting of verbal protocol was undertaken to track down emerging patterns of data. Creswell (1994) suggests replicating procedures used by other reported studies, thus this is deliberate in order to improve reliability and validity.

FINDINGS

Overview

At the time of the interviews (2005), the average portfolio size was eight businesses ranging from three to sixteen. These eleven portfolio entrepreneurs (all male, average age 48 years in 2005) controlled 88 businesses in 2005, and had exited from a further 31 businesses prior to this. The strategies employed by these portfolio entrepreneurs were classified broadly into 'internal' and 'external' (acquisition), with several of the entrepreneurs using these strategies in combination at some stage in portfolio development. Indeed six of the eleven entrepreneurs had used both external and internal strategies to build their current portfolios and in four instances the portfolios are made up mainly of acquired businesses. Our study also identified a strategy involving the merging and de-merging of companies, something that is facilitated by the portfolio structure.

Where the 2005 portfolio reflected internal development alone, the average portfolio size was 5.2 businesses, with the majority operating in areas unrelated to the core activity. In contrast, where both internal and acquisition routes were used,

the average portfolio size was 10.2 business and the majority of these were related by either product or market. The core business was typically the original (or oldest) business line of business conducted in the portfolio. While some had set up holding companies and similar investment vehicles, we did not regard these as the core business unit. The only situation a holding company would also be a core business would be if the portfolio was entirely made up of ownership stakes with no tangible businesses to be managed. Some definitions of portfolio entrepreneurs would however allow the portfolios to be made up entirely of ownership stakes (e.g., Westhead, Ucsbasaran & Wright, 2005, p. 73).

Internal Strategic Focus

These are growth strategies that concentrate on the growth of particular businesses within the portfolio and/or portfolio size due to the emergence of new businesses within the portfolio. As noted previously, the literature tends to suggest that one or two business units will grow to dominate a portfolio and that any portfolio multiplication reflects the appearance of new businesses within the portfolio due to either *de novo* start-up or the break-up (de-merger) of existing units. Hence we would expect to see a pattern in the cases that emphasised this internal focus.

Specialisation

All the entrepreneurs had at some stage placed considerable emphasis on the internal growth of one or two of their business units, and for some, this was the main growth strategy behind their current portfolio. These internal growth strategies involve growing current products and/or services in existing markets; market development; and geographic expansion, the same growth strategies available to the single business owner.

In terms of existing products/services, one entrepreneur who started as a company running workshops and seminars for small businesses found that there were better ways to deliver more of these workshops than just conducting it himself. Instead of being constrained by their ability to physically deliver about 50 workshops a year, they transferred their workshop material and content into software. For this entrepreneur, it was replication that allowed them to scale-up the business four-fold. The realisation that this had barely scratched the surface and that there was a tremendous growth potential in their product led them to engage technology in pursuing growth. Transferring their material into software has led them to major contracts with institutions such as banks that provide support to their business customers.

Although growth can be organic and propelled by developing products and services in-house, vertical integration also had a part to play in business growth. An engineering and manufacturing entrepreneur grew by expanding his product and services range to meet the need of customers. Their core business is manufacturing components for the electronic industry but has now expanded to include an iodising plant.

A major distributor of panel beating products realised that his business would grow if his customers are doing well. He fell back on his previous consulting experience to help customers with their business by providing free consultations on how to improve their business. This type of innovation complements his traditional broadening the product range approach through intensifying the relationship with customers.

Where a business has been successful in one market, entrepreneurs look to similar markets to grow their business. This was the case for an electronic design and manufacturing company. A contract to supply Telecom New Zealand with a range of their electronic products enabled one entrepreneur to enter new markets. Although they were stretched over a period of time, the success of such a huge contract gave them the confidence and experience to go into Australia and other foreign markets. These markets also became the recipient of products from their other design company.

Given the small size of the New Zealand market, many New Zealand businesses must look to export markets where similar applications for current products are possible. This is the case for an entrepreneur whose sport software product was adapted by New Zealand Cricket and Touch New Zealand. They are now looking at customising this product for English cricket and narrowing the focus instead of a single standardised version thus creating a niche market for their IT solutions. In this entrepreneur's view, internationalisation demands that they have to be narrowly focused and in his words being "*the best in what we do in that area*". It follows that their sports product will become increasingly specialised and applied tightly.

Expansion

These growth strategies take full advantage of the portfolio structure. In the case of a fast growing business, it may become too big to remain a single entity with multiple divisions. In such cases, it may make good business sense to separate certain divisions into distinct stand alone businesses. Therefore, within this environment, there is a process of merging and splitting:

A participant involved in the IT industry purposely set out to buy out certain companies with the ready capabilities that he required for his core venture. So in effect he bought and then combined three separate businesses to form one single development company. Another entrepreneur in the same industry has also done this pro-actively.

In other cases, separating businesses is a result of growth in the product range. In the case of adventure tourism for example, two distinct client bases had emerged and the entrepreneur felt that the time has come to split the business so the staff can have clarity of their functions and who their customers are. Another reason is to provide separate investment opportunities for would-be investors into the business. In the case of this entrepreneur, creating two separate companies from the core business also allows for staff shareholding in one aspect of the business, while simultaneously seeking investment from other sources.

This discussion leads us to two propositions. First, a significant amount of the growth ascribed to portfolio entrepreneurs comes from specialisation strategies that are also available to single business owners. Second, in addition to *de novo* entry, the portfolio structure facilitates its own expansion through the de-merger of existing businesses, an option available only to portfolio entrepreneurs.

External Strategic Focus

These are growth strategies that operate outside the portfolio seeking to either expand a business unit by merging and integrating with another business and/or increase the number of units in a portfolio by acquisition. As reported elsewhere, six of the 11 entrepreneurs had acquired businesses in their current portfolios. Given the size and success of these portfolios, we had expected to see a more widespread resort to acquisition. However, while growth can be achieved by internal means from within their businesses, some of these entrepreneurs operate in fast growing, dynamic business environment where the speed by which products and services are introduced in the market is crucial. Internal growth is complemented by external measures such as acquisition, collaborative practices in the way of strong partnerships, joint ventures and strategic alliances.

Acquisition

One participant has a portfolio of technology companies that has been built following some “core criteria” derived from his analysis of what made them successful in the original business such as owning the intellectual property of their products. Apart from their in-house product development, they may also be involved in other businesses that meet their criteria. If these criteria are not met, he refuses to be involved.

Another participant with a diversified portfolio of finance and property companies says all his businesses are related primarily in terms of growth opportunity rather than in terms of their product or market commonalities.

Acquiring competition simply for the speed by which they can grow their business is an active strategy that another participant pursues. He argues that the options are twofold, these being that one can either set up from scratch or “look around for something to acquire or absorb that might be quicker and easier way to get the business going.”

Acquisitions to effectively eliminate competition are also pursued by another participant alongside his strategy of product development despite admitting that he did not need to do that. He has strong views about competition and believes that it is a race he intends to win. Having said this, he adds that winning does not mean being unethical hence he would ask “*how can we eliminate our competitors, and do that ethically and well?*” However, acquisitions, especially those that involve staff can be a challenge and he has learned from this experience. While it may make good sense to merge newly acquired companies with existing ones, the synergy may not be there. This entrepreneur also invests in shares of competitor companies “*just to get information.*” Effectively, this is a form of partial acquisition.

Another strong argument for acquisition as a strategy for growth was put forward by a participant who readily admits that he did not grow internally, because such growth would have been too slow. To get to the scale that they wanted quickly, they had to grow by acquisition.

Within the context of vertical or horizontal integration, opportunities for acquisition could present themselves. Growth can be constrained by deficiencies within the supply chain. This may be brought about by others along the chain having difficulties. This presents an opportunity for some kind of integration while remaining separate business entities. This is what a manufacturing engineer was faced with. The need to secure a supply line enabled him to integrate backward while helping a major customer in financial trouble to integrate forward.

Assimilation

This discussion has only featured acquisition because, in line with other studies, we found no evidence of assimilation route being used as a primary growth strategy. The only strategy that featured was one of business-to-business collaboration with other companies, but none of these arrangements amounted to a merger.

From this we propose, first, that acquisition will be the primary external growth strategy pursued by portfolio entrepreneurs. While acquired businesses may eventually be assimilated into another business within the portfolio, direct assimilation as envisaged in Figure 1, is not used as a primary strategy to grow an individual business. When talking about their acquisition strategy, these portfolio entrepreneurs had formulated explicit strategies to guide their behaviour, including that of acquiring competitors to create the space for faster growth. This type of guiding principle was absent when discussing internal growth strategies which seemed somewhat serendipitous in comparison (see Rosa, 1998). On this basis, we propose for further research that externally-based growth strategies are not more likely to lead to unrelated portfolios.

DISCUSSION

The difficulty in defining growth and performance in a single business is multiplied when we try to apply these terms to a portfolio of businesses. We elected to use some external public sources to identify a group of portfolio entrepreneurs each of whom could be regarded as well-established and successful in what they had done. Our focus has been on exploring growth strategies behind the development of these portfolios. Portfolio entrepreneurs are of special interest in entrepreneurship research and policy because of their experience in a number of concurrent business ventures. Unlike single venture entrepreneurs, they have gained valuable expertise that is only possible with hands-on running of businesses. Wealth creation is a by-product of entrepreneurship and this is only possible if businesses grow. This paper has presented how successful portfolio entrepreneurs pursue the development of their business empires. Internal growth strategies such as expansion in product, market and territory are nearly always associated with single venture entrepreneurs. However, this study has shown that portfolio entrepreneurs also use this singly or in combination with an external strategy of acquisition. These combined strategies are a means of achieving faster growth but require the flair to develop and promote new products and ideas within available resources.

This group of entrepreneurs had an average portfolio size of eight businesses (in 2005), somewhat larger than other portfolios that have been reported on in the literature. The smaller portfolios were those created from internal development and these smaller portfolios also appeared to be more serendipitous, less related in terms of either product or customer (market) attributes. These ‘internal’ focused entrepreneurs have also exited a relatively high number of other businesses prior to 2005. The larger, more related, portfolios were created by entrepreneurs who had also used ‘external’ means (essentially acquisition) to grow their portfolios. Their reasons for acting in this way were many and somewhat varied but one clear rationale was the expectation that internal growth would be too slow. Faster growth and acquiring competitors to create the space for growth were common motives, as were mentions of the opportunities and benefits of acquiring along the supply chain to overcome bottlenecks to growth. Portfolio size was an issue for this group – and they did maintain the larger portfolios - with the proviso of the size (number of separate businesses) itself being ‘controllable’ so as not to detract from the overall return on assets.

All the entrepreneurs were demonstrably successful in what they were each doing and were well-known in their business and local communities with several having reputations that extended to the national level. While all have a degree of success in common, they each evidenced their own quite distinctive views and objectives which meant that we cannot associate success with the adoption of one particular strategy. These portfolios varied markedly in size, relatedness, and the amount of churn, and yet each one can be treated as successful in its own right.

Given this evidence, we would argue that the merits of each strategy depends on the entrepreneur himself as, in each case, these are an extension of the entrepreneur. The one point that we can make is based on the ubiquity with which these portfolio entrepreneurs seek significant growth within one or two of the individual businesses. This means that we must continue to build a better understanding of the nature and timing of growth within the single business. This is after all the dominant form of small business ownership and also appears to be a strong focus of portfolio entrepreneurs.

CONCLUSIONS AND FURTHER RESEARCH

The study has introduced a new framework within which to explore the growth strategies of portfolio entrepreneurs, an area that has not been extensively researched previously. Given the case study nature of the research, our conclusions are in the form of propositions that we hope will stimulate and guide further research. It appears that a significant amount of the growth ascribed to portfolio entrepreneurs stems from specialisation strategies that do not use the portfolio structure and are also available to single business owners. However, in addition to the well-known expansion through *de novo* entry into the portfolio, we also noted that the portfolio structure itself facilitates its own expansion from the de-merger of existing portfolio businesses. This is a strategy that does distinguish portfolio entrepreneurs from single business owners.

Acquisition was the dominant form of external strategy and, as others have noted, there was no evidence here of assimilation being used as a primary growth strategy. While acquired businesses may eventually be assimilated into the portfolio, assimilation was not used as a primary strategy to grow an individual business. When explaining their acquisition strategies, these portfolio entrepreneurs had formulated explicit strategies to guide their behaviour, including that of acquiring competitors to create the space for faster growth. This type of guiding principle was absent when discussing internal growth strategies which seemed somewhat serendipitous in comparison (see Rosa, 1998). On this basis, we propose further research on externally-based growth strategies and whether or not these do indeed lead to more related portfolios. The larger portfolios, where acquisition was used, were also the more core-related and did not have higher churn levels. These patterns are of course not statistically valid but they do lead us to propose that churn may be independent of portfolio size and growth strategy. We propose further that these churn levels may be reflecting opportunity search behaviour on the part of portfolio entrepreneurs who are seeking a focus. It follows that when this focus or core is created, disconnected search activity diminishes and so does churn (Ucbasaran, Wright and Westhead, 2003). In this light it would be interesting to re-examine the larger data sets used in previous studies in order to develop some statistical tests for differences in the level of churn across different types of portfolios.

Our focus on apparently successful portfolio entrepreneurs does of course impart a success/survivor bias to our study but we did intend to study exemplar entrepreneurs and these are much easier to identify than those who have been less successful. Since each of the portfolio entrepreneurs in this study were deemed successful while employing a blend of different strategies and tactics, we do not conclude in favour of one strategy over others. Rather, we present a framework that offers a choice of growth paths that other portfolio entrepreneurs can pursue relative to the focus that they are likely to favour.

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THE NATURE OF INNOVATIVE MARKETING IN SMES: AN EMPIRICAL STUDY

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ABSTRACT

This paper considers the nature of innovative marketing in the context of SMEs (small to medium sized enterprises). Research was carried out to identify SME decision-makers perspectives on innovative marketing and to compare these with the nature of innovative marketing practices actually carried out by the SMEs. SMEs do not adopt the marketing concept to the same extent as larger firms and their marketing is limited by constraints such as finance, expertise, size and customer-related issues. Yet, despite such limitations, SMEs successfully use a form of marketing, driven by innovation, to generate sales.

An interpretivist methodology was adopted for this research using convergent interviewing and observation techniques to help build up a picture of SME owner/managers perceptions in relation to innovation and to develop an understanding of the nature and scope of their marketing in practice.

The empirical findings demonstrate that innovative marketing pervades much of SME owner/managers thinking and marketing activity, more than previously acknowledged.

INTRODUCTION

This paper focuses on the nature of innovative marketing in SMEs. Micro enterprises and SMEs are major providers of new jobs (Audretsch et al., 2002), providing approximately 75 million jobs, and representing 99% of the 23 million enterprises in the EU (Nyman et al., 2006), therefore increasing understanding of the key determinants of their success is essential. Research illustrates that SMEs in pursuit of organisational goals do not adopt the marketing concept to the same extent as larger firms (Pollard and Jemicz, 2006; Brooksbank et al., 1999; Liu, 1995; Meziou, 1991; Bell and Emory, 1971), and that marketing practice in SMEs is situation specific, and variable in terms of sophistication and effectiveness (Gilmore and Carson, 1999; Hogarth-Scott et al., 1996; Brooksbank et al., 1992).

The marketing function in SMEs is hindered by constraints such as poor cash flow, lack of marketing expertise, business size, tactical customer-related problems, and strategic customer-related problems (Doole et al., 2006; Chaston, 1998; Weinrauch et al., 1991; Carson, 1985). Yet, despite such restrictions, SMEs successfully use marketing to generate sales (Guerssen, 1997; Romano and Ratnatunga, 1995), a fact that highlights the need to understand innovative marketing as practised by SMEs. Thus this study sought to identify and clarify the nature of innovative marketing in SMEs.

Research was designed to identify SME decision-makers perspectives on innovative marketing and to examine the nature of innovative marketing practices in SMEs. For the purposes of this research, the definition of innovative marketing adopted is that posited by Kleindl et al. (1996: 214) as:

“doing something new with ideas, products, service, or technology and refining these ideas to a market opportunity to meet the market demand in a new way”.

However, it should be noted that the terminology adopted for this empirical research differs from that given by the body of literature, in that this research utilises the term innovative marketing rather than marketing innovation. This differentiates innovative marketing from the marketing of innovation, thereby attaining greater clarity.

INNOVATIVE MARKETING LITERATURE SYNTHESIS

A review of literature highlights the linkage between innovation in SMEs and economic success (O'Regan and Ghobadian, 2005; McEvily et al., 2004; Salavou, 2004; Shoham and Fieganbaum, 2002; Quinn, 2000; Roberts, 1999;

Doyle, 1998; Knight, 1996; Hitt et al., 1996; Banbury and Mitchell, 1995; Tower and Hartman, 1990), creativity, new product or service development, new approaches to marketing issues (Knight et al., 1995), competitive advantage (Kandampully, 2002; Martin and Rana, 2001; Stokes, 2000) and opportunity (Hulbert and Brown, 1998; Raymond et al., 1998; Nonaka and Takeuchi, 1995). Furthermore, continuous innovation in markets, products or processes in anticipation of, and response to, dynamic customer requirements, competitors and supply analysis is the essence of SME growth and survival (Mostafa, 2005; McEvily et al., 2004; Nieto, 2004; Salavou, 2004; Chesbrough, 2003; Martins and Terblanche, 2003; Prahalad and Ramaswamy, 2003; Mosey et al., 2002; Senge and Carstedt, 2001; Johne, 1999; Herbig et al., 1994; Sexton and Arbaugh, 1992). Such innovation stems from the flexibility and willingness of small firms to try new approaches (Stokes, 1998), seize opportunity (Hulbert and Brown, 1998) and competitive advantage (Knight et al., 1995).

A review of innovative marketing literature illustrates that its primary components include product enhancement, alternative channels and methods of product distribution (Carson et al., 1998), an exploration of new markets, an alteration of the marketing mix, and new operational systems (Stokes, 1995). In reviewing these elements Cummins et al. (2000) surmise that, although innovation can include new-product development, it contains more than that, therefore incorporating innovative developments in other aspects of marketing. More generally, the characteristics of innovation within enterprises have been identified as searches for:

"creative, novel or unusual solutions to problems and needs. This includes the development of new products and services, and new processes for performing organisational functions" (Knight et al., 1995: 4).

Based on the literature reviewed, innovative marketing is made up of (at least) six elements; marketing variables, modification, customer focus, integrated marketing, market focus, and unique proposition as illustrated in Table 1.

Table 1: Categorisation of SME Innovative Marketing Variables

SME Innovative Marketing Variables	Representative Literature
Marketing Variables	Mostafa, 2005; McEvily et al., 2004; Nieto, 2004; Cummins et al., 2000; Carson et al., 1998; Kleindl et al., 1996; Knight et al., 1995; Stokes, 1995; Johne, 1999
Modification	Carroll, 2002; McAdam et al., 2000; Cummins et al., 2000; Johne, 1999; Kleindl et al., 1996; Stokes, 1995
Customer Focus	Narver et al., 2004; Martins & Terblanche, 2003; Morris & Lewis, 1995; Herbig et al., 1994; McGowan & Rocks, 1995; Knight et al., 1995; Hisrich, 1992
Integrated Marketing	Cummins et al., 2000; Knight et al., 1995
Market Focus	Johannessen et al., 2001; Cummins et al., 2000; Johne, 1999; Day & Reynolds, 1997 ; Ahmed, 1998; Kuczmarski, 1996; Kleindl et al., 1996; McGowan & Rocks, 1995; Stokes, 1995; Knight et al., 1995; Herbig et al., 1994; Hisrich, 1992; Gardner, 1991
Unique Proposition	Johannessen et al., 2001; Arias-Aranda et al., 2001; McAdam et al., 2000; Martinez Lorente et al., 1999; Johne, 1999; Kleindl et al., 1996; McGowan & Rocks, 1995; Knight et al., 1995; Zairi, 1995

Marketing Variables

For the purposes of this research three of the primary innovative marketing components identified in a review of literature were categorised as marketing variables: product enhancement, alternative channels and methods of product distribution (Carson et al., 1998), and an alteration of the marketing mix (Stokes, 1995). Literature illustrates that in most instances SMEs engage in product enhancement, adopting a policy of incremental rather than radical innovation, responding to market requirements by altering their marketing activities (Cummins et al., 2000). In addition resource limitations *"restrict market entry to markets where the business has insufficient resources to compete successfully"* (Hogarth-Scott et al., 1996:7) and therefore SMEs utilise alternative channels and methods of product distribution (Johne, 1999; Carson et al., 1998) to gain competitive advantage.

Modification

SMEs define the basis of their marketing activities as innovative (Siu, 2000) in terms of being proactive and by embracing change management (Nieto, 2004; Carroll, 2002; McAdam et al., 2000; McAdam et al., 1998; Carland et al., 1984). Innovative marketing can be classified as either continuous or discontinuous. Continuous innovative marketing is found to be incremental, building on existing practices and products, while discontinuous innovative marketing is described as more inventive and unrelated to current practices and products (Veryzer, 2005; McGowan and Rocks, 1995).

Integrated Marketing

Innovation is pervasive throughout marketing (Hills and LaForge, 1992; Simmonds, 1985), where adjustments regularly need to be made to current activities and practices. SME innovations (or adaptations) of marketing build upon their strengths and enable them to differentiate their product or service from the standardised offerings of larger firms, possibly within a niche market (Cummins et al., 2000). It depends upon the perceived value of marketing throughout the organisation, the integration of marketing fully into the organisation, and its application to achieve organisational goals. This leads to the need for marketing integration and the permeation of marketing throughout the SMEs.

Customer Focus

Customer-satisfaction and customer-orientation are strongly associated with success in smaller firms (Blythe, 2001; Mohan-Neill, 1993; Brooksbank et al., 1992), where considerable emphasis is placed on personal relationships in developing a customer base (Stokes, 2000; O'Donnell and Cummins, 1999) and on the significance of customer satisfaction to competitive success (Siu, 2000; Pearce and Michael, 1996).

Market Focus

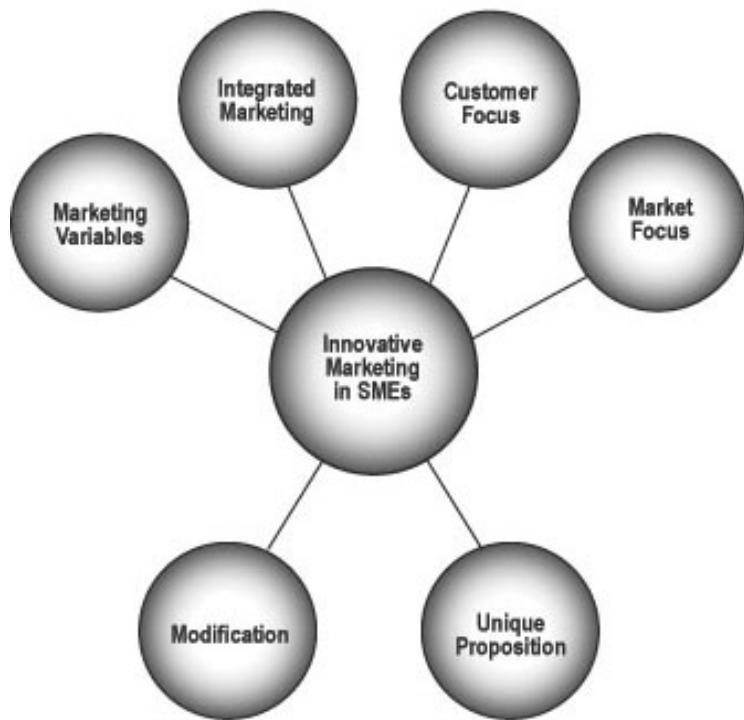
A review of literature illustrates that market focus includes vision (Carson and Grant, 1998; Ahmed, 1998; Kuczmarski, 1996; Knight et al., 1995), profit (Cummins et al., 2000; Tower and Hartman, 1990) and being market-centred (Wang and Ahmed, 2004; Johannessen et al., 2001; McAdam et al., 1998; Carland et al., 1984). Marketing decisions are based upon the interpretation of relevant data and depends on the experiential knowledge and vision of the entrepreneur (Grant et al., 2001; Hill, 2001; Carson and Grant, 1998), which in turn leads to a profitable SME. Such innovative ability gives SMEs their competitive advantage, a key element in capturing market success and inter-firm competitiveness (Mole and Worrall, 2001; Conrad, 1999).

Unique Proposition

Innovative Marketing is dependent upon uniqueness (Cummins et al., 2000; McAdam et al., 2000; Pitt et al., 1997) newness (Lado and Maydeu-Olivares, 2001; Johannessen et al., 2001; Cummins et al., 2000) and unconventionality (Stokes, 2000), which, for the purposes of this research, have been categorised as unique proposition. Successful entrepreneurs undertake unconventional marketing, focusing initially on innovations to products and services, followed by addressing customer needs (Stokes, 2000). Such marketing activities can be highly innovative, but are not necessarily based on originality, and are more likely to be an adaptation of an existing concept or practice; therefore, the innovation lies in its unique application to a particular company or situation (Cummins et al., 2000).

Given the relationships established in literature between innovative marketing and SMEs a conceptualisation of innovative marketing from the perspectives of SME decision-makers is illustrated in Figure 1.

Figure 1: Conceptual Model for Innovative Marketing in SMEs



RESEARCH APPROACH

In exploring the issue of innovative marketing in SMEs a qualitative approach to research was adopted to allow SMEs to be viewed in their entirety (Shaw, 1999; Grant et al., 2001; Carson et al., 2001; Gilmore and Covello, 1999). This approach permitted the researchers to gain an in-depth understanding of the reality of the SME, thereby interpreting SME perceptions, while taking into account the unique characteristics of the human participants involved (Grant et al., 2001; Carson et al., 2001; Gilmore and Covello, 1999). Such an approach enabled deeper investigation which facilitated and contributed to theory development. An interpretative research approach was adopted, featuring case studies to maximise the contextual richness and complexities of SMEs (Yin, 1994) and utilised the range of qualitative research techniques, such as direct observation, interviews, and archival material, while facilitating longitudinal research in a natural setting.

Eight case SMEs were selected (See Table 2 for details) on the basis that they satisfied a qualitative definition of an SME, which includes criteria such as ownership/management of an independent enterprise, (Loecher, 2000; Carson and Cromie, 1989), and the size of the company in terms of employee numbers and turnover, that is the enterprise must be small when compared with others in its industry (Loecher, 2000; Carson and Cromie, 1989). In addition, the chosen SMEs satisfied the definition of innovative marketing adopted for the research and satisfied the researchers that they could highlight key insights regarding the phenomenon being researched (Ettlie and Subramaniam, 2004).

Table 2: Case Company Profile

Case Company	Established	Industry	Number of Employees	Size - Relative to Industry
SME1 - Systems development solutions company	1984	Electronics	50	Small
SME2 – Software consultancy	1998	Software	40	Medium
SME3 – PCB manufacturer	1998	Electronics	40	Small
SME4 – Motor factors manufacturer	1970	Mechanical	100	Small
SME5 – Electronic display company	1980	Electronics	80	Small
SME6 – Wood products manufacturer	1981	Wood	80	Medium
SME7 – Print media company	1986	Media	70	Medium

The in-depth interview protocol was completed over a series of interviews, and by attending at least one general management meeting in each company. The primary research lasted twenty four months, comprising eighty-six interviews with eight case companies. The first interview question was open-ended, and almost content- and jargon-free, so that the answer could capture the respondent's, not the researcher's perception (Gilmore and Coviello, 1999; Perry, 1999). Each interview was guided by a topic list which formed the basis of the interview, facilitating in-depth exploration and investigation of the key innovative marketing variables identified in literature.

In analysing the case interviews, it is customary to commence by focusing on a case-by-case breakdown before engaging in cross-case analysis (Carson et al., 2001; Miles and Huberman, 1994). Thus, the data analysis progressed through a succession of steps, starting with open codes which were derived from the data and guided by the literature. Coding was crucial in identifying emerging concepts from the data that were employed in the analysis of the phenomenon, and in theory building (Catterall, 1996). Codes were evaluated and re-evaluated for their interrelationships, by engaging in a continual and systematic search for similarities and differences in data categories and issues and concepts identified from the literature review (Shaw, 1999). This process was aided through the use of 'N VIVO software package, which was designed to assist in interpreting and analysing data (Maclaran and Catterall, 2002; Dembkowski and Hanmer-Lloyd, 1995). The software facilitated efficient data management such as cataloguing and recouping data, illustrating relations between data, enabling text searches, and helping to highlight links within the data (Maclaran and Catterall, 2002).

EMPIRICAL FINDINGS

In exploring the empirical findings in the context of the literature reviewed, elements such as customers, the integrated marketing function and market conditions appeared in definitions of innovative marketing, however themes such as strategic alliances, product quality, and image did not. The emergence of these three themes as significant elements of innovative marketing is a major insight (or at least additional to the traditional SME literature) into the perspectives of SME decision-makers.

Marketing Variables

SME owner/managers did not perceive marketing variables to be an explicit focus of innovative activity to drive the success of their business, viewing them as incidental or basic 'hygiene factors'. However, based on the empirical findings marketing variables were found to be strongly significant to innovative marketing in five of the case companies (SMEs 2, 3, 5, 6, and 7), thus the practice of these SMEs did not reflect their perception of innovative marketing.

Modification

Modification was perceived by SME owner/managers to be a central element of their marketing activities, recognising their need to engage in continuous incremental change. This was reflected in marketing practice where six of the case companies (SMEs 1, 3, 4, 5, 6, and 7) identified modification as a central element of their innovative marketing. For example, SME 1 demonstrated a proactive and change oriented approach towards its marketing plan. SME1's marketing plan "*is reviewed monthly on its validity, and results are measured against the set targets. The plan in its totality is reviewed and adjusted in line with results, new ideas and experience*". This enabled SME1 to plan for success in a dynamic marketplace.

Integrated Marketing

SME owner/managers perceived integrated marketing to be one of the pillars upon which successful business performance is based. This perception forms the basis of their marketing practices, with all of the case SMEs illustrating their focus on effective integrated marketing. For example, SME 6 found that its marketing function needed strong leadership but needed to be integrated across functional areas within the SME permeating all activities and practices; "*you don't isolate it from the projects you're looking at; the marketing end of it is very important...it has a make or break side to it, so from that point of view, yes, there's a lot of people involved, but somebody at the top has to have a good grip on it*".

Customer Focus

The customer orientation of SMEs identified in literature was echoed in the perceptions SME owner/managers had of the importance of their customers to actual marketing practice. This perception was supported by the empirical findings where seven of the case companies (SMEs 1, 2, 3, 5, 6, 7, and 8) noted the centrality of customers to their innovative marketing activities and practices. SME 8 found that “*customer relationships and promotion material ...[are] very important to us,*” with all of the SMEs having changed their methods of conducting business in anticipation of their customers changing needs and business environment.

Market Focus

SME owner/managers demonstrated their perception of the fundamental significance of an external market orientation to the success of their business performance by engaging in market driven, market focused, marketing activities. A strong market focus was evident from the empirical findings with all eight case companies stressing the significance of vision, profit and market centeredness to their survival and success. This was illustrated by SME 8 who noted that “*We can no longer depend on our traditional sources of business to provide growth. Therefore we must analyze how best to approach the change. This analysis must consider not only the sources of business but also the shape and price of the products we intend to offer the market.*”

Unique Proposition

The uniqueness of their proposition was perceived by SMEs to be a central element of their marketing activities, a perception supported by literature which suggests that the key themes of Kleindl et al.’s (1996) definition of innovative marketing such as newness, refinement, and market demand should be critical constituents of innovative marketing. However, this perception was not fully reflected in SME marketing practice. Only four of the eight cases (SMEs 2, 3, 6, and 7) found ‘newness’ to be important, also ‘uniqueness’ was only relevant to four SMEs (2, 3, 5, and 7), and ‘unconventional’ was significant for three of the cases (SMEs 2, 3 and 7). “*We’re all the time looking for new features*” (SME 7); however SME 8 noted that “*While we are developing new products and forging into new markets we must also continue to develop and maintain our existing markets and market share*”, acknowledging the dichotomy between generating ‘newness’ and maintaining existing products and services. Despite the emphasis of the SMEs on these elements in dialogue it was not reflected in their activities and practices.

As illustrated in Table 3 all eight case companies identified key themes of Kleindl et al.’s (1996) definition, such as newness, refinement, and market demand, as critical constituents of innovative marketing. In addition to these themes the following SMEs identified other themes as integral to their innovative marketing: strategic alliances (eight case SMEs), product quality (eight case SMEs), SME image (seven case SMEs), customers (six case SMEs), change (six case SMEs), integrated marketing function (five case SMEs), market conditions (four case SMEs), sales (three case SMEs), promotional material (two case SMEs), strategic orientation (one case SMEs), and customisation (one case SME).

Table 3: Overview of Key Terms for each SMEs Decision-makers Perspectives of Innovative Marketing

Case Company	Key terms utilised by SME to describe their innovative marketing
SME1 – Systems Development Solutions Company	New; Refinement; Market demand; Market conditions; Customers; Integrated marketing function; Change
SME2 – Software Customisation Consultants	New; Refinement; Market demand; Market conditions; Customisation; Integrated marketing function; Change
SME3 – PCB Manufacturer	New; Refinement; Market demand; Product; Change; Integrated marketing function; Customers; Promotional material
SME4 – Motor Factors Manufacturer	New; Refinement; Market demand; Market conditions; Strategic orientation
SME 5 - Electronic Display Sign Company	New; Refinement; Market demand; Customers; Sales; Integrated marketing function; Change
SME6 – Wood Products Manufacturer	New; Refinement; Market demand; Customers; Change; Sales; Integrated marketing function
SME7 – Print Media Company	New; Refinement; Market demand; Customers; Change; Market conditions
SME8 – Heritage Tourism Company	New; Refinement; Market demand; Market conditions; Customers; Sales; Promotional material

In identifying SME owner/manager perceptions of innovative marketing, it is apparent that the most important elements include newness, refinement, a reactive or proactive approach to market demand, and a marketing function which is integrated throughout the organisation. However in practice newness and uniqueness were not important to all SMEs. The effective management of key innovative marketing variables enables SMEs to decrease the impact of resource limitations on their marketing activities and practices by leveraging additional value through innovation.

CONCLUSION

This study has identified and clarified SME decision-makers perspectives of innovative marketing and SME innovative marketing activities and practices. While SME perspectives are consistent with the literature reviewed which posits that these variables are elements of SME innovative marketing activities and practice, the empirical research did not support the view that altered distribution channels were an element of SME innovative marketing practices and activities.

In addition, although the concept of uniqueness is important to the SME business proposition according to the literature, this perception is not supported by the SMEs marketing activities in practice. Being unique, that is, significantly different to competitors does not appear to be related to business success, however it is related to their strong customer focus. SME customers take a risk when they buy from a smaller firm without a recognised international brand name, therefore SMEs engage in incremental rather than radical innovations thus reducing risk to customer but this also has the effect of reducing the uniqueness of their proposition.

Based on this evidence the empirical findings demonstrate the innate awareness of SMEs of their customers, their markets and their own abilities. From this study it is evident that innovative marketing in SMEs can be a proactive and/or reactive integrated organisational approach based on adapting and refining their marketing offerings in the context of competitive market circumstances.

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HISTORICAL PERSPECTIVE DERIVED FROM THE EARLY YEARS OF THE FIRST US NON-DEFENSE BASED MASS PRODUCTION INDUSTRY: CLOCK MANUFACTURING 1807 – 1850

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ABSTRACT

The first US based industry to employ mass production techniques was not the often referenced textile and apparel industry of the later part of the 1880s, and not the automobile industry of Henry Ford (as younger students respond), but rather after guns, cannons and cannon balls, powder and bullets, came the entrepreneurial clock industry. This work provides evidence that current entrepreneurial marketing issues are historical in nature and were first discovered not in the modern era of entrepreneurial research but in the early 1800s.

INTRODUCTION

Researchers of economic and financial history have often reminded readers that "...history plays (a role) in the development of modern financial thought..." (Grinder and Cooper, 1995). Furthermore, history fills in the gaps that current theory is unable to explain (Baskin, 1988). This paper reminds readers that concepts such as marketing, marketing orientation, entrepreneurial orientation, niche marketing, differentiation, focus, joint ventures, acquisition, internal growth, latest technology, uniqueness, branding, price elasticity, value, creative destruction, peddler selling, subsequent distribution, promotion, serial entrepreneurs, price fixing, etc., are not 20th century ideas but rather were evolutionary and revolutionary challenges faced by the clock entrepreneurs in the development of the first non-defense related industry to employ mass production techniques (Murphy, 1961, 1966).

These entrepreneurs, who were some of the first serial entrepreneurs in the United States, developed innovative technologies, processes, and products from a Schumpeterian perspective leading to new products that in turn led to new marketing paradigms. Concomitant changes in the nature of the US economy also occurred. Thus a study of early American entrepreneurship (Tucker and Tucker, 2004) can and should lead to a better understanding of the nature of entrepreneurship and its continuing and enlarging impact on society.

BACKGROUND

Entrepreneurship

The United States was created by individuals who were endowed with the spirit of entrepreneurship. The nation's founders were willing to take huge risks in order to create a radically new form of government, and in many ways, this new government was simply a reflection of the entrepreneurial nature of its citizens who risked the uncertainties of immigrating to a strange new land in order to build new lives for themselves away from family, home, and tradition. The entrepreneurial spirit was alive and well in colonial times (Perkins, 1989), but in the early years of the Republic, the ember of entrepreneurship was fanned into a brilliant flame that has continued to transform the United States to this very day.

Historians and economists alike agree that the early American Republic was a hotbed of entrepreneurial activity. For instance, Cochran (1955) observed the following:

It is obvious from a cursory view of United States history that the nineteenth century entrepreneurs represented a high level of business energy... In this broad capital-raising process [for railroads] the difficulty in distinguishing between general cultural factors and those specifically connected with the pattern of entrepreneurship becomes obvious. One might say it was an entrepreneurial culture. In fact, it is hard to distinguish between entrepreneurs and the rest of the population. From the demands of their function, the entrepreneurs were presumably the men of

energy and imagination, along these material lines, and they educated the rest. The rise of a belief in material progress and of a willingness to make present sacrifices for future material rewards had been going on since the colonial period. (p. 341, 347)

This period of rapid economic change was by its very nature tied to entrepreneurship, and if Cassis and Minoglou are correct in their contention that economic change is what “lies at the heart of economic history,” then entrepreneurship must be an integral part of economic history (Cassis & Minoglou, 2005). Nowhere can the connection between economic change and entrepreneurial activity be more clearly seen during this era than in the clock industry of New England. The authors are convinced that a careful examination of this industry can yield a number of insights into the process of fostering and developing entrepreneurial activity today, especially as it pertains to economically disadvantaged areas where small business development is lacking.

Clock Manufacture and Marketing

The clock making industry in the United States was transformed in the first half of the 19th century. At the start of the century, clock making was a cottage industry; it was largely the work of local artisans who used labor-intensive production techniques to serve a limited upper class market. By the middle of the century, clock making was a highly efficient industry that produced tens of thousands of affordable clocks annually for a global market. In order to achieve this transformation, clock entrepreneurs had to find ways to create demand for a luxury turned commodity item (Hoke, 1990), expand into new untapped markets, develop specializations in production and marketing, utilize the rather primitive financial systems that were available at the time, and engage in creative destruction.

Along the way these entrepreneurs developed innovative financing, marketing, and production techniques. One of the most interesting innovations was the development of the entrepreneurial peddler system, which was used for many years as the primary channel for the sale and distribution of clocks (Keir, 1913).

Even as “technological change and entrepreneurship …(served) as the basis for how mass production sectors evolved after WWII (Scott, 2006), the clock industry and its impact after the Revolutionary War and the War of 1812 evidenced similar sector changes. As other researchers have observed (Tucker and Tucker, 2004) changes in the early 19th century from “an agrarian republic (to) a capitalist society were only emerging” and in part motivated by the peddler system. This evolutionary change in the economy appears to have been somewhat paced by the emergence and growth of the clock industry, in a manner that is similar to the role electronics and telecommunications plays today.

METHOD

Historical documents and histories of various clock entrepreneurs (Bailey, 1986; Murphy, 1961, 1966; Roberts and Taylor, S., 1994) were reviewed. Publications reviewing the history of various US based industries were also researched (Mezias and Kuperman, 2000; film) including early American entrepreneurship and its economic implications (Tucker and Tucker, 2004, Textile and Apparel) and Schumpeterian developments (Scott, 2006).

RESULTS

Marketing and the American Clock Industry in Antebellum America

In 1806, Terry entered into a contract with Edward and Levi Porter to produce wooden works clocks at an unimaginable rate. This contract, unbeknownst to Terry, was the starting point of a journey that would revolutionize manufacturing and marketing in the United States. There was a great deal of risk involved in this venture, because no one had ever tried to produce clock movements at the rate agreed upon (4,000 clocks in three years), and even if production was successful, there was no sure way to market so many clocks. The Porters, however, were visionaries who so believed that peddling would be the key to successful sales that they were willing to take the risk. The emergence of the peddler provides one of the earliest examples of entrepreneurial marketing in practice that, for its participants, served as the means for both economic and social mobility in the early 19th century. Were it not for the Yankee peddler, it is unlikely that innovators

such as the Porters would have been able to succeed in promoting factory manufactured consumer goods to rural American families.

The Clock Industry and its Relationship to Entrepreneurship

The clock industry in the early American Republic began in an area that was economically disadvantaged. Rural New England, along with the rest of the nation, suffered from a severe shortage of capital. There was very little access to the developing financial markets in cities such as New York or Philadelphia, and no access at all to the financial resources of Europe. Any available capital was restricted to what could be raised locally. Transportation systems were primitive at best, and communications traveled only as fast as the swiftest horse could carry them. An inefficient barter system was the primary means by which commerce was carried out. These were serious disadvantages for the clock makers of the region, but a few enterprising individuals took the limited resources that were available to them and revolutionized the industry.

Eli Terry, the father of mass production in the clock industry (Roberts & Taylor, 1994), was a highly skilled craftsman and engineer (“mechanic” in the parlance of the day) who learned the art of brass works clock making as an apprentice to craftsman Daniel Burnap. In time he learned to make wooden works clocks from Timothy Cheney who has been described as “an outstanding wooden-clock artisan.” (Murphy, 1966) Demand in rural New England was much greater for wooden works clocks because they cost about half as much as brass works clocks. Furthermore, the hardwoods needed to produce wooden clock movements were available in abundance in Connecticut where Terry set up shop. Terry operated as a traditional clock maker for several years following his apprenticeships, but he had a difficult time making ends meet. Unfortunately, he was a highly skilled craftsman in a restricted market where a typical clock maker only produced about ten clocks per year. Oftentimes the clock movements would be sold without a case in order to keep the price down, and it was not unusual for a clock maker to wait until he received an order before starting work on a clock.

Target Markets

A clock of any type was considered to be a luxury by the hard working, cash poor farmers of New England, and a clock’s bulk and weight, along with a sub par transportation system, made it difficult to transport large quantities to other areas of the country where demand might be greater. To make matters worse, while a farm family might be perfectly happy with a wooden works clock, urban dwellers considered them to be inferior to British manufactured brass clocks. Therefore even if it were possible to transport clocks to the large metropolitan areas, no market existed for the type of clock that was being produced by most Connecticut craftsmen.

After the 1840s, brass components played a critical role in the expansion and development of the clock industry. Brass was essential to the development of overseas markets because wooden clock works could not survive the changes in humidity that occurred on an overseas voyage. Eventually lighter, smaller, less expensive brass clocks edged inferior wood clocks out of the market. These lighter, sturdier brass clocks, which cost much less to ship overseas, were a major factor in the rapid growth the industry experienced mid-century. In the 1830s, only 10,000 brass clocks were manufactured in the US, but by 1860 that number had increased to about 600,000 a year (Murphy, 1960). The wooden works clock, however, was the product that entrepreneurs focused on in the early phases of the transformation and marketing played a key role in its success.

Finally, the history of a number of the early clock firms indicates that those that adopted high levels of both a marketing and entrepreneurial orientation were more successful than those who ignored marketing (evidenced in current times by the early 2000s internet firm meltdown). An examination of this unique period in US history provides entrepreneurship scholars with an historical example of entrepreneurship at the marketing interface and lessons that are as relevant today as they were then. Thus, this treatment of entrepreneurship associated with the early American clock industry adds to the emerging discourse concerning marketing at the entrepreneurial interface.

Product

Wooden works clocks were the first consumer good to be produced with mass production techniques (Murphy, 1960; Hoke, 1990). While such techniques had previously been employed in the defense industry to produce guns, powder, bullets, cannons, and cannon balls, it is not clear that the techniques developed for the defense industry were readily

transferable to a consumer good such as the wooden works clock (Hoke, 1990). Thus the entrepreneurs who began the transformation of this industry had to rely on a great deal of creativity and adaptability in order to succeed.

Sales/Distribution

Concurrent with the technological innovations occurring during this period was the development and expansion of a “peddler” system that fundamentally changed consumption practices in antebellum US. These entrepreneurial peddlers changed the culture of rural America and created a new market for consumer goods by becoming partners in a transformation of rural life (Jaffee, 1991). Peddlers, who demonstrated both a marketing and entrepreneurial orientation, were the consummate entrepreneurs of the time.

The genius of the peddler system was twofold: (1) it was an effective channel for moving goods through a primitive transportation system to a widely strewn consumer base; and (2) successful peddlers were able to convince cash strapped customers that they wanted and even needed luxury items such as clocks. Since the peddling system was the linchpin to a process that dramatically expanded the market for consumer goods and laid the foundation for mass consumption in rural America, it is essential to examine its interactions within a larger marketing context.

A contemporary description of the Yankee peddler is found in Thomas Haliburton’s *The Clockmaker: or the Sayings and Doings of Sam Slick of Slickville* originally published in 1839 (Uselding, 1975). Haliburton’s title betrays a deeply ingrained bias against peddlers who were often viewed as rather seedy characters. While the peddler is well known in American folklore, his role in motivating the consumption of mass-produced products in rural America at a time when rural economies were dominated by household manufacturers is often overlooked (Uselding, 1975).

Peddlers carried a variety of items in their inventory. According to Wright (1927, p. 57), general peddlers carried an assortment of “Yankee notions.” pins, needles, hooks and eyes, scissors, razors, combs buttons, spoons, small hardware, books, cotton goods, lace, perfume, etc.” At the same time some specialized peddlers carried such modern necessities as clocks, dyes, woodenware, and tin ware. By the 1830s, some peddlers were even carrying bulky producer and durable consumer goods such as cabinet organs and spinning wheels (Wright, 1927). All of these items were transported in the peddler’s wagon or on the back of his pack animal to rural consumers who were far removed from both the source of manufacture or from country stores (Atherton, 1945; Jaffe, 1991; Uselding, 1975).

Promotion

The impact of these early entrepreneurs in effecting the distribution of mass-produced products from the places of manufacture to the American frontier cannot be overstated. For example, when the manufacture of tin buttons was undertaken by the Porters in 1802, they used the existing system of tin ware peddlers to distribute their wares across the countryside (Jaffe, 1991; Uselding, 1975). Likewise, when Terry entered into his agreement with the Porters, he did so knowing that these movements would be sold by the Porters utilizing an already established network of peddlers (Murphy, 1966). It is unlikely that Terry would have entered into such an arrangement without this expanding system of distribution already in place.

The romantic image of an independent peddler in charge of his own business and answering to no one is largely a myth. More often than not, the Yankee peddler was part of a peddler network. This peddling system was instrumental in developing a market that was large enough to absorb the increasing output of clocks and other durable goods that were being produced using newer and more efficient methods of production. The peddler system made it economically feasible to serve a market characterized by low population densities and poor modes of freight transportation.

The clock industry in particular benefited from the peddler system. The purchase of a clock was a discretionary purchase that could easily be deferred. Creating demand for these products required the development of buyers who were aware of the advantages of these relatively sophisticated goods. This required education and personal contact, and peddlers were perfect for this type of interaction. Furthermore, scattered settlements, insufficient transport, and lack of adequate capital all served to pre-empt the traditional rural merchant from being an effective distribution channel for the output of durable goods. Consequently, distribution channels that integrated peddler networks were vital to the clock manufacturing industry, as the peddler became the connecting link between the scattered rural market and the factory.

In addition to providing a market for the clock industry, the peddling system helped initiate a process of development in rural America that significantly changed this market's orientation and motivated entrepreneurship among the peddlers themselves. Peddling served as an important training ground for young entrepreneurs with high business aspirations. For instance Uselding (1975, p. 66) cites the example of Abraham Kohn who, lacking capital to start a traditional business, became a peddler. In less than a year, this young entrepreneur was able to establish himself as a retail merchant. Golden and Rywell (1950, pp. 196-197) claim that many well known retailers including Bloomingdale, Neiman-Marcus, Macy, and Sears-Roebuck can trace their origins back to peddling. They wrote concerning German Jewish peddlers in the United States that “[t]hey underwent the metamorphosis from peddling with a pack on their back to a horse and wagon and finally took roots with a store.” Other notables outside of retailing who spent time peddling in their early careers included Abraham Lincoln, Collis P. Huntington, Jim Fisk, and Levi Strauss (Uselding, 1975, p. 63).

Pricing

Pricing became a critical issue for the 19th clock industry. As production increased prices fell dramatically. For instance the price of an eight-day wood works clock fell 70 percent between 1800 and 1836 while production rose dramatically (Over 5,000 percent for both eight-day and 30-hour clocks). There was a similar trend with brass works clocks which saw prices fall by about 60 percent between 1840 and 1860 while production increased over 1,000 percent (Murphy, 1961, p. 257). While this made clocks much more affordable for consumers, pricing competition forced many clock manufacturers out of business by mid-century.

Legal issues

Terry's increased output of clocks allowed many peddlers to specialize in clock sales and expand their territories dramatically. The expanded peddling system, however, could not sustain itself, and it was only a matter of time before it would be replaced by more conventional distribution methods. The first blow to the peddling system was in the area of regulation. As peddlers began to negatively impact the sales of local businesses, traditional storekeepers, who were often important citizens in their local communities, began to clamor for regulations against peddling. They insisted on a licensing system that would reduce the number of peddlers in the interior settlements and maintain the dominant role of the storekeeper as middleman between manufacturer and consumer. As a result, laws were passed in many states, especially in the South, that restricted the activities of peddlers.

Creative Destruction

In his famous discussion of the process of creative destruction, Schumpeter (1950) wrote, “... the organizational development from the craft shop and factory to such concerns as U.S. Steel illustrate the ... process of industrial mutation ... that incessantly revolutionizes the economic structure *from within*, incessantly destroying the old one, incessantly creating a new one. This process of Creative Destruction is the essential fact about capitalism.” This eminent economist criticized the absence of history in the economic analysis of his day. Schumpeter scoffs:

They [economists] accept the data of a momentary situation as if there were no past or future to it and think they have understood what there is to understand by means of the principles of maximizing profits with reference to that data. The usual theorist's paper and the usual government commission's report practically never try to see that behavior, on the one hand, as a piece of past history and, on the other hand, as an attempt to deal with a situation that is sure to change presently... (p. 84)

To Schumpeter it was important to view economic activity through the long perspective of history and to attempt to understand the evolutionary creative and destructive processes that are constantly at play. Ideas such as creative destruction can only come about as a result of the careful contemplation of historical processes. We would do well to heed Schumpeter's advice and use the perspective that only history can provide in any analysis of entrepreneurial activity. Schumpeter was able to identify and describe the process of creative destruction because he was willing to look back in history to the “craft shops” of men such as Eli Terry and pay attention to the processes at work.

It was the process of creative destruction that ended the traditional cottage industry of clock making when Terry began producing clock works at an unprecedented rate and selling them through the peddler system. Hoke (1990) notes that Terry played an indirect role in forcing his own mentor Daniel Burnap out of the clock business. The forces of creative

destruction are seen at work as wooden works clocks were eventually replaced by brass works clocks and as household manufacturing was displaced by factory manufactured goods. The peddler system itself was destroyed as massive economic changes relegated peddling to the trash heap of history. The clock industry itself eventually suffered under ruinous competition as prices dropped dramatically over time. This gave rise to a new breed of entrepreneurs hailing primarily from the brass industry who took over clock manufacturing in the late 1860s after attempts at creating barriers to entry failed (Murphy, 1961 pp. 245, 257).

DISCUSSION

Entrepreneurs operate in a complex world. They are people with vision, drive, and determination who are able to recognize and act on opportunities once they are discovered. During certain periods and in certain places entrepreneurship has thrived. Today, for instance, China has developed a reputation for being “entrepreneurially-friendly” (Kshetri, 2007), and the United States has experienced tremendous phases of entrepreneurial activity throughout its history. We can learn a great deal by studying past entrepreneurial activity (Shane et al., 2003) and learning why certain time periods were so entrepreneurial. This paper’s examination of the Connecticut clock industry in the early 19th century has yielded a number of important insights that can be useful to modern entrepreneurs.

Although the entrepreneurs who were involved in the 19th century expansion of the clock industry faced less than optimal economic conditions, they were able to overcome serious obstacles because of their ability to look past those obstacles and envision a new way of doing things. Lack of capital simply meant that a creative way of financing had to be found. Peddlers sold clocks on credit or in exchange for commodities, and they were able to overcome initial customer resistance through the effective use of new marketing techniques. Solutions were rarely found by individuals working in isolation. Instead it took a great deal of cooperation to accomplish such tasks.

Eli Terry built on the advances made by James Harrison and was able to finance expansion because of the knowledge and connections of Edward and Levi Porter. From two clocks a week to 4000 in three years Terry fed a “peddler” system that focused on rural farm homes and communities selling “cheap” non-brass clocks where price sensitivity forced the sale of wood works clocks at one-third the price of brass clocks. In the 1840s and 1850s focus changed to include the international consumer who had problems with value being equated with price (even more so than the urban consumer). The entire marketing mix evolved over time.

The Entrepreneurs

As an entrepreneur, the peddler was at the center of a process that helped transform rural America from a society built on household industry and manufacture to one in tune with a consumer oriented market culture. They promoted the transformative properties of consumer goods and accustomed rural peoples to acquiring such goods. Unfortunately, their very success led to the demise of the system. Regulations, credit problems, national panics, increasing population, and improved transportation all combined to reduce the peddling system to an insignificant part of the economy.

SUMMARY

An analysis of the early American clock industry from 1807 through 1850 evidenced a period in American history exemplified by intense entrepreneurial activity and innovation. The American clock industry and its itinerant peddler system of distribution was at the forefront of a process of social transformation whereby rural America was habituated to the consumption of mass produced consumer products like the Connecticut self clock. An analysis of this period reveals that entrepreneurial peddlers, serving as both distributor and market maker, adopted high levels of both a marketing and entrepreneurial orientation and brought about a consumer orientation to rural America. This study also found that Schumpeter's "creative destruction" characterized this early period of American development whereby the historical cottage industry that had supplied rural America was supplanted by mass produced consumer goods made available by the efforts of the itinerant entrepreneur peddler.

This historical example of American entrepreneurship could not have occurred without the entrepreneurial activities of the itinerant peddler. This mobile entrepreneur served as market maker and distributor, as educator and social change agent

for the output of mass-produced consumer goods previously unavailable to the dispersed rural consumer. As salesman and consumer educator, the peddler undertook personal and financial risk to socialize rural America to the consumption of mass-produced goods. It is also unlikely that the manufacturing innovations of early entrepreneurs like Eli Terry would have come to fruition without a peddler system in place to distribute the output of this entrepreneurship - the Connecticut shelf clock. As such the itinerant peddler associated with the clock industry presents one of the early examples of marketing and entrepreneurial orientation in practice.

CONCLUSIONS

A study of the early American clock industry provides insight as to the level of entrepreneurial intensity occurring in the early years of the Republic. Though entrepreneurship is a topic of only relatively recent study, from this historical review market orientation and entrepreneurial orientation are not modern in their very annunciation. From the history of American clock industry it appears that those that adopted both a marketing and entrepreneur orientation succeeded at a time when financial and environmental conditions were at best challenging.

This historical treatment reminds readers that concepts such as marketing and entrepreneurial orientation, creative destruction, and serial entrepreneurs are not modern paradigms but rather constructs that were associated with early American enterprise and in particular with the clock entrepreneurs and their peddlers of the early 19th century.

This example of early American entrepreneurship speaks to the transformational nature of the entrepreneur on the society in which he lived. The entrepreneur peddler served as a change agent promoting the transformational properties of commodities where social identities were transformed through the purchase of goods. These lessons are not lost on modern society. In the end clock entrepreneurs were faced with a revolution not evolution; were some of the first US serial entrepreneurs; and developed innovative technologies leading to new products that spawned a social transformation in 19th century rural America.

The authors contend that the study of the early American clock industry provides researchers and students lessons that today have continuing impact on the theories and practices of modern entrepreneurship

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ARE SALES FORECASTERS IN SMALL FIRMS BAYESIAN? – TOWARDS A NEW BAYESIAN DOMINANT LOGIC MODEL FOR FORECASTING AND PREDICTION IN SMALL FIRMS

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INTRODUCTION

All individuals and purposeful organisations of whatever size forecast or predict future conditions even if they do not actually call it forecasting or prediction. In businesses whether a sole trader, another type of SME or an established larger company, it is not a question of whether to forecast or not but simply how to forecast and when. The nature of managerial decision-making involves forecasting future conditions, which might be for an important ‘one-off’ decision, e.g. the company may be considering modernising its production processes. Such decisions tend to be long-term and strategic, rather than operational. Managerial decisions are not always strategic and much of a manager’s time is taken up with day-to-day operational issues, which although not of the same magnitude as strategic decisions, are nonetheless important to the manager because of the proportion of time they occupy. Hence forecasting (the term is usually used for quantitative methods, e.g. moving averages) or prediction (usually used for qualitative approaches, e.g. sales force composite approach) are needed for all types of decision situations whether strategic, tactical or operational and all types of time horizon, for example immediate, short term, medium term and long term. What the author is looking for here is a new dominant logic model for forecasting and prediction in small firms (Lusch and Vargo 2004, 2006). Evidence from the qualitative exploratory study reported here suggests that there is evidence for the existence of such a new dominant logic model and that the dominant logic of the model is based on a Bayesian approach to forecasting and prediction.

Forecasting in Small Firms

Is there a sales forecasting model or process that might be particularly suitable for the decision makers in smaller firms? That is what the discussion in this paper seeks to examine and if possible, answer. In a sense what the author is looking for here is a new dominant logic model for forecasting and prediction in small firms. All commercial enterprises need to forecast possible future conditions to be able to manage effectively. Small firms are no different in this respect. Evidence would suggest that a Bayesian approach to forecasting, particularly sales forecasting might be suitable for small firms because of the subjectivity allowed in the derivation of initial starting conditions. Bayesian statistical analysis is a paradigm quite different from traditional statistical inference.

The Importance of the Smaller Firm

SMEs make an invaluable contribution to the wider economy including increasing competition, creating jobs, building effective networks, sharing knowledge and making a positive contribution towards social inclusion. The importance of small firms and entrepreneurship generally in achieving economic growth in contemporary economies is widely recognised both by policy makers and economists (Van Stel, Carree and Thurik (2005), Wennekers, Van Stel, Thurik and Reynolds (2005), Acs (2006), Acs and Armington (2006)), Audretsch, Keilbach and Lehmann (2006), Lundstrom and Stevenson (2005)). Small firms are big business: they contribute significantly to employment, turnover and the number of businesses in the UK.

In the UK as a whole, SMEs account for over half of employment (58.7 percent). This is also true for each region and country in the UK except London, where SMEs only account for 47 percent. For the South West, Wales and Northern Ireland, this figure exceeds 70 percent. For each region and country in the UK, no more than 0.2 percent of enterprises are large (250 or more employees), and at least 99 percent of enterprises are small (0 to 49 employees). The proportions of enterprises that are medium-sized (50 to 249 employees) range from 0.5 percent (in the East of England, South East and South West) to 0.8 percent (in the North East and Northern Ireland) see DTI National Statistics URN 06/402 News Release 2006.

The Importance of Sales Forecasting in Small Firms

Although forecasting is important in most functional areas of a firm, the forecasting of sales is particularly important (Sanders and Ritzman 2004). The sales forecast is the bedrock on which company plans are built and for this to be sound, the forecast must be built on a firm scientific foundation. The central issue facing businesses is not *whether* to forecast, but *how* to forecast. The forecaster can choose ‘subjective’ or ‘objective’ methods or a mixture. The recognition of the importance of forecasting was first illustrated in the United States by Ledbetter and Cox (1977). They found that forecasting techniques were used by 88 percent of the 500 largest US industrial companies. It was also established that no other class of planning techniques was used as much as forecasting no matter what the size of company.

The selection of the most suitable forecasting technique depends on the availability of existing data and/or the company’s ability to acquire such. For example, a technique requiring a long historical time series would be of little use if data was only available for the past year (Conejo et al 2005). If data accuracy or validity were questionable, it would hardly be worthwhile, or cost-effective, to spend time and effort using a sophisticated technique known for its precision (Jobber and Lancaster 2003). In forecasting, the principle of ‘garbage in/garbage out’ applies; a forecast will only be as good as the data used in its compilation. The availability of appropriate data is of central importance to the development of any forecasting system. Obviously dependent upon the degree of accuracy required, most forecasting techniques require a considerable amount of data collection and processing (Zareipour, et al 2006).

Making Decisions for the Future in the Present

The management of all firms – and SMEs are no exception – are involved in making decisions about the future *but* in the present. In a sense that is what the job of management is really all about, at least at the more strategic level. The act of preparing for the future whether in business or any other area of our lives implies forecasting, consciously or subconsciously, of tomorrow’s condition. In our personal lives, such predictions are usually made on an informal, subjective basis. If they turn out to be wrong, we can usually adjust our personal circumstances. However, we rarely enjoy the same degree of flexibility in our working lives, particularly if we are an SME owner manager. Managerial decisions are usually of a more formal nature and of greater consequence. The very nature of such decision-making involves forecasting future conditions (Lawrence and O’Connor 2000). It is not a question of whether managers should forecast or not but merely how are they to do it? Small firms are often considered to lack formal marketing skills (Carson, Cromie, McGowan and Hill 1995; Hill 1999) and project management skills (Murphy and Ledwith 2007), however sales forecasting is fundamental to management’s ability to plan, budget and control (Lawrence et al 2000). They are the bedrock of all other management forecasts since they are dependent upon an accurate sales forecast (Mentzer et al 2002). These forecasts then form the basis of budgetary control systems (Mentzer and Moon 2005).

Managerial decisions are not always strategic and much of a busy manager’s time is taken up with day-to-day operational issues which, although not of the same magnitude as strategic decisions, are nonetheless important to the manager because of the proportion of their time that they occupy. Management requires forecasting information to assist them in making operational decisions, although the required time horizon for such forecasts is shorter than for strategic decisions. For example, for the marketing manager to set monthly sales targets, operational expense or advertising budgets, they may require regular short-term forecasts for each product, broken down according to product type, size, colour, salesperson’s territory, channel of distribution and even by individual customer. Whatever type of decision is being made, forecasting is required. Forecasting can make a contribution to the successful management of the small enterprise, whereas poor forecasting can lead to high inventories and associated stockholding costs which must be paid for out of working capital, or under-production and unrealised market potential.

No Business Decision-Maker Can Avoid Making Forecasts

All firms, of whatever size, need to make predictions or forecasts about future conditions (Tkacz 2001). The term ‘prediction’ is often reserved for subjective ‘qualitatively’ based forecasts, for example: the sales force composite technique. Whereas the term ‘forecasting’ is often used for objective ‘quantitatively’ based forecasting procedures, e.g. moving averages, exponential smoothing, regression etc. Bayesian forecasting is a mixture of the two and involves both objective and subjective forecasting elements.

Forecasts may be required for an important ‘one-off’ decision such as when a business may be considering expanding by acquisition, diversifying into a totally new market or modernising its production processes. Such decisions tend to be long-term and strategic, rather than operational. In such situations, because of the importance of the decisions being made, it is important that forecasting receives careful consideration, meaning an investment of time and money in the forecasting process. However many of the decisions the small firms managers have to make are more routine, tactical or operational. As Bischoff, Belay and Kang (2000) state:

“The choice is not a trivial one – for at least twenty years leading economists and econometricians in *business*, government and academia have argued both sides of this issue. It is important because no *business* decision-maker can avoid making forecasts. Decisions about stocks of raw materials, goods in process and finished goods, among other things, must be based on forecasts. The advent of the Internet does not change this necessity: at best the process is speeded up” (p. 12).

Crisis Points in Small Firms

The need for an adequate and appropriate sales forecasting framework can be linked to the literature on growth and life cycle models related to small firms (Scott and Bruce 1987; Greiner 1972; Hanks et al. 1994; Cope, 2003). Scott and Bruce (1987) argue that a small business develops by moving through five growth stages, each with their own characteristics. Because the transition from one stage to the next requires change, it is accompanied by some crisis or another. Crises tend to be disruptive and problems of change can be minimised if managers are proactive rather than reactive (Steinmetz 1969, Deakins and Freel 1998). Thus crucially, sales forecasting may help them in this respect. Prior knowledge of what generates crises and of what to expect in each stage will smooth the process of change and may improve their chance of adequately dealing with the crisis and hence survival (Dodge and Robbins 1992; Garud and Van de Ven 1992). Scott and Bruce (1987) claim that they have tested the model and that it is robust enough for them to be able to generalise across all small firms. Albeit that organisations move along the curve at different speeds and the spacing of crises are likely to differ between firms and industries. Indeed, the original authors were themselves aware of these limitations and argue that what they provided was:

“A diagnostic tool to assist in analysing a firm’s present situation. It is also meant to be an indicator of what strategies appear suitable at various stages in an organisation’s growth. It is, however, only a tool and cannot make the decisions for management. They must rely on their judgment for that. Hopefully that model will add to their information and thus enable them to make better judgments” (Scott and Bruce, 1987:48). As indeed would the adoption of Bayesian forecasting that both exploits and plays up to the exercise of informed judgement.

Bayesian Decision Theory

Probability theory studies the possible outcomes of given events together with their relative likelihoods and distributions. In fact there is considerable debate about exactly what probability means in practice. Some mathematicians regard it as simply a component of abstract theory, while others give it an interpretation based on the frequencies of certain outcomes (Quintana and Amer 1998). However the Bayesian approach is a mixture of both subjectively derived probabilities and mathematically derived likelihoods (Gómez-Villegas, Maín, and Sanz, 2002). This technique is named after Reverend Thomas Bayes (1702 to 1761), a statistician. A fully detailed historical account of Bayes can be found in Buck and Sahu, (2000); Singh and Provan, (1996); Lin, Mayers and Ye (2000) and in the very informative St. Andrews University site, (2003). Bayes’ original account is freely available (see Bayes 1736, 1764).

However some account of Bayes and his early work is of enough specific interest to the topic of this paper to discuss below. Bayes set out his theory of probability in ‘Essay towards solving a problem in the doctrine of chances’ published in the Philosophical Transactions of the Royal Society of London in 1764. The paper was sent to the Royal Society by Richard Price, a friend of Bayes, who wrote:

“I now send you an essay which I have found among the papers of our deceased friend Mr. Bayes, and which, in my opinion, has great merit... In an introduction which he has writ to this Essay, he says, that his design at first in thinking on the subject of it was, to find out a method by which we might judge concerning the probability that an event has to happen, in given circumstances, upon supposition that we know nothing concerning it but that, under the same

circumstances, it has happened a certain number of times, and failed a certain other number of times" (see Condorcet 1785; Boole 1854; and St. Andrews University website, 2003)

Despite the fact that Bayesian Decision theory was developed in the 18th century, it has only recently been widely adopted (Buck 2001). The method incorporates the firm's guesses at data inputs for the statistical calculation of sales forecasts. It uses network diagrams showing the probable outcome of each decision alternative considered. These are shown together with expected values and associated probabilities, initially derived on a subjective basis (see Smith and Faria 2000) Bayesian statistical forecasting, like all Bayesian statistics is based on two basic concepts. First, uncertainty about unknown quantities is expressed using the language of subjective probability, and, given new information or data, probabilities are updated using Bayes' rule or procedure (Ghosh and Ramamoorthi 2003).

Many statisticians and forecasters believe that Bayesian inferential methods have advantages over classical statistical procedures for a wide range of inferential problems mainly because the initial stating probabilities are arrived at subjectively thus opening up the potential of statistical inference, including sales forecasting applications, to a much wider range of problems, particularly those sorts of problems often found in marketing (Albert 1996; also see the reference for the International Journal of Clothing Science and Technology Report 2003 (anonymous)). One of the problems of using probabilities in a statistical model is in ascertaining initial probabilities to commence the forecasting process (Bolfarine, et al 2005). Bayesian statisticians differ from 'purist' statisticians in the respect that 'purists' view the concept of probability as the relative frequency with which an event might occur (Iglesias, et al 2004). The Bayesian view is that probability is a measure of our belief and that we can always express our degree of belief in terms of probability (Buck, et al 1996). Although the initial probabilities are derived subjectively (the figures are based on judgmental opinion, rather than on objective calculation) proponents of Bayesian theory believe that such probabilities are perfectly valid and hence perfectly acceptable as initial starting points in an extensive quantitative forecasting process (Müller, et al 2005). It is this subjective nature of arriving at the initial probabilities that makes the Bayesian approach useful in solving business problems for which initial probabilities are often unknown and are difficult or impossible to calculate using objective methods (Faria and Smith 1997a; Finucane, et al 2003; Gaglio and Katz 2001).

To use the Bayesian approach, the decision-maker must be able to assign a probability to each specific event (Pole, et al 1994). The sum of the probabilities of all such events considered must be unity (one). These probabilities represent the magnitude of the decision maker's belief that a particular event will take place (Faria and Souza 1995; Faria and Smith 1997b). In business situations such decisions should be delegated to personnel who have the knowledge and experience to assign valid initial subjective probabilities to the occurrences of various business events. These initial probabilities are based on previous experience of information (such as published secondary data or simply the manager's own subjective judgement based on experience) acquired prior to the decision-making process. For this reason, the initial subjective probabilities are referred to as 'prior probabilities' (West and Harrison 1997).

When making business decisions, the financial implications of actions must be taken into account. For example, when a manager is considering investing a firm's surplus cash, they must consider the probability of making a profit (or loss) under different economic scenarios and also assess the probability of such scenarios or events occurring (Pole, et al. 1994). Applying Bayesian decision theory involves selecting an option and having a reasonable idea of the economic consequences of choosing a particular course of action. Once the relevant future events have been identified, the decision-maker assigns prior subjective probabilities to them (West and Harrison 1997; Huerta and West 1999). The expected pay-off for each act is then computed and the act with the most attractive pay-off is then chosen. If pay-offs represent income or profit, the decision-maker usually chooses the act with the highest expected pay-off (Lopes, et al. 2003; Singh and Valtorta 1995).

METHODOLOGY

The author has used a qualitative exploratory approach. 'Mini' depth interviews have been conducted with 15 managers/owners of small firms in the Huddersfield region of West Yorkshire, UK. Each interview lasted between 20 minutes and 35 minutes. Interviews were semi structured with the interviewer having an interview schedule containing the key areas to be investigated. Interviewees were asked how they forecasted/predicted future market conditions and in particular future sales conditions. Sampling for the interviews was non-probability and exploratory based on purposeful sampling, i.e. those that were prepared to offer an opinion. Potential respondents were initially contacted by telephone

with a request for an interview. Other areas of decision making were also discussed for example planning and planning methods. The interviews formed the exploratory stage of a more conclusive survey. However only the exploratory qualitative results relevant to predicting future market conditions are presented here. A survey of small firms has also been conducted but the processing of the data is not yet complete. It is intended that the survey findings will be included in a future paper.

Table 1: Results of Exploratory Qualitative Interviews

<u>FIRM NO.</u>	<u>Question: 'How do you predict or forecast future market conditions and in particular sales conditions?'</u>
FIRM 1	“We use past sales data and look at the level of customer enquiries compared to last year” – Small hotel and restaurant business (24 employees)
FIRM 2	“We use charts and averages to work out trends but also use our own experience for the business” – Distribution Company (45 employees)
FIRM 3	“We do not do any forecasting” – Hairdressing Company (13 employees)
FIRM 4	“We are a franchise so all of that is done for us” – Retail Footwear Company (10 employees)
FIRM 5	“We use our own ‘feel’ for the market and past data” – Contract Cleaning small firm (30 employees)
FIRM 6	“We know the market and we know what our competitors are doing” – Construction Company (12 employees)
FIRM 7	“We know when the market turns before official forecasts and publications although we look at these as well”- (Software Company 18 employees)
FIRM 8	“We have an instinctive understanding of the way the market is going but also look at industry publications such as Campaign” – Marketing and PR Company (10 employees)
FIRM 9	“I have been in business more years than I remember and I can feel the changes and other people in our business are always talking about business conditions” – Timber and Joinery Company (10 employees)
FIRM 10	“We just know!” – Transport Company (12 employees)
FIRM 11	“We get wind of changes from our enquiries and from what our suppliers and customers are saying to use” – Engineering Company (12 employees)
FIRM 12 TO 15	The interviewees from the other four firms had difficulty answering this question so it assumed that they did not conduct sales forecasting or predict market conditions. It may be that a different member of staff might have given a different response, for example an owner rather than a manager.

DISCUSSION OF RESULTS

This is an exploratory study based on a limited number (15) of ‘mini’ depth interviews (about 30 to 40 minutes each) and does not claim to be conclusive. A further survey emanating from these interviews has been conducted but the results are not as yet ready for this paper but hopefully will be reported in a future paper as the topic evolves. The Bayesian approach to forecasting and prediction is based on the subjective interpretation of probability. This is a different way of thinking about probability. The empirical evidence presented in this paper would suggest that many owners/managers responsible for sales forecasting in smaller enterprises exhibit typical Bayesian tendencies. Evidence suggest that whilst some of the managers/owners interviewed do use some form of quantitatively based model, albeit rather simplistic ones, many of them

arrive at the starting values for such ‘models’ by purely subjective means largely based on intuition and experience. This might be considered a typically Bayesian trait. It is not only in the area of sales forecasting that the owners and entrepreneurs in small firms use subjective probabilities. Evidence from the author’s research would suggest that such entrepreneurial managers and/or owners are predominantly ‘Bayesian’ in their thinking and reasoning patterns in general across a range of decision making areas where they need to understand the probability of risk or of a specific event occurring, e.g. planning. This may form the basis of another paper. In fact it would be fair to say that evidence might suggest that entrepreneurs generally tend to be Bayesian in their thinking patterns. It might be that Bayesian thinking is an additional ‘trait’ to add to the entrepreneur’s repertoire of traits. Could it be that one of the distinguishing features of an entrepreneur is this tendency to think in a Bayesian fashion in a number of business decision making settings, particularly sales forecasting situations?

The results shown in Table 1 above are not conclusive. They are only based on 15 interviews and four of the interviewees had difficulty articulating an answer. The respondents of these firms knew little about sales forecasting or predicting market conditions. The author would be extremely surprised if these four firms did not in some form or another take some form of position on future market conditions when considering future plans and actions. It was probably that the specific interviewees selected (senior manager) were unable to give a response due to lack of knowledge or that they did not fully understand the question being asked. When looking at the responses in Table 1 as a whole the overwhelming impression is one of the initial starting conditions of forecasts or predictions or even the actual forecasts or predictions themselves being derived from a subjective probabilistic approach.

CONCLUSIONS

The main reason for the author engaging in research at the ‘marketing – entrepreneurship interface,’ at least in the area of marketing for small business is to try and establish those marketing competences that are specific to the teaching of marketing in small firms (Hill 1999). A very interesting development in the marketing literature at the moment is the work being carried out towards a new dominant logic model for marketing in general which would appear to be focused on service elements even in product markets, i.e. a new service dominant logic model (see Lusch and Vargo 2004, 2006). The concept of a new dominant logic model is very interesting and the author has used the same conceptual framework here but specifically for forecasting and prediction in small firms. Given the evidence from the in-depth interview data reported in this paper the author does think there is evidence to enable the evolution towards a new way of thinking of forecasting and predictive practices in small firms and that this new way of thinking is based predominantly in the subjectivity found in the Bayesian approach, i.e. a new Bayesian forecasting dominant logic model for small firms. It is interesting to note that such a predominantly Bayesian thinking approach may not simply be restricted to forecasting and prediction within small firms. The Bayesian approach originally concerned predicting future events and conditions and so it seemed an obvious place to start, hence the title and focus of this paper. However it could be that the entrepreneurs/ owners of small firms are generally ‘Bayesian’ in their thinking patterns and that they take a ‘Bayesian’ approach when thinking about many areas of marketing. It could even be that one of the defining traits of the entrepreneurial marketer is that they think in a predominantly Bayesian manner.

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RECONCILING THE PURPOSE VERSUS SERENDIPITY PARADOX IN ENTREPRENEURSHIP

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ABSTRACT

This paper is concerned with entrepreneurship explored through dilemma theory. The paper finds, in a multiple case study investigation, that it is useful to anchor aspects of entrepreneurship in a logic of paradox, and that this approach is valuable in furthering our understanding of entrepreneurship. The paper argues that dilemma theory can specifically enhance the understanding of the purpose *versus* serendipity paradox in entrepreneurship through its cybernetic approach as an interpretive tool, largely by reconciling order and chaos through reordering, and serendipity and recognition through preparation.

INTRODUCTION

The entrepreneurial process has been recognised to be untidy, non-linear, inconsistent, unpredictable and paradoxical (Prenkert 2002; Ropo and Hunt 1995). As Timmons and Spinelli (2004, p.50) note, “one of the most confounding aspects of the entrepreneurial process is its contradictions. Because of its highly dynamic, fluid, ambiguous, and chaotic character, its constant changes frequently pose paradoxes.” One of the paradoxes that entrepreneurship researchers have been struggling to deal with is on the one hand, the need for objective assessment of risks and opportunities that drive towards a rational paradigm of entrepreneurship, versus, on the other hand, the haphazard effects of so many independent and context-specific factors that drive towards a random paradigm of entrepreneurship. In short, a paradox of purpose versus serendipity exists or, as put by Davidsson (2004, p.3), “does something have to be purposeful in order to amount to entrepreneurship, or can processes involving luck and serendipity qualify?” In spite of this observation, there have been few developments in entrepreneurship research to explain this apparent paradox in the entrepreneurial process.

This paper argues that dilemma theory, developed by Hampden-Turner (1990; 1981) can be used to reconcile this paradox in entrepreneurship. In particular, the paper will argue that the concept of dilemma reconciliation can be applied in entrepreneurship research to understand how entrepreneurs effectively seize and follow through opportunities in two almost opposing ways. The first follows Louis Pasteur’s maxim, “fortune favours the prepared mind”, or what Allen and Strathern (2005, p.740) understand as “advantage goes to the individuals that can form the more effective interpretive frameworks to guide their selections.” Based on this, dilemma reconciliation can be said to enhance the ability to prepare the mind for the opportunities that serendipity bestows on entrepreneurs. A second approach is grounded on theories of chaos, complexity and spiral dynamics (Cheng and Van de Ven 1996; Mathews et al. 1999a; Mathews et al. 1999b; Thiétart and Forges 1995). The appearance of complete unpredictability, randomness, luck or chance actually belies the interactive effects of a small number of critical forces and perhaps hidden effects of a few important variables.

LITERATURE REVIEW

The literature review will firstly cover paradox in management theory before investigating prior publications on serendipity and purpose in entrepreneurship.

Paradox in Management and Entrepreneurship Research

Lado et al. (2006) note that the concept of paradox underpins much of management scholarship and practice. However, following Wittgenstein (1953), they recognise that the term “paradox” is difficult to pin down given that it involves manipulating language to address complex phenomena. Going back to the Greek root words *para* meaning “beyond” and *doxa* meaning “opinion”, the Cambridge Advanced Learner’s dictionary defines a paradox as “a situation or statement which seems impossible or is difficult to understand because it contains two opposite facts or characteristics.” Other common terms that are used are “dilemmas”, “polarities” and “dualisms”. However, they all point towards a common need to describe conflicting demands, opposing perspectives, or seemingly illogical findings (McKenzie 1996).

Bouchikhi (1998) claims that while management researchers continue to unveil paradoxes, few explore them at great depths. Therefore, in order to investigate paradox more deeply, we need to examine its conceptual origins and the thinking processes associated with it. In particular, there are three thinking modes that need to be considered: (1) “either-or” or “Western” thinking, (2) “both/and” or “and-and” thinking, and (3) “through-through” or “parallel” thinking.

The “either-or” approach is founded on formal/conventional Aristotelian logic (Barrett 1998). Aristotle’s law of non-contradiction states that a thing cannot be itself (X) and something else (Not-X) at the same time. It gives rise to “either/or” thinking and polarisation becomes the norm (Hampden-Turner 1981). Westenholz (1999) observes that the “either/or” approach makes it difficult to deal with issues that are ambiguous and may be “more or less something”. One can only try to “manage” as best as possible, the problems arising from the paradox (Johnson 1996). In the context of creativity and innovation, the either/or approach does not provide a means to unify seemingly contradictory propositions and De Bono (1994, p.29) observes that this method of thinking “makes it very difficult (for) the emergence of new ideas. This is especially so when a new idea needs to be judged within a new paradigm not within the old paradigm which, by definition, it does not fit.”

A second form of thinking is the “and-and” or “both/and” thinking (Burns and Stalker 1961). As opposed to “either/or” thinking, this thinking sees one factor as true and a contradictory factor as simultaneously true (Lewis 2000). There are two responses normally associated with this. The first, occurring mainly in resource-rich conditions, is to do both things as much as possible at the same time, with the intention of reaping the “best of both worlds” (De Wit and Meyer 2004). The second, which occurs in resource-constrained environments, and is hence more likely to apply in entrepreneurial settings, is to go for a trade-off or compromise. In reality, the choice will be contingent and will involve a mix of both approaches depending on the situation and resources available (Clegg 2002). An example of this which is relevant to entrepreneurship can be found in the family-run business genre where Woolliams and Hampden-Turner (2001, p.380) argue that the “lifestyle business” is “a compromise between the competing demands of the family and the organisation serving as a market.”

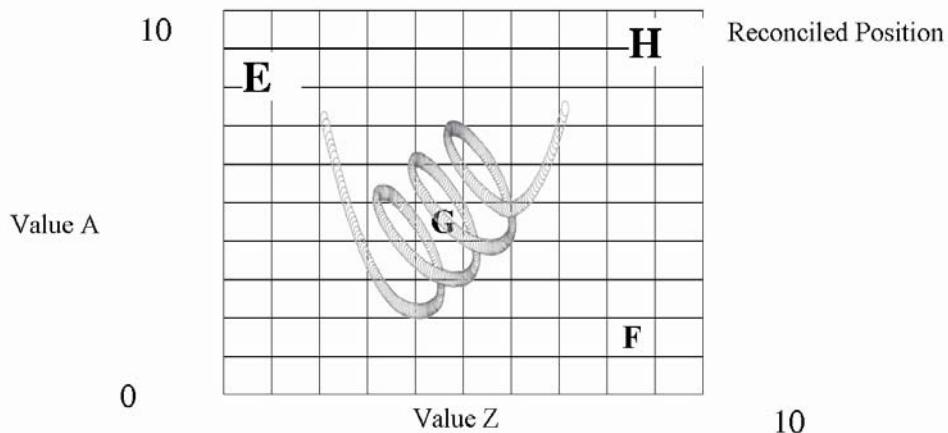
However a third approach can help explain value creation better, i.e. that of “through-through” or “parallel” thinking. Such thinking is different from the former two approaches as it “is beyond *either/or* and even *and/and* thinking. It synthesizes seemingly opposed values into coherence” (Trompenaars and Hampden-Turner 2001, p.11). “Through-through” thinking goes beyond trade-off and compromise by unifying the opposites within the paradox. Hampden-Turner (1990) observes that value creation lies in the capacity of acknowledging that paradoxes emerge from opposing claims and of synthesising both “horns” in a resolution that includes all values in contention. This process involves subprocesses of “bridging” or “integrating” and “generating” or “transcending” the paradox (De Wit and Meyer 2004, p.17). In particular competing representations of paradox can be held in conjunction by transcending conceptual limitations (Eisenhardt 2000; Poole and Van de Ven 1989). Barrett (1998) sees this as a combination of “Janusian thinking” and “Hegelian thinking”, in which the former identifies opposites, reconciles them, and ingeniously juxtaposes them to produce innovative new combinations, while the latter integrates opposites so that the distinctions between them vanish through new discovery. “Through-through” thinking, or specifically the ability to reconcile paradoxes, has been shown to be an important competency in strategy (Hampden-Turner 1994), cross-cultural management (Hampden-Turner and Trompenaars 2000), leadership (Trompenaars and Hampden-Turner 2001); marketing (Trompenaars and Woolliams 2004).

In recent studies, Seet (2008) has argued that the ability to reconcile paradoxes at the creation stage allows entrepreneurs to identify and exploit opportunities especially in the often over-looked overlap between disciplines and markets. Exploratory research has also shown that students completing entrepreneurship courses at university have a greater potential for dilemma reconciliation than those who have not undertaken such courses (Hampden-Turner and Tan 2002). This finding has been reinforced further by Seet (2007) who conducted a cross-sectional study using the Entrepreneurial Dilemma Reconciliation Mapping Tool on 200 first-time entrepreneurs, 75 corporate managers and 5 serial entrepreneurs, and found that both serial and first-time entrepreneurs reconciled entrepreneurial dilemmas significantly better (especially at the conception and early stages of venture creation) as compared to managers thereby indicating that dilemma reconciliation is a relevant entrepreneurial dynamic capability.

The “Logic of the Double Helix” (Hampden-Turner and Trompenaars 2000, p.349) in dilemma theory draws from various concepts from cognitive theorists and psychologists like Freud and Jung (Hampden-Turner 1981), cybernetics and

schismogenesis (Bateson 1979; Bateson 1972), learning loops (Argyris and Schon 1978), positive and negative feedback loops (Senge 1990) and of spiral dynamics (Graves 1966), and this is depicted metaphorically in terms of a ‘helix’ (see figure 1 below) which dynamically shows the learning and developmental process. In addition, following Sainsbury (1988, p.1) who commented that “Paradoxes come in degrees … we can represent how paradoxical something is on a ten-point scale,” these dilemmas can be mapped dynamically. A strategy is developed to move back and forth between the two poles in a helix-like pattern. Over time, gaining the experience of both poles, a new reconciled position is reached. The figure below shows the reconciliation of a dilemma in a 10x10 grid matrix, where an upward spiralling (or virtuous) helix dynamically reconciles two seemingly opposed values, A and Z. E and F are the extreme positions (‘either-or’ thinking), G is the compromise and H is the so-called ‘optimal’ reconciled position.

Figure 1: The Helix and Reconciling Dilemmas



These reconciled positions are what Bateson (1972) calls ‘differences that make a difference’. Leach (1970) illustrates this via the example of a traffic light. Green and red are the two extreme and opposing values as they are lights taken from opposite sides of the visible colour spectrum, a continuum evident in nature. Being stuck in either green or red is only ‘half’ correct as this only meets the needs of traffic flowing into one direction. The real value is added when there is switching, or movement, between the two colours, or extremes. This could be achieved by inserting a yellow light, a colour in between the continuum of red and green lights. The three colours can be seen as ‘facts’ but the fact that makes the difference is the one that facilitates the movement between the two opposites. The dynamic yellow colour adds value to the two opposite colours of red and green. Therefore, the reconciliation of seemingly opposed positions can be said to create new combinations for which markets and consumers will pay more.

Purpose versus Serendipity

Social scientists have long recognised that an uneasy tension between choice and chance or serendipity exists especially in business (Barnard 1938; Berlin 1953). However, despite rapid technological changes and increasingly complex organisational environments, most management researchers still assume a largely predictable world and a deterministic context, to allow them some form of structure and to give their research some form of “causal sufficiency” (de Rond and Thietart 2007).

de Rond and Thietart (2007) argue that in the field of strategy, while ‘determinism’ is increasingly used in a weaker sense, a multi-level theory of strategic choice that is related to chance and causal background would give greater explanatory power especially in complex and chaotic contexts. In a detailed investigation of the ‘discovery’ of Viagra by the pharmaceutical firm Pfizer, de Rond and Thietart argue that many successful drug discoveries did not come out of well-constructed and well-planned drug development projects but that chance had a significant role.

Given the nature of discovery and creation, it is even more problematic to assume predictability and determinism in the field of entrepreneurship. As Davidsson (2004) notes, it is even more crucial that entrepreneurship research has to grapple with processes involving luck and serendipity. The difficulty is to find theoretical frameworks and methods that are suited to deal with such concepts without compromising on rationality and rigor or appearing too ambiguous. The importance of this research problem is evident in that the first issue of *Strategic Entrepreneurship Journal* saw almost half the papers

devoting some effort to addressing issues relating to the tension of purpose versus chance. For example, Alvarez and Barney (2007) show that there are two distinct groups of theories related to entrepreneurial opportunities: (1) discovery theory, which assumes that exogenous shocks and imperfections (e.g. changes in consumer tastes or technology) cause market opportunities; and (2) creation theory, which assumes that entrepreneurs do not wait for exogenous shocks but form opportunities through independent action. Shah and Tripsas (2007) identify that besides purposeful entrepreneurship, there is an ‘accidental’ nature to many entrepreneurs because they find that the services or products available do not meet their personal needs. Finally, Bingham et al. (2007) note that the ongoing debate between opportunity discovery *versus* opportunity creation is driven by whether experience or cognition is more important in terms of entrepreneurial capabilities. They further argue that there is greater value in understanding opportunity identification and exploitation through a juxtaposition of competing theoretical views. This integrative perspective is reinforced by Shepherd et al. (2007) who argue that the formation of opportunity beliefs can be better understood using non-traditional concepts of gists (a gestalt-like preattentive representation of the environment (Olivia 2005)), matching and updating. What emerges is a group of literature that classifies the discovery process through bifurcation, very much in the *either-or* mode of thinking, as compared to another group of literature that argues for better and richer representation of the complex nature of the entrepreneurial process through integrative or juxtaposition perspectives. It is our belief that the latter group offers more potential and that dilemma theory can both contribute to that and be developed further from those perspectives.

METHODOLOGY

Case studies have been identified as an important way to understand the complexities of the entrepreneurial process (Hindle 2004). A retrospective multiple case study analysis (Eisenhardt 1989; MacMillan 1986; Starr et al. 1993; Yin 1994) was used to gather data.

To improve reliability in qualitative research by addressing the issue of transferability (Lincoln and Guba 1985), the research follows Harris et al. (1986) by selecting the cases based on set criteria as shown in Table 1 below. For this study, it seemed intuitive that it was harder to start ventures in knowledge-based sectors as compared to other sectors. However, many Singapore entrepreneurs were claiming to be ‘knowledge-based’ as it gave them better publicity and access to government funding and investment. To help sift out those with real knowledge-based entrepreneurial experiences, the knowledge-intensity criteria were developed jointly with university technology transfer offices and university faculty. They account for a broader range of innovation-related commercial activities than traditional technology-based entrepreneurship criteria while selecting those who were genuinely knowledge-based entrepreneurs. The entrepreneurial experience criteria were developed to screen out the many people who claimed that they had entrepreneurial experience but also to include those who were willing to discuss issues of failures and in the context of Singapore, dealings with government agencies and investors. Furthermore, the criteria helped to distinguish those who set up companies for tax-avoidance, hobby or lifestyle purposes. This experience led to the creation of a third criteria group of research support to ensure that issues of access and obtaining good quality data were addressed. Forty entrepreneurs were scored on the criteria, and verified by faculty members from two universities, one in Singapore and another in the United Kingdom, and five were selected for full case development.

Table 1: Criteria for Case Selection

Knowledge-Intensity Criteria	Entrepreneurial Experience Criteria	Research Support Criteria
1. Commercialise a patent or some form of intellectual property 2. University spin-out or spin-off from a R&D institute 3. Awarded R&D grant funding by government or commercial bodies 4. Providing expert services or technology to R&D and knowledge-intensive industries 5. Working on technology product / technology-intensive service	1. More than one venture experience 2. Three or more years of entrepreneurial experience 3. Achieved at least \$1 million turnover p.a. 4. Willingness to discuss failures, errors, mistakes 5. Dealings with government, investors	1. Direct access to entrepreneur 2. Quality of Initial Interview 3. Repeat Interviews via phone/emails, site visits 4. Access to other founding members, clients, investors etc. 5. Secondary source material available for triangulation

Following Steyaert and Bouwen's (1997) identification of the importance of gathering 'rich' data, information was collected primarily via in-depth guided interviews. This was seen to be especially appropriate considering that among the selected cases there were very few media or other data available, and the specific context in each case was important and could not be discounted (Patton 1990). In-depth interviews were also held with entrepreneurship policy makers and investors in new ventures.

THE FIVE CASE STUDIES

The five cases were all from entrepreneurs who have started at least three ventures since the early 1990s in Singapore (see table 2 for overview). They come from a cross-section of knowledge-based sectors considered strategically important to Singapore's economic plans, namely high-technology electronics, wireless technology, agricultural technology (or agro-technology), biotechnology, and biomedical services. The interviews were conducted between 2003-2005.

Table 2: Overview of the Five Cases

Entrepreneur	MCE	EME	ATE	BTE	LSE
No. Ventures	3	5	4	3	5
Business Ventures	Consulting company (1999-2000) Online gaming company (2000) Wireless Technology Company (2001-present)	Family Businesses (1989-2000); Electronics manufacturing business (2000-now); Electronics manufacturing full-service business (2001-present)	Family agricultural business (1970s-1980s) Intensive Pig Farming Estate (1981-1991) Agro-technology business (1990-now) Orchid farm (1990-present)	Consulting company for Chinese business (1998-now) Health products company (1999) Online golf portal company(2000) Biotechnology company (2000-now)	Clinical laboratory (1977 – 1996) School for pre-university programmes (1992-94) Vacation science camps (1992 – now) Science Education consultancy (2000 – now)
Knowledge intensity	Venture(s) have received research grants from Singapore R&D agencies, MNCs and commercial partners.	Venture(s) have received research grants from Singapore R&D agencies, MNCs and commercial partners.	Venture(s) have received research grants from Singapore R&D agencies and commercial partners.	Venture(s) received research grants from Singapore and Australian R&D agencies.	Venture(s) received research grants from Singapore R&D agencies and commercial partners and have been bought out by Government R&D companies.
Venture funding experience	Received business angel investment, Government backed and private venture capital	Received business angel investment and corporate venture capital.	Received business angel investment, Government backed venture capital.	Received business angel investment, private venture capital	Received business angel investment.

FINDINGS

As dilemma theory is grounded on the recognition, respect and reconciliation of differences, a logical implication for using it as an investigative approach is whether it can help make sense of the diverse different experiences and dilemmas that entrepreneurs face. The following discussion shows two possible outputs, i.e. a categorisation system for entrepreneurial dilemmas and some common patterns of entrepreneurial dilemma reconciliation.

Dilemma Theory and the Categorisation of Entrepreneurial Dilemmas and Reconciliations

It may seem that the diversity of the entrepreneurial experience, as evident in the cases highlighted, will make any attempt at categorisation futile. However, dilemma theory has resulted in a theory of categorised cultural dimensions (Hampden-Turner and Trompenaars 1993) and leadership dimensions (Trompenaars and Hampden-Turner 2001) that were statistically significant. Although the varied experiences of the entrepreneurs and the lack of statistical analysis make it difficult to carry out the formation of dimensions, one can still follow the categories based on the principle espoused by Hampden-Turner and Trompenaars (Hampden-Turner and Trompenaars 1997, p.158): “We can learn from them (our respondents) and they from us by clustering issues by family resemblance around bifurcations...Ours is a model-to-learn-with when engaging other people with their own ideas.”

With this, a search was made through the dilemma and paradox literature that were appropriate to categorising entrepreneurial dilemmas while preserving the ethos of dilemma theory. An appropriate typology for entrepreneurial dilemma classification was found which builds on the ideas and thinking of one of the forebears of dilemma theory and paradoxical logic, Gregory Bateson (Bateson 1972). These categories were identified by Holmquist (2003) to be useful for application in the general entrepreneurship domain, particularly in terms of the novelty of combining different values and resources.

The first category is *processes that follow present structures and rules*. In terms of entrepreneurship, the only entrepreneurial contribution to the process is the social constructions that are brought into the action by the entrepreneur (such constructions are never wholly identical; instead, each entrepreneur brings with him/ her, a specific combination of constructions). The second category is *processes that relate to existing structures and rules in a reflexive manner, stretching, bending and combining* – yet without transforming in depth. The third category is *processes that transgress current structures and rules*.

In terms of combining different values to produce new ideas and combinations, Bateson (1972)’s first category initially seems less important, since it portrays entrepreneurial processes that are routines. However, routine processes might become entrepreneurial even in this category – the obvious example is when the entrepreneur’s social constructions follow the rules and structures of the entrepreneur’s primary context but when this entrepreneur simultaneously is part of the context where the rules and structures are different from the entrepreneur’s primary context. A good example from the cases is that of BTE who tried to list a Singapore-based biotech firm on the secondary stock market in Singapore. The process of listing on stock markets is highly regulated and similar in most major capital markets, of which Singapore is a member of. By testing the rules of the game and listing a biotechnology company with no profit record and very long-term views of shareholder return, BTE inevitably used processes that were highly developed in the Australian and more mature capital markets in an entrepreneurial manner in the Singapore market thereby disrupting the local contexts of rules and structures.

The second category in Bateson’s typology is more common among entrepreneurial processes, since it changes our world incrementally. It is in this category where the bulk of dilemmas occurs and was mapped in the case studies as they involve reconciliation of different values to create new combinations. These oftentimes do not result in actions that revolutionise the world but with small steps that sometimes lead to larger changes in the long run. One example in the field of strategic entrepreneurship is the emergence of the phenomenon of franchising, which started as an entrepreneurial action that changed, to some extent, the working of business, but where the expansion of this form has been slow and steady, changing the world of business almost without us seeing it and today accounting for almost half of the retail sales

according to some sources (Sorenson and Sorensen 2001). This ‘new’ organisational form created mutual benefits for the involved parties. In the cases, LSE combined different ideas to launch her science vacation camps for primary school children. They were by no means the first vacation camps for children but they were the first in Singapore that used qualified teachers in the context of experiential learning. The success of the camps has meant that this model is now copied by all sorts of organisers who run camps ranging from computer-training to creative-learning skills for children. The importance of preserving family relationships (for EME and ATE) and friendly ties (for LSE) while attempting to build something new also takes on an incremental nature especially in the highly communitarian Singapore culture.

Most popular literature on entrepreneurship falls into Bateson’s third category which sees entrepreneurial action whereby rules and structures are transgressed. These actions or processes are associated with giant leaps in technology development and/ or markets. This is also where creative destruction follows to a large extent, i.e. when the old is replaced with a new and novel product or way of doing things. The action itself may be revolutionising but often there is a long history before this breakthrough. Examples of this type of entrepreneurial process are evident in new industries where a technological innovation may fuel a quick and encompassing change in the economy at large. This explains its rarity. Among the cases studied, however, all the entrepreneurs seemed to have had experience of this in one form or other. The first is MCE’s development of an integrated digital wireless content platform that allows distribution of wireless content across different systems and national markets. This allowed major wireless content providers to circumvent existing rules that required them to negotiate with individual vendors. The second example is that of EME’s decision to innovate on the manufacturing of small flexible PCBs. The results of this move has yet to be seen but if the trend towards fewer chips mounted on smaller PCBs continue, what is currently a niche strategy may become the future disruptive strategy in the electronic manufacturing services market. Thirdly, ATE was able to revolutionise the pig farming industry by getting pig farmers to cooperate and automate their methods thereby also gaining government sponsorship for his initiatives. His initiatives in orchid cultivation are also breaking new ground in the orchid industry. Fourthly, BTE’s attempt to list a locally-based biotech company on the Singapore stock exchange was not successful largely because it was an attempt to redefine the existing rules and mindsets which were too entrenched. Finally, LSE’s breakthrough in the use of computers to educate the deaf students at the school for the deaf which saw the reconciliation of dependent and independent learning. The net effect is that computer-aided learning is now a significant enhancer in not only the education of the deaf but generally in the entire disabled school-going population in Singapore. Similarly, her efforts at setting up a hospice in Singapore in essence broke many old taboos and traditions.

Using the three categories described above, some form of classification can be applied to the dilemmas from the case studies. This is shown in the tables below.

Mobile-Content Entrepreneur (MCE)

The mobile content entrepreneur or MCE, is a former Singapore government scholar from the prestigious Hitotsubashi University in Japan. After completing successful tours as an economist at the Ministry of Information and the Arts and the Ministry of Trade and Industry as part of his bond to the Singapore government, he joined Standard Chartered Bank for 3 years before starting a small consulting business. In his consulting for clients in the technology market, MCE saw that there was an opportunity in developing entertainment products for the mobile phone and launched a company to exploit this opportunity. Later, given his continued contacts in North East Asia, he saw that there was an opportunity to exploit developments in wireless content developments in Japan and Korea and adapt this for the wider wireless market and this led to the development of a venture that attracted business angel, government and private venture capital and is now a leading Asian wireless content developer and platform provider. Table 3 below categorises his dilemmas and reconciliations as he started and grew his ventures.

Table 3: Summary of Dilemma Reconciliations for MCE

Value A	Reconciliation	Value Z	Category (1, 2, 3)⁸
Dedicated honouring of a bond	No reconciliation	Repaying the bond and pursuing the dream	-
Pre-Planned selection of qualified persons	High-performing team of loyal and skilled members	Offering the opportunity to self-organise spontaneously	2
Risk and Independence of entrepreneurship	Combining the best skills and people with better business model and superior products to meet investors and market expectations.	Safety in cooperation and larger size	2
Adaptation of foreign products	Leveraging on adaptive innovation to create cutting-edge integrative technology	Pioneering development of new products	3
Universalism of the global brand	Enhanced global brand delivered to all networks to suit local tastes and languages	Particularism of local systems	2
Entrepreneurial Flair and Freedom	Joint venturing with big companies wins over government	Government Incentives & Directions for Already Successful Firms	2
Social Contributions	Loss leader – initial volunteering leads to paid work	Profitable Economic Interests	2
Education	Edutainment - ‘Serious Play’ results in innovative products, meaningful and paid work	Entertainment	2
Competition and self-interest	No reconciliation	Cooperation and self-sacrifice	-

Electronics Manufacturing Entrepreneur (EME)

EME graduated from the University of Manchester Institute of Science and Technology (UMIST) with a First-Class Honours degree in Engineering. After a year working at the Singapore plant of the American multinational corporation (MNC), Texas Instruments, he left to pursue a Masters in Engineering and then went on to takeover his family business. Eventually, he spun out of it the technology-related elements and working closely with large electronics MNCs (like Matsushita, Philips and Sony), he has grown these into multiple electronics manufacturing ventures based in Singapore, Indonesia, Thailand and China. In recent times, he has moved up the value-chain ladder by setting up electronics

⁸ Category 1 = *Processes that follow present structures and rules*; Category 2 = *Processes that relate to existing structures and rules in a reflexive manner, stretching, bending and combining*; Category 3 = *Processes that transgress existing structures and rules*.

manufacturing services ventures in Singapore and the UK. Besides receiving business angel investment, he has also received investment from corporate venture capital arms of MNCs.

Table 4: Summary of Dilemma Reconciliations for EME

Value A	Reconciliation	Value Z	Category (1, 2, 3)⁹
Remaining within the Family's Sphere of Competence	The skilled and professional family	Advanced Technical and Professional Skills	2
Change	Cornerstoning	Continuity	2
Growing Organically with family and internal resources	Fast growth by helping others and which retains family influence	Growing via outside investment	2
Staying with catch-up innovation	Process innovation; Product catch-up	Pioneering Innovations for the future	3
Low Cost Mass production system	Specially designed machines and processes that enables better mounting of chips on specialised, miniaturised PCBs and able to do so at high volume and low cost	Premium Specialised Manufacturing Processes	2
Expanding Locally	Overseas expansion funded by local customers	Expanding Overseas	2
Abstract Ideas and Designs	Good designs prototyped and marketed. Developing competencies for transforming the company up the value chain.	Concrete Prototypes and Production	2

Agro-Technology Entrepreneur (ATE)

The agro-technology entrepreneur or ATE, has only a secondary-school education but has managed to capitalise on his strengths in land-scarce Singapore and grow his ventures to become one of the largest players in the highly technology-intensive agro-technology sector. He received significant government investment and R&D funding to develop the most technologically advanced and environmentally friendly pig farm which operated until the early 1990s. When pig farming was phased out, he transferred his skills into hydroponics and orchid farming and has grown his orchid farm into the largest one in Singapore with a research group that employs 2 PhDs and works with the local university horticultural research units. Recently he has established new ventures in Thailand and also entered the life-sciences education market.

⁹ Category 1 = *Processes that follow present structures and rules*; Category 2 = *Processes that relate to existing structures and rules in a reflexive manner, stretching, bending and combining*; Category 3 = *Processes that transgress existing structures and rules*.

Table 5: Summary of Dilemma Reconciliations for ATE

Value A	Reconciliation	Value Z	Category (1, 2, 3)¹⁰
Particularism of Local Approaches	Pigs that retain the best characteristics for the tropics and with the best meat	Universalism of Global Product	3
Entrepreneurial Freedom	Working together with private investors and bureaucrats to secure investment and other funds and incentives for long term investments	Investors' Pre-conceptions of worthiness	3
Government imposed rules and timetables	Relaxation of timeframe and looser rules inspires greater entrepreneurial initiatives	Negotiating Particular Terms of Transition	2
Collapsing industry	Being large but still more nimble than the small players means making most money and being the last to exit.	Making money	3
Catch-up Innovation for local markets	Continuously adapting to changing local conditions and developing innovative products for global markets	Pioneering Innovation for export markets	3
Specifically Selling And Supplying Orchids	Orchids as entire learning and entertainment environments.	Selling Contexts In Which Orchids Are A Feature	3

Bio-Technology Entrepreneur (BTE)

The bio-technology entrepreneur or BTE, spent 20 years in the Singapore Armed Forces as a medical officer, before joining the Ministry of Health and then being recruited by Ciba Geigy / Novartis as its regional medical director. He subsequently joined SmithKline Beecham as its General Manager of its Chinese Joint Venture in Tianjin, China before moving to GlaxoWellcome as its Managing Director (Greater China). In 1998, he left and started his own venture to invest in potential State-Owned Enterprises in China's pharmaceutical and health sectors. He had a series of unsuccessful ventures before eventually teaming up with a group of Australian scientists and entrepreneurs and British physicians to commercialise a product developed in an Australian university laboratory for the detection of vaginal thrush. Besides securing Australian government research grants, the venture has also secured private venture capital and has been publicly listed on the Australian Stock Exchange.

¹⁰ Category 1 = *Processes that follow present structures and rules*; Category 2 = *Processes that relate to existing structures and rules in a reflexive manner, stretching, bending and combining*; Category 3 = *Processes that transgress existing structures and rules*.

Table 6: Summary of Dilemma Reconciliations for BTE

Value A	Reconciliation	Value Z	Category (1, 2, 3)¹¹
Cheap ‘Universal’ Government Provision Of Drugs	No reconciliation - Market power of SOE drives out enterprise	Costly Free-Market Allocation Of Resources	-
The Social Benefits Of The Product	No reconciliation	The Purity Of The Product	-
Novelty Of Biotech Products	New products ‘branded’ and growing by endorsement of large credible investors and stock markets	Credibility Of Financial Investors	3
Government’s Cautious Approach To Risk	No reconciliation	Capital-Intensive, High-Risk, High-Potential Nature Of Life-Sciences	-
Local Financial Relationships	Transnational organisation building on local relationships to win confidence in global financial markets	Global Financial Markets	2

Life-Sciences Entrepreneur (LSE)

The life sciences entrepreneur or LSE, won a Colombo Plan scholarship to study biochemistry at the University of Adelaide, Australia, where she graduated with a First-Class Honours degree. She later obtained her PhD from the University of Singapore and worked at the University of Malaya and the Ministry of Health, Singapore before joining the Singapore Institute of Standards and Industrial Research (SISIR). In the late 1970s, she left her job and established a clinical medical laboratory together with a fellow professor, to tap into a growing private health sector of private practitioners outsourcing non-core tasks to focus on their patients more. This was acquired by a government agency and she moved onto ventures focussing on science and creative education for primary school children and professional educators.

¹¹ Category 1 = *Processes that follow present structures and rules*; Category 2 = *Processes that relate to existing structures and rules in a reflexive manner, stretching, bending and combining*; Category 3 = *Processes that transgress existing structures and rules*.

Table 7: Summary of Dilemma Reconciliations for LSE

Value A	Reconciliation	Value Z	Category (1, 2, 3)¹²
Preserving relationships	No reconciliation - Stand-off between partners about future directions	Business interests	-
Egoism: Building An Effective Laboratory Business	Loss Leader – Initial volunteering leads to paid work.	Altruism: Caring for the Welfare of Especially Needy Patients	3
Dependence on Structured Learning	Interdependent learning results in faster learning and better exam results	Allowing Individuals to Control their own Structure	3
Active Experimentation	Learning by reflecting on experiments	Reflective Learning	2
Abstract Conceptualisation	General propositions verified by data	Concrete data	2
A System that Favours Early Developers	No reconciliation – Anxiety, Tension, Health Failure	A System that Encourages Late Developers	2
The Life Process	Dying is natural and potentially peaceful. It heightens everyone's appreciation of life and can proceed with dignity.	The Dying Process	3
Benefiting the Living	Hospice care tailored to meet the needs of the terminally ill, with the best treatment and best environment that is happy and peaceful and inspiring loved ones and volunteers to give of their best care.	Benefiting the Dying	3

As a caveat, the categorisations are broad ones and may be subject to different interpretations. This is quite often the case when the dilemmas are reconciled by framing them in a higher level of abstraction. For example, the dilemma of the Life Process versus the Dying Process is at a high level of abstraction. Also, while we categorise the reconciliation of the Living and Dying processes in LSE's setting up of the hospice as a process that transgresses rules and structures (category 3), this is only in the context of Singapore and someone else could argue that hospices had already existed in many places in the world and hence the concept was a more imitative one i.e. classifying it as a combining process (category 2). However, the value of this is that it highlights that even within the logic embedded in dilemma theory itself, there are different layers and complexities of dilemma reconciliations. One implication is that some entrepreneurs may excel at more difficult dilemma reconciliations while others at less complex ones.

¹² Category 1 = Processes that follow present structures and rules; Category 2 = Processes that relate to existing structures and rules in a reflexive manner, stretching, bending and combining; Category 3 = Processes that transgress existing structures and rules.

Dilemma Theory – Chaos, Serendipity, Fate and Destiny

After the case study entrepreneurs had reviewed their cases, one of the most common responses was that the research made the entrepreneurs out to be better than they really were and that many of the ‘reconciliations’ were in reality, results of ‘good fortune’, ‘luck’ or ‘God’s favour’. We tried to put it to them that they were doing something intuitively that later research found to be rational and objective but they were more certain that these were serendipitous experiences. For example, MCE was not really looking for business opportunities when he started the mobile lab at the polytechnic. Instead he was just trying to use the slack period of his staff to contribute something to society. It was a surprise that the project turned into an avenue for making money. Similarly, LSE and her employees were just trying to help the Vietnamese refugees and did not expect this to lead to contracts with the aid agencies.

Dilemma theory, arguably, can account for randomness in two perspectives. The first follows Louis Pasteur’s maxim in that “fortune favours the prepared mind” or what Allen and Strathern (2005, p.740) understand as “advantage goes to the individuals that can form the more effective interpretive frameworks to guide their selections.” Based on this, dilemma reconciliation enhances that ability to prepare one’s mind for the opportunities that serendipity bestows on entrepreneurs. The major difficulty in this approach is that if carried to its ultimate extreme, dilemma reconciliation offers a means to predict the future and cater for all eventualities and this becomes an absurdity. Even if a less extreme approach is adopted, the two examples indicated that the entrepreneurs felt that they did not ‘prepare’ for the business opportunities. Their minds were preparing for the task at hand i.e. to help the polytechnic students and the Vietnamese refugees. There was something else that explained why they got the new business.

A second approach is more abstract and is grounded on theories of chaos, complexity and spiral dynamics. A few scholars propose that there are three basic alternatives that can explain the phenomena (Cheng and Van de Ven 1996; Mathews et al. 1999a; Mathews et al. 1999b; Thiétart and Forgues 1995). Firstly, it could have been the inherent qualities of the entrepreneurs, coupled with the context that they found themselves in, that stimulated their initiatives. Secondly, their success could have been due to the random effects of so many independent factors that identifying even the most important ones would prove to be difficult. And thirdly, the appearance of randomness, luck or chance actually belies the interactive effects of a small number of critical forces. Complexity and chaos theorists focus on the third possibility – that looking for direct relationships between a few predictors and criteria is at minimum incomplete and is often wrongheaded. Researchers should not give in to the view of complete unpredictability and randomness, but should consider new ways of finding evidence for the strong, but perhaps hidden, effects of a few important variables.

Dilemma theory follows this third perspective by drawing on chaos and complexity theories and especially the work by Mandelbrot (1982). Hampden-Turner and Trompenaars (2000, p.58) uses the example of ‘fractals’ to describe how dilemma theory can account for the merging of predictability and unpredictability: “Fractals constitute a geometry of broken, wrinkled, and uneven shapes, either dynamic or the result of dynamics. They are both chaotic at one level and self-similar and repetitive at another level. Their chaos includes principles of order, like the twisting trajectory or a hurricane ... mixing order with chaos can create phenomena of great beauty and value. It is an analogy of how value is created – by freedom within laws.”

The argument is that if values are differences, then expecting something and being confounded alerts you to differences. One needs to have an expectation in order to be surprised, a model in order to spot an anomaly.

In the field of entrepreneurship, Bouchikhi (1993) follows Bygrave (1989) by applying chaos theory to distinguish chance as genuine randomness from chance as only an appearance of randomness. Chance in complexity and chaos theory means the influence of a large number of independent factors, so large a number that useful prediction from any manageable subset is unrealistic. While Bouchikhi (1993) recognises that chance plays a major role in entrepreneurship, he does not discuss the nature of chance in depth. Instead, Bouchikhi uses the label ‘chance’ in a way that reflects its typical use in entrepreneurship theory, which is, what entrepreneurs experience as chance may be actually a consequence of a small number of very strong predictors that interact with each other over time. Peterson and Meckler (2001) give the example of the weather as one such phenomenon. Weather is determined by a small number of well-known factors. However,

these factors influence each other. Predicting the weather in the short term is quite possible with knowledge of these factors. Predicting the range and pattern of future weather conditions is also possible. Predicting the weather for a specific day in the far future, though, is almost impossible.

However, these approaches assume that there are some ‘principles of order’ or order in the disorder, some regularity in the randomness. They do not seem to account for what LSE referred to above as the “totally unpredictable” in her experience in setting up the SAS. As Lewin (1999, p.11) observes: “The science of Complexity has to do with structure and order … because we’re looking for the fundamental rules that underlie all these systems, not just the details of any one of them.”

This may be true in the examples of fractals, snowflakes and the beating of a human heart where laws of mathematics, physics and biology do impose some order in the so-called randomness. Moreover, treating entrepreneurship like the weather is not very helpful. Although the weather is a very stable phenomenon, it takes millennia to change. If it was to change at the rate of Moore’s Law, which states that that the number of transistors per square inch on integrated circuits will double every year for the foreseeable future (Moore 1965), we would be experiencing ice-ages every few years instead of every few millennia.

For dilemma theory, concepts from cybernetics determine some level of order in a so-called chaotic system. Damping or negative feedback operates like a thermostat, which keeps temperatures within boundaries with a thermocouple that continually says ‘too hot, too cold’. Amplifying or positive feedback happens when a microphone gets too close to a loudspeaker. The signal is amplified until it oscillates to a piercing shriek. Living systems thrive when these mechanisms are in tension.

In the cases, besides MCE’s polytechnic and LSE’s Vietnamese refugee experiences, there was also little anticipation nor rationality behind the wave of negative sentiment among the Singapore Polytechnic staff and students over the building of a hospice near their polytechnic thereby forcing the government officials to do an about-face and agreeing to LSE’s original request of locating the hospice near the government hospital. Sometimes, there is also little explanation as to why things go wrong. There is little in terms of order and rationality that can explain why LSE’s managing director’s health broke down thereby causing her to close down the School for Advanced Studies. There is little explanation as to the sudden announcement by the Chinese State Development Planning Commission to impose price controls on pharmaceuticals thereby ending the possibility of BTE buying into the Chinese state-owned enterprise. The outcomes in these entrepreneurial actions could have been due to the random effects of so many independent factors and maybe even factors like serendipity and chance that identifying even the most important ones would prove to be difficult. As Venkataraman et al. (1990, p.294) note after studying ten start-ups in the computer industry: “small business failure (or success) is only partly within the control of an entrepreneur, and partly a random process beyond the entrepreneur’s control.”

As Bygrave and Churchill (1989, p.28) see it, entrepreneurship may dwell more in the realm of ‘pandemonium’ and may be impossible to model even using chaos theories and mathematical models: “Although pandemonium has often been observed in businesses, it has never yet been scientifically identified as chaos. To date, Wall Street’s rocket scientists, with their super computers, have been unable to find chaos in stock market and commodity prices, where the numbers are precise and the iteration period is one day, or even shorter. Hence it will be difficult – perhaps impossible – to find chaos in entrepreneurship, where numbers lack precision and time periods are measured in months, quarters, or years. Thus it is very doubtful that the ‘new golden age of mathematics’ will provide the entrepreneurship paradigm with mathematical models that can be verified with precise empirical data. Nonetheless, catastrophe and chaos provide us with useful metaphors for the entrepreneurship process. Even if they cannot provide us with precise equations, they help us form and sharpen our philosophy and methodology.”

These concerns do not undermine dilemma theory but indicate areas for further research and theoretical development. If seen as a meta-theory, there are hints of possible approaches. One approach is to go back to the philosophical foundations of dilemma theory and include other elements. It is said that Chinese philosophy implicitly acknowledges the limits of understanding dilemmas; for example Taoists believe that humans intervene in nature and upset the balance of *Yin* and *Yang*. Neither did the ancient Greeks base their entire understanding of the world on ‘logic’ but in three heartless old

women representing Fate: life is woven by Clotho, measured by Lachesis and the thread of life is cut by Atropos (Hesiod 1999). In the rendering of existence, the best you could do was make the most of the present (*carpe diem*) – which is what most of the entrepreneurs seem to do extremely well – and accept your fate with dignity and stoicism. Today, in the age of the Heisenberg and uncertainty principle, luck or chance has become a secular version of fate, but luck still carries the connotations of supernatural reward (McCrumb 2005).

A second approach is to take on concepts of ‘random opportunism’ as advocated by Stacey (1990). This is the idea of strategy being a process of seizing random opportunities as they arise and taking advantage of the unexpected fortuitous circumstances. This is perhaps more appropriate for entrepreneurs but the concept comes from studies into established organisations with the most famous example being Honda’s experience of selling motor-cycles in the US. When Honda executives realised the interest of passers-by in the mini-cub motor-cycles that they were riding on to one of their meetings, they dramatically shelved all existing plans of entering the US market with mainstream models and instead opted to break into the market with these smaller, non-standard motor-cycles which were sold in as diverse outlets as Sears stores and supermarkets. This approach is often avoided among both researchers and practitioners as opportunism can work both ways and hence the focus on developing frameworks to control potential excesses and discontinuities (McKenzie 1996).

What is clear is that mathematics cannot survive the constant change of quality. Chaos and catastrophe theory sees situations whereby, for example, value ‘A’ is elevated at the expense of value ‘Z’ but instead of a cybernetic correction to stability and equilibrium, this causes a sudden oscillation. We have argued in the literature review that if strategy formation in entrepreneurs is essentially an emergent innovation process, this introduces complexity and an unstructured dynamic into the resource combination aspects of entrepreneurship. Including entrepreneurial actions explicitly in chaotic and turbulent zones as well as accounting for some element of serendipity and randomness will add more realism to both dilemma and entrepreneurship theories. By so doing, perhaps the following two dilemmas and reconciliations in the table below could be added to the discussion.

Table 8: Dilemma Theory: Incorporating Chaos and Serendipity

Value A	Reconciliation	Value Z
Chaos	Reordering	Order
Serendipity	Fortune favours the prepared mind	Recognition of solution

CONCLUSION

From the case studies the paper finds evidence that it is useful to anchor aspects of entrepreneurship in a logic of paradox, and that this approach is valuable in furthering our understanding of entrepreneurship. In particular, through dilemma theory, it is possible to map paradoxes and the dilemma reconciliation process and classify them in three categories, namely (1) processes that follow present structures and rules, (2) processes that relate to existing structures and rules in a reflexive manner, stretching, bending and combining, and (3) processes that transgress current structures and rules.

The paper also finds evidence that dilemma theory, through its cybernetic approach as an interpretive tool, can help bridge the purpose *versus* serendipity paradox largely by reconciling order and chaos through reordering, and serendipity and recognition through preparation. In so doing, it allows entrepreneurs to avoid a common problem noted by Winston Churchill: “We often stumble over the truth, but we pick ourselves up and hurry along as if nothing had happened.”

Finally, we believe that this study can also have implications on entrepreneurship education and policy-making. By using a paradox-based approach, entrepreneurship educators and policy makers can not only better deal with the purpose-serendipity paradox, but with other paradoxical forces that are at the heart of the entrepreneurial process.

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UNIVERSAL KNOWLEDGE: CAN ENTREPRENEURIAL UNIVERSITIES REALLY BE UNIVERSITIES?

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ABSTRACT

We develop frameworks for understanding the philosophical university, rather than the functional conceptualisation of a university; and synthesising a definition of entrepreneurship as a basis for examining a university's tendency towards entrepreneurial behaviour. This work examines a number of contemporary forms of university in the context of these frameworks: the entrepreneurial university and the enterprise university. This work brings together the fields of entrepreneurship and higher education – there is a dearth of work that approaches this examination in a multi-disciplinary manner.

INTRODUCTION

Whilst universities may be regarded as being amongst the oldest institutions that continue to operate today, they may also be considered as the “key knowledge institution of modern society” (Scott, 1984). In itself that latter statement provides a pointer to the detailed discussion in this paper concerning the nature of a university. A number of writers have suggested that the relatively recent entrepreneurial behaviour or activities of universities has been an essential response to ensure their survival. This paper considers whether a university can behave entrepreneurially and remain a university in more than name. Some commentators have dismissed the term entrepreneurial university as being one-dimensional - which is a view that is not held by the author.

The object of this paper is to provide an understanding of whether a university can be truly entrepreneurial, or whether the act of being entrepreneurial diminishes that organisations character as a university. In order to do that a key focus of this paper will be to further develop the notion arising from existing works that draw the important distinction between the ‘functional’ and ‘philosophical’ aspects of the university. That will provide a framework for an examination of recent works that use a range of terms to describe some of the contemporary or emerging models of universities, and trends: academic capitalism (Slaughter & Leslie, 1997), enterprise university (Marginson and Considine, 2000), and entrepreneurial university (Clark, 1998 & 2004).

Secondly, it is necessary to address a number of other questions in trying to understand this potential conflict between being a university and being an entrepreneurial organisation:

- what it means to be entrepreneurial
- does the university in the modern world alter our understanding of the originating idea of a university

One of the key distinguishing features of this paper is its integrated treatment of the fields of entrepreneurship and universities. Other works concerned with universities and entrepreneurship have tended to not provide any detailed examination of ‘entrepreneurship’, or an explicit connection to it.

UNIVERSITIES – A PHILOSOPHY OR A FUNCTIONARY?

In his seminal writings Newman (1852) frames the university in terms of the ideal of a liberal education which:

“... make not the Christian, not the Catholic, but the gentleman. It is well to be a gentleman, it is well to have a cultivated intellect, a delicate taste, a candid, equitable, dispassionate mind, a noble and courteous bearing in the

conduct of life; - these are the connatural qualities of a large knowledge; they are the objects of a University; I am advocating, I shall illustrate and insist upon them; but still, I repeat, they are no guarantee for sanctity or even for conscientiousness, they may attach to the man of the world, to the profligate, to the heartless ...

Newman (1852) strongly asserts that the role of a university is the education of the intellect or the diffusion of knowledge, also describing this as being the “direct scope of a University”, or that a University’s “end is knowledge”. In relation to knowledge he is very specific, he means what he refers to as that ‘form of Universal Knowledge’ which is the ‘perfection’ of ‘the individual intellect’ (*ibid.*, pp. 122-123). Further reinforcing Newman’s notion of a university, he states that:

“A University, I shall lay down, by its very name professes to teach universal knowledge ...”

Newman’s (1852) view and conception of Universal Knowledge is further explained in the following passage:

“I hardly know what steps to take in order to establish this position, which has been startling to some persons, viz., that the education of the intellect, or the diffusion of knowledge, is the direct scope of a University. It seems a truth, or rather a historical fact, which is impossible to dispute, and therefore hardly possible to prove. What would be the popular description of a University? A place of learned and scientific men, a learned body, a large corporation, with professors of art and science, with faculties in theology, law and medicine, with logical disputations, with examinations in intellectual proficiency, with degrees in token of that proficiency attained...but the question before us is as to the idea on the whole, or the formal conception, of a University in the minds in the generality of men; and I cannot doubt it would be pronounced at one to be a seat of science and letters, or that its end is knowledge.

It is possible to further clarify Newman’s (1852) scope of a university by examining his meaning of education; education being the “preparation for knowledge” and also being the “imparting of knowledge in proportion to that preparation”.

In terms of the essential characteristics of that knowledge or more particularly the Universal Knowledge it is instructive to consider Newman’s (1852) distinction between instrumental knowledge and what he termed Philosophy, and the nature of knowledge, respectively:

*“here are two methods of Education; the end of one is to be philosophical, of the other to be mechanical; the one rises towards general ideas, the other is exhausted upon what is particular and external” (Newman, *ibid.*, p. 85).*

“I only say that Knowledge, in proportion as it tends more and more to be particular, ceases to be Knowledge.”

Further reinforcing another critical feature of knowledge, Newman (1852) asserts that knowledge is an end in itself:

“Knowledge is capable of being its own end. Such is the constitution of the human mind, that any kind of knowledge, if it be really such, is its own reward.”

Modern University

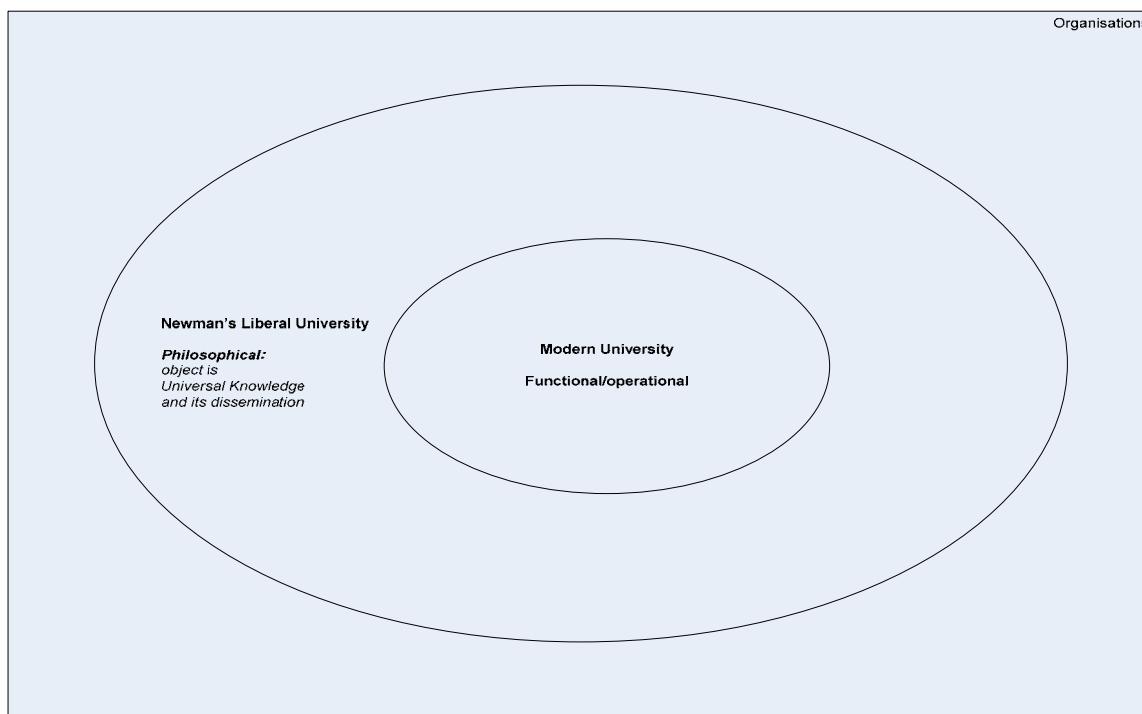
As to whether the liberal university defined by Newman is relevant to the contemporary forms of a university or the modern university, Scott (1984) in his seminal work *The University in Crisis* strongly affirms that it does in the following manner:

“... it is clear that the liberal university is far from being an obsolete type. Many of the features of the modern university, and many of the most ensuring, are simple borrowings; the institutional autonomy of universities; their custodianship of an intellectual culture, including the stricter scientific method; their commitment to pedagogy (even if its foes have to be of the brightest and the best); and independence from industrial values and a resistance to political demands; a defence of liberals or at any rate broad education for undergraduates and a

skepticism about the professionalisation or bureaucratisation of scholarship are still very live values in the modern university even if they are occasionally at war with newer values."

In comparing the liberal university and the modern university, Scott (1984) notes that they do not have different philosophies of knowledge but rather emphasizes that “[it] is how particular types of knowledge are used that explains their different intellectual styles, and the contrast between liberal and modern universities, which is really functional not philosophical.” Figure 1 set out below is a graphical representation of this contrast.

Figure 1: A Philosophical and Functional Representation of a University; Liberal and Modern Universities



SOME DRIVERS AND INFLUENCES SHAPING THE UNIVERSITY

In recent times there have been many forces or influences that have shaped universities. Not least amongst these are government policy, universities being viewed as a means of satisfying workforce demand, the influence of the expanding influence of changing stakeholders (with increasing accountability), the unique environments in which individual universities have developed (Altbach and Umakoshi, 2004), and the “massification” of higher education (Trow, 1998; Fulton, 1998).

These are a mere sample of some of the matters that have influenced, and continue to influence universities (albeit substantial influences). The relevance of raising these drivers and influences is to illustrate whether an influence might merely affect the operational and functional aspects of a university, or whether they affect the philosophical underpinning of a university.

Government Policy

A notable example of government policy intervention or influence is cited by Henkel and Kogan (1999) where *Government has also aimed to channel research into ‘useful’ areas including the promotion of ‘strategic research’ which will be fundamental in its nature but directed towards economic and social ends.*

To amplify this point they refer to changes in curriculum as perhaps, in the case of their research, as the main activity variable by which the significance of external pressure can be judged, noting that

"changes in curriculum, which, together with work experience, are the principal means by which undergraduates are prepared for employment. Undergraduate programmes may be framed to meet essentially academic objectives or to produce graduates able to apply knowledge and skills in specific areas"

The academic programme aims to prepare graduates who are well grounded in their subject and credible exponents of their discipline. Such courses attempt to introduce the students to the fundamental knowledge and principles of their disciplines and to socialise them into an academic community. Vocational programmes seek to produce graduates able to apply relevant knowledge and skills to particular ends and specific areas of practice."

This may represent an instance where the knowledge has tended to be particular to the extent that, in Newman's (1852) conception, it has ceased to be Knowledge; therefore causing the particular institution to cease being a university in character.

Workforce Demand

It is not uncommon for governments in particular, and employers alike, to regard universities as a means of satisfying the workforce demands of the economy. Government and employers often exert pressure or influence on universities for shorter teaching courses and courses that result in students graduating with a greater range of explicit competencies.

Scott (1984) notes that meeting workforce demand is *the predominant policy concern [whether in, for example, Britain or Australia] is ... how can the system supply enough graduates of the right type to meet the needs of industry and the economy at large? ... Not that the higher education's relationship with the labour market is a particularly new issue.*

The main difficulty with manpower planning is that if higher education is to be regarded as a producer, it has not one but three sets of customers – students, private employers, and the state both as a substantial employer in its own right and as proxy for the broader public interest.

*In the United States patterns of student enrolment may respond very quickly and sensitively to fluctuations in the labour market for graduates (although some have argued that the almost instantaneous symmetry of the two is too good to be true) But the same thing does not appear to have happened in Britain to the same extent (*ibid.*, 227). ...*

Unfortunately, the messages that higher education receives directly from employers are as likely to be flawed or obscured. There seem to be two broad reasons for this. The first is that employers by and large are conservative. They may say that they need more graduates with highly specific skills and detailed up-to-date knowledge, but all too often they go ahead and recruit the 'best' student. ... The second is that employers are not necessarily the best judges of their own long-term interests.

However, it can present an exceedingly difficult challenge for universities. This is the very difficult task of attempting to construct a market in 'futures'. From the writer's own experience industry sectors and even individual companies can be unclear on their own workforce needs, or the direction of their industry (which is often fragmented, at least to some degree).

Universities and university systems that are highly dependent on governments for their funding are, understandably, highly susceptible to the influence of governments.

In a manner that is similar to the above example of the influence of government policy, it is easy to see that an extreme case of this example, concerning workforce demand, may also deprive a university of its character as a University.

Increasing Stakeholders and Expanding Accountability

Universities may be subject to the increasing demands of an expanded range of stakeholders, and the associated increase in accountability.

Gallagher (2001) states that in Australia:

“...universities effectively own themselves and are essentially autonomous. They are able to determine whom to admit as students, whom to employ as staff and the conditions of their employment ..., what to teach and how to assess learning ..., what research to undertake and how to conduct it, what to publish and how, when and where to publish research findings (subject to peer assessment).”

This is compared to universities elsewhere (Gallagher, ibid, p. 54):

“Australian universities generally enjoy greater degrees of freedom than their international counterparts in Europe (less so for the UK), North and South America, Africa, the Middle East and Asia. Practice varies across countries but the following features are common to many: universities are obliged to admit students who meet centrally determined criteria; staff are public servants engaged under conditions that universities cannot influence; course offerings and curriculum content are subject to central government approval; assessment is based on central examinations; research is permitted only in designated institutions and publications are subject to government clearance; university budgets are allocated annually on a line-item input basis; universities cannot commit expenditures for projects more than one year’s duration; university assets are owned by the state; and universities cannot invest, borrow or divest without project-specific central approval.”

However, even in the case of Australian universities significant government control is imposed, albeit through less direct means, than is the case with their peers abroad. This influence or control is typically achieved through the mechanism of controlling funding. Even though Australian universities have many stakeholders (including alumni, employers of their graduates, professional associations (and other accreditation bodies), and international research collaborators), Gallagher (2001) suggests that “not the least important external stakeholders are the State and Territory governments that establish universities by statute, define their purposes and powers, and determine and make appointments to their governing councils. The author contends that even though these remarks are factually correct and seem to indicate that, all other things being equal, State and Territory governments are able to exercise a great deal of influence if not control over Australian universities, the statutes that establish and govern most ‘public’ universities in Australia tend to follow a common formula. Perhaps the single most influential stakeholder is the Commonwealth government. Through its control of most university funding, particularly as it relates to teaching and less directly in relation to research funding, usually the external stakeholder with the greatest influence in the Australian context is the Commonwealth government. That control of funding allows the Commonwealth government to make universities accountable in many ways, the extent and nature of which has changed over time, and varied from government to government. The power of the indirect or de facto control should not be underestimated, and perhaps, permits the Commonwealth government to exercise a level of control over Australian universities as exists over their counterparts elsewhere.

Perhaps a parallel yet related set of issues concerning stakeholders arises from the types of accountabilities that face universities. Even though the structure suggested by Trow (1998) for discussing various aspects of accountability for universities as they may particularly relate to North America, it equally applies to all universities in providing a general framework.

Unremarkably the types of accountabilities are directly related to a university’s stakeholders. Trow (ibid, p.19) notes that “there are difficulties in discussing a set of legal, financial, and moral or normative obligations that are so various in themselves. It may therefore be helpful to point to two dimensions or aspects of accountability in higher education immediately, the first being the distinction between external and internal accountability, and the second distinction between legal and financial accountability, on the one side, and academics (moral and scholarly) accountability of the other.”

This presents an overall picture that is complex; a picture of stakeholders and accountabilities that affects universities in a way unlike any other organizations.

National and Cultural Aspects of Development

There is an interesting contrast between the development and evolution of universities in Australia, and universities in other regions. For example, the role of private universities in Australia is relatively insubstantial. This is to be contrasted with Altbach and Umakoshi's (2004) review and analysis of the development of a range of Asian universities. Two key factors have influenced the typology of many Asian universities; first, where relevant, the influence of western colonialism, and secondly, the stage and rate of economic development. In addition, the role of private universities is an important dynamic in that region. This is particularly evident from the examination of transnational models across that region, applying distinctions between private-peripheral type, private-complementary type, and private-dominant type, to describe the dominant university systems within that region.

However, having noted some of the differences between these approaches, the economic influences in Australia should not be dismissed out of hand. It could be contended that there has been a strong economic influence manifested through Australian government policy, and that policy has been exercised as a function of economic factors. This is albeit a less direct linkage than perhaps in the case of most of the Asian states examined by Altbach and Umakoshi (2004).

'Massification' of Higher Education

Fulton (1998) refers to Trow's process of "massification" in relation to higher education, that is, the formal transition from elite to mass scale education. The so-called massification of many European universities has challenged many of the traditional assumptions and practices, and it is asserted that it also threatens dilute the resources and the prestige previously associated with the staff and students in those elite systems.

Emerging Forms of a University

Enterprise University. As discussed in the preceding part of this paper, there have been many and diverse drivers that have shaped the form of the modern university; forms of university that include, for example, notions of academic capitalism, the enterprise university, and the entrepreneurial university. In their seminal work on the enterprise university Marginson and Considine regard *alternatives such as 'academic capitalism' [Slaughter and Leslie, 1997], 'entrepreneurial university [Clark, 1998] or 'corporate university'* as being terms that *all suggest a one-dimensional institution solely dominated by profit-seeking, and organisational culture totally reduced to the business form.*

Whilst still presenting other important dimensions of the university: an active and constructive role in the economic and social role of their communities, the enterprise university describes a form of university that has a focus in managerialism (not necessarily leadership), governance and the market. That focus manifests itself through a strong executive control; missions and governing bodies; additional Vice-Chancellor's advisory committees or 'shadow structures'; dual academic structures (eg., Cooperative Research Centres and soft funding entities); and a redefined internal economy, or "pseudo market" in fee incomes.

Even though the enterprise university presents us with many complex management dimensions, when viewed as a whole the enterprise university itself could perhaps be reduced to a single inseparable dimension comprising a focus on managerialism, governance, and the market. This could also be characterized as a model that encompasses the functional aspects of a university, as opposed to also including the philosophical, or foundational, aspect of a university.

Duke (2002) suggests that *Australia has its own vein of critical and reflective literature, notably in recent years Coardrake and Stedman (1998, also 1999), Coady (2000), and Marginson and Considine (2000), mostly at a more operational than philosophical level.* Possibly, the term operational could also be equated to the Scott's (1984) use of the word "functional".

It is possible to assert that a university may be an enterprise university, whilst maintaining the character of a University. The core elements of the enterprise university are tending towards being operational in nature, or in Scott's (1984) terms, functional.

Entrepreneurial University. Clark's (1998) representation of the entrepreneurial university is a model that displays a number of different and complex dimensions. In his seminal work, based on an analysis of certain European universities, he sets out five irreducible elements as the necessary actions for transformational change to an entrepreneurial university: a strengthened steering core; an expanded developmental periphery; a diversified funding base; a stimulated academic heartland; and an integrated entrepreneurial culture.

ENTREPRENEURSHIP – A CONVERGENT FIELD OR A COHERENT DEFINITION?

Convergence

There appears to be very little integration of the literature and research concerning entrepreneurship, and the works concerning universities, even those works that purport to directly address the issue of entrepreneurship and universities, such as Clark's (1998) seminal work on entrepreneurial universities, *Creating Entrepreneurial Universities: Organisational Pathways of Transformation*. There is little examination of the entrepreneurship literature and research other than to say that he had “chosen ‘entrepreneurial’ over ‘innovative’ as the organising conception for [his] book because it points more powerfully to deliberate local effort, to actions that lead to change in organisational posture.”

Even though Clark (1998) does not explicitly draw connections between the specific elements that have typically, but not necessarily consistently or without contention, been used to describe entrepreneurial behaviour or strategy, Clark's (1998) ‘pathways’ appear to be consistent with much of the literature that underpins our understanding of entrepreneurship. For example, Schumpeter's (1934) concept of entrepreneurship and the dimensions of opportunistic behaviour and entrepreneurial profit, which is discussed in detail in a later part of this section. Other specific instances arising out of Clark's (1998) analyses include “the strengthened steering core” as it relates to the centralisation of power, in say, the hands of a chief executive; and the “expanded development periphery” has parallels to being constantly attuned to environmental changes. Growth is often considered as a key measure of entrepreneurial activity, and that is certainly evident in Clark's (1998) work.

A Definition

A preliminary but critical question is: how would we know when an organisation, in this case a university, is behaving entrepreneurially? What are the parameters that we would apply in trying to make that assessment or determination?

Related lines of inquiry concern whether there is a single body of literature and research concerning entrepreneurship; are their schools of entrepreneurship as Mintzberg (1998) asserts in relation to ‘strategy’, or does the research merely present or emphasise different aspects of entrepreneurship or the entrepreneur.

Convergence or Body of Entrepreneurship Research

There have been a number of attempts to resolve the first of these questions.

Schmidt, HA, Zahra, SA and Sillanpaa (2006) cited that: “Research on entrepreneurship has often been characterised as diverse, fragmented and still in ferment (Gartner, 2001; Shane and Venkataraman, 2000).” Through their analysis they describe areas of literature and research in terms of the 10 most cited groups of literature in entrepreneurship: entrepreneurial networks and resource accumulation; corporate entrepreneurship and venturing; conceptualisations and entrepreneurial processes [Schumpeter, 1934]; value creation from corporate entrepreneurship; alertness, opportunity creation, and creative destruction [Schumpeter, 1934]; psychological aspects of entrepreneurs; qualitative research

methods; entrepreneurial firm survival and growth; societal consequences of entrepreneurship; and Born-Global firms. Their research indicated interdependencies between certain of these groups – the most central groups being entrepreneurial networks and resource accumulation, conceptualisations and entrepreneurial processes, value creation from corporate entrepreneurship, and alertness, opportunity creation, and creative destruction, bridging a number of the smaller or less central groups.

Not dissimilarly to Schidt and others (2006), Gartner, WB, Davidsson, P, and Zahra, SA (2006) found that:

“[t]here does not seem to be a number of distinct [entrepreneurship] scholars who do not have significant intellectual overlaps in citations in the entrepreneurship field. ... Convergence, then, in terms of developing a community of entrepreneurship scholars, seems to be more about the development of communities of scholars that share similar interests in specific interests in the entrepreneurship area. These observations would support critics who see entrepreneurship as a set of loosely connected research groups that lack an organising framework or a dominant paradigm.”

Reader, D and Watkins, D (2006) explored the structure of the “metafield” of entrepreneurship cluster and factor analysis: seeking to identify groups of entrepreneurship authors whose work falls into similar categories; identify themes that characterise and define entrepreneurship in terms of the publication record.

Perhaps most conclusively, but within the limitations of their co-citation analysis method, Gregorie, DA, Noel MX, Dery, R and Bechard, J-P (2006), “[f]ound that amongst the 960 articles the following works were the key anchors for the sets of references that were identified; the anchoring works are: Schumpeter’s (1934) Theory of Economic Development; Penrose’s (1959) Theory of Growth of the Firm; Vesper’s (1980, 1990) New Venture Strategies; McClelland’s (1961) Achieving Society; Porter’s (1980) Competitive Strategy; McMillan, Siegel and Narashima’s (1985) article on decision criteria used by venture capitalists; Pairs: Aldrich and Zimmer’s (1986) and Birley’s (1985) articles on the role of social networks in entrepreneurship; and Yin’s (1989) book and Eisenhardt’s (1989) article, on the relevance, use and design of case study research.”

They concluded that there has been convergence in entrepreneurship research over the last 25 years. However, one would expect that there may be at least some contention amongst researchers in this field concerning these key anchors.

Synthesizing a Definition of Entrepreneurship

Perhaps a view that is preferable to these divergent opinions is that much of the research merely articulates the different dimensions of entrepreneurship. In many instances these sets of dimensions permit us to build a coherent definition of entrepreneurship.

In order to examine whether an organization which is a university can behave entrepreneurially, without diminishing its character as a university, it is essential to synthesize a definition of entrepreneurship that can be applied.

Binks and Vale (1990) undertake a historical review of a number of works in synthesizing a definition of entrepreneurship, but it should be noted that that is done in the context of economic development. They have identified a number works that have taken a range of approaches to identifying the entrepreneur: Cantillon’s (1680?-1734) entrepreneur as being “any individual who operates under conditions where expenditures are known and certain, but incomes are unknown and uncertain” – perhaps this is what is now more popularly or generally referred to as a ‘risk taker’; and Say (1767-1832), describes an entrepreneur as one who, as a rare phenomenon, is able to coordinate and combine the factors of production (with the key characteristic being able to successfully operate with a variety of inputs and markets, combining the two.)

Binks and Vale (1990) also examine the work of researchers whose observations they have described as Austrian and Neo-Austrian observations: Menger, C (1840-1921), the entrepreneur is one who has the crucial role in “directing and re-directing resources in a state of perpetual disequilibrium”; Wieser (1851-1926), where by implication the entrepreneur is a

‘risk taker’ and, emphasizing the characteristics of leadership and alertness; and Kirzner (1973), who emphasises that it is the “alertness and superior perception” of entrepreneurs which cause factors of production to be reallocated towards an equilibrium condition.

They indicate that these observations define and discuss the nature of the entrepreneur as reflecting the need to provide an identity to the decision-maker who is pursuing this equilibrium between demand and supply. They particularly highlight the contribution of Schumpeter (1934) which explicitly examines the entrepreneur’s role in the process of economic development in his *The Theory of Economic Development*.

Other more recent works that are examined by them include:

Leibenstein (1960, 1968), who emphasizes the need for the entrepreneur to synchronise inputs from several different markets, which contrasts two types of entrepreneurs: in the case of Schumpeter, one who arranges new combinations, and those entrepreneurs who can organise traditional combinations:

“If six inputs are needed to bring to fruition a firm that produces a marketable product, it does no good to be able to market five of them, The gap-filling and the input-completing capacities are unique characteristics of the entrepreneur”, and

Casson (1982), who distinguishes between two approaches: first the functional approach, and secondly, the indicative approach, as articulated in the following:

“In the context of the entrepreneur the functional approach says quite simply that an entrepreneur is what an entrepreneur does, It specifies a certain function and deems anyone who performs this function to be an entrepreneur. The indicative approach provides a description of the entrepreneur by which he may be recognised. Unlike a functional definition, which may be quite abstract, an indicative definition is very down to earth. It describes an entrepreneur in terms of his legal status, his contractual relation with other parties, his position in society and so on.”

Casson suggests that one of the definitional difficulties arises from the lack of integration of the functional and indicative approaches.

P. F. Drucker’s (1986) approach (Innovation and Entrepreneurship) has a management orientation, with a focus on intra-corporate dynamics, perhaps echoing Kirzner, with an emphasis on change:

“Entrepreneur’s see change as the norm and as healthy. Usually they do not bring about change themselves. But – and this defines the entrepreneur and entrepreneurship – the entrepreneur always searches for change, responds to it, and exploits it as an opportunity.”

Binks and Vale (1990) suggest that implicit in Drucker’s contribution is that entrepreneurs are not limited to being one group of people; they are not born, with a specific set of characteristics – entrepreneurial behaviour can be developed – developing an attitude that is proactive and opportunity-exploring.

From this Binks and Vale (1990) have deduced that there are at least three types of entrepreneur; and it is more informative to focus on entrepreneurial events, rather than the individuals who carry them out. The three categories of entrepreneur are:

1. entrepreneurs who are reactive, and respond to market signals, facilitating the market process
2. entrepreneurs who make a contribution to economic development, by introducing and innovating ideas, fundamentally rearranging the allocation of factors of production, and
3. entrepreneurs who in their management cause improvements that are gradual in their nature to existing products and processes. They do more than observe the market process, but change is gradual rather than fundamental.

For the purpose of their analysis, which has a focus on economic development, Binks and Vale define ‘entrepreneurial activity’ as:

“An unrehearsed combination of economic resources instigated by the uncertain prospect of temporary monopoly profit,”

which is not dissimilar to Schumpeter’s formulation.

That definition comprises the elements of an:

- (a) unrehearsed combination of resources; that is, they do not previously exist. This is necessary in terms of the monopoly profit,
- (b) which necessarily is accompanied by an element of uncertainty.

In Dollinger’s (1995) text ‘Entrepreneurship, strategies and resources’, he attempts to examine the common elements occurring in a selection of definitions. He does however note that some writers have “suggested that trying to define entrepreneurship may be fruitless because the term is too vague and imprecise to be useful.” (*ibid.*, p. 6) Amongst the definitions of entrepreneurship he cites the works of Knight (1921), Schumpeter (1934), Hoselitz (1952), Cole (1959), McClelland (1961), Casson (1982), Gartner (1985), and Stevenson, Roberts and Grousbeck (1989). Dollinger (1995) provides a summary of each of those work’s as presenting the following definitional characteristics, respectively: *profits from bearing uncertainty and risk; carrying out of new combinations – new products, new services, new sources of raw material, new methods of production, new markets, new forms of organisation; uncertainty bearing ... coordination of productive resources ... introduction of innovations and the provision of capital; purposeful activity to initiate and develop a profit-orientated business; moderate risk taking; decisions and judgements about the coordination of scarce resources; creation of new organisations; and the pursuit of the opportunity without regard to resources currently controlled.*

He further suggests that an examination of these works might find the common elements *creative and innovation, resource gathering and the founding of an economic organisation, and the chance for gain (or increase) under risk and uncertainty*. From this Dollinger synthesises a definition of entrepreneurship where:

“Entrepreneurship is the creation of an innovative economic organisation (or network of organisations) for the purpose of gain or growth under conditions of risk and uncertainty.”

Dollinger (1995) highlights three key elements in this definition, as underlined above by this author: creation, economic organisation, and risk and uncertainty. He explains the implications of those terms. In relation to creation, the acquisition of an existing firm is not in itself creation; the degree of change and innovation determines whether entrepreneurship is present – one way of determining the necessary extent of that change is to rely on Schumpeter’s categories of “new combinations”:

“...

- (1) *The introduction of a new good – that is one with which consumers are not yet familiar – or of a new quality of good.*
- (2) *The introduction of a new method of production, that is one not yet tested by experience in the branch of manufacture concerned, which need by no means be founded upon a discovery scientifically new, and can also exist in a new way of handling a commodity commercially.*
- (3) *The opening of a new market, that is a market into which the particular branch of manufacture of the country in question has not previously entered, whether or not this market has existed before.*
- (4) *The conquest of a new source of supply of raw materials or half-manufactured goods, again irrespective of whether this source already exists or whether it has first to be created.*

- (5) *The carrying out of the new organisation of any industry, like the creation of a monopoly position (for example through trustification) or breaking up of a monopoly position."*

Economic organisation in Dollinger's context refers to an organisation whose purpose is to allocate scarce resources - this could equally apply to a university as any other organisation. Entrepreneurship only exists under conditions of risk (where there is variability of outcomes) and uncertainty (refers to the confidence of the entrepreneurs in their estimates).

Jennings and Lumpkin's (1989) research specifically addresses 'corporate entrepreneurship'. Even though Jennings and Lumpkin (1989) are specifically dealing with corporate entrepreneurship there are some more than useful elements of that work that helpfully inform our synthesis of a definition of entrepreneurship: resulting in a general definition along the lines of corporate entrepreneurship being "the extent to which new products and/or new markets are developed" (*ibid.*, 489). An organization could be regarded as being entrepreneurial if it develops a higher than average number of new products and/or markets. This to some extent echoes notions of the extent to which one undertakes the making of "new combinations" as an essential element of being an entrepreneur (Schumpeter, 1934).

A TEST - EXTENT AND DEGREE

When is an organisation both a University and behaving entrepreneurially? Is this something that can be measured?

A University

First, a University, whether it is a liberal university or the modern university, must have as its object or scope Universal Knowledge, and the dissemination of knowledge. As knowledge becomes more particular, it tends to proportionally cease to be Knowledge. This concerns the philosophy of a university, which is to be distinguished from the mere function or operation of a University.

As an area of initial investigation, it could be implied that a measure of an organisation's tendency towards being a university is the extent to which its dominant object is the creation and dissemination of knowledge (which is the case in Newman's (1852) *University and Universal Knowledge*).

Defining Entrepreneurship

Entrepreneurship could be considered in terms of qualitative and quantitative components:

- New or unrehearsed combinations
- Allocation of scarce resources
- Conditions of risk and uncertainty
- For the purpose of gain, growth or entrepreneurial profit (or in the case of a university perhaps an entrepreneurial surplus)

An indicator of an organisation's propensity or a measure of its entrepreneurial activity is the extent and degree to which it creates "new combinations".

For example, in the case of Marginson and Considine's (2000)'enterprise university':

"... the economic and academic dimensions [of the university] are both subordinated to something else. Money is a key objective, but it is also a means to a more fundamental mission: to advance the prestige and competitiveness of the University as an end in itself."

One could easily imagine where those economic and particularly, the academic dimensions might be totally subordinated to something else, subordinated to the extent that knowledge or Newman's (1852) '*Universal Knowledge*' has ceased to

be the end or object of a university. In the absence of the type of subordination that has been described, the key characteristics of the enterprise university only appear to affect the operational or functional aspects of a university. This is rather than necessarily diminishing Universal Knowledge as an object of that organisation.

FUTURE RESEARCH DIRECTIONS

This paper has touched on many critical issues that are necessary to further an understanding of the components of the type of organisation that could be regarded as being both entrepreneurial and a university. There appears to be a significant gap in the efforts to bring together the research that underpins our understanding of entrepreneurship, and the university (in terms of its object and scope).

Can the tendency of an organisation towards being a university or acting in an entrepreneurial manner, or a tendency towards both, be measured? Would these tendencies be manifested through a set of indicators or represented as a continuum.

These questions may be addressed by considering the university as a ‘dynamic system’. There is a dearth of research that attempts to develop an understanding of the core elements of entrepreneurial universities, their dynamics, linkages and the interdependencies between those elements; or otherwise describing the entrepreneurial university as a system.

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ENTREPRENEURIAL ORIENTATION WITHIN NOT-FOR-PROFITS

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ABSTRACT

(Authors requested to publish Abstract only)

Prior studies have demonstrated that entrepreneurial motivations, resource endowments, and strategic choice play important roles in the success of entrepreneurship. This paper attempts to elucidate the uniqueness of not-for-profit entrepreneurs. The potential theoretical contribution of this proposed research is that we can better understand what motivates not-for-profit entrepreneurs, and which motivation or set of motivations become dominant under what conditions, hence creating new knowledge of the dynamic nature of the interactions among industry environment, government policies, and not-for-profit entrepreneurs' individual characteristics. The potential policy implication from this proposed research is that various governments could better understand the dynamic nature of not-for-profits, and re-evaluate, and improve policies geared towards this sector.