
Entrepreneurial dynamics in small business service firms

Entrepreneurial
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1 Introduction

This paper examines the nature of entrepreneurial dynamics in small business service firms and reports the findings from a study of small business service entrepreneurs in the west of Scotland. The aim of this study is to contribute to the understanding of entrepreneurship in small business service firms by adopting a perspective which has not been considered in previous studies of small firms in this sector.

In broad terms, a business service firm could be defined as a firm which provides any service to another business. This can encompass a wide range of activities, from basic services such as catering and cleaning to intangible expertise such as accountancy, legal advice and management consultancy (Keeble *et al.*, 1991). O'Farrell and Hitchens (1990) make the distinction between firms offering strategic expert advice geared towards solving specific problems as opposed to firms providing routine administrative and manual services. Wood (1990) classifies the former group as "white-collar" business services, thereby including firms which specialise in generic areas of business expertise such as management consultancy, market research, public relations and commercial law, and more specific technological areas such as communication systems and information technology (Keeble *et al.*, 1991; Kirby and Jones-Evans, 1997). Kirby and Jones-Evans (1997) also differentiate between management and technical consultancy, arguing that management consultants are concerned with a wide range of problem areas whereas technical consultants advise within specific technological disciplines. Although this study is concerned with entrepreneurship within all "white-collar" business services, the broad distinction between management and technological consultancies is adopted in this study.

The defining feature of all business service firms is that they are fundamentally information-intensive, and they trade knowledge which is used to create or transform some aspect of the design, production or marketing of the client's product, or the organisational structure which is used in this process. In this respect, they have a key role to play in improving business efficiency, through disseminating knowledge which would not otherwise have been available to their clients. The business service sector has undergone a period of rapid growth in the last 10-15 years and it is recognised as an important area of

economic activity in supporting the process of local economic development. A number of studies of small business service firms which have taken a macro perspective of the sector (e.g. Bryson *et al.* 1993; Keeble *et al.* 1991; O'Farrell *et al.*, 1992) indicate the importance of these firms to economic development in the following ways:

- the creation of wealth and high quality employment in a high growth area of economic activity;
- their "survivability" in periods of recession;
- the beneficial impact of their services on the performance of their clients (which are typically other small and medium sized firms) which can lead to significant local income and employment multiplier effects;
- their contribution to the development of the knowledge base of local economies, which can lead to sustained local economic development.

Recent work has examined the backgrounds and practices of entrepreneurs and owner-managers in small business service firms . The debate over the distinction between an entrepreneur and a small business owner-manager is established and ongoing. Economic theories by Knight (1921), Schumpeter (1934) and Kirzner (1973) make a clear distinction between the strategic decision-making activities of an entrepreneur compared with the more routine tasks performed by a manager. It is argued here that there exists a distinction between entrepreneurs, who by virtue of their superior decision making abilities can create firms with the potential to generate high levels of profit and growth; and other small firm owner-managers and the self-employed who may own capital but do not have the same abilities or potential.

With regard to business success in the small firm sector it may be suggested that the criterion may not necessarily be one of high growth, but the robustness to ride out periods of economic instability. Bryson (1996) notes that it was the ability of small business service firms to prosper during the recession of 1990-1993 which marked them out from service firms in general. Also acknowledging the importance of business survival in their theory of sustained entrepreneurship, Naffziger *et al.* (1994) and Kuratko *et al.* (1997) argue that it is the entrepreneur's motivation to continue business activity when faced with a dynamic business performance environment that will ultimately determine a firm's success. The definition of business success used in this study is therefore business survival, and the entrepreneurship process examined relates to that which facilitates the continued survival of the firm, and which may possibly lead to its expansion.

Particular strategic decisions have been associated with successful small business service firms. These decisions relate to the growth methods adopted, including the practices of networking and subcontracting, which have been associated with higher growth firms (Bryson, 1996; Kirby and Jones-Evans, 1997). Storey (1994) identifies several key strategic decision methods adopted by entrepreneurs associated with successful small businesses in general. These

include the use of strategic planning (Robinson and Pearce, 1983, 1984); the delegation of managerial responsibility (Casson, 1982); the willingness to use external finance (in particular equity capital) (Hall, 1989) and external advice (Dunkelberg *et al.*, 1987); the level of workforce training (Atkinson and Meager, 1994); the ability to adjust to market crises, such as a sudden downturn in demand, (Smallbone *et al.* 1993; Smallbone *et al.* 1995).

Storey (1994) also considers other strategic advantages, which may be particularly relevant to entrepreneurs in small business service firms. These include: the technical sophistication of the business (Phillips and Kirchhoff, 1988); the market positioning of the business, in particular the targeting of niche markets, (Bradburd and Ross, 1989; Penrose, 1959; Wingham and Kelmar, 1992); the propensity to develop new services.

Previous studies of entrepreneurs in small business service firms focus primarily on the antecedent entrepreneurial influences on the formation of the firm, such as work background, with limited analysis of subsequent entrepreneurial behaviour during the firm's development. Recent work in the entrepreneurship literature, however, has identified the importance of the entrepreneurship process to firm performance, which is expressed not only in terms of those factors which determine the choice to create the firm (instead of taking paid employment), but also in terms of those factors which determine its subsequent survival and performance (Kuratko *et al.*, 1997). An examination of the entrepreneurship process requires that the dynamic aspects of the relationship between the motivations, goals and strategic practices of entrepreneurs are taken into account. This perspective is adopted here in examining the entrepreneurship process in small business service firms.

The paper now proceeds with a more detailed consideration of the literature which provides the background and rationale for the study. Here, the previous studies of entrepreneurs in small business service firms will be considered in the context of the wider entrepreneurship literature. Following this, the research design adopted in the study is explained and it is shown that the perspective adopted in the study required the use of qualitative methodology. The remainder of the paper considers the key findings from the analysis, and the conclusions which may be derived from the study.

2 Entrepreneurship in small business service firms

A body of literature has considered the nature of small firm performance in terms of the personal characteristics (e.g. age, education), motivations, objectives and practices of the entrepreneurs who create and develop these firms (e.g. Begley and Boyd, 1987; Cragg and King, 1988; Hornaday and Wheatley, 1986; Miller and Toulouse, 1986; Storey, 1994). The bulk of this literature, however, has been directed at entrepreneurs in manufacturing firms. Furthermore, a body of work has sought to differentiate different "types" of entrepreneur (Birley and Westhead, 1990; Filley and Aldag, 1978; Smith, 1967; Vesper, 1980; Westhead, 1990; Woo *et al.*, 1991). Types of entrepreneur are suggested to have certain constellations of personal characteristics,

backgrounds, motivations and goals, and will adopt certain practices in running their firms, and these differences are manifested in the firm's performance in terms of profitability and growth. The seminal work in this field (Smith, 1967) characterises firms exhibiting high levels of profits and growth as being formed by highly educated individuals with previous managerial experience, who adopt a professional management style and employ strategic marketing practices to create and exploit market opportunities.

This "opportunist" type entrepreneur is in contrast to the "craft" entrepreneur who is characterised by a low level of education (predominantly technical) and a lack of managerial experience, who is reluctant to use outside help, and who is reactive to changes in market demand rather than proactive in generating new business. Other authors have stressed the importance of entrepreneurial motivations (Naffziger *et al.*, 1994) on firm performance. Initial motivations for undertaking entrepreneurial activity are generally categorised in terms of "pull" factors such as spotting a business opportunity, the desire to accumulate wealth, or the desire to "be your own boss"; and "push" factors such as job insecurity and redundancy.

Adopting a dynamic perspective, it may be argued that regardless of their backgrounds and initial motivations for creating a business, all entrepreneurs face potentially similar problems and influences during the course of the venture and all have the potential to adapt as they receive feedback on their performance. Individuals who conform to the craft entrepreneurial type in terms of their backgrounds and experiences, may be "pushed" into adopting opportunistic entrepreneurial behaviour by poor performance, which threatens the survival of the firm. Alternatively, they may be "pulled" into doing so by unexpectedly good performance, which is a result of having gained a critical mass of entrepreneurial experience. Stage models of small business development (e.g. Churchill, 1983; Flamholtz, 1986) suggest that the dynamic process of small business development is linear, with a progression from an informal managerial style in the early stages to a more professional style in later stages. Others, however (e.g. Bygrave, 1989), suggest that this process is non-linear, discontinuous and individualistic. The few empirical studies (e.g. Boyd and Gumpert, 1983; Kuratko *et al.*, 1997) of the impact of changing entrepreneurial motivations on objective-setting do not examine the ways in which these changes are manifested in terms of strategic practices. A full understanding of the entrepreneurship process can only be gained if entrepreneurial behaviour is considered during the dynamic process of entrepreneurial development, along with motivations, expectations and goals.

Turning now to examine studies of entrepreneurs in small business service firms in the context of the previous discussion, recent contributions have come from Bryson (1996), who examines the entrepreneur-specific factors which contribute to the formation and survival of small, independent management consultancies and market research firms in Berkshire; and Kirby and Jones-Evans (1997), who examine similar factors which contribute to the formation and initial strategies of small, independent technology-based consultancies in

the north-east of England. Both of these studies suggest that entrepreneurs in small business service firms are typically highly qualified individuals with previous managerial experience, who are pulled into entrepreneurship by positive motivations such as spotting a market opportunity or a desire for autonomy over decision making. There is some evidence from these studies that push factors may be relatively less important in the population of business service entrepreneurs than in the wider entrepreneurial population.

On the basis of their findings, Kirby and Jones-Evans (1997) suggest a typology of entrepreneurs in small technical consultancy firms in terms of the motivations for creating the firm. They identify three types which they term:

- (1) "Opportunist" entrepreneurs, who are motivated to pursue a market opportunity which they have identified.
- (2) "Lifestyle" entrepreneurs, who are motivated by being in control of deciding the nature of the work they undertake, to which they can apply their specialist knowledge and develop their expertise.
- (3) "Accidental" entrepreneurs, who are pushed into entrepreneurship through redundancy and a lack of suitable employment opportunities.

Kirby and Jones-Evans suggest that "lifestyle" entrepreneurs may be a special case in that their motivations are quite different to those found in the general population of entrepreneurs. It may be argued, however, that these individuals are essentially "pulled" into entrepreneurship, in that they purposively choose entrepreneurship over paid employment.

Both Bryson (1996) and Kirby and Jones-Evans (1997) find that the typical strategy used by entrepreneurs to attract clients is by using their reputation with a network of contacts gained from their previous employment. Previous employment is found to be predominantly in large established firms, which Bryson describes as the typical "incubator" of business service entrepreneurs. Furthermore, Bryson finds that the development of this network of contacts extends to associate consultants who can be used as subcontractors, thus making for greater flexibility in the number, size and variety of contracts which can be undertaken. Subcontracting allows for a greater degree of organisational flexibility and is suggested to be a cost-effective means of achieving business growth in that the expenses of taking on full-time employees do not have to be incurred. Bryson finds the increased use of subcontracting to be the most important change in survival strategy by entrepreneurs during a period of increased competition during the recession of the early 1990s.

There is no evidence from either of these studies, however, concerning how changes in entrepreneurial motivations during the course of the venture are manifested in terms of entrepreneurial behaviour, or which factors are of major importance in serving to trigger these changes. While Bryson's sample of entrepreneurs developed strategies in reaction to changes in the extrinsic market environment, the extent to which changes in intrinsic motivations and expectations can effect a change in entrepreneurial behaviour is unknown.

Given that the “typical” business service entrepreneur is a well educated professional with managerial experience, the entrepreneurship literature suggests that most should be capable of developing their firm if the motivation is there to do so, either initially or as the result of some subsequent triggering factor. Again, these points are best addressed by adopting a holistic paradigm which focuses on the dynamic nature of the entrepreneurship process.

3 Research design

The study reported here was part of a larger study of the entrepreneurship process in a cross-sectoral sample of small firms located in the west of Scotland. The study was carried out in association with the former Strathclyde Business Development Agency for a number of key sectors in the local economy, including business services. Small firms were defined in terms of being independently owned and controlled by one distinct individual, and having less than 25 employees. The firms selected were sourced from the Strathclyde Business Development (SBD) Database. The database lists over 3,000 independently owned firms, operating in a number of sectors including manufacturing, service and construction. The SBD database covers the former Strathclyde region in the west of Scotland. Table I gives a breakdown of registered businesses in Strathclyde by sector, and the relative percentage growth in the number of firms in these sectors compared with the UK as a whole. The figures for service sector firms includes business services.

A total of 20 business service firms meeting the selection criteria were selected at random from the SBD database. This was thought to be a sufficient number for a qualitative study in which the aim is to generate depth of information on cases, rather than generalising results to a wider population using inferential statistics (Chetty, 1996; Yin, 1989). The methodology used in the analysis is explained below. This number is in line with previous qualitative studies of small firms, for example Reid *et al.* (1993), who use a sample of 17 firms in a study of competitive strategy in small businesses. The analysis of business service firms reported in this paper is part of a larger study of entrepreneurial dynamics in a number of key sectors in Strathclyde, the overall

Sector	Percentage of firms within Strathclyde	Percentage growth in Strathclyde	Percentage growth in UK
Manufacturing	8.1	-5.2	-3.8
Services	69.1	-1.2	-0.6
Business services	14.8	2.4 ^a	3.8 ^a
Construction	13.5	-4.5	-6.9
Agriculture	9.4	-1.2	-0.4
All firms		-2.0	-1.7

Table I.
Firms in Strathclyde:
sectors and growth 1994

Note: ^a Including financial services

Source: *Strathclyde Economic Trends*, Strathclyde Regional Council

sample comprising 100 firms. Cross-sectoral differences in the nature of entrepreneurial dynamics will be examined elsewhere.

It is appropriate here to note that there is some debate regarding the appropriate unit of analysis in the small firm sector. For example, Scott and Rosa (1996) argue that the proliferation of entrepreneurs owning multiple business units points to the importance of studying the entrepreneur as a wealth creator. In practical terms, it is accepted that the objectives of the firm are synonymous with that of the owner and entrepreneurial characteristics are displayed in the managerial practices employed in running a firm (Covin and Slevin, 1991; Cragg and King, 1988; Naffziger *et al.*, 1994). The analysis of firm-level data is therefore employed specifically to obtain information relevant to the study of the entrepreneurial process. The focus on entrepreneurs in the firms under analysis permits the inclusion of multiple business ownership.

Given the exploratory nature of the study, it was thought that a qualitative research design using field research methods was the most appropriate way to generate the required depth of information and to examine rigorously the dynamic aspects of entrepreneurial development. The research design adopted in this study of the entrepreneurship process is focused around a conceptual model which encompasses the key factors and influences identified in the entrepreneurship literature. The model adopted is given in Figure 1, and is a revised version of one suggested by Cragg and King (1988).

The model suggests that the personal attributes of the entrepreneur determine motivations and objectives, which in turn determine the firm's performance. This process is mediated through the markets in which the entrepreneur operates, and the managerial practices which he or she employs. A dynamic element is incorporated by the possibility that business performance may reinforce or revise the entrepreneur's motivations and objectives. Therefore, the possibility of feedback on performance and learning from experience as an important form of entrepreneurial human capital are encompassed in the model. Thus the model allows the nature of entrepreneurial dynamics to be explored in depth, which previous quantitative studies, using a

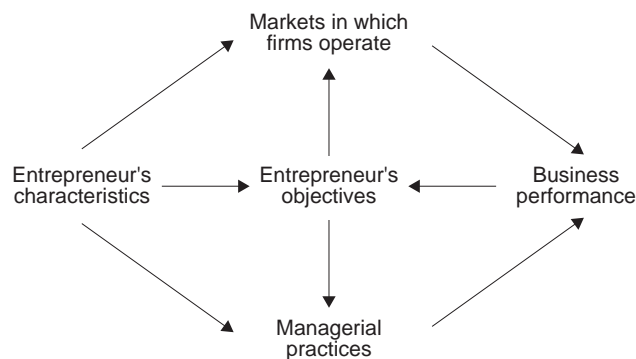


Figure 1.
Model of small firm
performance

unidirectional specification of a causal relationship between entrepreneurial variables and firm performance, have been unable to do (e.g. Davidsson, 1991; Hornaday and Wheatley, 1986). This study therefore adopts the Cragg and King model as a conceptual basis for an exploratory study and the intention is to examine the qualitative relationships between variables determining the entrepreneurship process.

An interview “agenda” was derived from the key elements of the model, and was used in unstructured interviews with entrepreneurs. The advantage of the unstructured interview as a field study method is that it assumes the appearance of a “normal” conversation which the interviewer can guide unobtrusively to provide the relevant information. It can thus generate data of a particularly high quality because of the rapport which is built up between researcher and participant (Burgess, 1982). The data were reduced and analysed using techniques suggested by Miles and Huberman (1994). This involved tabulating the data from each case study around the key topics identified and using textual data to relay entrepreneurs’ experiences. While a large volume of data were generated on each of topics contained within the analytical model the findings presented in the following section are focused on the major concern of this paper, that is the nature of entrepreneurial dynamics in small business service firms.

4 Findings

Taking into account the previous discussion, the thrust of the analysis reported here is to partition the sample of 20 entrepreneurs into two broad groups according to their initial motivations for undertaking entrepreneurial activity, namely “push” and “pull” factors. When determining initial motivations from interview transcripts, the wide variety of responses encountered make some form of classification system necessary in order to gain a perspective on any change in objectives. By grouping together entrepreneurs who initially give non-business orientated “push” motives, it is possible to clearly observe any similarities in the factors responsible for a change in their objectives. Storey (1982) successfully uses a similar system to assess the relationship between entrepreneurs’ original motivations and firm profitability, but acknowledges that this is not an easy process due to the broad nature of the classification groups used compared with the individualistic nature of the responses. In common with Storey, entrepreneurs in this survey are regarded as being pushed into business if they were either made redundant or felt they had no option other than to leave employment and start a business. It is generally argued that individuals who are pulled into entrepreneurship will have more profitable and higher growth firms, although there is no conclusive evidence of this (Storey, 1994). The push/pull dichotomy, while not new, provides a useful classification criteria for entrepreneurial motivations.

The aim here is therefore to examine and compare:

- (1) entrepreneurial characteristics, initial objectives and strategies;

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- (2) significant changes in objectives during the course of the business, the factors which triggered this change and the impact of this change on strategic practices.

Thus any dynamic changes in the relationship between entrepreneurial motivations, objectives and strategies can be examined in the context of factors which contribute to the formation process of the firm, and its subsequent development.

Entrepreneurial characteristics, initial motivations, objectives and strategies

In Tables II and III the initial motivations, objectives and strategies of entrepreneurs are given according to their categorisation under the “push” and “pull” headings.

A summary analysis of entrepreneurial characteristics will be incorporated in the following discussion. Table II shows that 14 entrepreneurs were motivated to undertake their present activity by pull factors. In common with the previous studies of business service entrepreneurs by Bryson (1996) and Kirby and Jones-Evans (1997), the pull factors comprise financial considerations, a desire for greater responsibility and control of decision making and a desire for greater personal development, as a manager or as an expert, than was achievable in previous employment. Greater financial rewards were, on the whole, less important than a need for greater self-actualisation, with only five entrepreneurs (B, E, F, J and K) citing them as the predominant consideration. The only other entrepreneur to mention financial rewards as a motivation (M) did so in the context of a dissatisfaction with a lack of managerial responsibility in previous employment. Table III shows that the motivations of the six entrepreneurs who were pushed into their present activity all relate to the undesired loss of their previous employment. While this was predominantly related to firm closure or redundancy, in one case (Q) a “disagreement” over “a matter of procedure” in previous employment was cited. When probed on this matter the entrepreneur commented that after this incident, “I had a choice, I could jump or be pushed”. To maintain his reputation, he decided on the former course of action and saw no choice other than to start his own firm.

With regard to their initial objectives for the business, only the financially motivated entrepreneurs expressed these in terms of wealth creation and profitability. None of these entrepreneurs, however, mentioned growth as an initial objective. There was a consensus view among the profit-motivated entrepreneurs that growth was dependent on the profitability of the business being established and developed in the first instance, and that future growth was desirable as long as it enhanced profitability. Personal income, and security, could not be compromised by “going for growth”, from the outset. The remaining pulled entrepreneurs who were primarily motivated by personal factors rather than pecuniary rewards, and all of the pushed entrepreneurs, expressed the more modest initial goal of “making a living”, and in some cases

Table II.
Initial motivations,
objectives and strategy
– pulled entrepreneurs

Entrepreneur	Description of current firm	Initial motivation	Initial objectives	Initial strategy
A	Technical consultancy	Control of decision making	To make a living and provide quality service	Gained contracts with two major clients from previous employment before leaving
B	Management consultancy	Had always wanted own business and saw opportunity to make money	To be as profitable as possible	Using reputation with clients from previous employment
C	Management consultancy	The personal challenge of running own business	To make a living and provide a quality service	Reputation for quality and service and being price competitive
D	Technical consultancy	To develop expertise and fulfil management potential which was not being exploited in previous employment	To make a living and provide a quality service	Used reputation to attract clients from previous employer
E	Management consultancy	Saw gap in the market for particular expertise and profit opportunity	To create wealth	To provide quality service in a niche market and build reputation with clients
F	Technical consultancy	Greater financial rewards	To be as profitable as possible	To develop contacts with clients from previous employment
G	Management consultancy	The personal challenge of running own business	To make a living	To develop a niche market for specialist skills; to use contacts from previous employment
H	Technical consultancy	To prove own worth	To make a living	To attract clients from previous employment and gain referrals for quality of service

(Continued)

Entrepreneur	Description of current firm	Initial motivation	Initial objectives	Initial strategy
I	Technical consultancy	Offer of promotion in previous employment provided confidence to start own business	To make a living and provide a quality service	To attract clients from previous employment and to develop reputation
J	Technical consultancy	Impulse decision – saw profit opportunity and had capital available	To create wealth	“Aggressive” marketing based on quality of service
K	Technical consultancy	Felt undervalued in previous employment. Salary did not reflect contribution	To create wealth	To provide a quality service at competitive price; undertook marketing to gain internal clients
L	Technical consultancy	Better opportunity to develop career	To make a living and provide a quality service	To use reputation as expert to attract clients; to gain referrals
M	Technical consultancy	Unhappy in previous employment; not enough responsibility and salary poor	To be as profitable as possible and provide a quality service	To use reputation to attract clients and to be price competitive
N	Technical consultancy	Unhappy with limited nature of work in previous employment; wanted to develop skills	To make a living	To be price competitive to attract clients and to develop a reputation for quality of service

Table II.

Table III.
Initial motivations,
objectives and strategy
– pushed entrepreneurs

Entrepreneur	Description of current firm	Initial motivation	Initial objectives	Initial strategy
O	Technical consultancy	Previous employer went bankrupt	To make a living	To use reputation for specialist skills to attract clients
P	Management consultancy	Previous employer moved out of area; did not want to relocate	To make a living and provide quality service	Got “keystone” client from previous employment; to develop reputation and gain referrals
Q	Technical consultancy	Forced to leave previous employers because of “disagreement”	To create wealth and provide a quality service	Attracted majority of clients from previous employer; quality of service more important than price
R	Technical consultancy	Previous employer went bankrupt	To make a living	To use “informal” contacts to obtain business; got contract with company run by “personal friend”
S	Technical consultancy	Previous employer went bankrupt	To make a living	To be price competitive and to develop a reputation for a “unique” service
T	Technical consultancy	Made redundant	To make a living	To use “word of mouth” to attract clients and develop reputation

to also “provide a quality service”. The latter objective was commonly related to the need for personal fulfilment, in addition to being the means through which future business could be generated.

With regard to their personal characteristics, namely age, education and employment history, only the latter two of these variables have been investigated in previous studies of business service entrepreneurs. The age of the entrepreneur at the time of firm formation has been suggested as a possible determinant of subsequent performance in that different age groups may be associated with different levels of human and financial capital, and certain motivations and objectives (Storey, 1994). It is suggested that people in the 35-45 age band who found a firm are likely to have the “best” blend of these attributes in order to make it a success. Younger age bands may have the ambition and drive, but lack the experience and financial capital, while the opposite may be true for older age bands. Thus there may be a non-linear relationship between entrepreneurial age and small firm performance. Evidence from this sample provides support for this observation in that 11 of the 14 pulled entrepreneurs are represented in the 35-45 age band, and of the remaining three, two were less than 30 years old when they founded the firm, and only one entrepreneur was in their late 40s. Only three of the six pushed entrepreneurs, however, are in the 35-45 age band, with the other three all being their late 40s at the time of the entrepreneurial event.

With regard to the other key variables, education and employment history, the findings from this study broadly confirm the trends reported in earlier studies of business service entrepreneurs in that all 20 entrepreneurs had one, or a combination of, a relevant degree, higher degree or professional qualification, and all had achieved senior managerial positions in their last previous employment, in a similar area of business activity. There is an interesting trend among this sample, however, which is not evident in previous studies of business service entrepreneurs. This relates to the size of last previous employers, which in this sample were split evenly between large multi-office firms and small single-office firms. Eight of the pulled entrepreneurs had a last previous post in a small firm, while only two of the pushed entrepreneurs had finished employment in a small firm. Previous studies of small business service entrepreneurs have found that large employers are the typical “incubators” of business service entrepreneurs in that they can offer a more prestigious reputation, and a greater source of potential contacts. As Bryson (1996) indicates, however, it is the individual and not the firm that develops a reputation and a network of contacts. There is evidence from this sample that small firms can act equally effectively in a local economy in incubating business service entrepreneurs. The importance of reputation to business service entrepreneurs is clearly evident in this sample in that most entrepreneurs relied on their reputation with contacts made during their previous employment in generating their initial clients, and most regarded developing their reputation further as their key strategy during the course of the business.

Changes in objectives and strategies

Table IV shows that nine entrepreneurs initially motivated by pull factors, and four by push factors reported significant changes in their objectives during the course of the venture.

The most striking finding is that in the case of the pulled entrepreneurs, the revised objective in all cases was business growth, although in the one case (L) this was aimed at increasing the selling value of the firm in order to retire. All other growth-orientated entrepreneurs became so as a result of either extrinsic factors, namely profits being inadequate in initial markets (D,F,G), market growth (J); or through intrinsic factors which related to increasing the profit potential of the firm further in the light of previous success (B,C,E,H). One of the initially pushed entrepreneurs (S) also gave growth as the revised objective, and this was again a result of inadequate levels of profit. It was clear from the interview with this entrepreneur, however, that dissatisfaction with previous profit performance stemmed from a belief that the firm had underperformed, rather than as a result of increased competitive pressures in the marketplace. The entrepreneur commented, "I had set my sights too low in the first place", and it was evident that he had gained greater confidence in his ability to manage a business during the course of the venture and had become more financially motivated.

The predominance of a growth-oriented strategy in the sample may reflect the atypical nature of this sector, in that a large proportion of entrepreneurs come from a managerial/professional background. This reflects the specialist and highly-skilled nature of the sector. It is unlikely that a high proportion of surviving businesses in the wider small firms population can potentially be growth oriented. As Storey (1994) notes, "Firms may reach a particular stage, most notably survival, and never have any intention of moving beyond that stage". Given their greater managerial acumen, it may be that entrepreneurs in the business service sector are relatively more capable of ensuring the survival of their firms, and can therefore more readily view growth as an achievable prospect.

It is clear, in all cases of growth-orientation, that the fundamental goal underpinning the revised growth-objective was to increase profits. Profits were perceived as being the means to increase personal income for financially motivated entrepreneurs, and of achieving the security to pursue personal goals further for those entrepreneurs who were initially motivated by self-actualisation. Growth was pursued as the means to an end, rather than as a goal in its own right and there was no evidence of a "reckless" pursuit of growth at the expense of profitability, which could have compromised either personal income or security.

Furthermore, the way in which the growth objective was manifested in terms of entrepreneurs' strategies was not predominantly through increasing the network of associate consultants as previous studies suggest, but comprised a variety of methods. In fact, only two entrepreneurs (D,G) had increased their use of subcontracting to associate consultants, both of whom regarded it as a means

Entrepreneur	Initial motivation	Cause of change	Revised objectives	Ways in which change was manifested
B	Pull	Financial success of business provided investment capital	Growth	Created four associated firms in specialist areas and employed professional managers to run team
C	Pull	Small size of business was holding back profit potential	Growth	Recruited three specialist consultants in same field and an office manager
D	Pull	Need to develop wider markets as competitive pressures increased in initial market	Growth	Recruited marketing manager; developed network of associates to diversify into new areas
E	Pull	Diversified into new line of business through contacts made by college friend; "amazed at returns"	Growth	Created new firm in the new line of business and employed ten specialist staff; employed manager to run existing firm
F	Pull	Realisation that market was too narrow; variability of profits	Growth	Diversified into overseas markets through increased marketing
G	Pull	Inadequate levels of profit in initial market	Growth	Developed network of associates to diversify activities; targeted larger, more cost-effective contracts
H	Pull	Financial success prompted desire for further profits	Growth	Turnover expanded through taking on larger contracts; employed two specialist staff
J	Pull	Growth of market for service	Growth	Bought out rival firm to expand operations; obtained seconded specialist staff from friend's firm
L	Pull	Approaching retirement	To increase sale value of business	Turnover increased through taking on more contracts
O	Push	Approaching retirement	Run down business	Reducing number of contracts undertaken; not replacing staff
R	Push	Unhappiness at lack of security and variability of income	To get "exit route" and close business	Maintained level of turnover while seeking paid employment
S	Push	Dissatisfied with profit performance	Business growth	Expanded activities from local into national markets; employed two specialist staff
T	Push	Approaching retirement	To sell business	Recruited marketing manager to expand turnover and increase firm's value

of achieving cost-effective diversification. Other entrepreneurs who expanded the scale of their operations as a result of diversification did so through new firm-creation (B, E). Entrepreneurs who wanted to increase the scale of their activities in existing markets did so through staff recruitment (D, H, S) and in one case, buying out a rival firm (J). A common theme which may account for the predominantly “internal” growth methods used by entrepreneurs in this sample was clear in comments made during interviews, and centred on the desire to control decision making as the firm expanded its activities. This desire was evident in all of the cases of growth-orientated entrepreneurs, whether they were originally motivated by financial rewards or self-actualisation. Growth through recruitment in the existing business, or through installing professional managers in new associated firms, was perceived as a way of maintaining entrepreneurial control of the firm in order to achieve desired objectives. Another important aspect of entrepreneurs’ choices of growth method can be related to the fact that even in information-efficient local factor markets, there are still transaction costs which must be incurred if the market is used in the process of negotiating contracts (Williamson, 1975). Bryson (1996) found that rising negotiation costs with clients were a major factor in the decision of business service entrepreneurs to undertake larger, more cost-effective contracts. Evidence from this sample, however, suggests that the same reasoning can be applied to relationships with subcontractors. The transaction costs of negotiating and monitoring contracts with subcontractors can be avoided if relevant specialists are employed within the firm, and their performance monitored directly, rather than by the market. Given the emphasis which the entrepreneurs placed on their reputation and quality of service in generating business, the consensus among this sample was that this can be better controlled within the firm than by using subcontractors. It would appear, then, that the growth method selected by entrepreneurs in this sample was determined not only by extrinsic market conditions, but also by powerful intrinsic motivations.

5 Conclusions

This study has examined the dynamics of the entrepreneurship process in a sample of small business service firms in the west of Scotland. The nature of the analysis is such that the trends identified cannot be inferred to the wider population of business service firms. However, in common with previous studies of business service entrepreneurs in other regions by Bryson (1996) and Kirby and Jones-Evans (1997) it was found that entrepreneurs in the sample were highly educated professionals with managerial experience, the majority of whom were “pulled” into business by positive motivations, rather than pushed by redundancy. The primary motivations of pulled entrepreneurs, in order of relative importance, were found to be self-actualisation and financial reward.

A key difference from previous studies was identified, in that one half of the sample had previously been employed in a small firm. Thus there is some evidence from this sample that small firms can act equally effectively as large

firms in “incubating” business service entrepreneurs. There is an important implication here for local economic development given the rapid growth in the numbers of small business service firms, and the polarisation of the sector into very large national players and small local players (Keeble *et al.*, 1991). Small firms who are more “embedded” in local economies may also be important incubators of entrepreneurial talent in this important sector (Bryson, 1996). This possibility seems to merit further attention and future studies may take this factor into account.

The major contribution of the study towards gaining a fuller understanding of business service entrepreneurs is in finding that the majority of entrepreneurs in this sample did change their motivations over time. The triggering factors behind such change included both extrinsic factors which relate to a change in market conditions, and intrinsic factors which relate to a change in entrepreneurs’ expectations of their performance. Among pulled entrepreneurs, growth was the new objective in all cases, although it was not an initial objective for any. Furthermore, one entrepreneur who was initially pushed into entrepreneurship became pulled into pursuing growth during the course of the business as a result of positively revising expectations of their performance. This suggests that even entrepreneurs who do not initially possess characteristics associated with high-growth firms may end up running such a firm, with the subsequent benefits for local income and employment.

In all cases of growth-orientation, however, increasing profitability was found to be the fundamental objective, and this was evident among entrepreneurs who were both motivated by pecuniary rewards and self-actualisation. The importance of intrinsic entrepreneurial motivations was demonstrated further in that internal methods of growth were generally preferred to subcontracting in order that entrepreneurs could retain a higher degree of control of decision making and monitoring of employees’ performance.

The case for encouraging the promotion of small business service firms is strengthened by the findings of this study. The existence of changing objectives may suggest that even small business entrepreneurs who are initially pushed can develop growth firms and generate employment. This is in line with findings by Keeble *et al.* (1991). There is evidence from this study that small business service entrepreneurs choose to adopt an internal growth strategy. This is to prevent problems with subcontractors, over whom entrepreneurs have limited control over quality and payment. This may suggest that small business service firms involve a low level of personal and business risk and will be well equipped to perform during periods of recession, as noted by Bryson (1996). These firms may therefore be a low-risk proposition to lenders, as the probability of their survival is high. In turn, this should encourage the provision of start-up capital to small business service firms. If a process of carefully controlled and profitable growth is common in small business service firms, this has many positive consequences for local economic development in terms

of their survivability, and their contribution to local employment and income multipliers.

Although this exploratory study has identified the importance of entrepreneurial dynamics in understanding the performance of small business service firms, further research is required in this regard in order to gain a fuller appreciation of the nature of change in these firms, and how this knowledge can be applied to stimulate the growth and development of an increasingly important sector. In particular, future research could focus on the nature of goal-setting in small business service firms, and the relationships between the autonomy motive, the desire for profitability, and the pursuit of growth.

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