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978-0-521-85518-1 - Entrepreneurship and New Value Creation: The Dynamic of the Entrepreneurial Process

Alain Fayolle

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[More information](#)

Introduction

Why and how is it that some individuals decide they want to create businesses and then actually do so? Why and how is it that others do not, even though they appear to have what it takes to succeed in business? These two questions were among the first that researchers in the field of entrepreneurship tried to answer. Today, it seems that the problem is much more difficult to solve than it first appeared thirty years ago. It is not enough for someone to have a strong desire for achievement or a high tolerance for risk in order to choose an entrepreneurial career path. The venture creation phenomenon is a complex one, covering a wide variety of situations. We can no longer expect multiple criteria, or additive and linear models, to be wholly predictive, although they may have a ‘here and now’ probabilistic predictive power.

The main purpose of this book is to present a **generic model and a theoretical framework of the entrepreneurial process in order to improve our understanding of its complexity**. The qualitative model developed here is based on numerous research findings in the field of entrepreneurship and my own research programme which began in the 1990s. Therefore, this work is based on hundreds of new business creation cases that I have observed and supported over this period.

Before presenting the contents and positioning of this book, I feel it is important to give a dual historical perspective in this introduction. The first perspective addresses the notion of ‘entrepreneur’ which is so often used and misused that it has lost most of its meaning, while the second focuses on research in this field and aims at highlighting some of its shortcomings.

The notion of ‘entrepreneur’ over time

The conception of the ‘entrepreneur’ has evolved over time, just as economic activities have become more complex too. At the dawn of

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Excerpt

[More information](#)

the industrial revolution, entrepreneurs were sorts of intermediaries; they were seldom the ‘producers’. They were characterised by their aptitude to take risks. Then they became the cornerstone of economic development, starting to produce and innovate, while still taking the risk.

In the Middle Ages, the French word ‘entrepreneur’¹ designated a person who performed a task. Later, it referred to a bold individual, keen on taking economic risks. In the sixteenth and seventeenth centuries, the entrepreneur was an individual who engaged in speculative activities. The term did not yet refer to the manufacturer, nor to the seller or the trader, but generally to a person who had a contract with the king to undertake the construction of a public building or ensure the provision of supplies to the army (Vérin 1982).

In short, ‘the entrepreneur was a person who was under contract to the government for a service or the supply of goods’.² Hence, the risks taken were essentially financial, as the amount allocated for this service was arranged prior to the execution of the contract.

The general meaning of ‘entrepreneur’ in the seventeenth century was ‘a person who undertakes to do something’, or even a very active individual. The *Dictionnaire universel du commerce*, published in 1723 in Paris, gives the following definitions for the French word:

entrepreneur: he who undertakes to do a particular piece of work. We say: ‘entrepreneur in manufacture’ to mean ‘manufacturer’, ‘entrepreneur in masonry’ to mean ‘a mason’.

In 1735, *L’Encyclopédie* of d’Alembert and Diderot defines the entrepreneur as somebody who is in charge of a job.

In Emile Littré’s *Dictionnaire de la langue française*, published in 1889, the definition also refers to the act of ‘undertaking’: ‘he who undertakes to do something is an entrepreneur’. In the *Century Dictionary* (1889–91),³ the entrepreneur is ‘one who undertakes a large industrial enterprise, a contractor’.

¹ Entrepreneur comes from the French: ‘from old French enterprise, from past participle of *entreprendre*, to undertake: *entre-*, between (from Latin *inter-*) + *prendre*, to take (from Latin *prehendere*)’, *The American Heritage Dictionary of the English Language*, 4th edn, Boston: Houghton Mifflin, 2000. Accessible online at www.dictionary.com.

² Definition from the *Dictionnaire universel* of A. Furetière (1690), vol. 1, p. 951.

³ William Dwight Whitney and Benjamin Eli Smith (eds.), *The Century Dictionary*, rev. edn 1911 (first published 1889–91).

Cambridge University Press

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Alain Fayolle

Excerpt

[More information](#)*Introduction*

3

Today *Le Petit Robert* gives three definitions of the word ‘entrepreneur’. The first definition is exactly the same as that given in the *Dictionnaire de la langue française* previously mentioned. The second sees the entrepreneur as a ‘person in charge of performing a job’. Finally, in a more economic perspective, the entrepreneur is ‘any person who manages an enterprise of their own, and implements the various factors of production (land, labour, and capital) in order to sell goods or services’. The *American Heritage Dictionary*’s definition⁴ is in the same vein: ‘a person who organizes, operates, and assumes the risk for a business venture’.

Although the definitions of the entrepreneur proposed through the ages vary slightly in meaning and precision, there remains a constant in them: the entrepreneur and risk-taking are closely linked,⁵ and this from the very first time the notion was mentioned in written form (Cantillon 1755). At the beginning of the nineteenth century, Jean-Baptiste Say (1803) associated the entrepreneur with innovation, a notion later made popular in the Anglo-Saxon world by Schumpeter (1934).

Moreover, in the economic literature, the entrepreneur is presented with multiple facets and combines the roles of capitalist, innovator, opportunist, and even coordinator and organiser of resources.

In continuity with the works of Joseph Alois Schumpeter, former Minister of Finance of the Austro-Hungarian Empire who established himself at Harvard University in 1932, Anglo-Saxons, and more particularly Americans, have often identified the entrepreneur as a creator of new ventures. Schumpeter wrote extensively about the relationship between the entrepreneur and innovation as well as the entrepreneur’s role in identifying opportunities. He saw in the entrepreneur an individual capable of revitalising existing businesses rather than a simple company creator. This led Harvard teachers in administrative science to associate innovation with the aptitude to identify business opportunities. They realised how hard it was to teach how to innovate, which led them to introduce a lot of creativity in their teaching of management.

⁴ *American Heritage Dictionary*, 4th edn.

⁵ See also the following definitions: ‘Someone who organizes a business venture and assumes the risk for it’, *Wordnet* 2.0, 2003, Princeton University; or ‘A risk-taker who has the skills and initiative to establish a business’, in David L. Scott, *Wall Street Words: An A to Z Guide to Investment Terms for Today’s Investor*, Boston: Houghton Mifflin, 2003.

Cambridge University Press

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Alain Fayolle

Excerpt

[More information](#)

This approach, introduced in the 1960s and 1970s, still constitutes one of the main differentiating assets of the Harvard Business School teachings over those of other schools of management.

One of the first to speak of the entrepreneur in terms of a creator was Jeffrey A. Timmons in several pedagogical works, and in particular in his book *New Venture Creation*. This book, first published in 1977, then re-edited several times featuring various co-authors, has become a classic in venture creation in the United States (Timmons and Spinelli 2004). All the editions of this book include a chapter devoted to the identification of opportunities, which is exceptional for a book on business plans, as this theme, though of crucial interest for entrepreneurs, generally receives little attention in such works.

Howard Stevenson, former entrepreneur and tenured professor of the Sarofim-Rock Chair of Business Administration at Harvard Business School, has synthesised this approach, which was already present in the teachings of his institution. He proposed a concise definition of the entrepreneur, which clearly associates the entrepreneur with his or her aptitude to identify business opportunities.

This definition is often cited and endorsed by researchers: that entrepreneurship is a field that is interested in the identification of business opportunities by individuals and organisations, and their pursuit and exploitation, independently of the directly controlled resources. This conception of entrepreneurship assumes that in an entrepreneurial situation there is always a significant tension between the available controlled resources and the resources necessary to transform the opportunity. The entrepreneurial capacity amounts to the actor's capacity to identify a favourable situation and exploit it by using a minimum of resources.

Filion (1990) suggested that the entrepreneur, more than any other economic actor, is a person who develops systemic thinking; in other words, entrepreneurs organise their activities in order to achieve the goals and objectives they wish to reach in the future. The study of entrepreneurs, compared with studies of other organisational actors, reveals individuals who have further developed forward thinking. They think more about the future and the long term, and organise their activities according to the goals and objectives they want to achieve.

This perspective leads to the following definition by Filion (1991): 'an entrepreneur is an individual who conceives and develops visions'. The author sees the vision as 'a space to occupy in the market and

Cambridge University Press

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Alain Fayolle

Excerpt

[More information](#)*Introduction*

5

the type of organisation required to achieve this'. This implies that entrepreneurs define the strategic contexts in which they will structure their activities (which requires good differentiation skills), whereas other organisational actors evolve within contexts defined by others.

Entrepreneurship can also be understood as a process that can take place in various environments and in various configurations. This is how it introduces changes into the economic system, through the innovations developed by individuals and organisations. These innovations generate economic opportunities, or react to them, and the result of this process is the creation of social and economic wealth for both the individual and the society.

This vision of entrepreneurship highlights the notion of wealth or value creation. Value creation is one of two dimensions proposed by Christian Bruyat (1993) to define the field of entrepreneurship. According to him, an entrepreneurial situation may be evaluated on two axes. The first one indicates the degree of change for the individual and so the degree of personal risk inherent in the entrepreneurial function, and the second measures the intensity of value creation through the potential of the project or innovation. The advantage of this approach is that entrepreneurial situations can be qualified according to these two criteria. This approach also makes it possible to distinguish areas of strong consensus and areas in which using the word 'entrepreneurial' may be debatable.

By way of example, for Christian Bruyat, the creation of a technological and innovative enterprise is considered a highly consensual situation, as opposed to situations of intrapreneurship (acting entrepreneurially in existing organisations) which correspond to more questionable contexts of action and are, in fact, often challenged.

The idea of associating the entrepreneur with the creation of value is very interesting and brings us back to the origins of the understanding of what an entrepreneur is. It is indeed very present in Cantillon's (1755) and Say's (1803) works, and even in Karl Marx's; they all contributed greatly to distinguishing between capitalistic profits and entrepreneurial profits. Their assumption was that the entrepreneur's profits were superior to capitalistic profits, given the novelty created (Say and Marx) and the risk taken by the entrepreneur (Cantillon).⁶ In

⁶ This aspect is also illustrated in the following quotation used as an illustration to the definition of 'entrepreneur' in *The Century Dictionary* (rev. edn 1911):

Cambridge University Press

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Alain Fayolle

Excerpt

[More information](#)

all these definition attempts, we find more or less explicitly the notions of individual, action, innovation, opportunity, risk, and organisation and value creation. These factors constitute necessary and perhaps even sufficient conditions for the existence of entrepreneurs and entrepreneurship.

Chronology and issues of entrepreneurship as a research field

Entrepreneurship as an academic discipline started to develop in the post-war years with an economic and historical perspective at the Research Center in Entrepreneurial History. This was created in 1948 in Harvard, and experienced intensive activity for about ten years, under the leadership of Arthur Cole. Prestigious authors, like Cochran, and Chandler (in management), came out of it. However, historical research progressively dwindled, owing to a lack of consensus on the concept of entrepreneur and a failure to produce satisfactory theories. In the late 1960s and early 1970s, it prospered again, with the research in management of small and medium size enterprises (SMEs) and in psychology. The 1970s crisis was a formidable boost because of the increase in unemployment and the rehabilitation of SMEs as sources of employment, as well as the loss of momentum of Marxist and structuralist theories. It was not until recently that the field could gain its independence from SME-related research, through the elaboration of its own specific tools. The creation of reviews, specialised conferences and scientific departments all testify to this evolution.⁷ The critical mass seems to have been attained in the United States, while the movement is still being structured throughout Europe. As an illustration, we may note here the article by Chandler Gaylen and Lyon Douglas (2001), which lists over a decade the publication of 416 articles concerning entrepreneurship in nine American reviews, two of which alone account for 347 articles (*Entrepreneurship Theory and Practice* and *Journal of Business Venturing*). This does not include

‘The most difficult part of Mr Walker’s teaching is perhaps his view that profits – i.e. the employer’s or entrepreneur’s, as distinguished from the capitalist’s share of the product of industry – cannot be reduced to the same category as interest or wages [Westminster Review (CXXV, 553)].’

⁷ The year 1986 for the Academy of Management in the United States, and more recently in France (1997), with the creation of the Académie de l’Entrepreneuriat (Academy for Entrepreneurship).

Cambridge University Press

978-0-521-85518-1 - Entrepreneurship and New Value Creation: The Dynamic of the Entrepreneurial Process

Alain Fayolle

Excerpt

[More information](#)*Introduction*

7

all the conferences, communication papers, theses and articles published in French journals or elsewhere. France appears not to be lagging behind in terms of support for company creation, thanks to the Agence pour la Création d'Entreprises (Business Start-up Agency), which has played an important role in this matter, but the situation is quite different when it comes to research and education in the field.

Since Schumpeter, the creation of technological enterprises or innovative activities⁸ has represented the archetype of entrepreneurship. In the 1960s and 1970s, Roberts and Wainer (1968) as well as Cooper (1973) took a particular interest in business start-ups initiated by university laboratories and the emergence of technological enterprises in the Route 128 region (around Boston, United States) and in Silicon Valley. These studies,⁹ which have since been developed, are essentially exploratory and descriptive. They have made it possible to draw the portraits of founders, to understand better what led to the success or growth of the businesses created, and to identify the environmental conditions that favoured their emergence as well as their stimulating influence on the local economic fabric. This type of research, which was very active in the 1980s and 1990s, has fallen out of favour, because of its failure to produce useful theories and tools for action.

In the 1990s, research developed with the aim of achieving a better understanding of the process aspects of the phenomenon, and to produce theories 'explaining' the growth or performance of these companies. The works of Kazanjian and Drazin (1990) and Naman and Selvin (1993) are good illustrations of this trend. Sandberg and Hofer (1987) attempted, to little avail in our opinion, to test a multifactorial explanatory model. Eisenhardt and Schoonhoven (1990) also used a multifactorial explanatory model including factors related to the environment of the business start-up, its founder's characteristics and the strategies involved. They insisted on the important impact of time on the performance of the companies created. Research highlighting the importance of networks or relying on the resource-based approach has also been developed (Venkataraman and Van de Ven 1998). The types of research previously mentioned which are in line

⁸ We will not enter the debate about the semantic assimilation of innovation and technology here.

⁹ Concerning France, Philippe Mustar's inputs since the mid-1990s should be noted (see particularly Mustar 1997). We may also mention the works by Julien and Marchesnay (1996).

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Alain Fayolle

Excerpt

[More information](#)

with the classic American paradigm of management run up against two main difficulties which both limit and weaken their results. The first difficulty is linked to the validity and accuracy of the measurement. How do you measure the performance of the companies created? Can the entrepreneur's goals be put aside? The second one relates to the notion of process and temporal non-homogeneity. When should performance be measured, for instance?

Presentation and positioning of this book

The objective of this work is to explore and engage with these important questions. It also aims at providing undergraduate and postgraduate students, teachers, researchers and practitioners with conceptual and theoretical bases, firmly grounded in management science, in this relatively new discipline.

Rather than attempting to represent the diversity and richness of all the research conducted in this field, we have chosen to focus on a particular concept of entrepreneurship and to propose a coherent vision of a complex 'object'. We consider entrepreneurship as a **process** (of company creation, company takeover, etc.), and as synonymous with **movement** and **change** for individuals and organisations. Entrepreneurship is an **individual/new value creation dialogic**, which means that it corresponds to specific situations in which both the individual's and the project's (potentially the bearer of new value creation) perspectives will be combined and confronted to generate a logic of 'duality' or 'couple'. This concept, where entrepreneurship is seen as a process, is in line with the main streams of research in the field. The individual/new value creation dialogic also enables a more scientific approach in conceptualising the individual/project pair which is systematically referred to by the professionals and practitioners concerned.

The book is composed of twelve chapters organised into four parts.¹⁰ We develop the main concepts of entrepreneurship in the first part, as well as the various perspectives and social fields with which it interacts. Entrepreneurship can be addressed as an economic and social phenomenon, a research object and a teaching subject. In the second part,

¹⁰ The general introduction does not present the chapters' contents in detail. Readers who wish to have an overview of each chapter should refer to the introductions of each part.

Cambridge University Press

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Alain Fayolle

Excerpt

[More information](#)*Introduction*

9

we define the characteristics and components of the entrepreneurial system, based on the works of Bruyat and Julien (2001), then develop the two dimensions of the individual/new value creation dialogic. In the third part we develop the foundations and implications of the process-based approach we have chosen. We propose in particular a model of the entrepreneurial process in its synchronic and diachronic aspects. Finally, the fourth part of the book is devoted to developing entrepreneurial process dynamics. Each phase in the model is explored, and theoretical frameworks aimed at better understanding the phases are proposed and justified. In our conclusion, we show how the study of entrepreneurial processes can be done through research-action approaches in order to overcome the difficulties usually encountered in this type of research.

We hope that this book will provide everyone who is interested in the subject of entrepreneurship with a means of understanding a very complex field, whatever the final objective: be it learning to be entrepreneurial or learning in order better to understand.

Finally, before closing this introduction, I would like to extend my warmest thanks to my colleague and friend Christian Bruyat. The ideas and perspectives developed in this book owe much to his own works in this field, which, together with our regular exchanges, have been a real source of inspiration.

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Alain Fayolle

Excerpt

[More information](#)

PART I

Perceptions of entrepreneurship

The third millennium seems marked by a renewal of the entrepreneurial spirit, which affects all countries and all sectors of economic and social life: business start-ups or takeovers, associations and even public services. Let us refer to the words of Claude Allègre, French Minister of National Education and Research at the time, in an interview published in *Les Echos*, on 3 February 1998: ‘I want to instil an entrepreneurial spirit in the education system’ in an attempt to raise awareness of entrepreneurship within this institution. He also added, to clarify his vision: ‘The objective, which concerns higher education at large, is to get people used to creating companies while they’re young, and to invent new techniques. I would like more innovators, and fewer scholars.’

So entrepreneurship has become a ‘burning issue’: teachers, managers, executives, consultants, politicians, everybody, or almost everybody, feels concerned. Entrepreneurship teaching is developing; classes for students and specific training courses for entrepreneurs have been available for quite a few years now. Incubators and structures for the support of creation and/or development of new venture projects are springing up everywhere in the world, to meet an ever growing demand. Large corporations are particularly interested in this phenomenon and seek the best programmes and institutions in an attempt to increase the awareness of their executives, and bring them to emulate the behaviours and attitudes of entrepreneurs who create economic and social value. The rapid changes affecting the societies of many countries are clearly linked to this renewed interest. Numerous works have underlined the cause–effect relationship between some environmental changes (globalisation of markets, acceleration of scientific and technological progress, demographic and geopolitical fractures, etc.) and their consequences on societies, companies and individuals (Fayolle 2003a; Fayolle and Fillion 2006). It seems to us that these fundamental changes are likely to give entrepreneurship, as a phenomenon and