

Identifying Entrepreneurial Spirit: A methodological and empirical analysis

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Abstract

This paper identifies the domain and distinctive characteristics of entrepreneurial spirit from an empirical data analysis of SMEs. It identifies the multidisciplinary domain of entrepreneurial spirit and establishes that innovation is the essence of entrepreneurial spirit. It highlights the dualistic nature of the concept and presents the distinctive characteristics of entrepreneurial spirit. The paper demonstrates that a qualitative methodology for studying the key variable innovation, and an integrated conceptualization of innovation that is juxtaposed in the context of the SMEs holistic strategy management process, are a necessity to uncover the presence of entrepreneurial spirit in organisations. This paper thus contributes to entrepreneurship theory and practice. Implications for public policy and future research directions are presented.

Key words: Entrepreneurial spirit, Innovation, SMEs

Introduction

There is no doubt that unless some of the entrepreneurial spirit that started the business remains within the organisation, the business will plateau and become stagnant (Duran 2004). Thus, although entrepreneurial spirit has been widely accepted as the vital means for promoting and sustaining corporate competitiveness, even more so in recent times due to globalization and threats to competitive advantage, the inputs, process and management of entrepreneurial spirit remains a mystery. The domain of the concept has not been empirically identified. Its manifestations in corporations have not been described and its distinctive features have not been explicitly delineated in the literature. The study of entrepreneurial spirit is still in its infancy.

This paper seeks to contribute to the literature in two ways. First, this paper attempts to clarify through empirical data, the manifestation of entrepreneurial spirit. In particular, it argues that innovation is the essence of entrepreneurial spirit and hence a mapping of the inputs, process and management of innovation can uncover entrepreneurial spirit. Second, this paper proposes a methodology for mapping innovation and demonstrates the effectiveness of the methodology in identifying entrepreneurial spirit

Conceptual overview

The focus of this paper is to identify the domain and the distinctive characteristics of entrepreneurial spirit, and demonstrate the appropriate methodology for studying entrepreneurial spirit

Despite several mentions of the term, literature is scarce in the description of the concept of 'entrepreneurial spirit'. However, five basic issues in the literature helped us frame the research.

The first issue concerns the connotation of the term 'entrepreneurial spirit', albeit scant, in the existing literature. In his discussions on the 'Spirit of Entrepreneurship', Abdnor (1988) observed, "It is the spirit of adventure, the spirit of enterprise; the spirit that creates jobs and innovation in countries across the world; the spirit that breaks down social barriers and creates the opportunity for upward mobility for thousands of men and women". Gilder (1971) seems to be saying much the same when he stated, "the spirit of enterprise wells up from the wisdom of ages and history and infuses the most modern of technological adventures...It is the source of all we are and can become, the saving grace of democratic politics and free men, the hope of the poor and the obligation of the fortunate, the redemption of an oppressed and desperate world" (cf Morrison 2000).

The descriptions without exception allude to an individual or micro aspect of the term, akin to Abraham Maslow's concept of 'self-actualisation' of the individual. Simultaneously, the descriptions also imply a macro aspect, stating the existence of a spill over effect from the individual to the society and humanity that is akin to social capital and civic entrepreneurship. The micro and macro aspects do not occur as linear, isolated independent events, but as a simultaneous interplay, with one constantly nourishing the other, and in turn creating a ripple effect that starts with the individual, progresses to include the society and envelopes the humanity. This process is enduring. Besides, from the definitions provided, one cannot help noticing the crucial role of innovation in the interplay and in the sustainability. Thus, the analysis highlights two crucial aspects of entrepreneurial spirit – its duality and interplay of the individual and the society and, the enduring aspect that automatically creates conditions for sustainability.

The second issue concerns the existing domains that are coherent for an investigation of entrepreneurial spirit. Entrepreneurship and innovative Small and Medium-sized Enterprises (SMEs) have been acknowledged by academics and policy makers as playing a critical role in sustaining and promoting economic growth. The inter-disciplinary area of entrepreneurship, small business and innovation is currently catered for by over 50 journals (McElwee and Atherton 2005), and SME policy makers have conducted themed conferences and published extensively in this field (for example, the OECD conference in 2004 on 'Promoting entrepreneurship and innovative SMEs in a global economy; EFMD - Entrepreneurship, Innovation and Small Business conference in 2005 on 'Sustaining the entrepreneurial spirit over time'). Hence, small entrepreneurial enterprises have taken on a new importance and value in promoting sustainability especially in a knowledge-based economy (Audretsch 2004). As articulated by UNDP (2004), "Where small businesses can't grow, countries can't develop".

Recent empirical evidence further suggests that the symbiosis of entrepreneurship and innovation has the unique ability to impart flexibility and self-renewal to any activity thereby benefiting industry, society and public service (Velamuri 2002). Such a spill over from business to society seems to occur due to a significant positive relationship between a particular type of entrepreneurship that encompasses civic, social and cultural factors, and creation of knowledge communities (Yamada 2004). Yamada citing Flora and Sharp, stated that the role of social capital in a certain region could be discussed in terms of an entrepreneurial infrastructure that becomes a base for spontaneous growth of new ventures, suggesting a strong reciprocal relationship between this type of entrepreneurship and social capital. Clearly this is the

'ripple effect' created by entrepreneurial spirit that was pointed out earlier.

Following the discussions, then, it is apparent that the relevant domains for investigating entrepreneurial spirit are entrepreneurship and small business. The small business sector has the added advantage of being relatively free from the influence of other moderating variables such as bureaucracy, agency costs, complex information systems, and material motives (Verhees and Meulenberg, 2004) which impact large organisations, and this aids the isolation of a concept while it is being investigated.

The third issue concerns the choice of the variables from the selected domains of entrepreneurship and small business that can best explain entrepreneurial spirit in terms of its duality, innovation and sustainability. The literature on entrepreneurship is vast and growing everyday. In its simplest form, entrepreneurship is defined as "capturing ideas, converting them into products and, or services and then building a venture to take the product to market" (Johnson 2001). The currently prevalent notion takes into account the dynamic nature of entrepreneurship. It is "activities to promote socio-economic stabilisation and effective utilisation of resources by stimulating socio-economic progress, creating new values, and providing employment opportunities" (Yamada 2004). The dynamic perspective considers the primary role of entrepreneurs is to acquire knowledge and create social capital through innovation, risk-taking, proactiveness, network expansion, team building, organisation creation, and creation of knowledge communities. The entrepreneurship literature also cites the fact that not all entrepreneurship is beneficial... introducing terms such as The interconnectedness between innovation and entrepreneurship has also been established in the literature. Velamuri (2002) quotes Drucker who emphasized the 'inseparable nature of the relationship' between innovation and entrepreneurship thus: "...innovation and entrepreneurship are not "root and branch" but "one step at a time", a product here, a policy there, a public service yonder..." The literature on small business is equally vast and a well-known fact is that many small businesses are highly innovative as start-ups but eventually fail to maintain the competitive advantage as they grow. Although several studies have examined the ways in which large and small firms can sustain their competitive advantage, the extant innovation literature has very few studies (for example, Audretsch 2004) that include or address the following question: How can SMEs sustain the innovations? Some studies have looked at the succession in family businesses, but eminent researchers have called for rigorous investigations that consider issues beyond succession (Tanewski, Prajogo and Sohal, 2003). The linking role of innovation in entrepreneurship and small business is

evident. As ... mentioned, not all small businesses are entrepreneurial. It is the presence of innovation that earmarks the entrepreneurial small businesses.

From the theoretical discussions so far, one important fact can be established. Innovation is the single most important factor that links the domains of entrepreneurship and small business, and, the common factor that links these domains to the concept of entrepreneurial spirit. This means that innovation can be the variable for studying entrepreneurial spirit. From this, we can also hypothesize that while entrepreneurial firms are more likely to be found at the nexus of entrepreneurship and small business, firms with entrepreneurial spirit are more likely to operate in a narrower region, the nexus of civic entrepreneurship and small business. The domain of entrepreneurial spirit is proved theoretically.

The fourth issue follows from the choice of innovation as the key variable in our investigation of entrepreneurial spirit. Generally, the burgeoning innovation literature until now has tended to explore specific aspects of innovation such as the innovation processes and models, or the types of innovation such as technological, administrative, product or process, or the determinants, antecedents and sources of innovation (Gudmundson, et al 2003). However, Subramanian and Nilakanta (1996) demonstrated that innovation is a multi-dimensional concept and exhibits a complex relationship to the organisational factors and firm performance. Damanpour (1996) held a similar view and stated that innovation theories including only two or three variables have limited predictive ability (Damanpour, 1996). Therefore, currently there is a general agreement among scholars that innovation refers to 'new ways of delivering an existing product or service to existing or new markets, different methods of communicating with the customer regarding a product and its promotion, or new ways or organizing the company and managing relationships' (Cummins et al, 2002). This broad conceptualisation confirms that innovation is multi-dimensional and complex and innovation studies must integrate the entire innovative activity consisting of the range of inputs, the variety of processes and its management. Kimberly and Evanisko (1981) mentioned that although several authors with a variety of disciplinary background have synthesized the research on innovation that has yielded an impressive amount of empirical research, much remains to be learned about the conditions and process of innovation. Despite a surge of research subsequently, this call does not seem to have abated, pointing to the emergence of new gaps in knowledge. Gudmundson, D., Tower, B.C., and Hartman, A.E. (2003) mention, "although there is little to debate about the significance of innovations to the long run competitiveness of small firms, there remains a great deal to be learned about the determinants of

innovative activities within these organisations". This points to the need for a synthesis.

Recently, researchers have reported a strong correspondence between a firm's strategic decision-making process and innovation (Kickul and Gundry 2002; Pratali 2003; Tanewski, Prajogo and Sohal, 2003), necessitating that innovation in organisations, cannot be examined in isolation. Rather, innovation should be examined within the context of the firm's management of opportunities and its strategic choices. This makes intuitive sense from the integrated and comprehensive view of innovation that we discussed earlier. Only such a perspective will depict the ways in which the entrepreneur acquired the knowledge, the firm's choice of opportunities, and the strategic manner in which the innovations are managed for competitive advantage and niche positioning.

The final issue concerns the debate on the most suitable method to study innovation. In the last few years, the increasing number of studies on innovation in SMEs have positioned innovation either as the predictor variable, as a dependent variable, or as a moderating variable. In these studies, a quantitative approach to studying innovation predominates. The qualitative studies have generally used manual coding techniques or qualitative software to identify themes. The common finding that has emerged from the voluminous literature is that 'innovation in organisations does not follow cause-effect rationale, reflecting non-linear behaviour' and that the process is even more complex in small firms (McAdam and Keogh 2004). This is because, 'owner managers did not undertake consistent structured processes for product development' (Hovgaard and Hansen, 2004). McAdam and Keogh (2004) cite King who observed that 'innovation is a process that is fluid', involves 'untidiness' and 'backtracking' and does not exhibit a fixed sequence of stages, and calls for more research on the 'interactive process perspective' of innovation. Adams and Lamont (2003) observe, "it could be especially interesting to employ a case study methodology to examine the processes firms employ to revitalize products, services, and processes, and to investigate the formal and informal nature of these change mechanisms". This discussion in literature supports the qualitative methodology for examining innovation. Such a method will allow the respondent to explicate the unstructured process of innovation. As Pratali (2003) stated, "it leaves the decision makers the freedom to decide at what level of detail to handle the available information, thereby facilitating and fostering in-depth analysis and systematic diagnosis of issues...".

This paper addresses all of the above issues. The purpose of this paper is to demonstrate the domain and distinctiveness of entrepreneurial spirit through a detailed account of how innovation was inspired, adopted and managed in two SMEs. The significance

of focusing on innovation is due to its unique role as the single common factor in small business and entrepreneurship, the combination where entrepreneurial spirit is more easily identifiable. This paper differs from other empirical work on innovation in SMEs, in three ways. Whereas previous studies focused on only particular aspects of innovation, we examine innovation in its multi-dimensional and complex form. We place innovation in the context of the SMEs strategic management processes to locate the inspiration, trigger and adoption of innovations. Third, we extend the innovation analysis to include sustainability of the innovation in an attempt to define the domain and distinctiveness of the concept of entrepreneurial spirit.

Methodology

Research design

Individual SMEs are the unit of analysis in this study. As Kimberly and Evanisko (1981) mentioned, one method of moving toward a general understanding of a concept is through intensive analysis in one particular sector of the economy, as the concentration of research focus will help to identify and isolate factors that clarify the nature of the phenomenon of interest, in this case, entrepreneurial spirit. More importantly, the SME sector is where the symbiosis of entrepreneurship and innovation is at its best, as it is relatively free from the influence of other moderating variables such as bureaucracy, agency costs, complex information systems, and material motives (Verhees and Meulenberg, 2004).

To identify an SME, this study adopted the general definition of SME used by the Australian Bureau of Statistics (2002) and is based on employee numbers. Accordingly, a business with less than 20 employees is a Small business, and a business with 20 to 199 employees is a Medium-sized business.

In accordance with the support in the literature for qualitative methods, and in order to address the multi-dimensional and multi-disciplinary nature of innovation as we discussed earlier, a semi-structured interview method (see schedule in appendix 1) was used to collect the data for this study. The schedule merely served as a guideline. The respondents were asked to explain the trajectory of their firm from the start of the enterprise. Pioch and Byrom (2004) cite researchers who have stressed the usefulness of using the 'tell me about ... approach' when interviewing small business decision-makers. This approach also helps us identify any other unique innovation strategies that may exist in organizations, other than what exists in the literature, since there is no single optimal organizational design that fits all (Tang 1998).

Sampling and data collection

This study used the Dun and Bradstreet (DNB) Business Who's Who database, which was accessed during July 2004. Usage of the filters, 'Manufacturing', 'Victoria' and '0-199 employees', yielded 1092 firms which was taken as the population frame. Manufacturing was chosen since Victoria's manufacturing sector is the largest in Australia providing 15% of all Victorian jobs and over 60% of total exports, generating 16% of Victoria's economic activity and accounting for 53% of business spending on research and development (Office of Manufacturing Department of Innovation, Industry and Regional Development, 2003). Researchers (McMahon, 2001) have emphasized that Australian manufacturing has also been a major preoccupation of policy-makers as the sector has been characterised as non-competitive by international standards, besides the fact that over 99% of all businesses in the Australian manufacturing sector are SMEs.

A stratified proportionate sample from the 20 sub sectors of manufacturing that would be representative of the population required 30 firms to be selected. Businesses from the population frame were selected at random and a telephone call was made to the CEO/Owners. The study was described and participation in the interview requested. This process was used to fill the required sample in each sub sector. During the allocated time-period of 2 weeks for data sourcing, 42 firms were contacted of which 23 agreed, translating into a response rate of 55%.

The owner managers of the 23 SMEs were interviewed during July-August 2004 using the interview guideline. The face-to-face interview was conducted by two researchers, and lasted approximately two hours. The interview location was usually the participants' firm, and the interviews were audiotaped.

Data analysis

Based on information obtained from the CEO/Owner, two researchers classified each organisation into one of two customer types: Business-to-Business (B2B) or Business-to-Consumer (B2C). Of the 23 firms, 15 served the B2B customer and 8 served the B2C customer. The prevailing literature supports such a dichotomy in markets, arguing that although the B2B and B2C marketing are not fundamentally different, it is important to recognize some B2B market characteristics, buyer decision processes, and buyer-seller relationships are unique from those in B2C markets (Coviello and Brodie, 2001). Sebora, Hartman & Tower (1994) suggested that for organizations selling to other businesses there is less incentive for innovation due to the close and interdependent relationships between the sellers and the buyers, while for the organizations selling to consumers there is more incentive for innovation as

they are rewarded for differentiating their products and segmenting their buyers. Gudmundson et al (2003) found that employees in family business serving business customers reported being neither more nor less empowered than employees in family businesses serving consumers.

The researchers also classified the organisations as family business or non-family business, based on the interview. The researchers adopted Litz's definition, generally accepted in the literature. "A business firm may be considered a family business to the extent that its ownership and management are concentrated within a family unit, and to the extent its members strive to achieve and/or maintain intra-organisational family-based relatedness" (Litz, 1995). Both the SMEs presented in this paper are family firms. A study by Gudmundson, et al (2003) found that family businesses initiate and implement more new ideas than non-family businesses and suggested the need for further research 'into just what that mysterious something might be' so that family businesses could focus more on that aspect and replicate it. While several studies have looked at the differences between family firms and non-family firms (Donckels and Frohlich 1991; Ellington et al 1996; Gallo 1995; Gudmundson et al 2003), the researchers agree that not all family firms are the same, suggesting the need for in-depth study of family firms. Besides, only limited research exists on various practices that can be termed innovative, of family firms (Gudmundson, et al 2003).

The interviews were transcribed, checked for accuracy, and coded into major themes using the software QSR N6 and then verified through discussions by the authors. The major themes explored were: nature of activity; history and strategic trajectory; who are the customers; how does the firm find them; what is the firm's value proposition; what is the firm's value configuration or how does it deliver the value; how does the firm know what the customers want; how does it design the products; how does it communicate with its customers; what kinds of relationships does it have with customers, suppliers, and stakeholders; importance of innovation to the firm; the types of innovation used by the firm; the source and inspiration for the innovations; the role played by customers, suppliers and staff in the innovation process; the owner's managerial qualities and motivation.

Findings

In this section, we present a detailed analysis of the interview data.

The B2C SME Sweet Tooth is a small business manufacturing and distributing sugar free confectionery. With annual revenue of A\$5 million and 18 employees, it started operations in 1969, positioning itself in a niche of the confectionery market – sugarfree confectionery. "I sell a dream, the

possibility of eating sweets without the risks of excessive consumption of sugar", says Jean Pierre, its French born owner – entrepreneur. Hence, its target consumers are those who are health conscious or 'gourmets who wish to keep their natural figures', those on a weight loss program, and diabetics who should reduce their sugar or calorie intake, since the products have on average 40% lower calories in comparison to sugared confectionery. The firm distributes the confectionery to individual shop owners, pharmacies, food chains and departmental stores. The firm uses its webpage, magazines, pamphlets, point of sale material in shops and a couple of television spots a year to advertise its products, indicating a 'push' strategy. The owner's wife is in-charge of marketing and manages the 11 salespersons. She personally delivers the orders most of the time and assists in the points of sale displays in shops. Jean offers his customers small quantity and flexible orders, and services the order promptly, which he says, "is not the norm in the confectionery industry".

How did he decide on the sugarfree niche? His quest for freedom, change and new horizons brought him to Australia from France, and he started as a salesperson for his host who was a distributor of confectionery medal sweets and multi-ware products like perfumes, hairbrushes and accessories. Jean elaborates his philosophy, "Every step which was important in my life, I never intervened. Well, it is to follow the river. If the river gets very tumultuous, I will fight that river, I will try to find an oak to go to the target." While in Australia, a chance meeting with a French chef in Melbourne led to his owning a restaurant. "I found a French man who was cooking beautifully and his name was Jean and the restaurant was called 'Frère Jean'. Anyway, that (the restaurant) was a mistake, but yet again, it was not really a decision, that me going with the flow". When his host in Australia decided to sell his business, Jean decided to buy the company. Very soon, the hairbrushes and accessories market was flooded with cheaper products from China. "I had been concentrating on (selling) hairbrushes and perfumes and they were only a small part (of the total business)". So when their demand fell subsequent to cheaper Chinese imports, Jean was forced to develop the confectionery business. Says Jean, "As you can see, again, this (the choice of concentrating on the confectionery business) was not a huge decision and there was no planning; only a reaction to the situation. This is a river flow again". As the confectionery sales picked up, in 1969, Jean decided to discontinue all other products and concentrate on sugarfree confectionery.

Jean describes his core capabilities to be his thorough knowledge of the product and excellent salesmanship. Jean is a chemical engineer and he says that this knowledge is very useful for product innovations. As soon as he conceives a new flavour, taste, shape or

packaging, he discusses his idea with the appropriate supplier. For instance, when he thinks of a new package design he draws it on a sheet and rings up his designer. Based on several such discussions, the final package design emerges. Similarly, when Jean thinks of a new flavour, or shape, he rings up a manufacturer who makes the confectionery for him according to his specifications. "So that is what I do... I intellectually manufacture. I create recipes. I don't cut the onions to make the dish", says Jean. There are no formal contracts between the firm and the network of suppliers. The relationship is based on handshakes, personal relationships and trust, explains Jean.

One example of a recent product innovation is sugarfree Truffles. How does Jean know that sugarfree truffles will be feasible to manufacture and will have a market? "He (the confectionery manufacturer) said, yes we do that for America. That shows the extra knowledge that I have, which is well in advance of other people (in Australia)", says Jean. Similarly, in the case of packaging, when he sees a particularly attractive picture, his thoughts are on how to adapt it for his use.

Jean manages to ensure that his product innovations are successful through his other core competency, expert salesmanship. Jean says, "I can sell to almost everybody". He articulates that his philosophy of selling rests on the belief that it is very important for a salesperson to be remembered. He explains thus, "On my first sale, I was dressed completely in white and I had a white pussy cat on a leash. People had never seen that in Australia. Some of them still remember me (due to this) and this is the philosophy I adapted to my business". He thus strives to be distinctive as a person and in his product offerings, to ensure his products have a high awareness and recall among the customers.

How has he configured his business to deliver value? Jean retains ownership of the core intangibles-knowledge of market expectations, product and manufacturing process know-how and his competency as a salesman, limiting his ownership of tangible assets to those required for distribution-wholesale storage, computerized order processing and 11 salespersons, and subcontracts everything else to the network. "Even now we (Sweet Tooth Company) still have various possibilities. So if something is going wrong, we can always change", says Jean, highlighting the flexibility. This allows Jean to seize opportunities as they arise and plan incrementally, or 'clutch the oak'.

Sweet Tooth continuously differentiates its products with slight changes in flavour, shape or presentation, to capture the interest of its customers and maintain its niche. This incremental innovation is evident in Jean's explanation, "The importance of having new products is incredibly important, especially if you are positioned in a niche of the market or if you are a

small business, as that's how we can create the interest in the customer. Nowadays people use many perfumes in one day - one for the morning, one for the afternoon, and one for night". Jean explains the strategy he uses to maintain his niche and to sustain the competitive advantage, through the metaphor of a comet. He states, "at the head of the comet there is no competition. It is a new but small market and one can make a lot of money with very little capital. Then you have the tail of the comet, a declining market, so yet again there is no competition, the market is small with some consumers left who still want the declining product, so here again one can make a profit. So these (head and tail) are the two positions where I am always trying to be and I try not to be in the middle position". He also mentions that the reason that large firms are not interested in this niche is due to the small orders. "The infrastructure, for instance, the cost of packaging small quantities is astronomical, so they are not interested."

Will he continue to innovate? Is he interested in growth, domestic expansion, or internationalization? Jean's observations on his motivation and philosophy of life indicate that the B2C has configured itself to suit the life-style of its owner. "We have only one life. I have had a wonderful life and I have tasted many fruits on this earth. If I wanted to be very successful, I would have stayed in France. I came to Australia to have the easiest successful life. So you've got to look at the philosophy of life", says Jean. "Independence and freedom are important to me. As much freedom as possible. I enjoy my business. Money has never been my target in anything that I do. It has never been".

The B2B SME TechnoCasts operates in a niche of the foundry industry and manufactures and sells non-ferrous castings for the engineering and plastics industry. With current revenues of A\$1,500,000 and 20 employees, it started operations in 1986. The company is a pioneer in moulding technology in Australia and constantly innovates to offer its customers high quality castings incorporating the latest technology, which avoids expensive after-delivery machining, and rework for the customer, resulting in a continuous stream of new customers finding the company. As the owner- entrepreneur Tim Grant laughingly states when prompted by the interviewers as to how he finds his customers, "How do I find them? They find me".

Tim explains the reason why his customers come to him. Tim, his wife and 2 sons work closely as a team, with Tim assuming responsibility for overall supervision. The company maintains a personal relationship with customers, most of whom he knows for the last 18 years. Most customers place the order through the telephone without a price indication or quote, and pay the asked price at delivery, an indication of the high level of trust in the relationship, although occasionally this informal order process

results in a problem, “We get caught every now and then, I've got some castings sitting out there for a customer but he reckons he never ordered them”, says Tim. Product delivery is also personal. “We use couriers, carriers, or I take a car home and leave it at my front door and customers pick them up, or I'll deliver it to them on my way home”, with interstate customers organizing their delivery themselves.

How did this B2B locate the niche? Tim envisioned his moves and deliberately planned the strategic direction of the company right from its inception. Tim was formerly a partner in a foundry, servicing the iron and steel industry. When the company shifted interstate, he started TechnoCasts but decided to target the plastic industry also from the start. Says Tim, “I could see that there was eventually going to be a big market in the plastic industry”. While Tim was an apprentice at the trade school, he observed that his fellow apprentices were interested only in easy tasks and quick money. Tim saw this as an opportunity, and decided to manufacture large castings that were difficult, time-consuming and involved hard work. Tim's drive to be the best kept him abreast of the latest global technology and he decided to manufacture castings, which required superior technological knowledge. Explains Tim, “there are no formulas; it is all in my head”, which led him to deliver superior products and set standards in the industry. Through experience, Tim knew that this industry had two types of customers, one price sensitive and the other quality conscious. Tim methodically planned his company's niche positioning. When he started his business, his first step was to manufacture small castings for few price sensitive customers who could be lured by low prices. As his business stabilized, he gradually increased the quality and price, targeting the quality conscious customers. The third step was the move into the manufacturing of large castings, which required a larger foundry and larger investments in tangible assets, which led him to relocate his business to its current site.

Tim and his team place a high priority on educating their customers about the right choice of the product and even take them through the foundry to help them understand better. When customers bring in an idea, a drawing, or a pattern, at least two of the family members look at it, develop independent drawings on it and the best option is chosen after discussions. Sometimes the customers are given a tour of the foundry to help them understand the product and aid the correct choice of product.

How has he configured his business to deliver value? TechnoCasts outsources the machining and finishing of the castings and in some cases the pattern making also, if the team decides that it is more efficient to do so. As Tim explains, “If you get sand on it (the machines), you would ruin the machines. So it is best keeping these things apart”. Tim and his sons retain

ownership of the pioneering ideas, technological knowledge, the high tangible asset base and goodwill of customers.

Will he continue to innovate? Is he interested in growth, domestic expansion, or internationalization? Tim says he is internally driven for continuously perfecting the products, processes, and even administration. Says Tim, “I am always thinking...as a hobby. Anything, wherever you can change, try something, and change it, because there must be another way of doing it easier, more economical, and not as boring. We always try to think of ways of increasing production”. His wife, sons, customers, suppliers and staff all contribute to ideas. With the Australian domestic demand for large castings largely unmet, TechnoCasts aggressively seeks customers, and the customers seek the firm. Hence, the firm is growing steadily. The domestic market demand for both small and large technologically superior castings is still unmet indicating potential in growth. Regarding internationalisation and exports, high competition from China and India for small castings rules out export of small castings. The large castings in turn have a huge overseas demand but are ruled out due to the expensive freight cost.

Discussion

From the results, the inputs, process and management of the innovation in two SMEs is summarized below.

Intellectual manufacturing has been the source of continuous product innovation for the B2C SME. Analysis from the start of the firm's operations indicates that the knowledge inputs are internal and originate solely from the personality and motivation of the entrepreneur. Innovation management is completely controlled by the entrepreneur who imposes a limit on the extent of innovation that can occur in a given time. This deliberate cap on innovation, entrepreneurial spirit and potential economic growth explains the SME's resistance to domestic expansion and internationalization.

The B2B SME is a pioneer in moulding technology in Australia offering high quality castings and perfecting its products and processes and setting standards in the industry, resulting in old and new customers seeking the company. Despite this competitive edge, it constantly innovates and its owner repeatedly emphasizes the importance of innovation. For this firm, thinking of new ways to do things is a ‘hobby’. The inputs for innovation arises from both internal and external sources and is embedded in the firm's culture, with the family members, employees and customers contributing to new ideas. Several instances prove that innovation management is integral to the firm's operations. The firm aggressively seeks domestic growth and is not averse to internationalization.

Empirical evidence on the domain and distinctive features of entrepreneurial spirit

The paper earlier hypothesized that entrepreneurial spirit is more likely to be found in the nexus of civic entrepreneurship and entrepreneurial small businesses. The hypothesized distinctive features of entrepreneurial spirit were: dual nature with the interplay of individual and civic elements, and its enduring aspect that automatically creates conditions of sustainability.

The data illustrates that both firms irrespective of their customer focus stressed the vital role of innovation in their firms. To the B2C firm, innovation was necessary for survival and maintenance of its sugarfree niche. It possessed a core competency in idea generation of products with a new flavour, shape or packaging. However, there is no evidence of building on the core competency. The B2B firm's core competency was in its pioneering ideas and technically superior products and processes. Nevertheless, it continued to innovate on the existing products and processes to create for itself a distinctive competency. As Adams and Lamont (2003) state, core competencies protect against competitive disadvantages, while distinctive competencies create and contribute to competitive advantages. The authors explain further that the development of a competitive advantage in a specific functional area does not ensure the stability of this competitive advantage over time. This view is in agreement with Teece et al (1997) who argued that many firms operate in hyper-competitive environments where competitive advantages are at best temporary. From this, it can be inferred that only the B2B firm can sustain the entrepreneurial spirit.

The sources for the product innovation in the B2C emanated solely from the owner-entrepreneur. The owner did not discuss and share the tacit or explicit knowledge with others in his family. He did not receive new information from the external environment as he places an order and gets the product manufactured. The frequency of innovation depended on the owner. He was clear that the business was merely to 'feed' him to maintain his current lifestyle. For the B2B firm, its close personal relationship with its employees, customers and suppliers, and the fact that all four members of the family worked there everyday, contributed to the multiple sources of innovation and knowledge inputs.

How was innovation adopted, and what were the processes? Garvin (1993) mentions that knowledge acquisition involves the intra-organisational processes that facilitate tacit and explicit knowledge creation, codification and transfer from individual members to the organisation; knowledge distribution relates to the processes by which new information from different sources are shared. The knowledge was shared and transmitted and "eventually led to the creation of new

information, knowledge and understanding" (Huber, 1991). The managerial processes in the B2B firm are indicative of this knowledge sharing. As Han, Kim and Srivastava (1998) mention, a firm is likely to encounter more innovativeness in a customer-oriented culture compared with a less customer-focused one. Besides, as Sadler-Smith et al (2003) state entrepreneurs are concerned with profitability and growth, while the main concern of small business owners is securing an income to meet their immediate needs

How was innovation managed? The B2B firm benchmarked itself with best firms in USA to ensure its pioneering status in Australia. It aggressively lured its competitor's customers by mailing them advertisements and firm pamphlets. The owner and his two sons worked closely as a team. Tim's wife manages the office administration, one of his sons books the orders and organises the manufacture and delivery, while his second son works with him in the foundry. However, "when we are pouring (the plastic mix) into the mould all of us are there", says Tim. The B2C firm in this sense had minimal innovation management. Although the owner and his wife discussed the ideas from time to time, the main repository of knowledge was only Jean and he did not discuss the technical aspects of the products with his wife. Hence, the level and degree of involvement between the two family members was much lower than in the B2B firm. Literature mentions that organisations manage the innovation process by learning through externally focused activities like benchmarking, technology brokering and environmental scanning, or through internally focused activities such as intranets, databases and cross-functional teams designed to facilitate knowledge management (Adams and Lamont 2003). Further, Yap et al (2005) have noted that empirical studies have shown that a functional diversity within the top management team in SMEs contributes to more innovative activities. The sources, process and management of the firms indicate that the B2B firm can sustain its entrepreneurial spirit. While the B2B SME depicted the benchmarking, environmental scanning, and cross-functional diversity among its family members, the B2C SME did not exhibit any of these aspects.

Implications for public policy and directions for future research

Given that SMEs account for a large proportion of the total businesses in many countries, including Australia, the findings provide a starting point for potential public policy framing and targeting of support.

This study supports the findings in the literature of family firms that not all family firms are the same. While the B2C firm exhibits more characteristics of a

small business owner, the B2B firm is clearly entrepreneurial.

The B2B firm is a creator of economic growth with further potential, and support should be targeted to product innovations and export financing. The B2C firm may refuse to accept governmental support as it would infringe on the life-style of the owner.

This paper indicates that not all innovative SMEs will exhibit entrepreneurial spirit. Although both the firms exhibited continuous innovation, the in-depth analysis proves that only the B2B firm possess the entrepreneurial spirit. Quantitative measures of innovation measurement would have classified the B2C firm as more innovative than the B2B firm, as the innovation frequency is higher in the former than the latter. But, the qualitative in-depth analysis used in this study highlights that the B2C firm's innovations were limited to product innovations and they were incremental and minor changes just enough to achieve differentiation. This is in sharp contrast to the B2B firm that had pioneering and superior technological innovations, process innovations and non-technological innovations in managerial practices and administration.

The B2B firm can be identified as an incubator for nurturing entrepreneurial spirit. As Heikkinen (2003) observes, "The entrepreneurial spirit and attitude includes qualities such as courage, visionary skills, action orientation, and self confidence. These qualities cannot be taught, they can only be learned", indicating the need for a natural learning process.

The concept of social capital and an entrepreneurship that includes civic, social and cultural factors as suggested by Yamada earlier, is observed in the B2B SME, which continuously educates its customers. The team places a high priority on educating their customers and does not take advantage of their ignorance. The customers are given a tour of the foundry to aid their understanding of the product, even at the risk of exposing strategic advantages of the firm.

The highly innovative B2B firm contradicts the literature that suggests that for organizations selling to other businesses there is less incentive for innovation.

The above implications cannot be generalized, as a major limitation of this paper is that it is based on findings from only two SMEs. This is a preliminary view of the depth of understanding that a comprehensive definition of innovation makes possible, and a snapshot of the exhibition of

entrepreneurial spirit. Further studies should include other industry sectors, survey a larger population and extend the study to cross-national comparisons to understand entrepreneurial spirit more completely.

Buckler and Zien (1996) observed, "How do few companies somehow maintain an environment in which employees continually generate added value for customers and the company alike? How do they continue to foster invention and innovation?". This paper has attempted to provide a detailed account of how innovation was inspired, adopted and managed in two SMEs, in an attempt to locate the domain and distinctiveness of entrepreneurial spirit. The integrated and qualitative perspective of innovation, studied within the context of a firm's strategic decisions has provided meaningful conclusions and implications on sustainability of innovation and entrepreneurial spirit, useful for future theoretical directions and practical applications.

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Appendix: Interview guideline schedule

Interview Guide

1) Identity and trajectory

- Nature of the activity
- History and strategic trajectory

2) Commercial side

- Who are your customers and how did you find them?
- How do you deliver to your customers?

3) Marketing side

- How do you know what your customers want?
- How are you dealing with their needs?
- How do you design your product?
- How do you communicate with your customers?
- How can they get to know you?

4) Operations management

- How do you process the above information in your organisation?

5) Research and development

- Is innovation important to your business?
- Is it important at the process level and/or at the product level?
- How do you manage innovation?
- Do customers play a role in your innovation process?
- Do your staff play any role in this process?

6) Manager's personality

- What are the major qualities that you have to demonstrate in the management of your business?
- What has been your motivation?