

# Fitting entrepreneurial complexities for better performance:

## Collected evidence from Belgium Executive Summary

The role of SMEs and self-employment in Belgium and in many other countries is very prominent in terms of employment creation and value added (European Commission 2013). From a policy perspective, two central questions are: (1) what are the determinants of the strategies, including innovation, by SMEs and the self-employed? ; and (2) how does this link to their performance, particularly in terms of (growth in) employment and value added?

This executive summary briefly reports the outcomes from a BELSPO research project, coined SMESESAP<sup>1</sup> (2011-2014). The full title of the project is “Determinants of SME<sup>2</sup> and Self-Employed Entrepreneurs’ Innovation Strategy and Growth Performance”. Its key aim is to empirically study both questions, using a comprehensive model of entrepreneurial performance and a few empirical strategies that are new in the entrepreneurship domain. In so doing, this study adds to the current state of the art in the academic literature in at least three ways by:

(1) working toward developing and estimating a much more comprehensive and complex model, benefiting from a truly multidisciplinary perspective. Indeed, the micro-

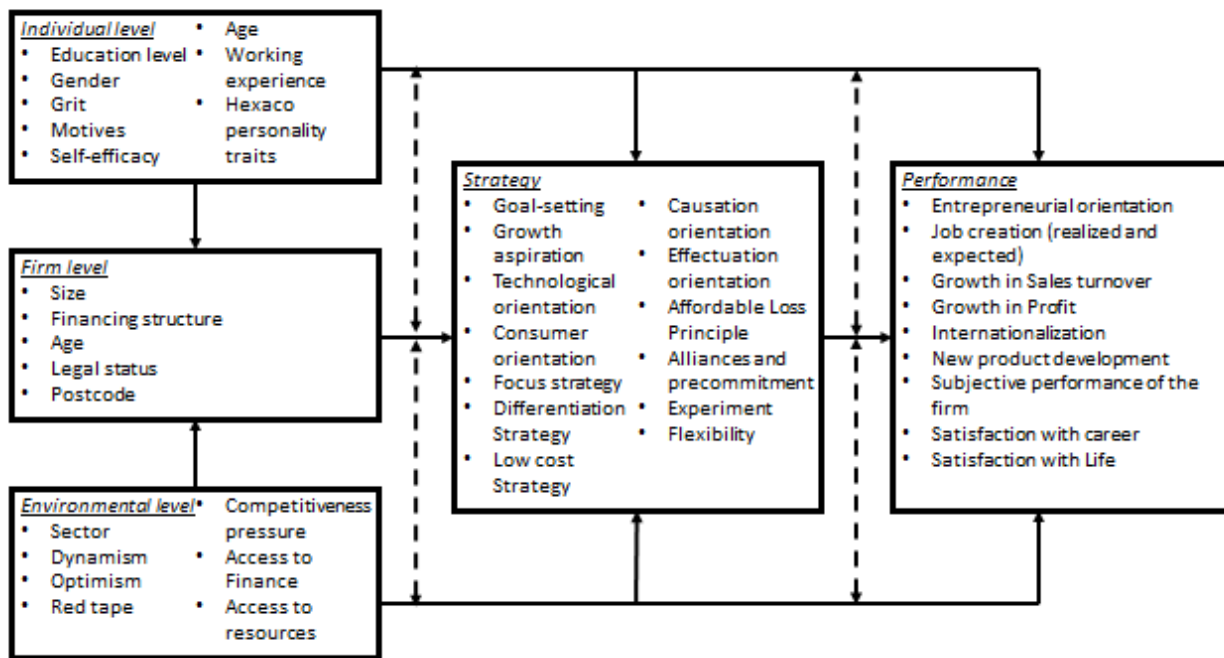
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<sup>1</sup> BELSPO, the the Belgian Science Policy Office; research project TA/00/40..

<sup>2</sup> SME stands for small and medium-sized enterprise. SMEs are defined by the European Commission as enterprises with a maximum of 250 employees. In this work, we distinguish between SMEs and self-employed with SMEs having at least one employee; the self-employed run a firm without employees.

performance of SMEs or the self-employed is determined by a complex web of bundles of factors at the level of the entrepreneur, organization and environment (as visualized in Figure 1). In a setting like this, a fit between individual, strategy, structure and environment is key to attain high performance, in terms of growth, profitability, or any other measure of performance. Strategy is assumed to be the linking pin between the entrepreneur's (or his or her venture's) strengths and weaknesses, on the one hand, and the opportunities and threats in the environment, on the other hand. In line with this contingency approach, we utilize a multi-disciplinary theoretical lens in combination with analysis techniques that allow for the identification of fits (and misfits), such as the analysis of conditional processes (Hayes 2006, Preacher and Hayes 2008) as well as, in the end, a dynamic multi-level QCA fit analysis.

**Figure 1: SMESESAP overall analytical framework**



(2) doing so at the firm rather than country level, focusing on the strategy (with an emphasis on innovation) and performance (particularly growth) of SMEs and the self-employed; and

(3) applying a few novel conceptual and empirical approaches, collecting and analyzing a unique and novel data.

In the first step, we focused on exploring existing international and national sources such as annual report databases and statistical information collected by national authorities. In the second step, we administered a tailor-made two-wave survey: a first wave in December 2012 and a second wave in December 2013. The second-wave survey is required because the multi-dimensional nature of our model implies that we need measures of many variables that are not easily observable otherwise. Moreover, the repetition is needed in order to do justice to the dynamic logic of our argument, emphasizing the risky and subtle need to adapt strategy and structure over time in order to maintain a sustained fit in a changing environment. In the third step, we organized a series of workshops in Antwerp (Flanders) and Namur (Wallonia). During these workshops, we measured the explicit (conscious) and implicit (unconscious) motives of a small sample of Belgian entrepreneurs (n = 108), using the newly-developed Brief Implicit Association Test (or BIAT), to explore the effect of such motives on entrepreneurial attitudes, strategies and outcomes. To our knowledge, it is the first application of BIAT in SMEs. A first study on the basis of these unique data is reported in Chapter 6, focusing on the motives impact on social responsibility.

With this approach, we sought to develop and conduct research that evolves into a truly multi-dimensional, multi-disciplinary and multi-method perspective. Indeed, we believe that we have progressed nicely, collecting unique data, introducing a methodological novelty and presenting a series of intriguing empirical studies. In all, in this way, we produce a large number of pieces of the puzzle of a comprehensive framework regarding entrepreneurial attributes, behaviors and outcomes.

Insights are collected in a report, available on the website of the Belgian Science Policy Office. The report comprises three main parts, with four chapters in Part I and II, and two chapters in Part II. Part I sets the scene. In **Chapter 1**, we introduce the study. In **Chapter 2**, we briefly present the study's theoretical lens. This lens offers the opportunity to position the four empirical studies that form the heart of this report. In **Chapter 3**, we

present our methodological choices. A few of these methodologies are new to the domain of entrepreneurship, particularly a new measure of implicit motives. In **Chapter 4**, we describe the unique data we collected, and the database we have constructed. Part II is the empirical core of the report, presenting the outcomes of four illustrative and exemplary empirical studies. In **Chapter 5**, we focus on the environment. Analyzing secondary European data, we explore whether – in if so, to what extent and for what type of enterprises – European standardization has an effect on individual enterprises' evaluation of opportunities and threats. In **Chapter 6**, we move to the level of the entrepreneur. On the basis of a novel method to measure entrepreneurial motives, we investigate how such motives impact an entrepreneur's social responsibility behavior. In **Chapter 7**, we shift to the strategy perspective. We examine the recent typology for entrepreneurial logic of action – causation and effectuation – and their impact on entrepreneurial orientation and subsequently on firm size. In **Chapter 8**, we bring all pieces of the puzzle together. We search for performance-enhancing “fit”, focusing on exemplary aspects of the environment, entrepreneur and strategy, exploring data from the second survey wave. The final Part III deals with lessons learned and to be learned. In **Chapter 9**, we discuss a series of policy implications that can be (cautiously) derived from our set of results. In **Chapter 10**, we review what we have done, and what still can be done in future work.

In what follows, we summarize the main findings and propose some policy insights or implications that are directly derived from the results. To discuss these policy implications, we start from two overarching observations

(1) Entrepreneurial experience is highly marked by heterogeneity. This observation has been regularly made by elsewhere (see for example, Nooteboom, 1994; Audretsch, 2008) and is also supported by empirical results presented in this report. Heterogeneity in entrepreneurial experience is derived, among other factors, from variety in terms of motivations and aspirations, projects and contexts (see Chapter 4).

The heterogeneity of entrepreneurial experience leads us to favour policy implications referring to the general framework or context in which SMEs and self-employed evolve. Indeed, this heterogeneity contributes to a healthy business ecosystem (Sternberg, 2007;

Wong et al., 2005) that evolves partially according to variation between firms. In such a context, the risk is high for a highly targeted policy to miss its goals or to be of limited impact. Instead, addressing the question “**How can the general framework be improved in a direction that will allow entrepreneurship and businesses to flourish?**” appears offering greater guarantee of overall efficacy than the highly targeted recommendations.

(2) Entrepreneurial success is reported as idiosyncratic and even random. Here, reference can be made to the recent contributions by Storey (2011) and Coad et al. (2013).

But, given collected evidence, the SMESESAP team comes to the idea that its randomness is only an appearance. What would explain entrepreneurial success is the fit between entrepreneurs’ personal drivers, the strategy they deploy at the firm level and the environment they chose to do business in (Parker et al., 2010). Thus, “**How can these fits be enhanced for more entrepreneurial success?**”

These two arguments (heterogeneity and importance of idiosyncrasies) do not facilitate formulating policy implications, traditionally rather designed to address the situation commonly shared by all or some targeted groups. Our policy insights and implications are twofold. First, we refer to the above question: How can the general framework be improved in a direction that will allow entrepreneurship and businesses to flourish? Second, as our results pinpoint the importance of fitting personal drivers, strategy and environment for entrepreneurial success, we plead for a systematic approach. We want to stress the importance of such a “fit”, it might for example have an important impact on education and learning programs, or entrepreneurship related support agencies.

***How can the general framework be improved in a direction that will allow entrepreneurship and businesses to flourish?***

- Not all enterprises gain from EU standardization. Particularly our finding (see Chapter 5) that the benefit of standardization is not equally distributed across firms, industries and regions is of interest for the stakeholders in the EU’s standardization processes, such as national governments, business associations and the European Commission. Key is that in order to accelerate the standardization program and its

integration objective, SMEs (particularly from Eastern European and Mediterranean countries) have to develop the capabilities needed to reap the benefits from EU standardization. We propose that the EU member states should provide support to SMEs in their attempt to adopt standards. More specifically, we would recommend countries to support standardization compliance through a stimulation of facilitating capabilities we identified in our study such as innovation and internationalization (appearing hardly as strategic goal among our two-wave sample). We expect this to have more effect than e.g. subsidize SMEs with no alignment to regulations or follow up.

- Rules are considered as a burden rather than a source of opportunities (see Chapter 4). This is especially true for entrepreneurs-owners, who are significantly different from self-employed on this dimension. In turn, this burden is associated with less profit growth for SMEs and to less expected revenue growth for self-employed. This observation obviously calls for further simplification of the administrative tasks.
- We have collected some evidence that women do not differ from men regarding ambitions in terms of job creation or passion for the entrepreneurial (ad)venture, but still have smaller business (in FTE) than the male counterparts (see Chapter 4). This leads to the proposal that women might meet specific contingencies, notably the desire to find more flexibility through an entrepreneurial career and the difficulty to access finance. Furthermore, we show that women highly differ from men in terms of self-efficacy and the use of a causal logic of action (strategic planning). As strategic planning might be a key driver for entrepreneurial orientation, firm size (see chapter 7) and even revenue growth for self-employed (chapter 4), women might still benefit from education programs aimed at consolidating self-efficacy and strategic planning. Further investigations have to be made, controlling a.o. for sector and education, but good policy would be to make sure women can fully deploy their entrepreneurial resource, in terms of access to finance and flexibility, e. a. flexible child caretaking. Note that such contingencies are not limited to women, but could benefit all entrepreneurs driven by a need for flexibility.

- We find that self-employed is still a precarious status, with less satisfaction with life than their counterpart in SME, which is closely related to career satisfaction and slightly with their satisfaction towards traditional economic goals (see Chapter 4). We also find that innovation, in terms of entrepreneurial orientation and new product development, go together with an increase of expected revenue. However, most innovation policies are targeted to SME. We argue that self-employed might also benefit from more stimulation on innovation, both in terms of satisfaction and in terms of effective revenue growth. This would provide them with better tools to face dynamic environment for self-employed. In turn, more internationally oriented, innovative Belgian self-employed can contribute to a healthy Belgian business eco-system.
- Access to high-skilled workforce and, to a lesser extent, access to finance are both considered as constraints for the development of Belgian businesses. Interestingly, only the access to finance is correlated with less performance (see Chapter 4). This is classically translated in terms of policy regarding the education system, training throughout life and access to finance. Note that Ernst & Young (2014) recently showed that Walloon SMEs are experiencing a growing deficit compared to Flanders in terms of investment volume. Two explanations are suggested: 1) a poorer access to financing in Wallonia and 2) more risk-taking investment in Flanders. However, we do not find any differences in access to finance between Flanders, Wallonia and Brussels, which would indicate that Walloon entrepreneurs do not face or do not perceive a poorer access to finance. As such, effort should not be in terms of an enhanced access to finance in Wallonia, but rather a better education of entrepreneurs about the pros and cons of venture capital and risky investments.

***How can the fit between entrepreneurs' personal drivers, the strategy they deploy at the firm level and the environment they chose to do business in be enhanced for more entrepreneurial success?***

- Fit between implicit motives, explicit motives, and goal-setting

In Chapter 6, we reveal that implicit motives can influence entrepreneurial behavior and we provide evidence as to the importance of explicit – implicit motives congruence. We

claim that a better understanding of the interplay between implicit and explicit motives should bring light to why entrepreneurs sometimes struggle to reach the goals they voluntarily set (Kehr, 2004b). With such understanding, entrepreneurs can reach a better fit between their business project and their inner motives so that they are strong enough to reach their goals (especially in terms of shared value creation).

We show that implicit need for power is of the utmost importance for the creation of shared value. As suggested by Muhammad Yunus (Nobel Prize Laureate in 2005), changing the world is fun, especially for people who are implicitly driven by power. However, we also show that society, i.e. public authorities and NGO, does not provide power-oriented entrepreneur with the social incentives to engage in shared value creation. In other words, society does not advertise shared value creation as a prestigious, powerful goal. Conflicting social norms might therefore neutralize the enjoyment behind changing the world, for instance through the diffusion of negative stereotypes associated with activism. For a better commitment to shared value creation, and its effective translation into social impact, public authorities might reflect on the way to avoid such conflicting norms.

- Fit between entrepreneurial orientation, strategic (un)planning and the dynamism of the environment

We have collected some evidence of entrepreneurial orientation (Miller, 1983) being positively correlated with expected revenue growth for self-employed and subjective measurements like overall career satisfaction for all respondents (see Chapter 4).

Entrepreneurial Orientation describes the extent to which some firms actually bring innovation to the market, are pioneers in their industry, and undertake bold, risk-taking strategy. This suggests (or confirms adequacy of) incentives to support entrepreneurial orientation (and innovation).

In Chapter 7, we examine this further and investigate how different logics of action are linked with firm-level entrepreneurial orientation. We find that companies following a causal logic of action tend to score higher on entrepreneurial orientation, *ceteris paribus*. Companies analyzing long-run opportunities and selecting those target markets that are expected to yield the best return while having a clear, planned and consistent vision, score



higher on entrepreneurial orientation. This corroborates previous research arguing that planning positively relates to innovation success (Salomo et al., 2007), proactiveness (Brews and Hunt, 1999) and risk-taking (Clausen et al., 2012).

Our analysis provides some nuances. First, we show that planning is in particular of interest when it is combined with effectual development processes. More specifically, we find that only when a company simultaneously follows causal and effectual development strategies, entrepreneurialism thrives. Second, we find that causal development processes only work in stable environments. This is in line with research from Chandler et al. (2009), who argue that causal planning processes such as calculating expected returns is not possible in unstable environments. Also Sarasvathy (2001) posits that causation is not appropriate in uncertain circumstances. Finally, we also examined the impact of the above-discussed relationships on firm performance (more specifically, firm size). We find that entrepreneurial orientation mediates a causal logic of action, leading to larger SMEs. In other words, causal, strategic entrepreneurial behavior enhances firm-level entrepreneurial orientation, after which it stimulates firm size. These results call for a renewal in entrepreneurship education, with action-oriented programs that develop both causal and effectual logics of action. Moreover, we urge for increased attention for interaction possibilities between causal and effectual behaviors, in particular when such interaction are required by the existing environmental contingencies.

- Fit between personality traits, product strategy (differentiation vs. cost strategy) and the dynamism of the environment

According to the classical thought in strategic management, it is argued that a fit between firm's strategy and environment in which it operates is key to result in the finest outcomes (Hrebiniak and Joyce 1985), namely product differentiation in changing environment and cost-leadership strategy in more stable ones. In Chapter 8, we show that personality of the managers should be added into the strategy–environment fit. We theorize that firm operating in a stable environment should employ cost leadership strategy, which subsequently requires diligent managers with a high conscientiousness score to result in high firm performance. In contrast, firm operating in a dynamic environment should

employ product differentiation strategy, which consequently requires managers with high openness to experience to result in high firm performance. Empirical results also show that a product differentiation might succeed in stable environment if the manager is highly diligent. In other words, we should evaluate a fit of manager's personality, strategy and environment fit in order to find configurations (sets of causal conditions) leading to high firm growth.

A critical review of current education, learning programs and contribution of supporting agencies for entrepreneurs will be needed to align the Personality-Environment-Strategy nexus with these insights. Assessing the competences and skills of the entrepreneur, the project, the context or the strategy separately is not enough. An alignment is expected to be highly beneficial.

In conclusion, we provide new insight as to (1) what are the determinants of the strategies, including innovation, by SMEs and the self-employed?; and (2) how does this link to their performance, particularly in terms of (growth in) employment. We also translate those insight into potential contribution to practice by showing how the general framework can be improve for a flourishing entrepreneurial society, and how a contingency approach can feed the reflection of policy makers and of those who daily contribute to entrepreneurial ventures (as an entrepreneur, a coach, a business angel, etc.)

However, although the above is already the result of a rather ambitious research project, there are even more opportunities and options to develop a really programmatic approach to the study of entrepreneurship. For sure, this project and the opportunities lying ahead reveal, once more, that entrepreneurship is very lively and promising domain of research, which may produce insights that are relevant for the practice of starting and running an entrepreneurial venture, offering a source of inspiration for policy-makers.