

INNOVATIVENESS IN SMALLER BUSINESS FIRMS: THE CASE OF FRENCH ENTREPRENEURS

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SYNOPSIS

In spite of a lack of legitimacy, the entrepreneurial capitalism, grounded on innovativeness, is steadily growing in France. But the new venturings have different origins.

The innovation may concern the product or the process. The process may be studied from two viewpoints: the organizational skills, and the market needs.

The owner-manager has different attitudes towards innovation: reactive or proactive; radical or gradual.

The entrepreneurs are more or less embedded inside their local environment. The link with the innovative process and attitude is enlightened.

KEYWORDS: Entrepreneurship. Entrepreneurs. Innovation. Typology. Technology.

INTRODUCTION

The French Economy has lately started its «managerial revolution» during the sixties, entailing concentrations and development of big concerns, obtained by the way of big mergers induced by the Minister of Industry. But, during the nineties, the new technologies, and the new demand have increasingly required a reengineering of big industrial corporations, generating new strategies, focused on the activities of the third generation of the industrial capitalism. At the same time where giant firms lost most of their workers, the SME created employment, in all the sectors of the economy, above all by new ventures, in such an amount that we can evoke an «entrepreneurial revolution».

The «come back of the entrepreneur» reveals a deep change, not only in the French economy, but also in the French society. In France, and, may be, in the southern countries of Europe, the most prestigious activities are linked with the «State Apparatus» (in french: *appareil d'Etat*): civil servants, high schools of engineers, what a French writer called the «noblesse d'Etat». The entrepreneur, the «patron», was, during a long time of the history, viewed, at best, as a craftman, or, at worst, as an «exploiter».

During the last fifteen years, two opposite moves may explain the rise of the legitimacy of the small owner-manager: first, the «hunted» of the «wage earners society» must create their own job, by the way of a new venture; second, the «hunters» are spurred by a need for achievement, or by the perspective of high profit-opportunities, in the new emergent fields of the third generation. A new «spirit» is blowing in the French economy and society, what is called «entrepreneurship».

As a «cartesian» the French researcher always tries to start with well-defined words. Unfortunately for him, entrepreneurship appears as a polysemic word. In fact, the field of en-

entrepreneurship is made of the various works devoted to: new ventures, identity of the entrepreneur, small business firm management (as a specific one), innovation, local development, etc...

But, fortunately, we can rest on a well-known definition of the main components of the «spirit of enterprise», inspired by the institutionalist school of Harvard (Veblen, Knight, Schumpeter) and the historic school in Germany (Knies, Hildebrandt, Weber), namely:

- Investment of financial capital, increasingly nowadays, involvement of human capital (knowledge, skills, etc...) in a risky design.
- Management of various resources (material and immaterial) inside an organization designed by the entrepreneur.
- Innovation, linked with the vision, the goals and expectations, the creativity and the competencies of the entrepreneur, in relation to his level of risk acceptance: the higher the degree of innovation, indeed, the higher the degree of turbulence, and, consequently, of relevant risk.
- Return on investment, resting primarily on the profitability of the innovative activity. We may assume that the level of aspiration (expected return) is linked with the level of risk, and, logically, to the innovativeness. But, in the mind of the entrepreneur, profit may appear as a criterion of success, of achievement and personal success.

Starting from these main features of the entrepreneurship, we can easily observe that, in the world of the small business enterprise, the «spirit of enterprise» is scarcely present as a whole concern. More often, we just find some traits of entrepreneurship: size of the firm, degree of uncertainty, governance by the owner-manager, creativity and adaptability, etc... Conversely, we can find these topics in other organizations, as the big ones (intrapreneurship, individualized organizations), or the public ones (Universities, hospitals, etc...), or the nonprofit ones (cultural associations).

In the French society, the promotion of entrepreneurship, the «rise in legitimacy», is viewed in the light of the new ventures. But we know that their origins are deeply heterogeneous— as in most of the capitalist countries:

- The reengineering of the big concerns, the outsourcing process, the spin-off incentives, etc..., entailed the emergence of smaller business firms in service activities, such as subcontractors, with the need to develop their creativity, core-competences, in order to benefit from «niches», and to get chamberlinian (market share) or schumpeterian (innovation) rents.
- But, at the same time, the unemployed workers were constrained to create their own job. Most of the time, they invested in poorly innovative businesses (retailing, craftsmanship, restaurants, etc...). These «entrepreneurs» revealed in fact to be weakly «enterprising «with just a «survival income», in the same style as the «poor workers» in the U. S.
- Conversely, the rise of the new technologies has induced a lot of small innovative firms, for instance in the NTIC, in biology, in medical tools, generally attracted by

dynamic areas («technopoles»). As several expanding medium-size cities, Montpellier has attracted a lot of high tech microfirms, and got the «blue ribbon» for new ventures.

- The new service economy has entailed the creation of new ventures in the following sectors:
- Services «to make»: maintenance, restaurant, repair, transportation, logistics, etc...
- Service «for advice»: lawyers, advisers, etc...

These services are devoted to consumers and/or to the firms and to the public Administration. The small firms try to find a «niche», to get the fidelity of their clients, and, consequently to innovate in order to specialize their activity –even in craftsmanship.

- At an increasing rate, we observe the development of microfirms by minorities: people excluded from the labor market, immigrants, unemployed people, women, disabled, etc... The State has implemented a lot of rules, in order to promote entrepreneurship: financial support, advisers, free-tax areas in inner cities, or in the overcrowded suburbs, etc...

To summarize that «review of the troops», the prevailing feeling is that of a kaleidoscope in the world of entrepreneurship. The main criterion, to evaluate the degree of «entreprising spirit», and to classify the firms, is undoubtedly the amount of innovation in the endeavoured purpose. So, we must try, now, to propose a workable approach to the concept of innovation.

INNOVATION: A TWO-FACES MIRROR

In a smaller business firm, the innovative process may be viewed as a change in business. Business may be defined as a «mix» of three components:

- The need satisfied by the business. Generally, the user (consumer, client, retailer, etc...) perceives a «basket of needs», with a hierarchy among them. He hopes to get satisfaction by through the attributes of the product (good and service), aimed to fit in with this expectation. For instance, the «gourmet» expects some features, when he enters a gastronomic restaurant.
- The «functions» of the activity, that is to say the set of attributes actually developed in the business, or expected by the potential user. Some of the characteristics are technically designed, some others reveal more immaterial, even non standardizable, pertaining to the sole firm.
- The competencies inside the organization. Depending upon the writers, the competitive advantage rests on the peculiarity of the resources owned by the firm, or on the «idiosyncrasy» of their arrangement / trade-off process. More generally, we can assume that in smaller business firms, some tasks are better mastered than others, by the way of routinization and learning processes, by skills, ability, involvement, etc..., of the members, revealing a dominant culture inside the organization.

- The interaction between those three components is paramount in all businesses, of all sizes. But, for the smaller firms, the business is unique, and the fit is quite necessary. The paradox is that the entrepreneur must adapt, innovate, and, consequently reexamine the nature of the fit, if he wants to maintain his competitive advantage. So, we can evoke two major innovative processes inside the smaller firm:
- The first typical process may be named «needs push». It starts from a change in the needs of the users. For instance, retailers, or clients, or suppliers, will to change the technical attributes of the product: the impact of the market strategy followed by merchants in wine retailing, on the wine producers, is a good example. Obviously, the evolution of the way of life of consumers entails also product innovations: the taste of the wine consumer compels the producers to modify the hierarchy of the attributes (vineyards, marketing, design, packaging, etc...).

At a second time, the change in the needs will modify the nature of the core-competencies. For instance, wine producers are constrained to develop some abilities in the field of bargaining with hypermarkets, with international merchants, to improve the marketing process, to invest in market research, in design, etc... Consequently, the culture of the organization should evolve. In most of the small business firms, the risk is that of a reluctance to innovation, from the members of the organization: for instance they will refuse to follow a training program in foreign language, and will deter the entrepreneur to export.

The success of the innovative process is often depending of the goodwill of employees (may be, of the family) to overcome the risk aversion. As an entrepreneur, the owner-manager must reveal a high skill in leadership, and cautiously prepare the event.

- At a second time, the innovative process starts from the heart of the organization, and may be named «competence push». The innovative firm develops, by learning and by using, tacit and explicit knowledges, idiosyncratic or more general abilities. The entrepreneur may recruit new employees and executives, specialized in new functions and tasks ; he may acquire new competences through patents, research and development, technology transfers, etc... The culture of the firm may evolve with a arrival of a new generation of employees, etc...

As a result, the entrepreneur is induced to modify the attributes of the product(s), and the business portfolio. But, at the same time, he will change his market position, and more precisely, the structure of the «basket of needs». He has, as an entrepreneur, to support a «moral hazard»: the users may reveal reluctant to adopt the new product, and the new image. In a big concern, the innovation is incremental: in a small one, the problem is magnified, implying a risk of refusal by the market, and then, of failure and bankruptcy.

A such approach inspires two concluding remarks:

- The innovative process, in a smaller firm, is made of complexity. The various components of the organization are mutually dependant, namely: the goals and intents of the entrepreneur, the culture of the organization, the will of the employees, the level of mastery of the most important tasks. The entrepreneur must take in account and integrate three dimensions: affect (human relations), intellect (technical management: one best way), effect (strategic management: competitiveness). The complex-

ity is increased by the necessary fit between the competitive advantage and the competitive positioning, reinforced or weakened through innovation.

- The second point deals with the nature of the «technology». Technology may be defined as a set of fundamental knowledge applied to the development of new products or new processes. Increasingly, the scope of relevant knowledge includes the research in various fields of management and social sciences (for instance, cognitive sciences), in relation with the development of immaterial investments. The innovative process, more and more, will imply new capabilities in the field of psychology and management science.

THE OWNER-MANAGER: MORE OR LESS ENTREPRENEUR

Inside the (vast) world of small business owners, the abilities reveal unequal, especially in matter of innovation. Many researchers, as, for instance, Miles and Snow, have suggested typologies, grounded on empirical observations of various samples. The behavior of the owner-manager is enacted through a decision process, and this one is classified in: radical-gradual (incremental), and proactive-reactive, to make simple. So, we can mention four types of owners-managers:

- The pioneer is highly innovative: he is always searching for new products, new processes, new raw materials, new services, etc... But, in smaller business firms, the pioneer has quite different identities. The best-known is located in the high tech activities, in the start-up. His innovativeness is narrowly linked with the competitiveness of his business, in a turbulent market. He has to anticipate sharp changes in his environment, to accelerate the rate of substitution of his existing business(es), to reduce the life cycle of the products.
- At the opposite side, we identify a «craftman pioneer», like a «handyman». According to empirical observations, the handyman is always searching for new techniques, new engines, new equipments, but he reveals unable to make profitable his successive inventions, remained as prototypes ... and developed by more powerful manufacturing firms. This kind of innovator is not unfrequent in the agro-food machinery industry, in mechanical activities. Those small business firms, dependant on the creativity of the entrepreneur, weakly motivated by profit, appear highly vulnerable.
- According to the classification of Miles and Snow, we identify the prospector. This entrepreneur accepts to undertake radical innovations, as a follower of pioneering initiatives. He systematically prospects his environment, using a personal network (clients, suppliers, competitors, public institutions, Universities, etc...) in order to catch the innovative opportunities, after their implementation by the pioneers. This reactive strategy is in accordance with a high intensity of capital: the radical change is risky and costly. (for instance, in the printing works industry, the innovations in machinery).

In this case we are more in face of modernization, than of innovation: indeed, the innovative process started earlier,

- The adaptor is trying not only to seize, but to implement the innovative opportunities, on technologies, on products, on organization, etc... But, unlike the pioneers, he wishes to develop them incrementally, in order to diminish or to spread the involved risks. He plans the innovative process, particularly by the implementation of intellectual investments, such as the training of the employees, a market study, etc... The adaptor tries to prevent the resistance to change. He tries also to get a fit with the culture of the organization, including the tacit knowledges, or the hidden abilities
- The conservative (or «defendor») appears almost reluctant to seize the opportunities of innovation. He may be classified as a «risk averse». But, in some cases, he has good arguments: the innovation would entail a negative reaction inside the firm (from the employees), or outside (from the suppliers, or the retailers, or the users, or even the local environment). For instance, the innovation would need new skills, would modify the suppliers or subcontractors network, or the retailing channel, and, ultimately, the competitive positioning. In other words, the refusal of the innovation, for a smaller business firm, may be «rational», in accordance with the management system and the goals of the entrepreneur (for instance, maintain the independance of capital, avoid an uncontrolled growth).

THE OWNER-MANAGER: A NETWORK BUILDER

In most industrialized countries, a lot of institutional incentives are expanding, designed to promote the innovation in the SBE. We have classify these institutions in three modes:

- Tutelar institutions, in charge of public support, at various levels (State, Region, «Departement», Urban Community, etc.), including professional institutions (chamber of commerce, etc...).
- Partenarial institutions: suppliers and subcontractors, clients and retailers, and even competitors (in case of high specialization).
- Expertal institutions: councellors, research laboratories, Universities, incubators and nurseries, etc...

Depending upon the type of «entrepreneur» (lato sensu), the innovative process will more or less include, inside the personal network of the owner-manager, those institutions. Moreover, the sequence and the load of the intervention will vary, according to the nature of the innovative process.

For instance, the pioneer will start from the expertal institutions, in charge to the evaluation of the technical feasibility. In a second time, the tutelar will support the new venture project (welcoming in a nursery, building a business plan, etc...). In a third stage, during the start-up process, the pioneer will develop a partenarial network, searching for suppliers, clients, and positioning his business on the market.

We easily perceive a different networking process for the prospector. For instance, in a turbulent technical environment, he will maintain good relations with the research centers (may be, of his University), in order to anticipate the arrival of new marketable technologies.

The adaptor will be nearer form partenarial institutions, in order to rapidly adapt his business to the changes in the components, or in the consumer tastes.

In other words, we must conclude that the promotion of the innovativeness in the small business world needs a more selected and targeted policy, if we will to get efficient results.

THE INNOVATORS, AS EMBEDDED PEOPLE

The small business owner is more or less deeply embedded in his local environment. The embeddedness may be defined at a double viewpoint:

The length of time, starting from the birthdate of the business. In case of family business, we may observe a high perenity. In case of dynamic areas (as, for instance, around Montpellier) we observe that most of new venturings are made by newcomers, maybe unwilling to remain on this place a too long time.

The stickiness, i. e. the density of the network woven with the local institutions mentioned above. Very often, the perennial firms benefit from a spread local network. Younger firms, created by «strangers», not only have not an extensive one, but may desire to avoid a too sticky embeddedness. It will be the case when they will (1) prevent local pressures, or (2) prefer external network or, (3) when they are integrated inside a multidivisional big concern (an increasing case for SME, particularly in agro-food industry).

Consequently, we suggest a typology, including four types of «entrepreneurs»:

- The «insulated» (not necessarily insular) has unwillingly poor relationships with his local environment. He works lonely; he reveals as mostly reactive, poorly induced to change, to improve his business. He waits for the clients and is focusing on inner problems. He perceives his environment as quite hostile. Sometimes, he implemented his new venture on an innovative basis, but he revealed after unable or unwilling to develop the growth or innovation opportunities.
- The «notable» (french word, no translatable), has good economic and social relationships in his local environment. Generally, his firm exists since a long time; he benefits from a good local reputation, and, very often, exerts institutional responsibilities, in the fields of politics, of cultural and sportive activities, of professional associations –even at a modest level. Concerning the innovation, he appears as an adaptor. His monitoring system is grounded on his local personal network. Moreover, he tries to prevent drastic changes, for instance, new entries by «invaders», on the (almost peaceful) «battlefield» (on this problem of connivence, remember the famous remark by Adam Smith...). In other words, the innovation may be «administred». This behaviour is (was?) frequently observed in the world of rural family businesses. But the mergers and failures moves led to a lost of influence of the «notables», except for the nearby markets.
- The «nomads» are not strongly stuck into their local environment. They are owned by «efficiency- minded» managers, focusing on the couple intellect-effect, searching for higher productivity and profitability, by means of an optimal trade-off between the available local resources. But the nomad may «emigrate» rapidly, if he finds

elsewhere more profitable opportunities. He knows the ways to master the complexity of the institutional systems implemented to help the SBE to innovate. He appears as a prospector, systematically searching for emerging innovations by pioneers. To implement them, he will presumably benefit from a financial and logistic support, increasingly as a «quasi-integrated» firm inside a big concern.

- The «enterprising» looks like the pioneer. He starts his new business with an innovative opportunity, and he tries to expand his market, not only inside, but also outside his local environment. He weaves a complex network, more interactive, with diversified actors: economic and social, local and «foreign» ones. The «enterprising» will be very fond of the new information and communication technologies. He will search for new clients, new suppliers (goods and services), in order to get an idiosyncratic positioning, at the best a dominant position on a worldwide «nanomarket». In this latter case, the localization may appear as a leverage of global competitiveness.

We have to mention that the pioneering behaviour is not uniquely accessible to high tech activities. The innovativeness may emerge in craftsmanship businesses, in low tech areas, implying the search for new solutions, for more accurate markets positions, in order to more profitably differentiate the whole business. The success appears linked to the level of coherence, between the vision and the action of the «enterprising entrepreneur», and the feasibility, i. e. the fit between the organizational skills and the marketable satisfactions.

We shall briefly conclude by the following remark: too often, the writings on the innovation problem in small business firms appear as a caricature, as «single-minded». The main purpose of this purpose was to arise the complexity of the small business world, implying the search for more specific and detailed policies aimed to promote, if necessary (and only if necessary) the innovation process, as an unescapable strategy to enter into the emerging entrepreneurial capitalism.

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