Entrepreneurship: the creation of new enterprises

Entrepreneurship and innovation play a key role in economic growth, accelerating the generation and application of innovative ideas. Entrepreneurial organizations outperform non-entrepreneurial organizations, ceteris paribus.

More than ten million adults are in the process of starting businesses in the USA at any given time and entrepreneurship is expanding dramatically in international markets.

Though often thought of as applying to small start-up ventures, entrepreneurship has expanded to include entrepreneurial behaviour by larger established corporations and government entities. Government programmes in many countries sponsor entrepreneurship and innovation, e.g. the Small Business and Innovation programme in the USA, the Vinnova programmes in Sweden, the Commercial Ready programme in Australia, and the Multimedia Super Corridor in Malaysia.

The distinction between public and private organizations is often blurred as more private organizations deliver public goods and private organizations become more socially responsible. At the same time, with the trends towards privatization and outsourcing, public organizations are moving toward private sector management practices. There also have been substantial changes in the budgeting processes and significant changes in the external environment, promoting the need for governmental agencies to mirror the private sector and to act more entrepreneurially in order to accomplish their missions. The concept of innovation and entrepreneurship in public organizations has gained momentum, both in the USA and in other countries, leading to a new public management (NPM) movement.

The birth of new enterprises

Although entrepreneurship, the activity of creating new ventures, is largely associated with private enterprise, entrepreneurial behaviour also occurs in the public sector. Policy, entrepreneurship and innovation are of growing interest in U.S. government and military sectors. Environmental or contextual changes can necessitate a government to change the way it operates, both in terms of structural design and in terms of process. As an example, the change from the Cold War to the War on Terror has led to a shift in focus for the US Department of Defense and the creation of the US Department of Homeland Security, in 2003. Each organization needs to act more quickly in response to threats and opportunities. Decision-makers may need to have more autonomy and an ability to be innovative in their responses including introduction of new products and methods of production, developing new organizational structures, and use of new materials and/or sources of supplies. These activities roughly approximate to four types of innovation:

1. new production methods;
2. opening new markets;
3. new sources of supply; and
4. new organizational structures.

Similarly, just as new technologies create opportunities for new enterprises in the private sector, new technology also spawns new federal government initiatives. An example of a technology driven new public enterprise is the US Navy-Marine Corps Intranet (NMCI),
which represents an initiative to make comprehensive network-based information services available for military activities. Another example is the US Naval Air Systems Command's new Enterprise AIRSpeed logistics programme, which introduces new logistical techniques in support of naval air maintenance operations. These programmes can be viewed as examples of another type of innovation: the introduction of new products.

The nature of public goods

Public goods have joint consumption, which means that exclusion of some from use of the good is often unfeasible. For example, if the government spends money to protect the environment, all citizens and visitors potentially enjoy cleaner air and water. As another example, the US Department of Defense provides national security to the entire USA. Similarly, the French Ministry of Interior provides law enforcement services to all people in France. Although there are many possible definitions of public goods, one conceptualization is that: if goods are provided to one person, they can be automatically made available to others. In essence, this is joint consumption. This positive externality means that the provider of the public good cannot limit the use of the good to those who pay for it.

There are, however, some public goods that are divisible or rationed. They can be provided to one set of the population but not to another based on predetermined criteria. As one example, special education programmes can be provided to students who meet certain criteria. As another example, the ministries of health in various countries “ration” public health care. As a third example, public museums or symphonies may be partially subsidized by governmental entities and supported by public admission fees. Even though it is a public good, it may not be available to all of the public as a function of their inability to pay the admission fee. Therefore, the exclusion/non-exclusion factor is important to the funding decision.

Entrepreneurial orientation

Entrepreneurial orientation is the practices, processes, and decision-making activities employed by entrepreneurs to enter new markets and to support entrepreneurial opportunities. Entrepreneurial orientation is typically conceptualized as having three to five dimensions including autonomy, innovativeness, proactiveness, risk-taking, and competitive aggressiveness.

Autonomy

On an individual level, autonomy implies a relative freedom from organizational constraints. On the institutional level, it implies an empowerment to act without a cumbersome process. In general, hierarchical control is typically preferred in public enterprises. This limits the ability for decision makers to act autonomously, i.e. to act freely from organizational constraints. Given the changing nature of some aspects of government and the possible requirement to act quickly, if quick decision making is required to deliver the good or service, the new venture should consider private ownership. However, if quick decision making is not required to deliver the good or service, the new venture should consider public ownership.

Innovativeness

Innovation can be viewed as applied creativity in the business context. If creativity can be transformed into innovation, new attributes can be combined to develop new products or services. New production processes or new management approaches can be developed to solve business or customer problems.

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Governmental entities do support innovation, however, the administrative hierarchical nature of government and requirements for public accountability can act as impediments to innovation. The nature of the government structure inherently slows innovation. There is little or no reward for innovativeness and little or no punishment for the lack of innovativeness. In addition, arguably, there is a self-selecting bias where people who are not innovators choose to work for a more conservative public organization. Often, the private sector can be more creative and innovative.

Proactiveness

Proactiveness involves a wide variety of activities including identifying and assessing the strengths and weaknesses of opportunities, and forming teams capable of exploiting them. Entrepreneurs need to be proactive in seeking out an attractive niche and creating the necessary resources to facilitate new entry.

Pro-activeness is especially important to firms in the start-up decision and in the early stages of industry development. This is especially important in new venture spin-offs created by capitalizing on research and development or technological innovation.

Risk-taking

Entrepreneurs generally accept that entrepreneurship involves risk-taking and are willing to take risks in return for potential rewards. When possible, entrepreneurs would prefer to lower the risk aspects of the risk-return equation. Governmental entities are often risk-averse and, in the extreme, risk avoidant. Therefore, if greater risk is required to deliver a public good or service, the new venture should consider private ownership. If lower risk is required, the new venture should consider public ownership.

Competitive aggressiveness

Competitive aggressiveness is more important to firms in later stages of industry development than in earlier stages. Although there are several examples where the federal government is competitively aggressive, e.g. in the military context, these examples are viewed as exceptions rather than the rule.

If greater competitiveness is required to deliver a good or service, the new venture should consider private ownership. However, if lower competitive aggressiveness is required then the new venture should consider public ownership.

Creation of new enterprises

Given differences in national culture, there may be great differences in governmental entities across countries. For example, would the publicness privateness relationships, entrepreneurial orientation considerations, and the structure of new entity be the same in more authoritarian countries compared to more democratic countries? Open versus command economies? Smaller versus larger countries? Developed versus less developed countries? Independent versus highly interdependent countries?

Within the USA, although the same arguments may hold for state and local governments, different propositions for these levels may emerge due to differing environmental contextual forces which, in turn, may impinge on organizational contextual variables. For example, there is currently considerable turbulence, uncertainty, and dynamism associated with the national and international external environments, e.g. volatile oil prices, the threat of terrorist attacks, and the war in Iraq.

The success of organizations operating in more turbulent and uncertain environments requires them to be structured more organically, reflecting more open communication channels and decentralization than those operating in less turbulent environments.

Although many new and emerging activities in the public sphere may replicate the publicness of their parent organization, a closer look at these organization structures is
warranted. Correctly identifying the publicness or privateness of a new entity can have a
direct bearing on its ability to perform entrepreneurially and survive in competitive
conditions.

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