

***“GROWTH INTENTIONS AND EXPANSION PLANS OF NEW  
ENTREPRENEURS IN TRANSFORMING ECONOMIES:  
AN INVESTIGATION INTO FAMILY DYNAMICS, ENTREPRENEURSHIP AND  
ENTERPRISE DEVELOPMENT”***

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## ABSTRACT

The focus of this study is to investigate the entrepreneurial growth intentions and expansion plans of new entrepreneurs in a transforming economy. As a focused method of investigation one country, Romania is examined. The study probes both the conceptual dimensions associated with the socio-cultural forces shaping transition, and the theoretical concepts associated with entrepreneurial centered socio-economic growth and development. Specifically the dissertation investigates the relationships between entrepreneurship, family dynamics and private enterprise development during socio-economic transition in Romania.

The general research question posed is ***“What are the levels, and specific types of expansion plans found among new entrepreneurs in the former Soviet Bloc nation of Romania; what are the predictors of these expansion plans; and how do the environmental value systems and family dynamics impact planned growth?”***

The objective of this study is to examine thoroughly the different individual, group and environmental dimensions which impact entrepreneurial venture development via planned growth intentions and expansion plans. The study’s central objectives are to 1) to identify what types of planned growth initiatives entrepreneurs intend to pursue, 2) to ascertain the levels of intensity entrepreneurs have towards planned growth, and 3) to investigate the impact family dynamics have on planned growth intentions.

A theoretical multidimensional model of the predictors of expansion plans is developed. Specifically, a set of exogenous variables comprising a sequence of relationships are hypothesized to be related to entrepreneurial expansion plans. Three dimensions comprise the predictive model; 1) Micro level variables associated with the entrepreneur’s personality, 2) Intermediate level variables related to societal dynamics,

including family involvement and 3) Macro level variables affiliated with the comprehensive environment entrepreneurs operate in.

The results of a survey of 410 Romanian entrepreneurs is used to test the multidimensional model. Data has been collected via the Entrepreneurial Profile Questionnaire which has been validated in Europe, Asia, and North and South America. The sample includes a rich cross section across a variety of industrial groups. Data is analyzed using a combination of descriptive and relational research techniques. A series of multivariate statistical procedures is employed to analyze the data and test the multidimensional model.

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## **1-PROBLEM STATEMENT AND RESEARCH OBJECTIVES**

### **1.1-Why Study Growth?**

*“We should recognize the importance of, and systematically inquire into, entrepreneurship as a factor of economic growth.” (Joseph Schumpeter, 1947, p. 234)*

Understanding small business growth is critical to entrepreneurship research. Cressy and Storey (1995) concluded that smaller businesses exhibited faster growth rates than larger start-ups. Accordingly it is important to gain a greater understanding as to what shapes business growth and especially in new small business start-ups. Delmar (1996) went further and argued that research progress will only evolve if scholars start to systematize growth as a dependent variable.

Regardless of the economic system, the prevailing question posed is how to induce economic growth? In developed economies like those found in Western Europe and the United States a variety of basic sources of overall economic growth are set forth by policy leaders and economists. They include: growth of the labor force, growth in capital stocks, growth in productivity, innovation, and growth in exports. Furthermore, some economies foster economic growth by creating new needs and desires for consumers.

The collapse of the former Soviet Bloc combined with an increasingly globalized economy, has led the entrepreneurial driven small business as a dynamic impetus of economic growth and progress. Small business growth is emerging as a global phenomenon. New ventures are forming at unparalleled rates, and the spirit that infuses them is reshaping economies around the world (Byrne, 1993). Entrepreneur led small businesses act as agents of social and economic change.

Small businesses drive economic growth. For example Timmons (1994; p. 4, Revised 4<sup>th</sup> Edition) pointed out that since World War II, 50 percent of all innovations, and 95 percent of all radical innovations including the micro computer, overnight express postal service, and fast food came from smaller firms. Entrepreneurial driven enterprises transform techniques of production, conquer new markets and pursue new productive methods.

### **1.1.1-Neoclassical Economic Theory And Small Business Growth**

Grounded in the prevailing neoclassical economic orthodoxy of general equilibrium theory, economists base their theories of growth on a series of assumptions. Principally neoclassical theory assumes equilibrium to be the normal state of an economy, assuming that market disequilibriums are quickly eliminated through price adjustments (Useem, 1997). Neoclassical economic theory argues that growth maximization is a result of resource optimization.

There are two central problems with the neoclassical model as it relates to economic development and growth. First is the prevailing assumption that firms across nations have access to the same production technologies, and that there is factor mobility (Schmitz, 1993). By the same token Birch (1987) discovered that American small businesses tended to be more advanced when it comes to the development and application of technology. Furthermore neoclassical economic theory falsely assumes that capital-to-labor ratios and per-capita output are the same in every country (Schmitz, 1993, p. 19).

Second, neoclassical economic theory with its mathematically pure nature treats the entrepreneur as an external force, when in reality, the entrepreneur is the principal character in the equation (Useem, 1997, p. 26). Today there continues to be an implicit assumption that the entrepreneur contributes disproportionately to the economy of a nation, yet little has been done to isolate this individual for further analysis (Carland, Hoy, Boulton and Carland, 1984). Positive links between entrepreneurship and economic development have been supported in some European

regions (Nijkamp, Alsters and van der Mark, 1988) and in the United States (Birch, 1987, p. 148). Consequently growth can largely be attributed as much to the attitude of the entrepreneur as to the economic aggregates of an economy.

### **1.1.2-Multidimensional Forces And Entrepreneurial Led Small Business Growth**

Entrepreneurial led small business growth is influenced and shaped by a multitude of factors within an socio-economic system. On a micro level the individual characteristics of the entrepreneur impact small business growth. Likewise, intermediate aspects including the societal dimensions associated with cultural orientation and demographics further shape enterprise growth. The macro economic environment including the political forces, economic orientation and financial infrastructure affect entrepreneurial centered small business growth as well.

**Table 1.1**  
**Multidimensional Forces Impacting Entrepreneurial**  
**Small Business Growth**

<b>Micro Dimension</b>	<b>Intermediate Dimension</b>	<b>Macro Dimension</b>
<i>Psychological Characteristics</i>	<i>Societal Dynamics</i>	<i>Economic Environment</i>
Entrepreneurial Intensity	Cultural Demographics	Market Orientation
Motivations	Family Dynamics	Support Services
Entrepreneurial Sacrifices	Education	Financial Infrastructure

Small business growth is a complex phenomenon which is at the heart of entrepreneurship. With only a minute understanding of this complex phenomenon new multidimensional approaches to the study of small business growth are essential.

### **1.1.3-A Crossroads For Entrepreneurship Research:**

#### **Traditional Measures Of Growth**

The concepts associated with small business success, growth and failure are only beginning to receive more focused attention. To date most of the attention has been focused on rapidly growing new ventures. In many cases growth is measured by increases in the number of employees, profits, and sales. Whereas these measures may be “final outcomes,” it is necessary to ask the question about how the final outcomes are achieved.

Knight (1921, p. 273, reissue of first edition published in 1964) argued that an essential fact is that entrepreneurs are acting and competing on the basis of what they think of the future. According to Knight the whole calculation is in the future; past and even present conditions operate only as a grounds of prediction as to what may be anticipated. One of the challenges associated with the study of business growth is the influence of multiple factors on the process.

Schumpeter (1947, p. 230) contended that economic growth is not an autonomous phenomenon that can be satisfactorily analyzed in purely economic terms. This argument is based on the contention that multiple factors such as the physical environment, social organization, politics, technology, national spirit, and human material all influence economic growth. The human aspect (principally the quality of leadership) acts as a linkage between these factors.

Schumpeter (1947, p. 234) identified two types of response associated with economic growth; adaptive and creative. To Schumpeter this creative response meant the bringing together of new combinations of productive resources, often for new purposes. Since that function defines the economic type called the entrepreneur researchers need to recognize the importance of, and systematically inquire into, entrepreneurship as a factor of economic growth (Schumpeter, 1947, p. 234).

#### **1.1.4-The Need To Know More-Entrepreneurship And The Future**

Entrepreneurial led small business growth is at the forefront of the economic revolution taking place in today's global marketplace. Building on the observations of Cooper (1998, pp. 6-7) five environment trends fostering entrepreneurship and SME development highlight the magnitude of economic change taking place.

- 1) High rates of change related to technological innovation especially in the communication, information and bio-technical sectors.
- 2) Growth in the service sector including sectorial shifts away from heavy industry toward service and outsourcing.
- 3) Positive attitudes towards entrepreneurship and SME development by governments, educators and the public at large.
- 4) The globalization of enterprise along with new geo-political trade agreements which encourage entrepreneurship and SME development.
- 5) Positive socio-economic results including job and wealth creation, personal flexibility and independence.

Given the magnitude and scope of change taking place this study serves to create a better understanding as to how entrepreneurs function, cope and adapt.

There is a need to systematically research and investigate what shapes and influences growth intentions and expansion plans of entrepreneurs. It is especially important to better understand new entrepreneurs in transforming economies. Under these conditions of turmoil and radical change new private firms are being created out of both social and economic necessity.

Accordingly policy makers, scholars, educators and the economic community in general need to know more about how entrepreneurs intend to grow and further develop their enterprises.

### **1.2-Lack Of A Unified Definition Of Small Business Growth:**

#### **The Role Of Intentions And Expansion Plans**

Surprisingly little theoretical, quantitative, and rigorous literature focuses on decisions of entrepreneurs to develop their firms (Ward, 1993, p. 32). One of the fundamental problems at hand is how growth is defined. Growth intentions and enterprise expansion can be investigated through different approaches. Entrepreneurial aspirations, willingness, intentions, motives, and expansion plans are all common elements set forth in existing literature to describe small business growth.

Dunkelberg and Cooper (1982, pp. 4, 6) argued that growth orientation in and of itself represents an important entrepreneurial characteristic. Researchers have found entrepreneurial orientation to be a key determinant of small firm growth. Birch (1987) argued that attitude rather than sector or location determine growth and success. Brown (1995, p. 59) suggested that entrepreneurial orientation had a positive impact on small firm growth.

Researcher Fox (1996) pointed out many entrepreneurs believe that growth is as much a matter of attitude as it is of economic aggregates, little evidence exists supporting either argument. Carland, Hoy, Boulton and Carland (1984) suggested that planned growth is an important method of differentiating entrepreneurs from small business owners. Their approach may lead through the maze helping to uncover some of the key properties of entrepreneurship. Planned growth is often seen as the variable which distinguishes small business owners from “real entrepreneurs.”

**1.2.1-A Series Of Approaches Towards Entrepreneurial Small Business Growth**

Table I.2 illustrates the fact that a series of approaches towards small business growth have been set forth. They include micro perspectives which look at the characteristics of the individual entrepreneur; macro perspectives considering the macro economic environment in general; and a combination of the two approaches. Presently there is a general lack of understanding of how growth intentions and expansion plans evolve and take shape. No comprehensive theoretical models exist to help explain the processes or probe the influences associated with planned growth intentions. Subsequently this study will propose a new approach to understanding growth.

**Table 1.2**  
**Approaches To Entrepreneurial Small Business Growth**

<b><i>Constructs</i></b>	<b><i>Indicators</i></b>	<b><i>Outcomes</i></b>
Growth Aspirations	Motivations to Start and Grow a Business	Changes in Revenue and Number of Employees
Growth Willingness	Expected Outcomes and Growth Willingness	Turnover and Number Of Employees
Growth Intentions	Intentions Predict Future Behavior	Planned Behavior Toward Expansion Plans
Environmental Factors	Environmental Dimensions	Market Growth and Environmental Velocity

**1.2.2-Need To Develop A Better Understanding Of Growth**

Cantillon (1755) referred to a system of links binding men and groups together in an economic society<sup>1</sup>. Schumpeter (1934, pp. 3-12) argued that economic life was conditioned by given circumstances associated with a given society. Growth intentions are thus shaped by a system of interdependent factors which include social organization, politics and human material. Schumpeter (1934) described the social process as “one indivisible whole.” Accordingly, to truly understand the central principles of planned growth a multi-perspectival approach must be incorporated.

At present there is a need to develop a better understanding of the factors impacting economic development and enterprise growth. With the collapse of communism and subsequent globalization of economic activities entrepreneurship and small and medium sized enterprises are increasingly being recognized as an innovative force driving economic development around the world. With entrepreneurship at the forefront of economic development there is a immense need to develop a greater understanding of entrepreneurial small business growth. There is a need to study the different individual, social and macro environmental dimensions within a given socio-economic system. These forces shape and influence the growth intentions and expansion plans of entrepreneurs.

### **1.3-The Study's Central Objectives**

The objective of this study is to examine throughly the different individual, group and environmental dimensions (see Table I.3) which impact entrepreneurial venture development via planned growth intentions and expansion plans. The study's central objectives are 1) identify what types of planned growth initiatives entrepreneurs intend to pursue, 2) ascertain the levels of

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<sup>1</sup> In Cantillon's Essay On The Nature of Trade in General, (1755) he describes a system of linkages between 1) Wealth, primarily based on land ownership, pp. 3-7, 2) a series of Individuals described as "Officers or Favourites" those who cultivate land for the owners, p. 5; "Farmers and Labourers" those who work their own land, p. 7; "Undertakers (Entrepreneurs) and Merchants" those who buy and sell, p. 11, and "Artisans" such as Locksmiths and Cabinet makers, p. 13, 3) all are connected by socio-economic groups including Villages, p. 9; Market Towns, p. 11; Cities, p. 13; and Capital Cities, p. 17.



intensity entrepreneurs have towards planned growth, and 3) investigate the impact family dynamics have on planned growth intentions.

**Table 1.3**  
**Multidimensional Anatomy Of Planned Growth**

<i>Social Strata</i>	<i>Discipline</i>	<i>Anatomic Characteristics</i>
Individual Entrepreneur	Psychology	Behavior, Attitudes, Beliefs Motives
Groups Formal & Informal	Sociology	Family, Community, Networks Demographics
Environmental Infrastructure	Economics	Obstacles, Barriers, Support Structures
Small Entrepreneurial <u>Enterprise</u> <u>Production</u>	Business Administration	Expansion, Investment, <u>Upgrade Operations or</u>

The study looks at the interrelationships between society and its people, principally the entrepreneur, their family and personal networks. Based on this approach a multidisciplinary approach is incorporated. The idea is to draw from three disciplines across the social sciences along with business administration. The disciplines include; 1) Psychology, to probe the individual behavior including the attitudes and beliefs of the entrepreneur, 2), Sociology to discover the role and relationships of the formal (family) and informal (peers, coworkers) networks and groups operating within the culture, 3) Economics as it relates to the environmental infrastructure which both supports and inhibits entrepreneurship, and 4) Business

Administration as it relates to entrepreneurial planned growth through investment, expansion and venture operations.

### **1.3.1-Entrepreneurship And Small Business Growth**

#### **In The Transforming Economies Of The Former Soviet Bloc**

Entrepreneurship, and the development of new business continues to be at the forefront of socio-economic development in virtually all economies today. The former Soviet Bloc is a special and unique case. Roman (1991) viewed the development of entrepreneurship and small business growth as one of the major prerequisites of the transformation process in East Central Europe. Nicolescu (1994) called for entrepreneurship to be a national priority in each of the post-communist countries, including Romania.

In 1994 the European Foundation for Entrepreneurship Research (EFER) conducted a survey of 800 of East Central Europe's fastest growing private companies. The majority of these 800 firms were experiencing sales of between \$1m and \$5m, with almost half in manufacturing; they employed on average around 90 people; and their growth rates (based on turnover) were phenomenal, averaging over 100 percent during 1993 (Business Central Europe, 1994). The study observed that even while facing many problems most of the 800 enterprises were planning to expand.

### **1.3.2-Romanian Transition: The Rebirth Of Entrepreneurship**

#### **And Small Business Development**

By the end of 1989, Romanian society including its economy were in total paralysis. Aside from Albania, Romania had the worst starting point in East Central Europe (Treptow, 1997). Over 90 percent of the economy was in State hands. Most Romanians lived miserable lives experiencing daily hardships for even basic needs like home heating and foodstuffs like eggs, coffee and butter.

The post-communist transition can best be characterized as socialist, marked by uncertainty and confusion. Entrepreneurship and private enterprise development started in early 1990 and immediately had a positive impact on the economy. Private agriculture, notably the small family-based farm, began to stabilize the supplies of basic foodstuffs. Entrepreneurs became actively involved in trade, commerce, and services. While the state continued as the dominant economic force, the private sector stabilized it.

The entrepreneurial drive shown in recent years, including the expansion of thousands of small, private businesses has clearly been the steadying economic force (Carothers, 1996).

With entrepreneurship taking root, these small and medium sized enterprises (SMEs) can greatly contribute to Romania's economic transformation and growth. Until recently, the government refused to advance the privatization program, and simply appeased international assistance organizations.

Despite this, the private sector has taken solid root. During 1995-96, approximately 88 percent of the nation's industry remained in State hands. Yet, by mid-1996, entrepreneurs accounted for about 50 percent of GDP, compared to 21.5 percent in 1991, and were responsible for 79.2 percent of retail trade, and 72.7 percent of nonfinancial services, with extensive activities in the export and import sectors (Treptow, 1997, p. 576).

Amidst the sporadic economic reforms taking place there is a need to gain an understanding as to the development of entrepreneurship and SME growth in transforming economies like Romania. Although they have little experience Romanian entrepreneurs appear eager to learn. In fact Romania's private sector is the shining star in the country's struggle to transform its crippled economy.

With increased privatization and self employment taking place combined with entrepreneurial growth intentions the question becomes “What levels and types of expansion plans do Romanian entrepreneurs exhibit?”

### **1.3.3-Natural And Unique Field Study Site**

Romania represents an opportunity to probe the central properties of entrepreneurship in a natural field environment. The aim is to discover the relations and interactions among psychological, sociological and economic variables. Davidsson (1991, p. 408) pointed out that “when a firm operates above a mere subsistence level in a less than perfect market, the entrepreneur is free to choose whether to pursue expansion or not.”

By adopting a field study approach one goal will be to investigate the social and institutional conditions impacting entrepreneurial growth intentions. Specifically the relations among the attitudes, values, perceptions and behaviors of the individual entrepreneur and family groups present in the transitional environment are to be probed. The field study will incorporate a two tier approach. First the study seeks to explore and discover significant variables impacting entrepreneurship in Romania. Secondly the study strives to discover relations between the psychological, sociological and economic variables and growth intentions.

Romania represents a unique once in a lifetime opportunity to study the concepts associated with entrepreneurship and family business development. As a Latin island in a Slavic sea, Romania has an extremely unique cultural orientation. This study will investigate the reemergence of entrepreneurship in a location with little entrepreneurial experience, few resources, social-psychological trauma and strong family orientation.

### **1.4-Major Research Question**

This study will probe both the conceptual dimensions associated with the socio-cultural forces shaping transition, and the theoretical concepts associated with entrepreneurial centered socio-

economic growth and development. Specifically the dissertation will investigate the relationships between entrepreneurship, family dynamics and private enterprise development during socio-economic transition in Romania.

Specifically the central research question posed is ***“What are the levels, and specific types of expansion plans found among new entrepreneurs in the former Soviet Bloc nation of Romania; what are the predictors of these expansion plans; and how do the environmental value systems and family dynamics impact planned growth?”***

#### **1.4.1-A Series Of Related Research Questions**

The central research question will be segmented into four dimensions of investigation. The individual entrepreneur, family dynamics and the general environment in which enterprises function represent key dimensions worthy of investigation. Next a series of multidimensional predictors will be identified and empirically tested.

#### **1.4.2-What Are The Levels And Types Of Expansion Plans Entrepreneurs Have?** **(The Individual)**

Entrepreneurship and private enterprise development is in its infancy reemerging after almost 50 years of Socialist economics. Thus two questions need to be asked. First there is a need to determine the general level of growth intentions and expansion plans. Do entrepreneurs aspire to grow and build new venture start-ups into prospering small and medium sized enterprises? Or do they have a limit on growth and enterprise development?

Second if they do intend to grow their businesses, how do they plan to do it? Specifically what types of expansion plans are they intending to pursue? Technological improvement, product or

service offering, operations, production and market development are all examples of focused growth intentions which are proposed and examined.

### **1.4.3-How Does The Family Network Impact Growth Intentions And Expansion Plans? (The Group)**

The domestic family strives to work as a cohesive unit shaping and organizing the group around both individual and group needs. Kinship groups are centered on deep alliance networks based on clan patronage. They work to provide mutual socio-economic assistance and support. The Romanian family household unit, kinship group, and alliance network represents one of the central components linking economic and cultural change.

The family alliance network influences the entrepreneur's growth aspirations by supporting and encouraging entrepreneurship or discouraging and suppressing it. The family may play either a supportive or enabling role in the entrepreneurial growth process. Thus there is a need to gain insight into how the family dynamics impact growth intentions and expansion plans.

### **1.4.4-How Does The Socio-Economic Environment Impact Expansion Plans And Growth Intentions? (The Environment)**

In general macroeconomic terms the Romanian economy faces a number of major challenges. Structural reforms aimed at restructuring loss making state enterprises, the need to develop financial discipline and the development of capital markets are vital. Privatization has been the slowest in the entire former Soviet Bloc. Mihai Tanasescu, finance minister, said "sustained growth will only be possible if Romania speeds up economic reforms, including the overhaul of state-owned enterprises" (Wagstyl, 2001, p. 3). Average monthly wages were \$130 per month, and inflation eats into that (Economist, 2001, p. 53). Furthermore margins between official and gray market exchange rates draw people away from official bank exchange which depleted hard currency reserves.

In addition, the economic infrastructure including the financial sector, telecommunications, transportation, information sectors and governmental bureaucracy are old, inefficient and outdated. The velocity of environmental change found in transitional Romania is intense. Corruption, bureaucracy and general uncertainty permeate society making such things as obtaining a telephone line or a drivers license expensive, time consuming and difficult. Starting a business can not be easy under such conditions and growing an enterprise even more difficult. Consequently the environmental velocity associated with transition is impacting growth intentions and expansion plans.

#### **1.4.5-What Are The Predictors Of Expansion Plans?**

##### **(Multidimensional Predictors)**

The idea is to probe the individual, social and environmental dimensions which impact and influence an entrepreneur's posture towards business growth. By exploring the psychological, sociological, and economic aspects associated with the environment some of the forces shaping growth intentions can be uncovered. From a psychological perspective the individual entrepreneur and their attitudes, beliefs and motives will be probed and examined.

Sociologically speaking the socio-cultural norms and values associated with the family, and community will bring further understanding as to the impact of the social dimensions on growth intentions. Exploring the external market conditions such as the infrastructure, financial markets and bureaucracy present during transition will help gain a comprehensive understanding as to how environmental velocity shapes growth intentions and expansion plans.

Through the development of a holistic view comprised of multiple dimensions of society some predictions can be made regarding the growth intentions and expansions plans of these new

entrepreneurs. They can be measured, tested and compared to gain an understanding as to the entrepreneurial growth process in a post socialist environment. This will lead to the uncovering the basic nature of entrepreneurship in a post Soviet Romanian context.

### **1.5-Need For The Development Of A Multidimensional Approach To Investigate**

#### **Entrepreneurial Small Business Growth**

Cantillon (1755, p. 51<sup>2</sup>) implied the existence of functional or cause-effect relationships which, though sometimes hidden by extraneous circumstances, were fundamental, persistent, and comparatively immutable forces which are part of economic systems that impact and shape entrepreneurship (Spenger, 1960, p. 109). Furthermore Schumpeter (1947) set forth the argument that to understand economic growth numerous factors associated with individual, social and environmental factors must be considered with in their contexts.

Wortman (1987) in his assessment of the evaluation of entrepreneurship research called for researchers to incorporate a combination of business administration and social sciences. Handler (1989) called for the broadening of research methods by giving consideration to the individuals involved, formal and informal groups, along with the interpersonal and inter group relations within family and business.

Plaschka and Welsch (1990, pp. 124-125) theorized that the development of entrepreneurship and subsequently the SME sector is a product of both the external (policy, and infrastructure) and the internal components (characteristics of the entrepreneur and the firm) of an economic system. Researchers Donckels and Frolich (1991), Welsch (1991), Daily and Thompson (1994) and Gallo (1995) have identified behavioral characteristics unique to family business which

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<sup>2</sup> See footnote 1 on page 8 for additional explanation and details.



point to difficulties in maintaining consistent growth rates. As a result family dynamics and their influences on planned growth need to be explored.

Although some theoretical development has occurred, research is at a crossroads because the studies that do exist tend to analyze the relationship of the entrepreneur and growth to a single dimension such as personality, organizational development, business management skills, or sectoral economic approaches. In this study a theoretical model is set forth, a definition of planned growth intentions developed, and the empirical testing of some of the predictors of small business growth reported.

This is based on the need for the development and testing of theories that examine multiple dimensions of what shapes planned growth intentions and enterprise development. In turn, contributions can be made in three areas; 1) the advancement of entrepreneurship and family business research, 2) assistance to policy makers who can foster economic development through enterprise creation and growth, and 3) education and learning for those who are working with and serving entrepreneurs and family based businesses.

### **1.5.1-Significance Of The Research**

Entrepreneurship literature consists of numerous studies that analyze the relationship between entrepreneurship and small business development. In this relatively new field many different theories have emerged that try to explain the phenomenon of new enterprise or venture creation (Veciana, 1999, p. 2). Much of the research related to small business growth has focused on final outcomes, the characteristics of the entrepreneur and venture performance. For example Gibb and Davies (1990, p. 26) identified four general research streams which explored various small business growth models including entrepreneurial personality, organizational development, business skills and sectoral economics.

Yet as Gibb and Davies (1990, p. 26) pointed out many studies have failed to provide convincing evidence of the deterrents of small business growth. Although a great deal has been learned, research focused on small business growth is at a crossroads. Despite the increased attention to both business start-ups and growth few studies have taken into account the many different forms growth can take (Davidsson and Delmar, 1998, p. 47). In addition there have been only a few comprehensive studies that have empirically tested the different predictors of small business growth.

Furthermore, there is little understanding as to how the entrepreneur, family and environment interact and impact small business growth. Although much has been learned, entrepreneurship research is at a crossroads because little focus has been placed on the entrepreneur's decision process to grow and develop their firms. Further, little research has looked at the multitude of dimensions which shape the entrepreneurs decisions to grow and expand a business.

The dynamics between the entrepreneur, the family network and external environment need to be considered. A multidimensional approach which synthesizes the dynamics of these three components followed by the development and testing of new theories is called for. This will foster a better understanding of the impact growth intentions and expansions plans have on small business growth, job creation and global economic competitiveness.

By conducting multiple tests of theory to determine how the different dimensions associated with the individual, groups and the socio-economic environment impacts and shapes growth intentions some distinction as to the dynamics associated with expansion plans, growth, strategic aspirations can be operationalized.

By exploring the categorical dimensions of planned growth intentions and enterprise expansion there is the opportunity to synthesize key elements associated with the following conceptual

themes; 1) entrepreneurial behavior (Schumpeter, 1934), 2) entrepreneurs versus small business owners (Carland, Hoy, Boulton and Carland, 1984), 3) family dynamics (Corbetta, 1995), and 4) environmental velocity and market forces (Hoy, McDougall, and Dsouza, 1992).

The research described here will systematically incorporate multiple tests of theory which may explain entrepreneurial growth intentions and expansion plans. Through examination of the multiple societal dimensions much can be learned about how growth intentions and expansion plans evolve and take shape. By synthesizing a series of research streams a holistic theoretical model with identifiable components will be tested. Provided this synthesis is achieved, the following contributions are foreseen:

**1.5.2-The Composition Of Growth Intentions and Expansion Plans Can Be Delineated On  
The Basis Of Empirical Findings**

The development of a model which identifies, compares and contrasts the underlying dynamics associated with entrepreneurial growth intentions and expansion plans will contribute to future research that addresses a series of questions. Ward (1993) contends that little theoretical, quantitative, and rigorous literature focuses on entrepreneurs decisions to develop their firms.

Handler (1989) called for the broadening of research methods in order to give consideration to individual, societal groups, family and the interrelationships with in these dimensions. As early as 1990 Gibb and Davies provided such a starting point as they called for the examination of the determinants of small firm growth from a multidisciplinary approach through the incorporation psychological, social and economic dimensions.

In addition, by examining intentions related to the strategic behavioral orientations including the types and levels of planned growth actions further understanding into the dynamics characteristics associated with entrepreneurial behavior. By addressing Handler's (1989) and

Gibb and Davies's (1990) concerns a greater understanding of the underlying dynamics associated with entrepreneurial orientation and growth intentions can be gained.

This in turn can bring deeper insights into the work of Schumpeter (1934) who identified specific characteristics associated with entrepreneurial behavior including the introduction of new goods and services, adding new methods of production, engaging in new market expansion, sourcing new suppliers and enterprise reorganization

### **1.5.3-Investigation Of Transition From A Centrally Planned Communist Socio-Economic System To A Socialist Market System**

The former Soviet Bloc, and specifically, Romania offer a unique "living laboratory." Especially as it relates to the re-emergence of entrepreneurship and family business development. Lank (1991) indicated that there is an understanding of how to move from market economies to centrally planned ones, with no experience of the reverse. The socio-economic transition taking place represents an unique opportunity to witness how the environment impacts entrepreneurial orientations toward future venture performance.

Although it has been learned that entrepreneurship has emerged as an economic force little to anything is known about what entrepreneurs plan to do in both the short and long term future. Economist have often assumed entrepreneurial expansion or contraction, but very little is known about hoe the process actually operates.

By looking beyond simply the characteristics of the entrepreneur, this research seeks to capture the role of family involvement in the entrepreneurial process. Also, very little is known about

the re-emergence of family enterprise in the former Soviet Bloc. With family based business being the predominate form of enterprise in the free world, it is both significant and necessary to investigate the re-emergence of family enterprise in Eastern Europe.

It has been set forth that family enterprise has distinctive advantages in turbulent environments such as those found in the transforming Soviet Bloc (Papanek, 1962; Khalaf and Shwayri, 1966; and Benedict, 1991, p. 628). Yet, to date little is known about family roles in enterprise growth and development in this type of environment. An empirical investigation into such questions constitutes a natural extension of theories addressing these issues. Furthermore, the insights gained from the proposed research might be used in future research to further the understanding into this complex phenomenon of socio-economic transition.

**1.5.4-Further The Understanding Of How Societal Elements Shape New Venture Formation, Entrepreneurial Growth Intentions And Enterprise Development**

Through the documentation and further understanding of the entrepreneurial growth process policy makers, scholars and those who work with entrepreneurs and family business can better serve and foster small business growth. For example it may be argued that to jump-start economies like Romania's, it may be important to implement policies that strengthen family networks, rather than those which are directly related to business development. Findings that document relationships between societal elements and planned growth intentions of entrepreneurs could provide answers to such questions especially in economies in transition.

**1.5.5-Organization Of The Dissertation**

The first chapter has presented an introduction to the dissertation by broadly outlining some of the present crossroads in entrepreneurship research. This is followed by stating both a major research question and a series of related research questions along with the potential contributions of the research. Chapter 2 develops the contextual frameworks for the study. The contextual frameworks including the historical economic, political and cultural orientations related to the

field site are set forth. Chapter 3 builds from the previous section by looking at family dynamics and entrepreneurship. This includes the conceptual dimensions related to community, family, kinship and how they influence entrepreneurship and enterprise development.

Chapter 4 sets forth a theoretical framework in relation to economic theories associated with entrepreneurship and small business growth. Chapter 5 focuses on the development of expansion plans as a dependent variable. This includes examining theoretical growth frameworks, as well as, the introduction of intentions based behavior as a growth framework for small business growth and development. Chapter 5 includes a comprehensive review of key literature.

Chapter 6 details the determinants of small business growth specifically the predictors associated with expansion plans and growth intentions. This includes a comprehensive literature review of the predictors of business growth. In addition a specific research model, propositions, and hypotheses to be tested are set forth in Chapter 6.

Chapter 7 describes the research design and methodology. This includes a discussion concerning the information and data collection process, data analysis, and field research administration.

Chapter 8 presents the results and findings of the empirically investigation of new entrepreneurs in Romania. In closing Chapter 9 sets forth some conclusions, implications and limitations, as well as, suggests extensions for future research.

## 2-CONTEXTUAL FRAMEWORKS

### **2.1-Historical Elements Impacting Culture And Entrepreneurship**

*“The rebuilding of Eastern Europe will be a long and arduous task. The world has learned, to its sorrow, how to move from market economies to centrally planned ones, but we have little or no experience in reversing the direction.” (Alden Lank, 1991, p. 122)*

The cultural forces of a society shape socio-economic development. Harrison (2000, p. 55) pointed out that a growing number of academics, journalists and politicians are talking about culture as a crucial factor in societal development. For example, Sachs (2000, p. 33) set forth the theory that economic growth is related to political, cultural, and economic factors. Sachs went further to suggest that historically few societies have employed successful combinations of these factors.

The societal values which are embraced or abandoned by a country shape its cultural and economic processes. The paradox of economic development is that economic values are not enough to ensure growth through progress (Grondona, 2000). Cultural factors related to religion, trust in the individual, the concepts of wealth, and the value of work are important considerations. Thus entrepreneurship and free enterprise development is largely shaped by a particular nation’s cultural processes.

#### **2.1.1-Culture, Entrepreneurship And Socio-Economic Development**

The process of entrepreneurial led socio-economic development requires the support and expansion of an enterprising culture. To achieve this a country must focus on improving the quality of its human resources, its scientific base, as well as, developing an advanced information technology infrastructure (Porter, 2000).

Thus to gain an understanding of entrepreneurship and private enterprise development an understanding of history and the cultural processes are required. In countries like Romania which experienced an internal socio-economic collapse it is especially important to understand the cultural context. During the early years of post communist transition it is vital to comprehend the historical influences and cultural setting in which new Romanian entrepreneurs function.

Consequently this paper addresses the contextual frameworks necessary to understanding the intricate and complex nature of what shapes the new Romanian entrepreneurs cultural environment. This includes tracing key historical aspects to gain insights into the role entrepreneurship and small business has played in Romania from the time of Ottoman rule to the present. Specifically the political, economic, and cultural dimensions are described.

With this knowledge a conceptual depiction of the environment which comprises Romania's transitional society is presented. The objective is to build an understanding of how the societal dimensions of history are impacting the socio-economic environment during transition.

### **2.1.2-Historical Influences And Cultural Orientations**

Researchers Seton-Watson (1934), Eliade (1943), Ionescu (1964), Georgescu (1985), and Gilberg (1992) all point out that to understand Romanian culture one must examine the past. Accordingly, to develop an understanding of the conditions and mode of the society in which entrepreneurship and small business development is taking place some understanding of the historical forces need to be developed.



Understanding the societal value system can help identify historical influences present during the socio-economic transitional process. This includes political, economic, and cultural orientations which shape entrepreneurial values and human progress.

### **2.1.3-The Balkan Peninsula: The Cusp Of Europe And Asia:**

#### **A Unique Combination Of Cultural Forces**

Romania represents a unique microcosm in Southeast Europe. Located on the cusp of Asia and Europe, Romania has been occupied and dominated by both Eastern and Western societies. The Balkan Peninsula is where the Islamic and Christian ideologies converge. As a result, Romania is a land that has been subservient to the needs of the ruling empires of the region.

The Greek, Roman, Ottoman, Austro-Hungarian, Russian and Soviet empires have all suppressed the people and exploited the vast resources of the land. Based upon a unique combination of Occidental and Byzantine roots, the majority of Romanians were peasant farmers at the mercy of foreign dominated Landbarons.

The nation of Romania was the result of the uniting of three independent yet interrelated principalities, Wallachia, Moldavia, and Transylvania (see Appendix A). The Danubian principalities of Wallachia and Moldavia unified in 1859. However, it was not until 1918, following the end of World War I, that Transylvania was able to escape the grip of the Austro-Hungarian empire and unite with Wallachia and Moldavia thereby establishing greater Romania.

As Romania emerged in the nineteenth century from the corrupt and inefficient grip of Ottoman despotism it struggled in an illusion of newfound freedom. On the outside it appeared that Romania was on its way to developing a multi-party democratic system.

Elections were held and parliamentary rule implemented. Unfortunately behind this facade, Romania began to develop a political system without the traditions, values or attitudes necessary to make such a system functional (Gilberg, 1992).

As a result of these circumstances and Romania's lack of experience in self-government the country continued to struggle. Historically prone to outside political influence, the system produced rule by royal and military dictatorship, the Iron Guard, a fascist autocracy and the authoritarian regime of the communists.

#### **2.1.4-Romanian Political Orientations:**

##### **Long Tradition Of Foreign Domination And Turmoil**

Romania has had a long standing history of political turmoil. This includes foreign domination and exploitation. Political leadership has demonstrated a consistent lack of respect and honor toward the people in general (Shafir, 1992). The most basic human rights have long been ignored and abused by the various political regimes. As a result the Romanians have a great distrust of politicians.

Following the end of Ottoman control political leadership has to a large extent been driven by two objectives, independence from foreign domination and internal control of the citizenry. The extreme case being the Ceausescu regime which used xenophobic themes and a cult of personality to establish systematic control of all aspects of life (Fischer, 1989).

#### **2.2-Four Central Political Orientations**

Throughout history many of Romania's political leaders have tended not to be committed to improving the general welfare of society (Georgescu, 1991). Four central political orientations have permeated history; 1) Feudalism, 2) Fascism, 3) Communism, and 4)

Mixed Socialism. Economic development has been directly under the influence of the prevailing political powers.

The first political orientation, feudalism, straddled both the Ottoman and Austro-Hungarian Empires. Following the end of the World War I Fascism produced a strong sense of nationalism favoring the State over the private entrepreneur as the primary economic agent. The end of World War II brought about the return of an Eastern political orientation of Stalinist totalitarian based communism.

Independent forms of political expression all but disappeared for over 40 years. The Ceausescu cult was primarily based on family control along with a network of zealots and confidants (Behr, 1991; Georgescu, 1991). Eventually the Ceausescu regime produced turmoil, uncertainty and chaos which brought society to near ruin. The post Ceausescu transition has ushered in a new political era, principally one of uncertainty and change (Longworth, 1994; The Economist, 2000).

One theme which continues to plague Romanian political leadership is the sincere belief that State is better suited to manage the economy than the private sector (The Economist Intelligence Unit, 1995). This is exemplified by the lack of importance placed on the promotion and development of entrepreneurship and free enterprise (Munteanu, 1993).

### **2.2.1-Feudalism And Foreign Domination**

The foreign domination of the Romanian political scene with its shifts between "Eastern (Ottoman, Soviet), and "Western" (Austro-Hungarian, German) ideologies has clearly impacted entrepreneurship and enterprise development. For example, feudalism imposed by the Ottomans neither permitted nor encouraged the development of private enterprise (Georgescu, 1991). The closest thing resembling entrepreneurial activity was based in

the agrarian class struggle of the peasant. Small amounts of exchange, mostly barter were the major form of commerce for the masses.

### **2.2.2-Political Regrouping And The Fascist Movement**

The nationalistic movement of the fascists brought back a Western sphere of foreign political influence, most notable from Germany, and Italy. Even though the political leaders of the moment tolerated entrepreneurship, they did little to support or encourage the development of free enterprise. Political leadership under the influence of Nazi Germany utilized what free enterprise that existed as an economic resource in preparation for World War II (Cretzianu, 1998). During the inter-war years industrial capitalists were tolerated, perhaps because they were the principal financiers of the growing fascist movement, whose doctrines had an adverse effect on their industrial empires (Fischer-Galati, 1970).

### **2.2.3-Romanian Communist Movement And Popular Mobilization**

With the end of World War II came another swing back toward "Eastern" domination by the Soviets. Soviet based Stalinism rooted in Marxist doctrines virtually abolished any political support for entrepreneurship and free enterprise development. The collectivization of agriculture which took the small parcels of peasant land holdings and gave them to the State returned the largely peasant family network back into centralized socialist serfdom. In addition the nationalization of industry and commerce made the State the principle economic agent.

As the Ceausescu cult began to unfold, political nepotism became a resource for gaining and maintaining total control of society (Fischer, 1989). Romania became a nation under the direct control of a family network of zealots. Meanwhile, the masses bonded in family networks in order to meet the needs of daily survival. The post Ceausescu

transition has brought political uncertainty to Romania. Nationalistic-fascist, neo-communists, staunch socialists, and democratic reformists have been in a constant power struggle.

#### **2.2.4-Mixed Socialism: Political Turmoil And Uncertainty**

In terms of spheres of influence Romania is struggling, at a cross roads. Political leadership appears uncertain as to whether it should abandon an "Eastern" orientation rooted in Soviet Socialism or look "West" toward market based democracy? Doltu (1998) pointed out that to date Romania has been unable to choose a clear reform path preferring to take a middle road of mixed socialism. Thus, the political leadership of transition Romania supports the concept of entrepreneurship, yet in a some what limited fashion.

So far entrepreneurship has only been tolerated. Political leaders have not embraced free enterprise as the leading tool of reform but as a phenomena which needs to be conservatively endorsed and controlled. It seems most likely that over time it will be accepted, and given further political support. Yet it appears it will be a long time before it is embraced by Romania's political powers as the central path of reform and transition.

#### **2.3-Romanian Economic Orientations:**

##### **Long Tradition Of State Dominated Underdeveloped Economic Base**

Romania has long suffered from a backward, underdeveloped, economic base (Madgearu, 1930; Georgescu, 1991). Romania has had a series of four economic orientations; 1) Agrarian, 2) Light Industrial, 3) Agro-Industrial, and 4) Socialist Transition. At the end of the Ottoman occupation in the late 1800's the economy was dominated by agriculture. The nation lacked the infrastructure and capital needed to develop the country's very small industrial base. Landbarons, dominated agriculture controlling large estates. With

a backward banking system, and limited transportation network, the country had traditionally been a peasant based economy struggling with the concepts associated with modern economic development.

### **2.3.1-Strong Agrarian Economic Tradition**

Even though some entrepreneurship took place following the end of Ottoman control, it was not until the Agrarian Reform Law of 1921 that the citizenry was distributed enough land to initiate private sector agricultural development. However as Madgearu (1930) pointed out while agricultural policy provided for redistribution of land to the peasants few provisions were made for the establishment of agricultural credits and food processing.

Entrepreneurship in Romania therefore was linked to the early agrarian days of barter between peasants, merchants, and Landbarons. Aside from agriculture the private sector in Romania had a tradition of light industry such as small food processing and consumer production mainly for internal consumption (Georgescu, 1991).

### **2.3.2-Nationalization Of Industry**

Traditionally the State has controlled industrial development favoring heavy industry over food and consumer goods. During the inter-war period of the late 1930's the fascist movement projected strong anti-capitalist sentiments. Thus industrial capitalism was never embraced, only tolerated. Capitalism in Romania during the inter-war period was identified with urban Jewish dominated ownership or control, of banking, commercial, and the industrial networks, and it was widely attacked by the growing followers of Romanian fascism (Fischer-Galati, 1970; Cretzianu, 1998).

In the early years following World War II the communist political leadership, under Soviet pressure, began to implement socialist economic policies. Nationalization of industry put the vast majority of industrial output under State control. Agricultural policy began to collectivize farm production under State authority. From the early 1950's until the mid 1970's Romanian economic policy focused on accelerated heavy industrial development at the expense of agriculture, food production, and consumer goods (Montias, 1967). This ultimately led to economic overreach, chaos, and finally total economic paralysis. From approximately 1975 until the fall of the Ceausescu era in 1989 the economy was unable to meet the basic needs of the people.

### **2.3.3-Lagging And Inadequate Infrastructure**

One of the greatest obstacles prohibiting the growth of entrepreneurship and private enterprise has been the inadequate infrastructure. Madgearu (1930) argued that one of the principal reasons for the tardy pace of economic reconstruction in Romania was its failure to systematically improve and develop transportation, communication and adequate financial institutions. Although some post Depression legislation supported entrepreneurship, the emerging nationalistic-fascist movement during the same period favored State control of enterprise. However, the geo-political alliance with Nazi Germany, and the emanate war made a certain amount of small scale entrepreneurship practical.

During the inter-war years Marshall Antonescu's reformist measures in agriculture and industry, though largely inspired by military necessities permitted limited enterprise development and industrialization yet Romania lagged way behind the rest of Europe (Fischer-Galati, 1967). As a result the government supported State controlled industry instead of private small and medium sized enterprises. Thus, meager agricultural entrepreneurs largely based on small family farms made up the majority of private

enterprise. In general there was little support or encouragement given to entrepreneurship and private enterprise outside agriculture and war related production. By the end of World War II the Russians were very bitter toward Romania due to their support of the Axis military alliance. As a result the Soviet-Romanian convention of 1944 stipulated that Romania would have to pay reparations worth \$300 million in goods over six years (Jowitt, 1971). Half of the reparations were in the form of petroleum products, with the remaining half in machinery, ships, timber and grain (Montias, 1967). This drained the Romanian economy of badly needed economic resources for both domestic consumption and foreign trade.

#### **2.3.4-Centralized Agro-Industrial Focus**

Post War economic policy focused on centralized State control of virtually all economic resources. The agrarian entrepreneurs were uprooted from their long standing tradition of farming small plots of land. The State systematically began to reclaim farm land. Land ownership, entrepreneurship, and private enterprise development were suppressed and restricted. Competition was discouraged as the State had a virtual monopoly on all economic resources. Economic policy changes started with the nationalization of private property, industry, trade and banking institutions, and gained momentum with the beginning of State planning in July of 1948 and of agriculture collectivization in March of 1949 (Fischer-Galati, 1967).

During the latter years of Communism the State controlled in excess of 90 percent of the economic resources in Romania. The centralized State control continued to invest in heavy industry at the expense of consumer goods and agriculture, while the countries infrastructure continued to lag behind. The only sign of entrepreneurship appeared during the early days of the Ceausescu era. Most notable, in July 1967 a series of measures were adopted encouraging small-scale private enterprises including private



shops, restaurants, and boarding houses; within six months 183 private restaurant had opened (Georgescu, 1991). This was short lived and seemed to be a pacifying ploy aimed at both the West, and the Romanian people themselves.

Even though Romania maintained the highest economic growth rate of any Eastern European nation during the 1970s, by the end of the 1980s the economy was crippled and dysfunctional (Fischer, 1989). There was no private enterprise aside from small barter and exchange between family based networks of kinship and alliance. By the late 1980s Romania had the most rigid centralized economy in the Soviet Bloc (Calinescu and Tismaneanu, 1991). Life became a daily struggle to bring together a few scarce resources needed for basic survival.

#### **2.3.5-Mixed Socialist Transition**

Amidst the socio-economic uncertainty and chaos that followed the fall of Ceausescu in 1989, entrepreneurship took on a new identity, one associated with freedom and individual opportunity. For the first time in well over forty years legislation legalizing private enterprise, land ownership, and privatization of State industry came into law in 1990. However, reluctant politicians hindered a market driven economy. As Ionita (1996) pointed out transition has created much debate around Romanian capitalism; specifically should the country build its economy around a Western model, or seek another specialized approach to development?

The majority of Romanians have little understanding or experience with the components of entrepreneurship and free enterprise develop. Yet they appeared eager to learn. Early indications suggested that entrepreneurship appeared to be at the forefront of the socio-economic transition in post-communist Romania .

### **2.3.6-Limited Privatization And Agricultural Reform**

Between 1990 and 1998 the Romanian economy continued to be dominated by the State control of enterprise. The State firmly believed that it is better suited to reform the economy than the private sector. Privatization has been extremely slow and limited. Some small and medium sized enterprises have been successfully privatized but the government is hesitant to loosen control of large industry (The Economist Intelligence Unit, 1994, 1995). As a result only a small amount of foreign direct investment has entered the country.

Some progress has been made in agricultural reform. Land has been redistributed in small private plots, yet the State continues to control the majority of the farm machinery (Tedorescu, 1992). However the emerging entrepreneurial led private agricultural sector continues to be the shining star of economic reform. It is safe to say without the development of private agriculture the country would be in an even worse economic predicament.

Today, Romania is at an economic cross roads. Ten years after the fall of Ceausescu, Romania has yet to embrace the concepts of free enterprise and a market economy. Negritoiu (1996) pointed out that although post communist economic policy has focused on the redistribution of property, the assurance of production and consumption freedoms, and the reshaping of the social welfare systems, in general the economy continues to struggle. Post communist economic reform to date has been identified as a form of “pathologic gradualism” which has produced one of the most underdeveloped economies in Central and Eastern Europe (Doltu, 1998).

#### **2.4-Romanian Cultural Orientations: Four Central Cultural Themes**

Historically Romanian has experienced four primary cultural orientations; 1) Peasant Serfdom, 2) Rural Agrarian Clan, 3) Urban Socialist Network and 4) the Family Network System. Throughout history the family has, and continues to be, the one cultural institution at the center of life. Although the actual composition of these family based networks has changed overtime, modifications have been directly related to family well-being and the changing socio-economic environment.

Although serfdom was officially abolished at the time of the Treaty of Adrianople (1829) 93 percent of the population was employed in agriculture. Romanian society during this period was dominated by boyars who had become great land owners. Instability and oppression combined by the frequent wars of Turkey, Russia, and Austria caused a period of great suffering, and even regression. Restricted social mobility and lack of resources prevented economic independence for the serfs, despite new socio-political freedoms.

##### **2.4.1-Tradition Of Small And Underdeveloped Middle Class**

While many serfs were receiving some freedom they lacked the necessary resources to survive on their own. For example, peasants had to perform “forced service.” They were required to work for the boyars up to sixty days a year for free (Seaton-Watson, 1934). The middle class was extremely small and primarily limited to artisans, craftsmen and merchants found in some of the larger towns and cities. Some cultural modernization did take place in education, and the intellectual community, yet society lacked much structure.

By the mid twentieth century there were better paying jobs and opportunities in the cities, but the attraction of the rural social system--community, family, and clique, were strong

enough and the boundary maintenance mechanism so effective that peasants preferred to stay in the villages (Photiadis, 1976). At the turn of the twentieth century Romania was still a poor, underdeveloped new nation.

#### **2.4.2-Clan Based Socio-Economic Orientation**

To survive extended families had to labor together on small plots of land. Conditions grew so bad that in 1907 the peasantry of Wallachia and Moldavia staged one of the bloodiest revolts in the history of Eastern Europe (Fischer-Galati, 1970). The 1907 Peasant revolt led to the passing of the 1921 Agrarian Law which distributed small parcels of land (4 to 6 hectares) to over one million peasants. Modern farming techniques were virtually unknown. Unfortunately the vast majority of peasants lacked capital, and the equipment they needed.

During the inter-war years the majority of the Romanian people still lived meager lives. Industrial development was emphasized at the expense of the society. The deliberate political isolation of the peasantry along with the maintenance of backward social and cultural standards, especially the crass neglect of the village and countryside were not conducive to changing the socio-economic structure of the country (Fischer-Galati, 1970).

In the cities socio-economic development was more visible. Factory workers were comfortable and lived in new industrial developments. In contrast, the peasant population lived rather poorly. In general both the peasants and the workers were treated poorly, simply as economic resources. As in the past the family, now an enlarged "clan" based system was the very core of society, often the only resource providing trust as well as the basic needs for survival.

### **2.4.3-Systematic Centralization And Urbanization**

The end of World War II brought back an Eastern influence, away from Europe toward the Soviet Stalinist form of Marxism. Communist doctrine further limited the influence and development of the small middle class. The most significant socio-economic change was the urbanization taking place. For example, Bucharest, grew by more than 181,000 people between 1948 and 1956 (Romanian National Commission For Statistics, 1994). Yet, living conditions were often less than modest as there was a shortage of urban housing and little investment in housing development. The government managed consumption through the rationing of consumer goods, especially in cities, and exporting the surpluses to fuel industrial development.

Repression in Romania may have been harsher than any other Soviet satellite country in Europe (Georgescu, 1985). The peasants were very unhappy with the communist regime's agricultural policies. Many peasants resisted the entire reorganization. Those who did resist were condemned by the State. More than 80,000 peasants, most of them working peasants were sent to trial; while more than 300,000 were tried in public (Jowitt 1971). The most basic of human rights were non-existent. Individuals who opposed the communist regime were disposed of either in political prisons or by forced labor. It is not possible to determine the exact number of people arrested from 1944-1964 but it must have been at least several hundred thousand (Montias, 1967).

### **2.4.4-Rapid Industrialization And Collectivization**

Soviet imposed communism complete with the call for rapid industrialization, agricultural collectivization, and control of information had a dramatic effect on Romanian culture. Factory work brought Romanians from different parts of the country

to live and work together. Romania evolved into a closed and closely controlled society. The extensive network of security police kept tabs on everyday life. As a result, mistrust, and suspicion became central components of society.

The demographic trend from rural-agrarian life to industrialized-urban living had significant impact on the family. People began to live in high rise "socialist blocs" as opposed to "village bungalows." The stress and magnitude of change required the family to work even harder as a unit of socio-economic production. These conditions of change and continued hardship had important impacts on the family. First, it drew the family unit closer. The stress and magnitude of change required the family to work even harder as a unit of socio-economic production. For example, more and more women entered the urban work force. The constant surveillance by secret police made the family the only social institution one could trust.

Secondly, these new living and working arrangements created a new interactive social process brought on by industrialization. Given the mistrust and uncertainty, family members began to develop new extended networks of relationships based on the new urban interactions. These networks rooted in the family usually drew from neighbors living in the same blocs, and co-workers. In essence the social unit became a system of family based extended networks. This system of family, neighbors, and trusted colleagues became the bedrock of security and survival in socialist Romania. Thus the family network became a spiritual and psychological substitute to the traditional rural, village cultural of the pre-socialist society.

#### **2.4.5-Scientific Socialism**

As Nicolae Ceausescu consolidated his power base during the mid to late 1970's he made a desperate attempt to control Romanian culture. To accomplish this, "scientific

socialism" was introduced. This was aimed at centralized control and manipulation of education, the media and in the aggregate, all cultural matters. Festivals, plays, pageants, and folk events became centralized, ritualized events. Xenophobic themes were implemented into daily life.

Information was not only controlled it was rationed. The media was at the mercy of the regime. The State controlled all means of communication, written, oral, and visual. The final grasp of censorship occurred when the State took complete control of all machines for printing, typing, or copying, not to mention control over the exports and imports of all visual and audio materials (Behr, 1991).

By 1974 chronic food shortages became common place. Supplies fell horrible short of even less than moderate quantities of basic foodstuffs. With agriculture underproducing, and in a state of paralysis, food became more scarce during the 1980s than during World War II. The problem of providing enough agricultural labor was resolved by taking millions of school children and university students out (2.5 million in 1981, 2 million in 1982) to work the fields when needed, along with government workers and soldiers (Gerogescu, 1991). The final insult came in 1985 when the ideal "scientific diet" was established for Romanians. In reality supplies fell horribly short of even the recommended quantities.

#### **2.4.6-Systemization And Chaos**

By August 1977, conditions got so bad that 35,000 miners in the Jiu Valley staged a strike of defiance. Two years latter with worker unrest on the rise the Free Union of the Working People of Romania (S.L.O.M.R.) was formed in March 1979, with local branches in Wallachia, Banat, and Transylvania. The S.L.O.M.R. grew to about 2000 people before the government moved to crush the organization which called for freedom

of assembly and basic workers rights. With the socio-economic crisis mounting amidst worsening conditions life got desperate for many Romanians. According to the 1979 United Nations Yearbook Romania led the world in suicides, with 66.5 percent per 100,000 inhabitants (Georgescu, 1991).

During the 1980's the Securitate (secret police) began to dominate every facet of life. Securitate informers and part-time officials were said to have numbered one in ten and possibly even one in four of Romanian's population (Behr, 1991). Often they were long time friends or colleagues in a local clan or clique. Information was usually traded for a favor or liberty by the Securitate. Through a vast network of eavesdropping devices the Securitate monitored telephone conversations and bugged homes using Orwellian techniques. It even manufactured telephones and television sets with built-in listening devices.

By the late 1980's Romania had become a closed society nearing total paralysis. As conditions worsened worker opposition mounted. The socialist elite had become anti-intellectual, xenophobic, isolationist, and hostile to change. A demonstration of 20,000 people erupted in Brasov during 1987. An underground opposition organized principally from former members of the Romanian Communist Party elite who had fallen out with the Ceausescu began to take root. It was the beginning of the end for the totalitarian socialist regime of the Ceausescu Clan.

#### **2.4.7-Family Based Extended Networks**

Although the hard years of socialist dictatorship had changed the economic, political and in many senses cultural make up of the nation, two institutions; 1) the family ; and 2) the trusted personal network endured and grew stronger. These two social institutions



developed systematic methods of helping one another in order to meet the most basic of needs for everyday survival.

Throughout this period of great struggle the home became a "Mecca of solitude." It provided an intimate and collective space to escape. As one typical Romania stated "the size of the space is not important, because I will still feel good because I am with my family" (Mihailescu, Nicolau, Gheorghiu, and Olaru, 1994). In the 1980's this space was often the kitchen, where the gas stove provided the only source of heat.

#### **2.4.8-Romanian Cultural Orientations And Entrepreneurship**

Historically Romania's entrepreneurial activity can be traced to the peasant agrarian traditions of society. The idea of small, private plots of land, from which the peasant family could produce enough for itself and trade the rest represents the origin of entrepreneurial activity in Romania. Families developed a rural clan orientation. Kinship based alliance networks developed along both economic and social lines.

Commercialization began to draw the rural populations in to larger urban centers. Merchants, service providers, and small enterprises in the food processing and brewing businesses were developed by a very small entrepreneurial middle class. However, the fever of nationalism being driven by the fascist political movement of the inter-war years suppressed entrepreneurship. Thus, society in general did not openly embrace the concepts of entrepreneurship and private enterprise aside from the family based farm.

Communism which imposed a centralized, urbanized, agro-industrial framework represented a significant shift away from any form of entrepreneurship and private enterprise development. Peasants who had grown accustomed to small private family farms now found the government taking central control of agriculture. Entrepreneurship, private enterprise development, and market competition were forbidden. The family

based farm, and small enterprising middle class had lost their autonomy. Until the fall of the communist regime in 1989 entrepreneurship as an instrument of economic development and independence was only a faint dream.

### **2.5-The General Environment Of Post-Communist Transition**

#### **And The Rebirth Of Private Enterprise**

Following the 1989 overthrow of Ceausescu the Romanian government initiated three pieces of legislation paving the way for private enterprise. Reforms directed at supporting entrepreneurship included legislation on the establishment of private firms (Law 54/1990), the privatization of state-owned enterprises (Law 31/1991) and land reform (Law 18/1991) (Munteanu, 1993).

For the first time in almost forty years one could legally operate a business. The impact was immediate. Over 80,000 private enterprises were established in 1990. When the privatization of State-owned enterprises was introduced by Law 31 in 1991 more definition was given to business associations. Five types of enterprises were established; partnerships, limited partnerships, unlimited companies, limited companies, and companies with limited liability (Romanian Development Agency, 1993).

From this point official governmental statistics and independent sources relating to the actual number of private businesses begin to differ. The Romanian National Privatization Agency claimed 223,947 private businesses in late 1991 and 278,240 by February 1992. Meanwhile Western media such as Newsweek magazine claimed a total of approximately 200,000 private business start-ups since December 1989, while The Economist Intelligence Unit reported 220,000 registered private entrepreneurs as of January 1995. About a fifth of these "would be" entrepreneurs have set up actual operations. Many operate out of apartments and make-shift offices. Some entrepreneurs simply set up

shops on busy streets often times locating near transportation terminals and busy intersections.

### **2.5.1-Limited Entrepreneurial Enterprise Development**

It is evident that the development of entrepreneurship is proceeding less rapidly in Romania than in other Central and Eastern European countries (Nicolescu, 1992). Romanian entrepreneurs face some giant challenges. Capital has been extremely tight. Interest on loans often reaches 75 to 80 percent. National economic chaos stymies purchasing power.

The lack of proper legislation and a greatly decayed social fabric make Romania a savage place to do business. The institutional and legislative mix of old and new provides many opportunities for unproductive and destructive entrepreneurship through loopholes and inconsistencies (Marian, 1993).

Agricultural reform has created a sizable private farming sector. Yet these newly emerging private farmers tend to be micro businesses. For example, 77 percent of private sector agriculture was cultivated by households farming only an average of 2.3 hectares (Ministry Of Agriculture And Food, 1997). The sales and marketing of private agricultural products has presented considerable difficulties. Most private farmers cannot make a living from agriculture alone. On average agriculture accounted for only 25 percent of the household income of private farmers (Ministry Of Agriculture And Food, 1997).

### **2.5.2-The Romanian Macroeconomic Environment**

The Romanian economy continues to be extremely inefficient and in a state of confusion and general uncertainty. In macroeconomic terms, the economy faces a number of major challenges yet political chaos has continued to deter macroeconomic stability and

development (Brown, 1998). Reforms aimed at restructuring loss-making State enterprises, the need to develop financial discipline, and the development of capital markets have not been put into place. Even as the government began removing price controls and adopting basic economic reforms during 1997 the economy shrank by 6.6 percent and inflation reached 151 percent (Chicago Tribune, 1998).

Unfortunately, the fiscal situation has shown a significant deterioration. For example, subsidized credit and loss by public sector firms created a quasi fiscal deficit that reached over 13 percent of the GDP by the end of 1996 (Treptow, 1997). Consequently, because of the decreasing demand for domestic currency, noninflationary financing has become difficult. Varujan Vosganian, president of the Budget, Finance, and Banking Commission in the Romanian Senate, put it this way: “Romania’s economy is still plagued by deficits in the budget, the balance of payments, material resources and certain sectors of the economy that are still making huge losses.” (Armaselu, 1997).

Aside from the establishment of an over-the-counter securities exchange, RASDAQ, in September of 1996, macroeconomic reform had been a nonevent (Treptow, 1997). Privatization has been the slowest in the former Soviet Bloc. While the privatization strategy has been focused on 1600 companies in three sectors, industry, transportation and tourism the results have been very disappointing (Galatanu, 1998). The inflation rate in 1996 was double the revised government forecast, and the budget deficit grew to three times greater than predicted. Margins between official and “gray-market” exchange rates drew people away from official bank exchange, which further depleted hard currency reserves.

### **2.5.3-Continued Political And Fiscal Uncertainty**

Zamfir (1994) pointed out that while the transition governments have diminished the States social protection funding they have retained a central economic role. Political leaders intended monetary policy to be restrictive. The government granted subsidized agricultural credits to exporters while the commercial banks favored borrowing from CEC, the State-controlled saving institution, at much lower interest rates, rather than the central bank. Another significant problem has been that many large public firms avoided using the banking system for financing. For example, many borrowed from involuntary creditors by simply not paying their debts. As a result, the restrictive monetary policy was ineffective.

During 1997 the private sector bore the brunt of the economic slump as investment by private firms fell by 50 percent compared to 12 percent in State-owned firms (Cook, 1998). Many State enterprises should be declared bankrupt and liquidated yet remain in operation. Another example of the political paralysis impacting the economy came during April 1998 when Romania had no approved operating budget. According to Romanian law, parliament should have debated and approved a budget in October of 1997. To make matters worse Romania's payments on foreign debt totaled more than \$1 billion by year end 1998. Furthermore inter-enterprise debt, particularly in the State-owned sector continued to grow.

#### **2.5.4-Critical Need For Financial Intermediaries**

Banking reform has included the establishment of a two-tiered system and the creation of a small private commercial banking sector. In May 1997, the Romanian National Bank (RNB) raised the minimum capital requirement level from 25 billion lei to 50 billion lei (around US\$7 million) as the RNB strives to bring banks into line with European standards (Kealing and Wingrove, 1997). The total assets of commercial banks stood at

US\$12.67 billion as of June 1995, with only US\$1.44 billion in foreign assets (Treptow, 1997).

Romania is in critical need of financial intermediaries, such as investment banks, mutual funds, venture capitalists, and foreign trade investors. Most banks have openly tapped the money market, or have engaged in quasi banking activities, by committing funds toward longer term lending (Treptow, 1997). Presently, Romania has only 46 fully licensed commercial banks and nine foreign banks. There have been two major bank failures, Banca Dacia Felix and Creditbank both privately owned and victims of over aggressive credit policies (O'Neill, 1998). Due to the lack of diversity in financial assets, financial institutions have faced numerous difficulties.

To date, the system remains unstable and risky, primarily because of the lack of functional, clear, and enforceable bankruptcy procedures and regulations. Although two banks Agriculture Bank and BancPost are scheduled for privatization during 1999-2000 additional reform remains vital (Galatanu, 1998). At present, the financial sector has three primary problems affecting reform: noninflationary bank recapitalization for bad loans; lagging commercial bank privatization; and a lack of general confidence, understanding, and trust in financial institutions.

#### **2.5.5-Limited Hard Currency And Foreign Direct Investment**

The lack of a stable and honorable financial system and the limited supplies of hard currency make any investment risky. The cost of borrowing locally is high. For example during the first quarter of 1996, the commercial bank's average nominal lending rate for nonbanking customers was at 54.06 percent (US Department of Commerce, 1997).

Foreign direct investment has contributed to economic transition, yet its role in Romania has been significantly less than in other former Soviet Bloc nations. Total foreign direct investment as of April 1996 was US\$1,740 million, far below the levels that the economy needs to achieve sustained growth (US Department of Commerce, 1997).

As Romania and the other former Soviet Bloc nations strive to reform and develop market-based economies, they will continue to look to both the public and private sectors of Western Europe, Asia, and the US for resources, know-how, and capital. Most importantly, Romanian family- and owner-managed firms will be looking for innovative ways to finance growth and expansion.

#### **2.5.6-Continued Path Of Economic Uncertainty**

The post-communist transition can best be described as socialist, marked by uncertainty and confusion. Romania's economic record has been grim: external and domestic debt has risen, inflation is over 40 percent, officially recorded unemployment has doubled since 1996 to 12 percent (Economist, 2000). During 1999 the economy actually shrank by 3.2 percent. Changes in taxation and investment credits are beginning to deter entrepreneurship. These changes in policy are pushing the economy underground. Estimates suggested that during 1999 the black economy accounted for more than 40 percent of GDP (Campeanu, 2000).

Amidst continued uncertainty and socioeconomic turmoil, entrepreneurship and enterprise development had offered solutions to rising unemployment and meager State wages. During 1995-96, approximately 88 percent of the nation's industry remained in state hands. Despite this, the private sector took a solid root. Yet, by mid-1996, entrepreneurs accounted for about 50 percent of GDP, compared to 21.5 percent in 1991, and were responsible for 79.2 percent of retail trade, and 72.7 percent of nonfinancial services, with extensive activities in the export and import sectors (Treptow, 1997).

Unfortunately by 1998 the share of the private sector GDP rose only a minuscule 0.1 percent to 58.3 percent, up from 58.2 percent in 1997 (Dimofte, 1999). Furthermore many of the new small and medium sized private enterprises which emerged during the post communist transition were found to not be reporting any economic activity during 1998. Dimofte (1999) reported that instead of creating new employment opportunities during 1998 the private sector began to reduce the number of employees further adding to the economy's unemployment woes.

While the newly emerging private sector has great potential, it lacks capital and operates within an outdated infrastructure in a highly volatile environment. With continued political uncertainty, economic chaos and mounting social unrest Romanian entrepreneurs will continue to operate in a unique and highly challenging macroeconomic environment.

### **2.5.7-Overview Of The Societal Elements Impacting Entrepreneurship And Enterprise Development During Transition**

Throughout its turbulent history Romanians has constantly been torn between Eastern and Western influences. As a result the political, economic and cultural systems have produced a unique combination of themes and concepts which have greatly impacted and shaped the concepts associated with entrepreneurship and private enterprise. Even though Romania has entered into a period of transition the influences of history continue to affect the process of private enterprise development.

Romanian culture has been built on a series of family based networks. Although the actual composition of these networks has changed overtime, the variations have been directly related to family well-being and the prevailing socio-economic environment. An



example has been how networks transformed from an agrarian rural clan based system to a socialist urban network system.

Historically private enterprise never really had the opportunity or the resources to develop. The political arena has never embraced the concepts of entrepreneurship and private enterprise development. Thus, the State has traditionally played an important role in enterprise development while the entrepreneur functioned primarily in an agrarian sense.

Post communist transition has ushered in a new political era, principally one of uncertainty and change. The middle road chosen by the country's political elite during transition has been riddled by uncertainty as to who will drive the economy, the State, or private sector entrepreneurs.

Transition has brought about a mixed economic system. Heavy industry continues to be dominated by the State, while retail, consumer products, and services have all been allowed to develop through entrepreneurial private enterprise. In economic terms the concepts associated with entrepreneurship and enterprise development are only beginning to resurface during transition.

Romania continues to have a traditional cultural orientation emphasizing the group over the individual. Although transition is leading society towards more individualism and modern orientations these drastic cultural changes are meeting slow acceptance as Romanian society continues to favor group well being. The family has always acted as the pillar of society. From a historical perspective it has been the only societal element able to survive the legacy of political oppression and economic exploitation.

With transition Romanians could return to small family farms or choose to start a new private business. They received enough freedom to purchase land, build houses, and even to move to another area if they choose to do so. It is within this framework that some Romanian families have risen to the occasion, to help rebuild society and their personal lives through entrepreneurship and enterprise development.

**2.5.8-Visual Depiction Of The Environmental Forces Impacting Family Dynamics, Entrepreneurship, And Enterprise Development During Transition**

What follows in Figure 1 is a visual depiction of the environmental forces impacting family dynamics, entrepreneurship, and enterprise development during transition. It visualizes how the societal elements found in the political, economic, and cultural systems impact and influence family dynamics, entrepreneurship and private enterprise development.

The model suggests that family based businesses are at the forefront of the transition process. Although this conclusion does not differ from economies in other parts of the world, it serves to illustrate the impacts of past and present elements shaping the transitional environment in Romania.

**Figure 1**

### 3-FAMILY DYNAMICS AND SOCIO-ECONOMIC DEVELOPMNET

#### **3.1-Introduction: The Family As A System**

*“As a tribute to its resiliency, the family has been the engine driving transition in Romania. An example of a cultural and familial pattern during transition has been entrepreneurship and enterprise development .” (Maria Cobianu-Bacanu, 1994, p. 461)*

The family has been linked to the foundation of virtually all cultures. Organized around a host of functions the family was characterized as the clustering of individual roles around common needs (Parsons, 1982, pp. 221-222; Benedict, 1991, p. 629).

Traditionally the family served three primary functions within its social system. First, the family played an economic role. The family represented the unit of learning economic activity, teaching and passing on skills which encouraged economic development.

Secondly, the family established a moral system which helped guide the conduct of the unit. The moral system was primarily engaged in providing a balance between ideas and realism. Lastly the family unit created its own culture. Families adapted, and built networks based on needs and skills. Within this cultural setting the family created a motivating force which was central to private enterprise formation and development.

#### **3.1.1-Family Structure Varies Across Different Cultures**

It was widely known that family structure varied greatly across cultural and ethnic lines. For example African-American and Latino families received more economic support from extended family networks than did White families (Walsh, 1994). Perkins (2000) illustrated that in East and Southeast Asia family based businesses built around trusted personal ties were fundamental to the culture and socio-economic systems. In turn the socio-cultural environment influenced and shaped family behavior.

The normal family process can be viewed as a system based on the basic process characteristics of human systems (Vetere and Gale, 1987). Family operations were found to be governed by a relatively small set of patterned and predictable rules that served as internal norms (Walsh, 1994). The family unit's success was largely dependent on its ability to maintain integration between the family unit as a whole, individual family members, and the other socio-cultural elements within society.

By examining the family as a system which interacts with the internal and external environments a conceptual framework to investigate the linkages between the family unit and socio-economic development can be established.

### **3.1.2-The Family And Economic Development**

Family and regional ties have been found to have heavily influenced relationships between businesses, as well as relationships within individual businesses (Perkins, 2000). Family firms can be defined as owner-managed enterprises with family members exercising considerable financial and/or managerial control (Ward and Aronoff, 1990).

Family firms have demonstrated three distinct advantages within environments of socio-economic transition. First, they have the resources of the family network including the household and extended family. These networks represent sources of critical support services, including sources of financing, business connections, personal relationships, and human resources, including a pool of labor.

Businesses customarily relied on kinship networks as foundational resources in family firm development and growth particularly in the developing or less stable economies (Benedict, 1991). Family firms tended to be better equipped for risk taking which was

essential in transitional climates. According to Benedict (1991) family firms have five advantages which helped minimize socio-economic risk.

- 1) Control of information (business/family secrets).
- 2) Incentives for effort (short/long term).
- 3) Liquid resources (living/working together).
- 4) Capital and manpower generation.
- 5) Swiftiness of action (internal focus).

As a unit, the family has been found to share in the burden of enterprise development. The interpersonal relationships created a dynamic flexibility which helped the family firm organization adapt more rapidly.

Nepotism and paternalism, especially during the conception and development of new enterprises does not necessarily foster inefficiency. This was seen to be particularly important in unstable economic environments or dynamic business segments (Benedict, 1991). Another significant advantage family firms were found to have was adaptability. Family firms provided a motivating force for both economic activity and social learning. Their flexibility allowed them to evolve and help shape their socio-economic environment.

### **3.1.3-Socio-Economic Assimilation Via Transactional Experiences**

The advantages family firms have can be illustrated through transaction analysis (Barth 1966; Benedict, 1991) which represented an advancement over equilibrium theories of social structure associated with Radcliffe-Brown (1952). Transactional analysis examined the individuals involved instead of the external sanctions.

Family roles demonstrated the type of transactional phenomenon which take place in family firms. For example, when the level of trust and confidence which exists between domestic household members is considered, family and enterprise transactions are often intertwined. They begin as simple household tasks and evolved into economic responsibility. As the family and the firm mature, siblings assimilate via transactional experiences from family members to business associates. The transactional process has thus provided a socio-economic platform for learning both family and economic activities.

Transactional patterns, individual roles, and authority structures are influenced by culture and environment. These transactional activities often take the form of sacrifices of time, energy, and money devoted to the entrepreneurial endeavor. Thus the family can develop a strong and ongoing attachment to the enterprise. Families can work together to overcome obstacles, and adapt to challenges from the external environment.

Family firms eventually build commercial networks which support family prosperity and economic growth. Family firms are perhaps not ideal for all types of enterprise, but were of critical importance for socio-economic development in unstable or low income economies. Research conducted in Lebanon (Khalaf & Shwayri, 1966) and Pakistan (Papanek, 1962) indicated that family firms exerted a positive effect on industrialization and economic development.

Pye (2000) supported the idea that family values worked as a cultural force impacting economic behavior. For example the key values of reliance on social networks, and especially of taking the long term approach toward building for the future can have positive impacts on socio- economic behavior. In economic terms the family firm has

been well placed to take on risk and to spread the entrepreneurial sacrifice across the family alliance network.

### **3.2-Special Role Of Family Controlled Enterprises**

Family-controlled enterprises are the predominate form of business in the free world. The family businesses sector represents one of the most important components of the free-enterprise system. Family firms can be defined as owner-managed enterprises with family members exercising considerable financial and/or managerial control (Ward and Aronoff, 1990). An estimated 85 percent of businesses in the European Union and 90 percent of US businesses are family-controlled (Burns and Whitehouse, 1996).

Family business are extremely fragile and face many challenges. Today the majority of family businesses are facing a number of ongoing challenges. Throughout the world, an enormous wave of family business successions are taking place as post World War II entrepreneurs retire. In Germany, there are 98,000 firms headed by a PDG (President Directeur General) older than 65 years of age, and Gelinier (1996) estimated that some 700,000 firms will undergo ownership succession by 2001.

As businesses transfer from owner-founders to sibling partners or family groups, shareholder liquidity demands mount, forcing businesses to either grow or divert capital from needed investments (de Visscher, Ward, and Aronoff, 1995). Corbetta (1995) pointed out that extended family businesses have specific problems, including “generational drift” and the “cooling off of family patterns,” which further complicate the successful perpetuation of the enterprises.

#### **3.2.1-Similarities Among Family Enterprises In Western Europe**



Researchers Donckels and Fröhlich (1991) in their study of 1132 industrial SMEs in eight countries (Austria, Belgium, Finland, France, the Netherlands, Switzerland, the United Kingdom, and the former West Germany) noted that family businesses in Western Europe valued financial independence, were risk averse, and tended to internationalize less. They also chronicled the fact that the family subsystem dominated the business. Western European family businesses supported family retained control and management while maintaining family traditions.

Family businesses were inclined to pay wages above the level set by wage agreements and to care significantly more about the satisfaction of their employees, while they paid less attention to other more progressive personnel issues like employee participation in decision making, ownership and profit sharing.

The strategic behavior of family businesses tended to be stable rather than progressive or dynamic forces in their respective economies (Donckels and Fröhlich, 1991). They operated as closed family related systems. Family firms also appeared to be concerned with stability as opposed to progressive risk taking.

The external economic and social environments impacted both the family and the firm. The basic Western European family business was embedded in a more comprehensive family business culture and situated vis-à-vis an environmental culture that may have promoted or hindered activity (Donckels and Fröhlich, 1991).

### **3.2.2-Some Significant Differences Between Family Businesses By Country**

Given the economic and social impact family firms have had we can assume that there are some significant differences between family businesses by region and country. Some differences can be traced to political and historical factors. An example of the political

and historical impact on the emergence of family enterprise growth and development can be found in Germany.

The new Germany faces a unique set of challenges as the nation strives to improve Eastern standards while sustaining the socio-economic prosperity in the Western regions. In the Eastern parts of the country new firms are expected to contribute to economic development.

East German entrepreneurs have created about half a million new businesses since the fall of the Berlin Wall, of which only about 300,000 survive (The Economist, 1996). The Western portion of the country faces some very different challenges. The entrepreneurial engine of the “Mittelstand” described as small and medium-sized family owned businesses are undergoing a sort of coming of age. Recent estimates by The Economist (1998) predicted that the German Mittelstand will be transformed as 120,000 of these family-owned SMEs, the backbone of the German economy progressively go public or are sold.

### **3.2.3-Culture Based Patterns Of Behavior In Family Businesses**

In Italy, the family tended to be the connecting element that permeates the whole development of a family businesses (Corbetta and Dematte, 1993). Although Italian family firms tended to be family-centered, many medium and large enterprises evolved into multigenerational firms with some nonfamily equity owners. Studies indicated that Italian family businesses incorporated a combination of conservative and creative approaches towards business and family well-being.

Corbetta (1995) identified three distinctive patterns in Italian family firms. First the majority of Italian family businesses have adopted a model of value distribution that

makes it less necessary to turn to external sources of financing. Second many Italian family firms' objectives were to increase cash flow available to the family while minimizing the tax burden. Thirdly Italian family firms used a "poor firm, rich family" model. Family firms reached levels of self-financing that were sufficient to develop firms without turning to third parties.

### **3.2.4-Family Systems And Their Influence**

#### **On Entrepreneurship And Enterprise Development**

Family businesses have been at the foundation of market economies in Western Europe and the United States. Research showed that culture influenced the roles and relationships between family and enterprise. The political, economic, and cultural history of a people and their nation influenced and shaped both family systems and businesses. Motives, sacrifices, and risks were all seen to be uniquely related to the conditions with in a given society.

Family firms have three distinct advantages. First, family firms utilized a family system resource network. Family members readily supplied financing, provided human resources, and shared networks of relations. Secondly, family firms were believed to be better equipped to handle risk associated with business development. Family firms had greater control of information, responded more swiftly to change, and were considered more dynamic and flexible. Thirdly, family based businesses were more adaptable to external socio-economic conditions.

As family and business assimilate family enterprises development extended networks which spread risk, and provide additional resources (Pistrui, Welsch and Roberts, 1997, p. 223; Pistrui, Huang, Oksoy, Jing, and Welsch, 2001, p. 142). Research (Benedict, 1991, p. 268; Cobianu-Bacanu, 1994, p. 461) has also suggested the family based

businesses may be especially suited for countries experiencing economic transition and development. Their ability to spread risk and sacrifice during times of unstable or uncertain socio-economic conditions have been viewed as critical to the transformation process.

In Western Europe some general discriminating characteristics have been discovered. Yet, there remained significant differences between European countries. In the case of the transforming countries of East Central Europe family based enterprise has only begun to emerge following the fall of the Iron Curtain.

### **3.3-Soviet Imposed Communism And The Family**

Soviet imposed communism emphasized society over the individual, where people were equal, cooperative and fair. In reality Soviet communism tended to simply divide social class into two distinct groups, the ruling class and the working class. The most important distinction from a socio-economic standpoint was the role of the State in society. The State had centralized command over the economic resources of the society. Stripped of its traditional content the 'enterprise' itself became reduced to a rung in the administrative ladder (Chmielewski, Kaminski, and Strazalkowski, 1990).

According to Marx and Engles (1948) communism was based on the following principles.

- 1) Abolition of property in land and the application of all rents of land to public purposes.
- 2) Abolition of all right of inheritance.
- 3) Centralization of credit in the hands of the State, by means of a national bank with State capital and an exclusive monopoly.
- 4) Centralization of the means of communication and transport in the hands of the State.
- 5) Total State control over industry and agriculture.

6) Equal obligation of all to work. The establishment of industrial armies, especially in agriculture.

7) Free education for all children in public schools.

Communism operated under the premise that the State was better equipped than the family or individual to best guide the socio-economic institutions of society. It centralized the labor functions into agro-industrial complexes which restricted innovation and social mobility. As a result Soviet based communism tended to be more idealistic and less realistic in its expectations.

However, capitalism was not as Marx and Engles saw it as simply an economic system with employer-worker relationships built on classes formed on pure economic lines. Capitalism was a combined social and economic system. In fact capitalism represented a social system where power was transmitted through the family (Bell, 1991).

### **3.3.1-The Rebirth Of East Central European Family Business**

The liberation of East Central Europe has created the opportunity for the rebirth and accelerated development of entrepreneurial led family firms. For the first time in over forty years East and Central European countries began trying to develop a stable socio-economic middle class. Nothing less than the reinventing of capitalism was required, and this meant going back to roots of free enterprise, the family-owned farm and business (Lank, 1991). Shapero (1985) argued that for a community, entrepreneurship was one of the ways in which a society took control of its own fate, trying to adapt, survive and insure long term growth.

Lank (1993) pointed out that family enterprise was necessary for rebuilding these long deprived and neglected nations. Tate, Cox, Hoy, and Scarpello (1992) found that

families provided critical resources and support to newly emerging enterprises. For example, next to the personal savings of the founder, the spouse, other relatives, and friends were the second most important sources of capital for new enterprises.

### **3.3.2-Family Resources Are Critical To Entrepreneurial Creation And Development**

Research on several Central and Eastern European countries showed that the immediate family was the most important source of labor and capital for the establishment and development of private businesses (Donckels and Lambrecht, 1999; Gundry and Ben-Yoseph, 1998; Pistrui, Welsch, and Roberts, 1997; Hisrich and Fulop, 1997; Welsch and Pistrui, 1994; Pistrui, 1993).

Often, during the early stages of enterprise development, the entrepreneur did not distinguish the enterprise as a family business. Researchers Welsch, Hills, and Hoy (1995) contended that due to the initial focus on survival, stability, and growth during the early stages of enterprise development in the former Soviet Bloc countries, family issues—especially those concerning ownership and succession—would only emerge at later stages.

### **3.3.3-Critical Challenges Facing East Central European Family Firms**

Entrepreneurial led family firms in the transforming East Central Europe also face a series of critical challenges. Poutziouris, O’Sullivan, and Nicolescu (1997) made note of the fact that the emergent entrepreneurial enterprises of the former Soviet Bloc face the challenges of developing both the family business and the general business system to sustain survival and growth into the next generation.

Early research indicated that family businesses and owner-managed enterprises were at the forefront of socioeconomic transition in the former Soviet Bloc. However, understanding the role of family business development in the former Soviet Bloc continues to be in its infancy. Thus additional and more focused research needs to be undertaken.

#### **3.3.4-The Impact Of Communism On The Romanian Family System**

The legacy of communism in Romania greatly impacted the development of the family. Government involvement in private life that included making divorce and abortion illegal stymied the modernization of the Romanian family. The Ceausescu regime encouraged child rearing and even imposed special taxes on families which did not reproduce.

The government involvement in private life considerably slowed down sexual, connubial and familial modernization (Ghebrea, and Tessier, 1994). Children were raised primarily by their grandparents in most situations. Women worked out of both desire and necessity. Their income and relations in networks was critical to survival during the savage days of the Ceausescu era.

#### **3.3.5-Contrasting Traits Between East And West European Families**

Researchers Cartina and Tone (1995) have identified the following contrasting traits between Western and Eastern European families, as a result of communism.

1) Eastern Europeans tended to have higher, and increasing death rates as a result of life style, living conditions, and inadequate medical care. People simple don't live as long.

2) Eastern Europeans tended to have higher fertility rates. More women have children. The result of the strong tradition of family, the communist cultural taboo associated with abortion, and the low rate of divorce.

3) Eastern Europeans tended to have higher nuptial rates. Fewer people lived together or had children out of wedlock. Society viewed divorce as a form of personal failure. Family cohesiveness helped to pass the present transitional difficulties.

4) Eastern Europeans tended to migrate out of their homeland more often. This has resulted in the break down of some traditional families as the younger generations migrate to Western Europe, the US, and Israel.

### **3.4-Time Of Great Uncertainty And Change**

Traditionally the bloc style housing served as a social unit, an assembly of relations in a determined place. Many neighborhoods that had a tradition of clean well kept common spaces and gardens were now dirty and unkept. Some aspects of social life that once dominated society have all but disappeared.

The early days of transition have opened up the former Soviet Bloc to more and more Western social ideas which have clearly impacted the traditional values and norms of the family. Exposure to Western television shows, magazines and videos have influenced the younger generations habits. Changing work habits impacted common family time. In some respects the family unit has become less sociable in a community sense.

Communism believed in dictating living conditions, with the ultimate objective of controlled socialist bliss. During transition Romanians have had more opportunity for sociality mobility than ever before. Previous traditional forms of community encouraged



by the communist period are changing. Social transition has led to a culture that has been uncertain whether to follow traditional norms and values as they have known over the past 40 years or adopt new alternatives.

The uncertainty and anomie of transition has been found to be pulling families closer together. By working together, pooling income and creating employment opportunities Romanian families are relying on integrative systems to provide socio-economic support during transition.

#### **3.4.1-Unity Around The Family**

Social transition has led to a culture that has been uncertain whether to follow traditional norms and values as they had known for the past 44 years or adapt alternatives. The community during transition in Romania has struggled to transform, mold and adapt. Without some cultural transition little economic or political change can actually take place.

It should not be surprising that the uncertainty and anomie of transition has also pulled the family closer together. Researcher Cobianu-Bacanu (1992; 1994) verified the continued central role of the family during transition. She identified that the concern and devotion for family life ranked consistently among the top goal-value scores.

#### **3.4.2-Traditional Cultural Orientations**

Romania has continued to have a traditional cultural orientation emphasizing the group over the individual. Although transition has led society towards more individualism and a modern orientation, this concept has gained slow acceptance. By working together families have helped to establish new ways of thinking that are more flexible and oriented toward cooperation and joint decision making.

The family unit and kinship network promote basic values like kindness, health, and wealth. An example of a cultural and familial pattern during transition has been entrepreneurship and enterprise development (Cobianu-Bacanu, 1994). Family participation in the entrepreneurial process can be used to help strengthen the family unit. In the transforming society of post-Ceausescu Romania, the family, the kinship group, and alliance network represent a system of established social, biological, and spiritual relations. Romanian families have struggled to avoid poverty by working together, pooling income and creating employment. The continued success of the Romanian family can help lead to continued improvements in all aspects of this devastated society.

#### **3.4.3-The Modern Romanian Family**

The Romanian family is an important cultural element at the very center of most lives. As a result of social and economic conditions it is common for at least two generations, often three, to live together and to operate as a closely knit group. Families also bond with other families developing networks of relationships (Cartina and Tone, 1994) The Romanian family household unit, kinship group, and alliance network represents one of the central components linking economic and cultural change.

The modern Romanian family has a distinctive orientation which comprises both the domestic group and a larger kinship system. Research conducted by the Institute for the Quality of Life found that at the beginning of 1993 50 percent of the married couples 18-30 years of age were living with their parents (Ghebrea and Tessier, 1994).

The domestic family strives to work as a cohesive unit shaping and organizing the group around both individual and group needs. Kinship groups are centered on deep alliance networks based on clan patronage. They work to provide mutual socio-economic assistance and support.

#### **3.4.4-Central Themes Of Family And Personal Networks During Transition**

The transition period has found the family at the center of life in Romania. The family represents the first unit of interaction with the community, and the foundation of a given society. Traditionally Romanian society has relied on family and personal networks for basic security and survival (Stoianovich, 1976, p. 465; Pistrui, Welsch, and Roberts, 1997). Together the family pooled its collective resources to meet basic needs and overcome the challenges of everyday life.

The overall mistrust generated during communism and within the transition period encouraged families to bond with other families to develop personal networks. The modern Romanian family has a distinctive orientation which comprises both the domestic group and a larger kinship system (Ferreol, 1994).

Most importantly the family unit represented perhaps the only societal institution which emerged from communism intact and functional. As a tribute to its resiliency, the family has been the engine driving transition in Romania (Cobianu-Bacanu, 1992). Donckels and Lambrecht (1999) pointed out that the economies of East Central Europe are essentially growth orientated, and that family led businesses are increasing their role within these economies. Thus, history and logic suggest that family based businesses would be at the forefront of the socio-economic transformation taking place in Romania.

#### **3.4.5-Special Role Of Women In Romanian Society**

Women have traditionally played a very important role in Romanian culture. As the country struggled to transform from a primarily agrarian economy to an industrialized one women worked side by side with men. Initially this took place on the farms and in service sectors.

The communist system of centralized economic control drew women into the areas of economic planning, engineering, and technical services as well as traditional retail, health services, and general labor positions. Beginning in the 1950's women had greatly increased opportunities to engage in university studies in the fields of industrial engineering, medicine, and socialist economics.

Women played an important yet dichotomous role in society. They maintained traditional Latin characteristics of homemaker, while also working outside the home. Most balance family responsibilities with work due to economic necessity. Romanian women also have traditionally played a strong role in family matters. Before the modern Western world ever envisioned the concept of a working woman, Romanian women juggled the challenges of balancing job and family.

The spirit of Romanian women has been one of the strongest influences in shaping the unity of the family. They are both traditional yet progressive, and always command a respectable position in society. A noteworthy characteristic found in Romania during transition has been the strong role of women in both the social and economic transition process (Stanoiu and Voinea 1993; Welsch, and Pistrui 1994).

#### **3.4.6-Central Role Of Women Entrepreneurs In Family Businesses**

The research of Pistrui (1993; 1996), Welsch and Pistrui (1994), and Gundry and Ben-Yoseph (1998) confirmed that women entrepreneurs played a central role in the post communist socio-economic transition process. Welsch and Pistrui (1994) found that women entrepreneurs were motivated by the greater flexibility offered by business ownership and the potential to overcome limited opportunities.

Family businesses led by women tended to have significant overlap between family and firm. Studies by Welsch and Pistrui (1994), and Gundry and Ben-Yoseph (1998) also confirmed that female entrepreneurs relied heavily on family members as active participants in new venture development.

### **3.5-Romanian Entrepreneurship Family Network System**

Grounded in the household and linked to a kinship network, the family operates as a system to support its own welfare. Bound by a set of patterned and predictable rules, the family system seeks to integrate individuals into a larger family social network. The key goal of the family network has been to balance the internal needs of the family members with the external challenges found in the socio-economic system.

The Romanian Entrepreneurship Family Network System (REFNS) has been documented and explored by the work of Pistrui (1993; 1996), and Pistrui, Welsch, and Roberts (1997). Figure II represents a visual depiction of the (REFNS) which has been found to be comprised of three segments, the household, the kinship group, and the alliance network .

#### **3.5.1-The Household**

The communist era program of systemization produced blocs of standardized living spaces where people were put to live in common. Within this common space Romanians built their own living space out of the given space to live (Mihailescu, Nicolau, Gheorghiu, and Olaru, 1994). Consequently the household served as special place fostering common trust and group cohesiveness.

There are two dominate characteristics common in the vast majority of Romanian homes. First, are the large collection of reading materials. Reading represented perhaps the only

element of freedom many Romanians have known. Even though the communists attempted to control reading materials the majority of Romanian are well read. The second commonality are the presence of religious icons displayed throughout the home. For decades the home was the only place one could openly express their religious beliefs without fear of public persecution.

## ROMANIAN ENTREPRENEURSHIP FAMILY NETWORK SYSTEM

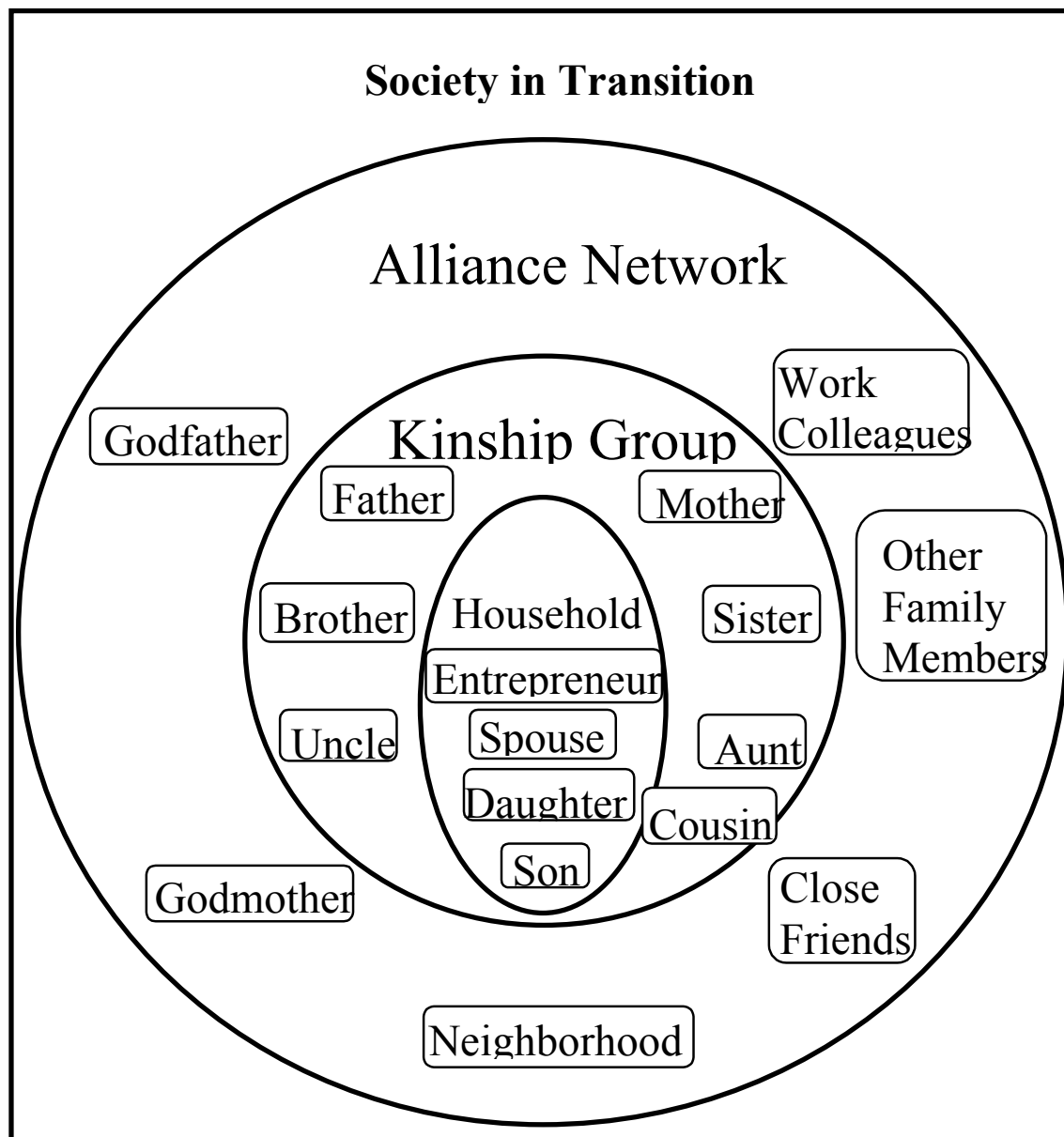


Figure 2

Household chores and responsibilities have traditionally been shared. Meals are considered as important common family time. All members of the household participate in the preparation and clean up activities. Meal times are used to discuss concerns, issues and problems confronting both individuals and family members.

The household has traditionally fostered respect for parents and elders. Important decisions were openly discussed with advice from elders playing a significant role. In fact the Romanian household could serve as model for many of the world's more advanced societies. Love, respect and togetherness with an ironic sense of humor have traditionally permeated the Romanian household.

### **3.5.2-The Kinship Group**

The majority of Romanian families have been plagued by low incomes, increasing unemployment, and serious poverty (Voinea, 1994). Economic necessity required extended families to work together. Consequently the modern Romanian family extended well beyond the confines of the domestic household due to tradition and necessity. The kinship group linked a series of households together.

Parents, siblings, uncles, aunts, and cousins merged into clans or larger extended families which operated as cohesive groups. Researchers Sandu (1996), Zamfir (1994) and Radulescu (1993) have identified and documented the strong presence of anomie and high levels of mistrust present during transition. As a result the kinship group served as a trusted source of social and economic resources.

The family group was the first community which helped its members to settle down and to adapt to change, which in turn influenced and molded transformation based on the conditions found in Romania today (Larionescu, 1994). The family network provides a



natural biological clan offering psychological comfort and a basic trust in dealing with everyday issues. The family network has been viewed as a resource for community influence. In short, the family represents an "enclave of security" against both social and economic uncertainty.

### **3.5.3-The Alliance Network**

Romanians have faced significant scarcity. The percentage of the population living in relative poverty (defined as 45 percent of the average wage) increased from 34 percent in 1989 to over 50 percent in 1992 (Economist Intelligence Unit, 1995). Living on an average salary of no more than \$100 per month with inflation of at least 150 percent, many barely survive.

There continues to be a general lack of civic confidence among Romanians. One of the reasons for this has been the history of political and economic corruption. The preliminary results of a study conducted by the Ministry of Domestic Affairs suggested that between 1988 and 1992 corruption increased by some 400 percent (Radulescu, 1993).

Flexibility has been called for because the restructuring of bureaucracies which followed the overthrow of the totalitarian communist regime affected in varying degrees all of the institutions of society (Mihailescu, 1992). Corruption has also been a major problem. One recent Romanian poll reported that on average, businessmen spend 4 percent of their earning on bribes (Campeanu, 2000). The magnitude of change impacting the existing institutions, including managerial change, has created an environment filled with new questions and problems no one has ever had to deal with.

The alliance network, comprised of work colleagues, close friends, neighbors, friends of other family members, and especially the Godparents of children, work to help its members cope with the daily hardships of life. The alliance network represents a special form of social network mixing family, neighborhood, kinship and work environment (Mihailescu, Nicolau, Gheorghiu, and Olaru, 1994).

These personal relationships with trusted individuals who are linked to the family helped people to maneuver to meet the challenges of everyday life. In Romania the concept of “friend” or “relationship” continues to be taken very seriously as a central resource for the family.

#### **3.5.4-The Family, Entrepreneurship, And Enterprise Development In Romania:**

##### **A Call For Further Investigation**

The success of family supported entrepreneurship has been identified as a path toward improvements in the social, economic and community aspects of this devastated society. Researchers Welsch and Pistrui (1994), Pistrui, Welsch, and Roberts (1995), Larionescu (1994), Caetina and Tone (1994), and Ghebrea and Tesser (1994) have all brought to light the fact that some relationships existed between transformation, entrepreneurship, and family.

Family involvement in entrepreneurship can take three types of active involvement with an enterprise including: 1) Sources of capital, including start up and operating, 2) Sources of employment, both-full time and part-time, 3) Sources of advice concerning operations of the enterprise.

Although some understanding of the role of entrepreneurship, family dynamics and economic transition has been established more empirical research is needed. It is

important to further probe the role and influences shaping entrepreneurship. Specifically there is a need to further investigate how cultural orientation centered in family dynamics shapes and influences entrepreneurship and enterprise development.

## 4-THEORETICAL FRAMEWORKS

### 4.1-Economic Theories

*“Entrepreneurs can never know how great will be the demand, nor how long their customers will buy of them since their rivals will try all sorts of means to attract customers from them. All this causes so much uncertainty among these Entrepreneurs that every day one sees some of them become bankrupt.” (Richard Cantillon, 1755, p. 51)*

Chapter 4 chronicles the theoretical frameworks vital to the investigation of entrepreneurial based expansion plans and growth intentions. First general market based microeconomic theory and growth models are summarized. This includes the role of entrepreneurship and small business in the economic development process. Next the socio-psychological theories associated with entrepreneurship and small business growth are described. Here the psychological characteristics related to entrepreneurial behavior are described.

Thirdly the behavioral characteristics analogous with entrepreneurial venturing, growth intentions and expansion plans are portrayed. The fourth theoretical aspect examined is the role and impact of the family on entrepreneurship and economic development. Special consideration is given to the family’s role in transitional and emerging economies.

#### 4.1.1-An Economic Approach To The Topic Of Entrepreneurship

Economic based theory related to entrepreneurship and enterprise growth can be traced to three periods: 1) early economic theories, 2) the work of the Austrian School of economics, and 3) more recent attempts which build on the early theories. Although many scholars have taken an economic approach to the topic of entrepreneurship in general, few scholars address the growth intentions and expansion plans of entrepreneurs. What follows is a chronological review of the contributions of leading economists who

have developed the fundamental economic theories concerning entrepreneurship and enterprise development.

#### **4.1.2-Early Theories Of Entrepreneurship And Economic Development**

The concept of entrepreneurship and private enterprise can be traced back to the Roman Empire. Badian (1972, pp. 27-29) pointed out that early forms of private enterprise development included entrepreneurs who made profits out of providing supplies to the Roman and Spanish armies. For example, entrepreneurs supplied food, arms and clothing for profit during the Hannibalic War period.

As early as the twelfth century the French verb “entreprendre,” with the connotation “to do something” was formed (Hoselitz, 1960, p. 235). The noun “entrepreneur,” became common during the fifteenth century being used to describe an individual who assumed a specific task.

The origin of entrepreneurship can be traced back to the field of economics.

Two economists Cantillon (1755) and Say (1827) were pioneers in the study of entrepreneurship. What set them both apart from other economists of the day was the fact that they were interested in not only the economy but also in the managerial aspects of enterprises development and business management.

For a long time economists commonly assumed that the concept of the “entrepreneur” was introduced into economic literature by J. B. Say (Hoselitz, 1960). Yet the actual first formal theory of entrepreneurship emerged out of the mercantilist age through the work of Richard Cantillon. Cantillon (1755, pp. 41, 47) recognized the entrepreneur as an individual who speculates, directs, and accepts an element of uncertainty in the course of

profit seeking business activity. Say (1827, p. 18) set forth a distinction between the entrepreneur and the capitalist and associated the entrepreneur as an agent of production.

According to Cantillon (1755, pp. 11, 55) the notion of self-employment independent of employee status can be characterized by the designation of "entrepreneur" or "undertaker" in the English translation and "Unternehmer" in German. Self-employment stimulates new venture formation encouraging the entrepreneur to create a growing productive economic organism.

Cantillon (1755, pp. 11, 41, 51) looked upon the European economic society as a kind of network of reciprocity, given hierarchical form by prevailing institutions and kept in adjustment by the play of self-interest, into which individuals and groups were bound by "need and necessity" (Spengler, 1960, p. 109). Cantillon (1755, pp. 51-53) implied that that entrepreneurial class were leaders within an economic society. From Cantillon's perspective (see footnote 1, page 7) entrepreneurs relied on a system of links tying individuals and groups together. As such, entrepreneurs function and rely on socio-economic networks as they strive to grow their enterprises.

#### **4.1.3-Agriculture, Entrepreneurship And Private Enterprise Theory Development**

Agriculture has served as an early platform for entrepreneurship and private enterprise theory development. For example during the mid 18th century the French economist Nicolas Baudeau advocated four key provisions at the foundation of entrepreneurship and private enterprise development. Using agriculture as a model Baudeau (1776, p. 51) advocated three requirements associated with entrepreneurial activity; 1) "desire," 2) "specialized knowledge," and 3) "action."

Baudeau called attention to the need for an environment which provides capital and resources to assist the entrepreneur. In doing so Baudeau made clear his argument that the environment in which an entrepreneur functions' greatly impacts his or her ability to develop and grow an enterprise. Baudeau has also been recognized as one of the first economists to describe two key outcomes associated with entrepreneurship; job creation and innovation. As entrepreneurs grow their business they will have to hire additional employees to support growth and enterprise expansion. As growth occurs job creation follows as the entrepreneur undertakes the risk and expenses of hiring workers.

According to Baudeau (1776, p. 51) innovation was a principle outcome of the entrepreneurial process. Hoselitz (1951, p. 210) brought to light that Baudeau (1776, pp. 46-48) viewed the entrepreneur as the one individual who bears uncertainty, organizes and supervises production, introduces new methods and new products, and searches for new markets. Enacting these combinations of innovative behavior underscores the basic nature of entrepreneurship, and enterprise development; the growth and expansion of the enterprise.

Furthermore, Baudeau recognized, and called for public policy in support of entrepreneurship and enterprise development. He was a genuine pioneer arguing that entrepreneurs could be educated. He called for government support of private enterprise. As early as 1776 Baudeau (pp. 46-51) recognized the need for the development of an infrastructure to support the entrepreneurial process. Specifically Baudeau called for a financial infrastructure along with support services to foster entrepreneurship and enterprise development.

Baudeau provided some of the original and most fundamental theoretical concepts associated with self-employment and economic growth through agricultural

entrepreneurship (Hoselitz, 1960, p. 247). Baudeau's work affirmed that growth intentions and expansion plans are the primary aspirations associated with entrepreneurship.

#### **4.1.4-General Themes Associated With Early Economic Theories**

As Table 4.1 illustrates early economic theories identified four dimensions associated with entrepreneurship and enterprise development. First the role of the individual entrepreneur was recognized as the principal force at work. By assuming risk and uncertainty entrepreneurs are driven by the desire to innovate and employ the resources of others to form, grow and expand their enterprises.

**Table 4.1**  
**Dimensional Themes Associated With**  
**Entrepreneurship And Enterprise Development**

<b><u>ENTREPRENEURIAL</u></b> <i>Innovation -</i> <i>Creation -</i> <i>Risk and Uncertainty -</i>	<b><u>MANAGERIAL</u></b> <i>Subordinates -</i> <i>Family Dynamics -</i> <i>Personal Networks -</i>
<b><u>RESOURCE</u></b> <b><u>AGGREGATION</u></b> <i>Capital Accumulation -</i> <i>Information Gathering -</i> <i>Factors of Production -</i>	<b><u>ENVIRONMENTAL ADAPTABILITY</u></b> <i>Economic Orientation -</i> <i>Infrastructure Obstacles -</i> <i>Government Policy -</i>

The second dimension was the fact that entrepreneurs required and relied on the resources of other human beings to develop and expand their enterprises. Personal networks, family, friends and business acquaintances were all fundamental resources upon which entrepreneurs depend on.



Thirdly entrepreneurship and small business growth was influenced by the availability of economic resources. Entrepreneurs relied on the socio-economic infrastructure found within their environment. Examples include access to capital, communication and transportation systems. Governmental policy supporting private enterprise was also identified as a contributing factor for entrepreneurship and small business growth.

The general socio-economic environment in which entrepreneurs functioned in was the fourth dimension identified. The level of environmental conditions associated with political stability, socio-economic conditions, war, and geo-political position greatly impacted early entrepreneurship and enterprise development.

Early economic theories developed by Cantillon (1755, pp. 53-55), Say (1827, pp. 284-287) and Baudeau (1776, pp. 50-51) identified a series of fundamental themes basic to the concepts of entrepreneurship and free enterprise development. These early scholars of entrepreneurship argued that the entrepreneur's basic nature was a complex pseudo-systemic process grounded in self employment which required leading others towards the introduction and development of new methods, products and markets.

#### **4.2-The "Austrian School" Of Economic Thought**

The Austrian School provides an essential theoretical perspective on entrepreneurship and small business growth. Though the term Austrian economics suggests different ideas to different people, it is most widely used to refer to perspectives that emphasize "the market process" i.e. that is "market dynamics" (Jacobson, 1992). Austrian economic scholars such as Carl Menger (1871), Joseph Schumpeter (1934), Friedrich Hayek (1937), Ludwig Von Mises (1949), and Israel Kirzner (1979) have had a profound impact on the concepts associated with entrepreneurship and enterprise growth.

For example, Menger (1871, p. 160), who is considered the founding father of the Austrian School, viewed entrepreneurship as an individually initiated production process. He suggested the concept of an “entrepreneurial motivated act of will” as an act of planned behavior. Schumpeter (1934, p. 66), associated entrepreneurship and enterprise growth with the ability “to carry out new combinations” thus reforming and revolutionizing patterns of production: 1) the introduction of a new good, or a new quality of a good, 2) the introduction of a new method of production, 3) the opening of a new market, 4) the conquest of a new supply of raw materials or components, and 5) industrial organization.

Hayek (1937, pp 42-43) viewed entrepreneurial expectations as a central force in enterprise growth and development. To illustrate, Hayek (1937, p. 45) contended that the enterprising activities of a firm were dependent on the veracity the entrepreneurs’ expectations. Hayek (1937, pp. 33-34) talked about the concepts of foresight and anticipation and how these forces influence the economic socio-process. Consequently entrepreneurial expectations, including growth intentions and expansion plans could be viewed as fundamental aspects of the Austrian School’s theory.

Von Mises (1949, pp. 252-253) set forth the idea that entrepreneurial activity involved action necessarily directed toward influencing a future state of affairs. Von Mises (1949, p. 253) went on to argue that entrepreneurial action is embedded in the flux of time and therefore involves a speculation. Austrian economics emphasized a series of concepts associated with business success. In particular, strategic issues related to; 1) continuous innovation, 2) flexibility, 3) intertemporal heterogeneity, and 4) unobservable influences of business performance (Jacobson, 1992, p. 784). The Austrian School argued that firms earn profits as a result of entrepreneurial discovery. The entrepreneur was motivated by the desire for supernormal profits. According to the Austrian School entrepreneurs have

the skills and ability to recognize profit opportunities in a marketplace that is in a constant state of change, or disequilibrium.

Austrian economics are subjectivists; they emphasize the purposefulness of human action; they are unhappy with the constructions that emphasize equilibrium to the exclusion of the market process (Kirzner, 1976, p. 40). Furthermore Kirzner (1979, p. 109) indicated the need to analyze the economizing of decision making as one method of identifying purposive human action and an alertness toward the discovery of yet unperceived opportunities.

The Austrian view also argued that entrepreneurs scan their environments seeking unique “strategic windows” of market based profit opportunities. By seeking new combinations in pursuit of continuous innovation and supernormal profits entrepreneurship in the Austrian sense suggests that entrepreneurial growth intentions and expansion plans could be considered an area of purposefulness human action.

#### **4.2.1-Economic Growth Not An Autonomous Phenomenon**

Schumpeter (1947) contended that economic growth was not an autonomous phenomenon which can be analyzed in economic terms alone. Schumpeter (1947, pp. 228-229) adduced six factors impacting entrepreneurial driven growth that include: 1) the physical environment including location, 2) social organization including regulation of economic activity, 3) the political sector together with the legal system, 4) technology related to business organization, banking and commerce, 5) human material in terms of quantity and quality, moral and intellectual innateness, and 6) national spirit including the prevalent systems of ideas, attitudes, and beliefs.

Consequently Schumpeter (1947, p. 230) believed that to understand entrepreneurial based growth, multiple dimensions of environment need to be taken into consideration. To Schumpeter (1934, p. 3) a fact was never exclusively or purely economic; it was also a social process which he described as “one indivisible whole.”

#### **4.2.2-General Themes Associated With The “Austrian School”**

Austrian views were not completely orthogonal to the views which arise from neoclassical or traditional industrial organization, yet the “Austrian School” included some critical differences in perspective (Jacobson, 1992).

In fact the Austrian based perspective had four distinctive themes worthy of discussion. They include: 1) Entrepreneurial discovery and profits, 2) Disequilibrium, 3) Heterogeneity, and 4) Unobservable factors. Table 4.2 outlines the distinctive themes associated with Austrian based economic theory.

**Table 4.2**  
**Distinctive Themes Associated With The Austrian School Of Economics**

<i>Economic Concept</i>	<i>Industrial Organization</i>	<i>Austrian School</i>
Strategic Objective	Restricting competitive forces	Entrepreneurial discovery
Market Conditions	Equilibrium	Disequilibrium
Profitability Modeling	Empirical regularities	Heterogeneity
Nature of Success Factors	Observed strategic factors	Unobservable factors

(Source: Jacobson, 1992)

#### **4.2.3-Entrepreneurial Discovery And Perpetual Innovation**

Von Mises (1949, p. 255) pointed out that the entrepreneur was the first to identify disparity between what was being done and what could be done. Entrepreneurship and

enterprise growth occurred when businesses created new products, utilized new production techniques and reorganized operations. The Austrian School contended that through entrepreneurial discovery, perpetual innovation takes pace.

Von Mises (1949, p. 255) developed the notion of the 'entrepreneur promoter' who employed leadership skills in pursuit of unceasing innovation as a method profit maximization. Von Mises (1949, p. 585) went on to discuss what distinguishes the successful entrepreneur and promoter from other people was precisely the fact that he did not let himself be guided by what was, and is, but arranged his affairs on the ground of his opinion about the future.

By bringing together new combinations in pursuit of supernormal profits, entrepreneurship represented a series of actions that successfully guided the flow of resources toward the fulfillment of consumers needs. The forces of dynamic competition doomed any firm that merely attempted to maintain its present position (Jacobson, 1992). Thus the restriction of competitive forces under such conditions as those found in monopolies constricted growth intentions and expansion plans.

#### **4.2.4-Disequilibrium In A Marketplace Of Constant Change**

Austrian theory placed great emphasis on knowledge and learning. In contrast the neoclassical approach assumed perfect knowledge implying that discovery and subsequently innovation have ceased. Another distinguishing factor of the Austrian School can be found in the role of competition. The Austrians viewed competition as a market based process rather than a static notion. Hayek (1948, pp. 94-95) made special note when he argued that the neoclassical concept of "perfect competition" which assumed a state of equilibrium supported the idea that there was no opportunity for competition to take place at all.

The Austrians claimed that it was the entrepreneur who was the driving mechanism of the competitive process. Jacobson (1992) pointed out that in the Austrian School competition and the entrepreneur were viewed as inseparable. Hayek (1945, pp. 522-523) identified the fact that neoclassical theory failed to truly depict the actual environmental conditions in which businesses functioned. He pointed out that entrepreneurs operated businesses in an environment of rapid and often turbulent change.

Schumpeter (1935, pp. 134-136) discussed the influence of outside factors both natural and institutional and how cycles and trends influence the marketplace and create constant economic change. Consequently the Austrian School viewed entrepreneurship as the central economic force shaping strategy and enterprise development within conditions of market disequilibrium.

#### **4.2.5-Heterogeneity Of Unique And Complex Events**

Austrian doctrine refused to accept econometrics as a instrument of theory development. Menger (1871, pp. 159-160) theorized that entrepreneurial activity was rooted in the economizing individual who made both underlying economic calculations and actual decisions to assign goods of higher order to particular productive purposes. Von Mises (1949, pp. 36-38; 46-47) believed that the ever changing conditions of human will, values, and knowledge created unique and complex heterogeneous events.

As a result, historical events were not suitable to either test or construct economic laws. In fact the issue of methodology can be considered a point of contention within the Austrian School itself. Kirzner (1976, p. 40) pointed out that with respect to methods there were differences of opinion among individual thinkers of the Austrian School. Although no methodological consensus permeated the Austrian School in general scholars remained hesitant to extrapolate the future from the past.

The rational expectations critique of econometric models estimated from past data may not be relevant for policy evaluation because the parameters of such models can be expected to change along with the policy (Jacobson, 1992). One of the central concerns the Austrian School has argued was that econometric models assumed “all other things were equal.” Kristol (1988, p. 28) pointed out that econometric models ignored the human factors which are shaped by history and expectations. Accordingly when dealing with human behavior it had been argued that the actual human response was unique to the moment and thus difficult to model.

#### **4.2.6-Unobservable Factors And Invisible Assets**

According to the Austrian School the real world included a variety of affairs beyond the range of normal econometric modeling which must be considered by economic science. For example Schumpeter (1947, p. 233) brought to light that economists tended to take institutional, political, and natural forces for granted. The Austrian School's contention was that assets had been defined too narrowly, identifying only those that could be measured, such as plant and equipment (Jacobson, 1992). Kirzner (1976, pp. 40-43) pointed out that the real world included a range of matters beyond the scope of econometric modeling.

The Austrians recognized and argued that invisible assets are both present and vital for entrepreneurship and enterprise development. Examples of invisible assets could include particular technology, accumulated information, culture, and business management skills (Schumpeter, 1947, pp. 228-229). Recognition of invisible assets also suggests the notion that the family, personal socio-economic networks as well as the environment in which entrepreneurs operated in could impact growth intentions and expansion plans. For example family dynamics including family financing, family advice and family involvement in the operations of the enterprise can be considered as unobservable

factors. These invisible assets are challenging to obtain and thus could be considered key success factors due to their heterogeneous nature. Kirzner (1976, pp. 42-43) summarized this thinking into two basic Austrian tents; first, the insight that human action is purposeful, and, second, that there is an indeterminacy and unpredictability inherent in human preferences, human expectations and human knowledge.

#### **4.2.7-The “Austrian School” And Entrepreneurial Growth Intentions And Expansion Plans**

The Austrian School perspective of economics argued that firms grow and prosper as a result of continuous innovation, strategic adaptability, and sensitivity to the dynamics of the market process, all of which were centered on the role of the entrepreneur.

Schumpeter, (1934; 1947) theorized that entrepreneurs bring together new combinations of resources and know-how to develop products and services that created supernatural profit opportunities. He also pointed out that entrepreneurs were influenced by and operated in a multidimensional framework shaped by both economic and social forces.

Growth intentions and expansion plans could be considered as potential theoretical fundamentals associated with entrepreneurship in the Austrian School of economics.

Menger (1871, pp. 159-161) proposed the idea that the process of transforming goods of higher order into goods of lower or first order must always be planned and conducted, with some economic purpose by an economizing individual. Hayek (1937, pp. 33-38) contended that individual foresight and anticipation play a central role economic order. While Von Mises (1949, pp. 252-253) referred to the entrepreneur as an "acting man" who used speculation and action directed toward influencing the future state of affairs.

Entrepreneurial discovery that included the market-based process of continuous innovation encouraged entrepreneurs to grow and expand their enterprises.



Entrepreneurs must have aspired to perpetuate entrepreneurial discovery if an enterprise was to grow. To accomplish this entrepreneurs must remain flexible and adaptive. Schumpeter (1934, pp. 65-67) talked about the producer initiating economic change and creating new combinations, as well as, how new firms play a central role in economic development.

By investigating the growth intentions and expansion plans related to future actions research can incorporate the richness of the Austrian School while using empirical methods to access the aspects of the market process. Without the motivation for entrepreneurial discovery, in combination with the need of continuous innovation, along with adaptation to change and environmental velocity firms become static, unresponsive and cease to exist.

#### **4.3-Recent Economic Theory Development**

The Austrian School has had a lasting affect on recent economic theory. Most notably the work of Leibenstein (1968), Kirzner (1982), and Bull and Willard (1993) have sought to advance Austrian based theory. Leibenstein (1968, p. 72) argued that entrepreneurship had a unique and critical role in the economic process. He identified the entrepreneur as a crucial variable in the economic development process. Leibenstein (1968, pp. 72-73) supported the idea that two broad types of entrepreneurial activity occurred; 1) routine entrepreneurship and 2) new type entrepreneurship.

Routine entrepreneurship included activities that involved the coordination and continuation of an enterprise in which the parts of the production function were established and well known in clearly defined markets. New type entrepreneurship activities created and carried an enterprise toward new or emerging markets in which critical parts of the production function were not known. Both forms of entrepreneurial

activities were dependent on the entrepreneurs' ability to innovate, grow and expand enterprise operations.

#### **4.3.1-The Role Of Environmental Alertness**

Kirzner (1982, p. 273) viewed the entrepreneurial function as the identification of something that other people have overlooked. He theorized that entrepreneurs utilize environmental alertness to identify and seek profit opportunities. In Kirzner's eyes the entrepreneur accumulated specific resources such as industry knowledge or network relationships which helped them identify profit opportunities. Entrepreneurs perceived market based profit opportunities and initiate action to fill currently unsatisfied needs to improve inefficiencies (Kirzner, 1979, p. 109). For example the perception to profit opportunities thus stimulates the entrepreneur to create new combinations through the expansion and growth of product or service offerings.

Kirzner also considered the role of government and entrepreneurship. Although one might presume that entrepreneurship was more important to those countries where growth in the standard of living was urgently needed. Kirzner (1982, p. 276) concluded that a low standard of living did not imply scope for entrepreneurship. No empirical evidence was presented by Kirzner (1982, pp. 272-276) in relation to government and entrepreneurship. However he theorized that governments can encourage entrepreneurial activity by stimulating an environment of economic freedom. In Kirzner's view societal freedom encouraged people to look for unexploited profit-based business opportunities.

#### **4.3.2-Dimensional Components Associated With Entrepreneurship**

Bull and Willard (1993, pp. 183-186) recommended the adoption of the Schumpeter economic outcome based concept. Principally that an entrepreneur carried out new combinations causing discontinuity. Based on the central themes of the Austrian School,

as well as echoing the work of Baudeau (1776) they avowed that entrepreneurial based economic activity represented an economic discontinuity that occurred under conditions that included; task-related motivation, expertise, the expectation of gain, and a supportive environment. Bull and Willard (1993) made a contribution toward the development of a theoretical definition of entrepreneurship yet fell short of actual operationalization.

Bull and Willard (1993, pp. 188-191) theorized that there were three dimensional components associated with entrepreneurship; 1) individual motivation, 2) knowledge based work experience, and 3) a supportive environmental infrastructure. First the individual must have a vision of fulfillment related to entrepreneurial activity. Including such deterrents as a dedication to the values of risk bearing, problem solving and strategic posturing. Additionally the individual must desire entrepreneurial vitality enthusiastically embracing it with a sense of fun and fulfillment accompanied by the vision of building and growing an enterprise. Bull and Willard (1993) theorized that the individual entrepreneur was motivated by the “expectation of personal gain.”

The second theoretical dimension set forth by Bull and Willard (1993) was that entrepreneurs held knowledge or expertise related to a particular technology, process or service. This know-how provided the abilities and skills essential to operating a successful business. Experience based know-how linked entrepreneurs with market based profit opportunities. Thirdly, Bull and Willard (1993) theorized that entrepreneurship required a supportive environmental infrastructure. Resources including support networks, information, and the collective efforts of a cast of characters in common pursuit of innovation needed to be present.

#### **4.3.3-The Need For An Expanded Understanding Of Entrepreneurial Start-Ups**

Bull and Willard's theory provided a fairly well defined framework in need of operationalization. Their notion of the "expectation of gain for self," underscored the entrepreneur's inherent intention to bring together new combinations of resources necessary for the growth and expansion of an enterprise. However as Bull and Willard (1993) pointed out themselves progress toward developing a theory of entrepreneurship has been made, yet there was still much work to be done.

Perhaps the most pertinent question raised by Bull and Willard (1993) was the need to expand the understanding of how entrepreneurial start-ups become successful, established businesses? The Austrian School based Schumpeterian theory of discontinuity through the carrying out of new combinations needs to be further validated through operationalization and more extensive empirical testing.

#### **4.3.4-Summary Of Recent Economic Theory And Entrepreneurial**

##### **Growth Intentions And Expansion Plans**

Table 4.3 provides a summary of three recent theoretical studies focused on entrepreneurship and enterprise development. Leibenstein (1968), Kirzner (1982), and Bull and Willard (1993) all advanced the understanding of entrepreneurial based small business growth theory.

Each study identified a series of unique yet over lapping conceptual themes corresponding to entrepreneurship. Operational coordination, pursuit of new markets, accumulation of resources, know-how and the creation of personnel networks were theorized to be desired outcomes of entrepreneurs.

All three studies argued that the ultimate economic outcome was the profit driven desire to expand, increase and grow the productive means of the enterprise. Although all three offered valuable insights into theory they fell short of operationalizing theoretical arguments and provided no empirical validation. Thus, more research is called for. However it should be noted that Leibenstein, Kirzner, and Bull and Willard all associated growth intentions and expansion plans as central ideas of entrepreneurship and enterprise development. Attention now needs to be turned to considering the general market based economic theories and growth models.

**Table 4.3**  
**Summary Sample Of Recent**  
**Economic Theory Development Related To Entrepreneurship**

<i>Author</i>	<i>Conceptual Theme(s)</i>	<i>Entrepreneurial Action(s)</i>	<i>Economic Outcome(s)</i>
Leibenstein (1968)	Two specific types of entrepreneurial activity: 1) routine and 2) new type	Coordination of established functions, creation and carrying of an enterprise toward new or emerging markets	Profit driven growth and expansion of enterprise operations
Kirzner (1982)	Environmental alertness, perception of opportunity	Accumulation of specific resources including industry knowledge, network relationships, and identification of profit opportunities	Profit seeking expansion and growth of product and service offering
Bull and Willard (1993)	Three dimensional components, 1) individual motivation, 2) experience and know-how, 3) environmental infrastructure	Expectation of personal gain, development of experience based know-how, creation of resource networks	Market based profit through the creation of new combinations of resources and capabilities

#### **4.3.5-General Market Based Economic Theory And Growth Models**

General market based economic theory contends that a firm grows until it has reached an optimal size. Under assumed perfect competition a firm grows until it has reached the size where long run marginal cost equals price (Mansfield, 1979). The neoclassical model of general equilibrium theory including its deductive based assumptions argued equilibrium was the normal state of the economy.

The applicability of general microeconomic growth models across different socio-economic cultures must be widely questioned. Reid and Jacobsen (1988) showed that that progress in constructing an economic theory of the small entrepreneurial firm has been relatively slow. In addition Reid and Jacobsen pointed out that prominent economists like Britain's Storey and Johnson (1987) concluded from an examination of textbooks in industrial economics that small firms were considered irrelevant to the discipline.

Schmitz (1993, pp. 18-33) went further arguing that the two dominate neoclassical theories of economic development; 1) the physical capital per person centered approach and 2) the human capital or education approach held false assumptions. Both theoretical approaches according to Schmitz (1993) made two general assumptions which were not appropriate, they being 1) firms in each country have equal access to the same production technologies, and 2) capital was allocated so that marginal product of capital was equal across all countries.

Schmitz (1993, p. 33) set forth that economic theory needed to consider the incentives provided to entrepreneurs as well as the barriers they face in relation to new technological adoption and the actual business creation process. The major shortcoming of these models has been the failure to consider differences in motivational patterns

within the entrepreneurial population of a particular culture (Davidsson, 1989). By tradition neoclassical economic theory ignored the entrepreneur.

#### **4.4-The Need For Multidisciplinary Research Perspectives**

Economists have usually played down the significance of entrepreneurship and have emphasized the economic conditions promoting its emergence, and concomitantly, the occurrence of economic growth and development (Wilken, 1979, p. 4). The individual entrepreneur has essentially been ignored as a factor.

Ginn and Sexton (1989) contended that if the decision to start a business was a choice of the founder, it can be assumed that the decision to grow the business was a choice taken by the entrepreneur. Consequently, to advance the understanding of entrepreneurship and small enterprise growth and development the field must adopt a multidisciplinary research perspective drawing from economics, the social sciences and business administration.

Entrepreneurship and small business growth involves a complex process. Three distinctive dimensions of the economic atmosphere shape small business growth and development. They include; 1) the individual motivation of the entrepreneur which represents a psychological dimension, 2) the social dimension influenced by culture and especially family dynamics, 3) the macro environment; dimension shaped by government policy, market orientation and infrastructure. However this is only half of the challenge as new theoretical models need empirical testing and further refinement to advance the understanding of an extremely complex phenomenon.

#### **4.4.1-Socio-Psychological Theories**

Schumpeter (1934) was considered the first economist to launch the field of entrepreneurship. He argued that the entrepreneur, as an individual, is fundamental to economic development. Schumpeter visualized the entrepreneur as the key figure behind economic development because of their role in initiating innovation which drives economic change. Unlike many of his fellow economists Schumpeter (1934) believed that market disequilibrium which discouraged oligopolistic based equilibrium was one of the principle components of capitalism. Subsequently the entrepreneur should be considered the central economic protagonist, the fount of economic progress and quality of life improvements.

Penrose (1959) argued that growth was limited by a firm's "productive opportunity." She contended that the quality of individual based entrepreneurial services including; entrepreneurial versatility; fundraising integrity; entrepreneurial ambition; and entrepreneurial judgment impact growth.

Through the process of creative destruction entrepreneurship fosters growth and economic development by creating innovation, change and new wealth. Entrepreneurship thrives on technological advances, organizational change and revolution. Collins and Moore (1959, p. 8) referred to entrepreneurship as a type of ongoing revolution challenging the "citadels of authority". At this point the focus will turn to the exploration of the socio-psychological perspectives related to entrepreneurship and small business growth.

#### **4.4.2-Characteristics Based Theories**



The personal qualities or the characteristics of the entrepreneur have been a prominent area of scholarly examination. Jean-Baptiste Say (1827, p. 285) set forth the theoretical notion that a combination of personal characteristics was related to entrepreneurship and enterprise success.

Say brought a unique perspective having been an industrial entrepreneur running a spinning factory from 1804 to 1812 (Hoselitz, 1951). He viewed the entrepreneur as the central economic figure. In addition Say (1827, p. 18) made a distinction between the entrepreneur and the capitalist. Personal characteristics associated with entrepreneurship included the notion that the entrepreneur works on one's own account, and that entrepreneurship was not confined to only the capitalist system. Say (1827, p. 286) viewed the entrepreneur as an individual who pursued profit as a premium for risk. Say perceived the capitalist as a person who earned a wage as compensation for a scarce skill based labor.

Say theorized that the entrepreneur was the agent that combined other resources and labor into a productive organism (Schumpeter, 1949). Entrepreneurship in Say's (1827, pp. 284-287) theoretical context encompassed a multidimensional phenomenon which included leadership, operational planning, and constant supervision. Consequently Say (1827, pp. 284-287) advanced the notion that some combination of the entrepreneur's personal characteristics were related to the development and success of an enterprise.

Say's theoretical perspective has received considerable attention leading to the development of a stream of scholarly research. Two distinct branches of inquiry emerged from the Sayian perspective; theoretical thought and descriptive studies.

#### **4.4.3-Expanded Theoretical Concepts And Frameworks**

Alfred Marshall's (1890, pp. 14-82) work during the late nineteenth century broadened the scope of economic thought. Marshall a lecturer in Moral Science gravitated away from the study of psychology toward economics. He recognized and conceptualized the existence of the human soul and the influence of self consciousness.

As a Political Economist Marshall (1890, pp. 71-82) was skeptical toward utilitarian calculus of individual decisions. More than most economists, Marshall remained aware of the broader context and wider ramifications as his work addressed ethical and political questions related to entrepreneurship and economic development.

Frank Knight (1921) acknowledged that entrepreneurship should not be treated as factor of production on par with others, since it was not at all in the same sense measurable or subject to varying proportions and marginal imputation. In Knight's mind the basic nature of enterprise was grounded in the specialization of the function of responsible direction of economic life. Exercising judgment, making decisions, and bearing uncertainty required the entrepreneur to acceptable responsibility and exercise control.

Knight (1921) made some important distinctions related to entrepreneurship and enterprise development. For example he pointed out that entrepreneurs made productive arrangements based on the anticipation of future expectations. As entrepreneurs competed for productive services they reacted to each situation on the basis of what they thought of the future.

Knight claimed the whole calculation was in the future. In economic terms the final decision which was made by the entrepreneur was based on a comparison of a momentarily existing price with a subjective judgment of significance of the commodity (Knight, 1921). Hence the need to understand the growth intentions and expansion plans

of entrepreneurs is critical to developing further understanding in to the complex nature of the entrepreneurial process.

#### **4.4.4-Descriptive Studies Probing Social And Psychological Dimensions**

Max Weber (1904) probed into the social and psychological dimensions as they related to enterprise and economic development. Focusing on the relationships between religion, social life and economic activity Weber described the spirit in which capitalism developed in post-Reformation Europe. Themes Weber (1904) described included energetic entrepreneurship, technology advancement, and the specialization of labor. By tying economic rationality, enterprising spirit and Protestant religious values together Weber depicted a new psychological attitude toward the pursuit of personal wealth.

Murray (1938) took the concepts of motivation and individual desire and constructed the formal theory of achievement motivation. Murray looked at the individual desires and tendencies related to such factors as; to excel one's self, to rival and surpass others, and to increase self-regard by the successful exercise of talent. Using Murray's theory of achievement motivation McClelland (1953) linked the need for achievement with entrepreneurship.

#### **4.4.5-Theoretical Development:**

##### **Achievement Motivation And Entrepreneurial Activity**

The need for achievement (n Ach) has been associated with entrepreneurship since McClelland (1953) linked Protestantism, the need for achievement, and economic development (Johnson, 1990). McClelland (1953) theorized that achievement motivation was the mainspring of entrepreneurial activity fostering the economic development of a society. McClelland's work has been considered very influential. Achievement motivation has emerged as a primary psychological characteristic of the entrepreneur.

Atkinson (1966, pp. 11-14) tested and subsequently theorized that a person's level of achievement motivation was an index of individual differences in the strength of achievement motivation. Atkinson theorized that an aroused motivation to achieve was a function of the strength of the motive and the expectancy of goal attainment. Building on previous theory Atkinson (1966) recognized three variables which impacted and shaped achievement motivation; expectancy, incentive value, and the strength of motivation.

In a theoretical sense the need for achievement may greatly shape an entrepreneurs desire to grow and expand their enterprise. Expectancy, incentive and motivation probed the cognitive anticipation and relative attractiveness of a specific goal, as well as the disposition to strive for a certain kind of satisfaction.

#### **4.4.6-Stages Of Socio-Psychological Characteristics**

##### **Based Theories Of Entrepreneurship And Enterprise Development**

Socio-Psychological characteristics based theory evolved through three stages (Table 4.4). The first stage served as the a platform for theoretical though. Both Marshall and Knight recognized the human aspect related to entrepreneurship and enterprise development. Further building on these theories Weber and Murray used the social sciences to develop descriptive studies that recognized the forces of spirit, rationality and the successful use of talent.

**Table 4.4**  
**Stages Of Socio-Psychological Characteristics**  
**Based Theories Of Entrepreneurship And Enterprise Development**

<b><u>Stage I - Theoretical Thought</u></b>	
<b><i>Marshall (1890)</i></b>	<b><i>Knight (1921)</i></b>
Conceptualized existence of human soul and the influence of self consciousness-	Specialization of the function of responsible direction of economic life-
Addressed ethical and political contexts-	Judgment, decision making, responsibility, control-
<b><u>Stage II - Descriptive Studies</u></b>	
<b><i>Weber (1904)</i></b>	<b><i>Murray (1938)</i></b>
Focused on relationships between religion, social life and economic development-	Formal theory of achievement motivation, motivation and individual desire-
Economic rationality, enterprising spirit, personal wealth-	Competitiveness, successful use of talent-

**Stage III - Theoretical Development**



<p style="text-align: center;"><b><i>McClelland (1953)</i></b></p> <p>□ Building off Murray (1938) linked the need for achievement with entrepreneurship- □ □ Theorized that achievement motivation was the primary force behind entrepreneurship and economic development-</p>	<p style="text-align: center;"><b><i>Atkinson (1966)</i></b></p> <p>Theorized that achievement motivation was an index of individual differences-</p> <p>Recognized three primary variables impacting achievement motivation; expectancy, incentive value, and strength of motivation-</p>
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McClelland and Atkinson took descriptive studies and attempted to redefine socio-psychological theories. Their work proceeded a step further as it attempted to empirically validate the impact of achievement motivation on economic expectancy, entrepreneurship, and enterprise development. From here research focused on the socio-psychological characteristics of the entrepreneur has taken a variety of directions worthy of assessment. What follows is a further examination of the segments of characteristics based research which has emerged.

#### **4.5-The Segmentation Of Characteristics Based Research**

Based on the advances of the social sciences and especially social psychology during the twentieth century a research infrastructure was created allowing for characteristics based theories to be more formally explored. Sexton and Bowman-Upton (1991) pointed out that numerous attempts to verify causal links between an entrepreneurs' psychological and demographic characteristics and various outcomes have been undertaken. Despite the substantial collection of descriptive research, empirical results have often been unclear and contradictory (Brockhaus and Horowitz, 1986; Sexton and Bowman-Upton, 1991; Chaston and Mangles, 1997).

Chell, Haworth, and Brearley (1991) identified three phases of entrepreneurship personality research and literature:



1) Phase I - The Trait Approach. The approach has been questioned and has given away to the second approach.

2) Phase II - Behavioral Approaches. This approach takes the form of historical/biographic background and development influences on a person. In addition, types of entrepreneurs (craftsmen, ect.) are incorporated as well as analysis of the development of stages.

3) Phase III - Contingency Approach. This approach assumes that entrepreneurial behavior is a function of various specifiable contextual variables of which the entrepreneurial personality/behavior is one.

Two notable perspectives have emerged out of characteristic based research. The first approach focused on the distinguishing psychological characteristics of the entrepreneur. The second approach attempted to use demographic profiles to characterize entrepreneurial behavior. The next section identifies and summarizes several representative studies from both perspectives.

#### **4.5.1-A Range Of Psychological Characteristic Approaches**

Schumpeter (1934) set forth the notion that the source of innovations can be found in the microscopic diversity and abnormal behavior of entrepreneurs. One of the strongest arguments for individual unit based research in entrepreneurship has been the contention that the macro population perspective eliminates the microscopic details needed to observe the complex process of entrepreneurship.

Psychological characteristics based research has focused on a broad range of psychological characteristics including need for achievement, belief in an internal locus

of control, risk taking propensity, self confidence, need for status, need for independence, self confidence, level of creativity, and many more (McClelland, 1965; Rotter, 1966; McClelland and Winters, 1969; Welsh and White 1981).

Herron (1990) observed that the work of Cattell (1947, 1957) which reduced Allport and Odbert's (1936) list of over 18,000 trait terms using cluster and factor analysis represented the foundation from which psychological characteristics based research came forth.

Yet researchers still do not know what specific characteristics differentiate entrepreneurs from small business owners or managers (Amit, Glosten, and Muller, 1993). Take the work of McClelland (1965) as a point in case. McClelland's (1965) entrepreneur was defined in broad terms and included commissioned salesmen, management consultants, executives in large companies, as well as owner/managers of new or small ventures. The problem lies in the fact that many of the characteristics used to describe entrepreneurs are also applicable to describe other successful individuals in business, the arts and education.

What follows is a brief recap which provides testimony to the conflicting research findings and subsequent theoretical issues at hand.

#### **4.5.2-Need For Achievement**

The need for achievement has been an important dimension heading the list of psychological characteristics. However, this has been identified as a characteristic common to many individuals and does not predict an entrepreneurial tendency (Sexton and Bowman, 1985). Brockhaus (1982) concluded that the causal link between small business ownership and high need for achievement had not been proven.

By the same token McClelland (1986) implied that persons with high need for achievement performed better when the task was challenging and that these people were more likely to go into business and be successful. McClelland concluded that based on the amount of empirical evidence the need for achievement was an important component in small business success. Although far from a perfect measure Shaver and Scott (1991) concluded that achievement motivation remained the personalologist's best candidate to account for new venture creation.

#### **4.5.3-Internal Locus Of Control**

Entrepreneurs have been shown to have the tendency to believe that they are in control of their own destiny. People who perceived that events are contingent upon their own behavior and consequently believed that they can control events through their own actions have an internal locus of control (Amit, Glostén, and Muller, 1993). Building on Rotter's (1966) work, Berlew (1975) found that successful entrepreneurs desired personal responsibility and performed best when they have personal responsibility for results. Therefore entrepreneurs have been characterized by an internal as opposed to an external locus of control.

However Brockhaus and Nord (1979) determined that entrepreneurs and managers locus of control beliefs did not differ significantly. Furthermore Hull, Bosley, and Udell (1982) surveyed over 300 University of Oregon alumni in an attempt to distinguish personal characteristics between entrepreneurs and non-entrepreneurs. To their surprise they found that there was no significant difference between the locus of control between entrepreneurs and non-entrepreneurs. By the same token Shaver and Scott (1991) concluded that Rotter's (1966) Internal-External scale had successfully predicted behavior in a variety of interpersonal and health related settings.

#### **4.5.4-Independence-Autonomy And Freedom Of Choice**

The need for independence and autonomy have both been considered major characteristics of entrepreneurs. The individual who did not fit well into a bureaucratic organizational structure associated with the corporate environment or the person resentful of supervision and aspiring to be independent are psychological characteristics associated with entrepreneurial behavior. Collins and Moore (1964) characterized the entrepreneurial personality as one of an unwillingness to submit to authority, an inability to function under supervision, and the need to escape.

Shapiro (1975) described the uncomfortable entrepreneur who was dissatisfied with his or her job or position, waiting for the chance to become free and start their own business. Scheinberg and MacMillan (1988) identified a dominant drive for independence among entrepreneurs across cultures in Australia, Sweden, Finland, Norway, Denmark, England and the US.

The central problem with the independence based characteristic perspective was that the concept can be broad and ambiguous. Descriptive generalized terms such as self-reliant, individualistic, non-conforming, unmanageable and rebellious leave much room for accurate depiction. Much of the research to date has lacked empirical rigor and relied heavily on antidotal descriptions.

#### **4.5.5-Risk Taking Propensity**

Entrepreneurship has often been associated with risk bearing (Cantillon, 1755; Knight, 1921). Coulton and Udell (1976) contended that risk taking propensity was one of the most important characteristics identifying entrepreneurial type individuals. Yet,

Brockhaus (1980) found no significant differences in the general risk preference patterns between entrepreneurs and managers.

Sexton and Bowman (1985) argued that the overall evidence indicated that entrepreneurs are moderate risk takers and do not significantly differ from managers in the amount of perceived risk they will bear. Entrepreneurs may in fact view themselves as competent risk managers whose skills diminish what others may consider as high risk.

Amit, Glosten and Muller (1993) pointed out that if entrepreneurs have a strong belief in their ability to achieve their goals, their perceived possibility of failure will be relatively low and therefore their perceived risk level will be low.

#### **4.5.6-Summary Of Key Psychological Characteristics**

##### **Based Research Related To Entrepreneurship And Enterprise Development**

Psychological characteristic based research served an important purpose as it has strived to probe the unique details which shape an entrepreneur's individual behavior. Table 4.5 provides a summary of the key psychological characteristics focused on by researchers.

Table 4.5 shows that pure trait approach based research has provided little empirical validation. Theories focused on the single dimensional aspect associated the entrepreneur's personality have provided valuable insights and learning yet captured only a single aspect influencing entrepreneurship and enterprise development. Attention will now shift to an evaluation of the demographic characteristics based theories.

**Table 4.5**  
**Summary Of Key Psychological Characteristics**  
**Based Research Related To Entrepreneurship And Enterprise Development**

NEED FOR ACHIEVEMENT	INTERNAL LOCUS OF CONTROL
<p><b><u>Psychological Characteristic</u></b>            Entrepreneurs possess unique internal motivation to achieve-</p> <p><b><u>Key Studies</u></b>            Sexton and Bowman (1985), Brockhaus (1982), McClelland (1986), Shaver and Scott (1991)</p> <p><b><u>Results/Findings</u></b>            Conflicting research findings, yet considered important trait, a call for further research</p>	<p><b><u>Psychological Characteristic</u></b>            Economic events are contingent upon the entrepreneurs' own behavior-</p> <p><b><u>Key Studies</u></b>            Berlew (1975), Brockhaus and Nord (1979), Shaver and Scott (1991), Amit, Glosten and Muller (1993)</p> <p><b><u>Results/Findings</u></b>            Some predictive behavior, yet little significance has been documented, inconclusive</p>

INDEPENDENCE AND FREEDOM	RISK TAKING PROPENSITY
<p><b><u>Psychological Characteristic</u></b> Entrepreneurs are resentful of supervision and aspire to be autonomous and free of organizational structure-</p> <p><b><u>Key Studies</u></b> Collins and Moore (1964), Shapero (1975), Scheinberg and MacMillan (1988)</p> <p><b><u>Results/Findings</u></b> Generalized descriptive terms, antidotal depictions lacking empirical rigor</p>	<p><b><u>Psychological Characteristic</u></b> Entrepreneurs have greater risk taking propensity-</p> <p><b><u>Key Studies</u></b> Coulton and Udell (1976), Brockhaus (1980), Sexton and Bowman (1985), Amit, Glosten and Muller (1993)</p> <p><b><u>Results/Findings</u></b> Evidence suggested entrepreneurs are only moderate risk takers, and that there was no significant differences in general risk preference patterns</p>

#### **4.6-Demographic Characteristics**

Demographic characteristics based research perspectives investigated the association, if any between the decision to become an entrepreneur and start a business. To date there has been a wide range of variables used to probe the demographic profile of entrepreneurs. Some of these have included age, gender, level of education, years of work experience, networks, level of formal education and child of an owner-manager. Understanding the relationships between demographics and entrepreneurship has been an important area of investigation.

Research findings related to demographic characteristics and entrepreneurship have been disconfirming. Brockhaus and Horowitz (1986, pp. 42-44) stated that empirical results related to a wide spectrum of demographic characteristics including those identified

above have been mixed. For example Brockhaus and Horowitz (1986, pp. 35-38) found disconfirming results related to the commonly cited demographic traits of; 1) being the child of an entrepreneur, and 2) the level of education (Vesper, 1982). These type of results have brought attention to the lack of clear evidence in support of demographic characteristics.

In terms of education Vesper (1982) asserted that the entrepreneurs most likely to fail have experience but no education. The previous findings of Brockhaus and Nord (1979) showed the level of education to be significantly less in entrepreneurs than for managers. Brockhaus and Horowitz (1986) went further as they pointed out that a major concern related to innovation and continued growth had been the question of whether entrepreneurs are born with inherent skills or can be created through training?

#### **4.6.1-Network Theory And Entrepreneurship**

Network theory has also become an area of attention related to demographics. This approach visualized by Aldrich and Zimmer (1986) and advanced by Johannisson (1995) was new. Donckels and Lambrecht (1995) pointed out that there had been little empirical research related to network theory. Network theories have viewed entrepreneurship as a process which included shifting networks of relationships related to social and professional activities. In essence entrepreneurs utilized their socio-economic status and personal relationships as a resource for economic gain.

With a lack of clear and consistent evidence supporting the role of demographic characteristics more research has been called for. Demographic characteristics are the result of both individual psychological characteristics as well as from the impact of the



environment in which the entrepreneur functioned. For example the newly emerging entrepreneurs in the transforming Soviet Bloc have a clearly different and distinctive demographic profile than those found in Western Europe and the US. Thus culture and environment need to be given thought when considering demographic characteristics in relationship to entrepreneurship and economic growth.

#### **4.6.2-Socio-Psychological Characteristic Based Theories**

##### **And Growth Intentions And Expansion Plans**

Characteristic based research has tended to focus on the psychological and demographic characteristics of the entrepreneur. According to Sexton and Bowman-Upton (1991) research has attempted to discover the causal factors related to entrepreneurial activity and the psychological and demographic characteristics. Although much learning has occurred Brockhaus and Horowitz (1986) as well as Sexton and Bowman-Upton (1991) have pointed out that the resulting descriptive research has been generally inconclusive.

Understanding the psychological characteristics of the entrepreneur and how they shape and impact growth intentions and expansion plans can provide additional learning which may advance the understanding of this complex phenomenon. Yet the psychological characteristics of the entrepreneur should comprise only one vital aspect of a multidimensional approach to studying the complex phenomenon of small business growth. Some consideration also needs to be given to the other forces which shape and influence the psychological characteristics of the entrepreneur. The challenge remains to develop a methodology to empirically study the psychological characteristics in relation to the societal and environmental factors which shape entrepreneurial growth intentions and expansion plans.

#### **4.6.3-Enterprise Growth: A Central Economic**

**Objective Associated With Entrepreneurship Theories**

Entrepreneurs have been found to perform a variety of functions. They have been recognized as the central economic agent by some theorists and ignored by others. Innovation, management, resource aggregation and adaptability are activities entrepreneurs typically engaged in. Expansions of enterprise operations, increased product and service offerings, along with the pursuit of new and emerging markets were all found to be central economic outcomes associated with entrepreneurship theories.

The “Austrian School” viewed entrepreneurship from an important and historic perspective. They argued that entrepreneurship involved both social and economic motivations which were unique and heterogeneous. In fact, the “Austrian School” argued that entrepreneurship was so complex that it included some unobservable events. In theory profit driven entrepreneurs brought together new combinations of resources and capabilities targeted toward future market based expectations.

Much of the theoretical treatment has studied the entrepreneur from a single dimension principally their psychological characteristics or demographics. The development of formal theories of entrepreneurship have long suffered from a number of shortcomings. First has been the lack of a unified definition of what constitutes entrepreneur led economic growth.

Second, there is a need to gain further understanding as to how culture and the macro environment shape entrepreneurship and small business growth during times of significant socio-economic turmoil and change. Third, much of the research to date has produced conflicting and sometimes confusing results. In addition there has been an overall general lack of empirical rigor.

To attack these shortcomings and advance knowledge new models of entrepreneurial based small business growth need to be developed and empirically tested. The first step in this process is the assessment of theoretical growth frameworks associated with entrepreneurship and small business development. In order to undertake this endeavor a more thorough definition and grasp of what constitutes entrepreneurial led small business growth needs to be undertaken.

## **5-THEORETICAL MODEL: EXPANSION PLANS AS A DEPENDENT VARIABLE**

### **5.1-Theoretical Growth Frameworks**

*“Expectations and not objective facts are the immediate determinants of a firm's behavior. The desire to create a dominant firm is a product of entrepreneurial energies and ambition.” (Edith Penrose, 1959, pp. 41; 183)*

Although the scope of research on new venture growth has dramatically increased in recent years, a coherent theory of entrepreneurial growth is lacking (Ardishvioloi, Harmon, Cardozo, and Vadakath, 1998). One of the primary issues has been the research emphasis on past performance. Analyzing past performance in the forms of sales or employment growth provides only partial insights into growth in either absolute or relative terms. Welbourne, Meyer, and Neck (1998) pointed out that growth research to date has suffered from various limitations such as lack of data and lack of uniformity in the choice of dependent and independent variables.

There is a need for researchers to built on theories and models developed by others. Furthermore, still lacking are large-scale research studies guided by theory through which we can expand our knowledge of the underlying factors supporting ambitious expansion plans (Gundry, and Welsch, 2001, p. 453). Delmar (1997, p. 212) identified the need to better systemize the dependent variables if we are to advance the understanding of organizational growth.

One way to better understand entrepreneurial led small business growth can be by gaining knowledge as to how entrepreneurs identify future growth opportunities. Von Krogh and Cusumano (2001, p, 53) argued that you can't leave growth to chance and that a good growth plan captures a vision for expanding the company. This alternative approach can provide insights into how entrepreneurs discover, create and anticipate

future strategic actions. Gilinsky and McCline (1999, p. 4) discussed how entrepreneurs engage in 'opportunity scoping' as they look to create new combinations of products and services in pursuit of future growth.

Pistrui, Welsch and Roberts (1997, p. 93) developed an empirical model which operationalized entrepreneurial growth intentions based on three types of expansion activities, 1) market expansion and development, 2) operations/production development, and 3) technological advancement. While Gundry and Welsch (2001, pp. 454; 460) expanded the model through their empirical investigation of ambitious entrepreneurs. With this in mind attention may be turned to the review of some of the existing growth frameworks.

#### **5.1.1-Alternative Theories of Small Firm Growth**

There have been a variety of theories of small business growth set forth during the last twelve years. For example O'Farrell and Hitchens (1988) created a series of alternative theories of small business growth focused on small manufacturing firms. Three themes emerged out of their work. The first theme was centered on economic and spatial concepts. This included industrial economics, stochastic modeling, spatial-locational constructs, structural characteristics, and the environment aspects. O'Farrell and Hitchens (1988, pp. 1369-1370; 1379) determined that each of these approaches had limited applications for advancing the understandings of small business growth.

The second theme focused on strategic business concepts. This included internal-external impediments, resource constraints, stages of growth models, and rational planning strategies. O'Farrell and Hitchens (1988, pp. 1373-1374) suggested that the owner-managers policies and strategic thinking were important including their aspirations and perceptions towards business development. They also correctly criticized

the heuristic classification schemes associated with the stage models (O'Farrell and Hitchens, 1988, pp. 1371-1372). Another approach they pointed out was the use of strategy-performance relationship models. By the same token O'Farrell and Hitchens (1988, p. 1374) acknowledged that there was no universal agreement that formal planning or adapted industrial organization based strategies represented viable growth frameworks for entrepreneurial led small businesses.

The third theme focused on socio-psychological frameworks including the growth imperative, social perspective, and the entrepreneurial personality and growth. O'Farrell and Hitchens (1988, p. 1375) contend that there was a high proportion of small manufacturing firms who were more interested in maintaining their current level of profit than in expansion. They also identified the importance of exploring the social identity, orientation and actions of both the entrepreneur and other participants impacting small-firm growth. In terms of entrepreneurial personality and growth O'Farrell and Hitchens (1988, p. 1376) pointed out that research findings linking the two were highly tentative and inadequate as of 1988.

O'Farrell and Hitchens (1988) provided some valuable insights into some alternative theories of small-firm growth. Yet their focus on small manufacturing firms in some sections of Ireland and the UK does place some limits on applying these concepts across all small business sectors. In addition their emphasis upon the difficulties which small owner-managed firms have in meeting the competitive requirements of the marketplace (O'Farrell and Hitchens, 1988, p. 1365) seems best served by the development of a more focused integrative multidimensional models.

### **5.1.2-A New Theory of the Growth of the Firm**

The work of Garnsey (1996) and Craymer and Omura (1996) offer two more studies which provide additional insights into small business growth frameworks. Garnsey (1996) set forth a theory-based concept rooted in Penrose's (1959) Theory of the Growth of the Firm. The conceptual model of Garnsey (1996, p. 124) proposed to build upon and extend the resource based view of the firm, drawing on systems thinking for further theoretical insight.

She set forth the concept that firms go through phases of growth in relation to dominate problems that have to be solved (Garnsey, 1996, p. 125). Garnsey (1996, pp. 127-130) described three resource based scenarios firms experience as they strive to accumulate competence and distinctive capabilities; 1) Resource Access where sharing and clustering take place, 2) Resource Mobilization during which firms establish a process and perception to details, and 3) Resource Generation highlighted by discontinuous and continuous activities along with the generation of revenue from output.

Unfortunately Garnsey does not operationalize the theory very well. This unidimensional approach focused on the conceptualization of an internal growth process based on finding solutions to problems. Furthermore on pages 140-141 she makes a series of suggestions based on opinion with little or no grounding. Although there is some value to the model it does not serve the needs of this dissertation.

### **5.1.3-Portfolio Approach to Small Business Growth**

Craymer and Omura (1996) advanced a portfolio approach to modeling firm growth. Craymer and Omura (1996, p. 178) contended that in spite of the large number of investigations into growth, no single model or dominate paradigms prevail. They built their model around four typologies which are situation based and tied to the broad

marketing activities of an enterprise. The Craymer and Omura (1996, p. 183) model looked at organizational form based on the adaptive process of strategic decision making.

The four typologies included: 1) life cycle (p. 179) where orderly patterns of change take place from conception to death, 2) stage models (p. 180) characterized by abrupt and disruptive stages along with the need for focus and specific skill sets, 3) evolution models (p. 180) where continuous change required extending lines of development, and 4) transitional models (pp. 180-181) characterized by internal/external shifting in an environment of continuous and discontinuous change.

To operationalize the portfolio approach Craymer and Omura (1996, p. 184) incorporated a product-service mix based on marketing behaviors. This approach seemed to suggest a process-based reaction versus a pro-active approach towards growth. Moreover while they use marketing behaviors as a measure on page 185 they introduced non-marketing based behaviors such as internationalization and machinery upgrades. In addition many marketing based activities small enterprises rely on include word of mouth advertising and networking which would evade measurement of standard marketing activities. Although this approach was interesting it has limited applications especially in post-communist transition environments.

#### **5.1.4-Frameworks for the Development of Small Business Growth Models**

Although the preceding models provided some valuable insights into the concepts associated with small business growth it is the Gibb and Davies (1990) frameworks model which best serves the needs of this analysis. First the Gibb and Davies (1990) approach represents a broader multidimensional approach as opposed as to the unidimensional as set out by Garnsey (1996) and Craymer and Omura (1996). It is also a bit more focused than the O'Farrell and Hitchens (1988) approach.



Second, the Gibb and Davies approach had a tighter focus and balance across three important dimensions. They included an individual dimension in the entrepreneurial personality area, an intermediate aspect in organization development and business skill theories, and a macro component in the sectoral economic dimension. Third the Gibb and Davies (1990) framework provides a theoretical model which can be adapted and built upon within especially within the context of the field site in Romania. This will allow for the development of a multiple-paradigm approach which will employ methods from a variety of disciplines, including economics, sociology, and psychology (Cooper, Markman, and Niss, 2000, p. 130). Consequently the focus will now shift to a thorough examination of the Gibb and Davies frameworks approach.

#### **5.1.5-Four Broad Categorical Approaches To Small Business Growth Frameworks**

Researchers Gibb and Davies (1990) introduced a broad categorical series of frameworks which provide valuable insights into understanding small business growth. The Gibb and Davies framework contended that the vast majority of research can be classified in to four categorical approaches; 1) Entrepreneurial personality, 2) Organizational development, 3) Business & management skills, and 4) Sectoral economic approaches. Figure 3 provides a visual depiction of the Gibb and Davies (1990) framework.

**Figure 3**  
**Theoretical Variations Of Growth Frameworks**

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### **5.1.6-Entrepreneurial Personality**

Entrepreneurial personality approaches; From this perspective both the behavioral sciences and business management have tried to link individual and psychological entrepreneurial capabilities with the growth of the firm. The foundation of this approach according to Gibb and Davies begins with the economics central point of attempting to link the individual's behavior to the firm.

Cantillon (1755) identified the trait as risk taking and bearing uncertainty. Schumpeter (1934) went on to identify entrepreneurial behavior as a creative destructive force generating new combinations of productive means. Penrose (1959) contented that the energies and ambitions of the entrepreneur create innovative and dominate firms necessary for expansion. Mintzberg, Quinn and Voyer (1995) took the concept even further arguing that strategic behavior was a function of the entrepreneur.

The behavioral traits and achievement models of McClelland (1965) and Atkinson (1966) reasoned that the need for achievement exhibited by the entrepreneur is the driving force behind the performance of an enterprise. Building on these theories a number of important studies focusing on the psychological characteristics and entrepreneurial performance have taken place including; Brockhaus (1982), Begley and Boyd (1987), and Ward (1993).

Research findings have been at best mixed in an attempt to link behavioral traits and actual achievement. Subsequently, researchers Shapero and Sokol (1982), Carsrud and Johnson (1989), and Krueger and Carsrud (1993) theorized that entrepreneurial intentions better predicted venture behavior. This research perspective utilized Ajzen's (1980; 1991) theory of planned behavior. The theory of planned behavior contends that beliefs, perceptions and attitudes can impact venture performance.

More recent work by Krauss, Frese, and Friedrich (1999) examined the relationship of the psychological constructs associated with entrepreneurial orientation and personal initiative and small business success including growth. Krauss, Frese, and Friedrich (1999, p. 8) concluded that entrepreneurial orientation related to innovation, achievement and learning were important to small business success and could thus be generalized across various firm sizes, cultures, and stages of national economic development.

One commonality associated with all of these approaches has been the implicit assumption that growth has to be based on the innovation, risk and decisions of the individual entrepreneur. Gibb and Davies go as far as to suggest that different types of entrepreneurial behavior are called for based on the environment in combination with available resources and capabilities.

Without doubt the decision to grow and expand an enterprise must be initiated by the entrepreneur. Consequently the personality of the entrepreneur impacts and shapes planned behavior as it relates to small business growth and development. In fact, the personality of entrepreneur is the mechanism which triggers the conception, creation and implementation of expansion plans which may lead to small business growth.

The entrepreneur's personal objectives can change dramatically over time especially as a business grows. Hence the personality approach to enterprise growth and expansion may represent only a single aspect impacting small business development.

#### **5.1.7-Organizational Development**

Organizational development approaches to enterprise growth tend to emphasize the relationships between personal objectives and business goals (Gibb and Davies, 1990). Organization theorists and management specialists have tended to cluster around three central ideological themes; 1) the influence of family (Dyer, 1986, pp. 1-42), 2) stages of

growth and subsequent role of the entrepreneur (Churchill and Lewis, 1983, pp. 30-34), and 3) personal networks (Backer, 2000, pp. 69-128).

The influence and role of the family on business growth has received substantial attention. Davies and Stern (1980) investigated the adaptation, survival and growth of the family firm and contended that a combination of integrative systems impact the family and firm. While researchers Donckels and Frohlich (1991) identified characteristics present in Western European family firms which suggested that they tend to discourage creativity and innovation. Corbetta (1995) identified distinctive patterns in Italian firms including the fact that they tend to be conservative and rely on internal resources for growth and development. Donckels and Frohlich (1991) go further to argue that the family acts as a stabilizer rather than a dynamic and progressive force.

Categorically defined stages of growth models often tied to the changing role of the entrepreneur was another theme identified by Gibb and Davies. The Greiner Model (Greiner, 1978) of the five stages of growth describes a series of evolutionary and revolutionary stages organizations experience as they grow. Churchill and Lewis (1983) developed a five stage growth model for small business. While Scott and Bruce (1987) set forth a theoretical model which argued that growth was accompanied with change related crisis which impact both the entrepreneur and enterprise.

Stages of growth theories may suggest which types of companies grow (like high technology firms) yet the approach does not offer insights into what aspects trigger growth intentions and expansion plans.

Personal networks and enterprise growth has been another approach which has received increasing attention. Aldrich and Zimmer (1986, pp. 3-23), Johannisson (1995), Monsted

(1995) and Donckels and Lambrecht (1995, p. 273) have all investigated the entrepreneur's network on firm performance. In fact the results of Donckels and Lambrecht's (1995) study suggested that networks can have a positive influence on the growth of a small business. They contended that an entrepreneur's contact with other national and international entrepreneurs was the most important network determinate for growth.

Most recently researchers Hatch and Zweig (2001, p. 44) undertook an in-depth study of four entrepreneurial enterprises and concluded that the real force behind the success of rapidly growing firms was rooted in their flexibility and ability to adapt quickly. Hatch and Zweig (2001, p. 47) contended that the organizational dynamics present in small entrepreneurial firms allowed them to make quicker decisions and implement changes more rapidly.

During the early stages of enterprise formation the personal objectives of the entrepreneur and business goals are often synonymous. The true entrepreneur is driven by the desire to first survive and second expand the business. In order to develop the business the entrepreneur must harness additional resources. Often lacking capital the entrepreneur may turn to family members and personal networks as affordable and trusted resources for organizational development and business expansion.

Organizational development requires that an enterprise expand its scope of operations. The entrepreneur plays a central yet changing role as the organization develops. From visionary conceptualizer to managerial delegator. Social systems associated with families and personal networks are also considered as factors which influence the entrepreneur and subsequently organizational development. Hence the expansion plans

and growth intentions of the entrepreneur are at the very foundation of organizational development.

To date most of the work in organizational development has been centered on the development of theoretical concepts and models. Little empirical work has been produced and thus only a fundamental understanding of organizational development based concepts and actual firm growth exists.

#### **5.1.8-Business And Management Skills**

Business and management skills approaches argue that the growth of the firm can be measured in terms of skill based performance in the marketplace. Three central themes permeate this research domain; 1) strategic management 2) financial performance, and 3) resources and capabilities.

One example of a contemporary strategic management approach can be found in the work of Fry, Stoner, and Weinzimmer (1999). Fry, Stoner, and Weinzimmer (1999, pp. 14-18) argued that new and emerging firms went through a series of three phases. They were quick to point out that emerging businesses must be pro-active and direct their thinking to the future (Fry, Stoner, and Weinzimmer, 1999, p. 5). First the premise phase occurred as the entrepreneur or manager looked forward toward the future and formulated a vision for the business (Fry, Stoner, and Weinzimmer, 1999, p. 14).

The second phase known as the analysis phase included assessing the environment and probing the strengths and weaknesses of the business. Next according to Fry, Stoner, and Weinzimmer (1999, p. 16) new and emerging enterprises embarked on a strategy development phase which included analysis and the development of a working plan to guide the firm's activities.

Amit, Brigham, and Markman (2000) described concepts associated with entrepreneurial management systems. They argued that in turbulent and uncertain environments leadership must continually develop new tools, concepts, systems and mindset (Amit, Brigham, and Markman 2000, p. 83). They went on to describe resource capital and institutional capital as key strategic components. Examples of resource capital included superb distribution system channels, management talent, and cost-effective structures (Amit, Brigham, and Markman 2000, pp. 88-89). Examples of institutional capital included a culture of continued improvement, innovation, and investment in resource performances (Amit, Brigham, and Markman 2000, pp. 88-89).

Financial performance can be found to have two central themes. First has been the economists traditional fixation with the profit motive as the central objective of the firm. As Gibb and Davies (1990) are quick to point out, the reliance on a single measure of a firms growth has been met with much criticism.

A second theme associated with growth and financial performance has been to analyze the actual financial outputs of the firm. Past performance measured through financial ratios compared over time are used to predict future capacity. This philosophy corresponds to the accounting and banking approaches aimed at financial control as a means to fuel firm growth. According to Gibb and Davies (1990) financial analysis can demonstrate the way in which firms grow in profit or asset terms, yet there is little evidence that financial ratios can be used as basic determinants of growth potential.

The resources and capabilities viewpoint has adopted a rational approach which tends to emphasize how resource constraints impact firm growth. Two trends have emerged from this approach. The first theme emanated out of the work of Penrose (1959). Penrose contended that enterprising management was necessary for a firm to grow. This included

such activities as administrative tasks, and the delegation of authority and responsibilities. Penrose emphasized the need for the development of specialized services as antecedents for firm growth.

The decision to search for opportunities is an enterprising decision requiring entrepreneurial intuition and imagination (Penrose, 1959). Entrepreneurial versatility, fundraising ingenuity, ambition and judgment represent a set of entrepreneurial services which shape and determine a firm's growth potential.

Penrose (1959) argued that small and medium sized enterprises have access to fewer resources than larger firms. Penrose drew a distinction between entrepreneurial versus managerial competence. She set forth the notion that a good business person does not necessarily have to be very ambitious. If an enterprise is dominated by a non-ambitious leader who is not motivated to seek profit the business will not likely grow very large. Penrose (1959) pointed out that many of these type of businesses are family firms content with comfortable profit with minimal effort.

The second approach has been to look at the resource constraints present in the marketplace. Aldrich (1979) and his work concerning organizations and the environment represents an early example. Dubini (1988) went a step further when she related the motivational traits of individuals to the environment on business start-ups in Italy. She analyzed the perceptions of Italian entrepreneurs toward their environment across different regions of the country. Three predictable environmental clusters; munificent; supportive; and sparse were postulated by Dubini.

The resources and capabilities perspective attempts to measure growth through new and expanded product/market combinations. Gibb and Davies (1990) argued that this



perspective was useful in providing frameworks for understanding the way in which firms grow. However, the resources and capabilities approach does not make evident how different product/market combinations influence positively or negatively on an enterprises' growth intentions and expansion plans.

The rational decision making approach advocating operational planning and control often can not be applied to small entrepreneurial firms. Strategic planning of the small business is seen as irregular, incremental, reactive, and insufficient (Gibb and Davies, 1990). However as Brock and Evans (1989) pointed out most research on functional management emphasizes the need for small firms to adopt a formalized approach toward strategic planning and control.

Furthermore Carland, Carland, and Abbey (1989) showed that although the decision making approach has received extensive attention only limited evidence supports the argument that formalized operational planning impacts small business growth.

#### ***5.1.9-Sectoral Economic Approaches***

Sectoral based approaches tend to be more macro in scope and have their base in industrial economics (Gibb and Davies, 1990). For example Marshall (1890) focused on the entrepreneurial role or function in order to distinguish it from other economic behavior. Marshall contended that organization should be considered a factor of production. While Knight (1921) described the act of entrepreneurship as primarily risk taking.

Daszkiewicz (1999) in a study of new Polish small businesses identified entry barriers and development barriers as principle factors that can limit business growth. Polish entrepreneurs mentioned excessive legal and administrative controls, difficulties in

recruitment of adequate employees, and lack of financial resources as barriers to growth Daszkiewicz (1999, p. 2). She reported that between 1992-1998 the majority of entrepreneurs surveyed felt that barriers to growth had increased in Poland (p. 8). More specifically the lack of financial resources and disadvantageous fiscal policy were considered external sectoral barriers to growth Daszkiewicz (1999, p. 2).

Consequently much of the research has been driven by government policy makers. Many economists have been involved in sectoral studies in relationship to firm growth. The majority of these foundational studies have been focused on regional development primarily job creation. For instance Storey and Johnson (1987) investigated the development of the labor market, specifically job creation across several West European countries. While Nijkamp, Alsters, and van der Mark (1988) looked at the regional development potential of SMEs throughout Europe.

Sectorial studies often focus on specific industries. Dieperink, Klienknicht, and Nijkamp (1988) to cite an instance studied the Dutch manufacturing sector. Cooper (1986) recognized that high tech firms offered possibilities for substantial growth. Cooper reported that many high tech firms are started by teams as opposed to individuals. He called for the further examination of environmental factors including the economics of location.

Some sectoral studies have demonstrated relationships between factors in the industrial environment and growth (Chaston and Mangles, 1997). For example Storey, Keasey, Watson, and Wynarczyk, (1987) found a relationship between technical qualifications and growth performance. Nonetheless Gibb and Davies (1990) asserted that the sample was limited and no explanation presented as to why this might be an important component of small business growth.

In a study of British SMEs Cressy and Storey (1995) concluded that rapidly growing firms are generally smaller at start up and tend to be led by entrepreneurs with some educational qualifications. Research relating education levels and technical skills to small business growth to date provide at best mixed results. Findings tend to be inconclusive and focused on manufacturing and technology based enterprises.

Numerous studies have looked at constraints and barriers impacting firm growth. Bohdanowicz (1993) surveyed Polish entrepreneurs to discover that a variety of barriers challenged SME growth. Some examples included insufficient demand, lack of financial resources, excessive legal and administrative controls and the lack of managerial and organizational skills.

Gnyawali and Fogal (1994) discovered that governments can influence the environment and create an “enterprise culture” which encourages firms to take risks in pursuit of profits and growth. Some research has also investigated the relationships between large and small enterprises.

As Gibb and Davies (1990) were quick to point out the industrial economists traditional description of the functions of small enterprises in the marketplace have not proved very useful in predicting growth. Even today there are no economic theories which furnish certain predictive descriptions as to the effectual organization of markets toward the stimulation of entrepreneurial small business growth. To date studies concerned with sectoral approaches have not provided the basis for a generalized predictive growth model for small and medium sized enterprises.

#### **5.1.10-Theoretical Dimensions Of Small Business Growth**

To date research has been primarily theoretical. Empirical studies have produced mixed and often contradictory findings. No comprehensive theoretical growth model for small business exists. Gibb and Davies (1990) reasoned that four broad categorical frameworks emanated the development of a fundamental understanding of the elements impacting small business growth including; Entrepreneurial personality, Organizational development, Business and management skills and Sectoral economic approaches. Table 5.1 provides a summary of the categorical frameworks including a series of evaluative criteria.

**Table 5.1**  
**Summary Of Categorical Growth Frameworks**

<b>Evaluative Criteria</b>	<b>Entrepreneur Personality</b>	<b>Organizational Development</b>	<b>Business Management Skills</b>	<b>Sectoral Economic</b>
<i>Assumptions</i>	<i>Innovation, Risk Taking, Decision Making</i>	<i>Objectives &amp; Goals, Change, Stages of Development</i>	<i>Rationality, Systematic, Administrative, Competitive Positioning</i>	<i>Environmental Forces, Barriers &amp; Constraints, Regionality</i>
<i>Activities</i>	<i>Conception, Creation, Implementation</i>	<i>Integration of Systems, Crisis &amp; Revolution, New Combinations</i>	<i>Business Administration, Systematic Analysis, Strategic Management</i>	<i>Reduce Barriers &amp; Constraints, Provide Resources, Link SMEs To Large Enterprises</i>
<i>Factors of Influence</i>	<i>Risk &amp; Uncertainty, Need For Achievement, Independence</i>	<i>Scope of Activities, Role of Entrepreneur, Social Systems</i>	<i>Entrepreneurial Services, Financial Performance, Competitive-Market Position</i>	<i>Industrial Economics, Government-Policy Makers, Education &amp; Technical Skills</i>
<i>Research Examples</i>	<i>Cantillion (1755) McClelland (1965), Brockhaus (1982), Krueger &amp; Carsrud (1993) Krauss, Frese, &amp; Friedrich (1999)</i>	<i>Greiner (1978), David &amp; Stern (1980), Churchill &amp; Lewis (1983), Donckels &amp; Lambrech (1995) Hatch &amp; Zweig (2001)</i>	<i>Penrose (1959), Ansoff (1965), Brock &amp; Evans (1989), Fry, Stoner &amp; Weinzimmer (1999) Amit, Brigham &amp; Markman (2000)</i>	<i>Storey &amp; Johnson ((1987) Cooper (1986), Nijkamp, Alsters, &amp; van der Mark (1988), Cressy &amp; Storey (1995) Daszkiewicz (1999)</i>
<i>Research Implications</i>	<i>Theoretically Inconclusive</i>	<i>Theoretically Inconclusive</i>	<i>Theoretically Inconclusive</i>	<i>Theoretically Inconclusive</i>

**5.2-Measuring Growth: Perspectives, Considerations And Results**

Small businesses has received increased attention as an agent which fosters economic stability and growth. Educators, students, politicians and the media have discovered the importance of not only small business start ups, but growth and survival as well. Despite increased research efforts knowledge concerning high growth businesses remains limited (Davidsson and Delmar, 1998). Rarely have researchers built on growth theories and models advanced by others. Similar phenomena are often studied in isolated research projects using different concepts, models and methods (Wiklund, 1996). To advance the understanding of small business growth three componal aspects need to be considered; 1) what specific forms does growth take, 2) how growth is defined, and 3) what is the status of growth based research and empirical studies?

#### **5.2.1-Forms Of Business Growth**

Growth can take on various forms; 1) organic, 2) acquired, 3) relative, and 4) absolute. Organic growth occurs as an enterprise grows through expanding its original business entity. For example employees receive some specialized technological training related to operations. These new skills enable the employees to provide additional value to an existing product or service which in turn allows the business to expand its market.

Acquired growth can occur when an enterprise buys, merges or forms an alliance with another business. By coming into possession or control of new resources enterprises may grow in new directions very rapidly. Consider the entrepreneur who operates a food store which does not have a bakery. After a new larger full service food store opens up down the street the entrepreneur decides to add an in store bakery. By adding a bakery the smaller established business acquires the resources to expand into a new segment of business.

Growth may also be measured in absolute terms. Increases or decreases in arbitrary standards of measurement can serve as indicators of growth. Increases in customer base, new product offering, or the number of employees serve as common examples. Relative growth can include the value of a measured quantity over time often in the form of a ratio or comparison to an average. Sales performance, changes in assets and industry benchmarking are examples of common growth measures.

### **5.2.2-How Is Business Growth Defined?**

To date there is no agreed upon operational definition of precisely how to measure growth, especially small business growth. Researchers have used a variety of different concepts in an attempt to measure business growth. Objective measures related to sales performance, the number of employees, changes in assets and financial position are common. These measures are subject to the unique conditions found in the enterprises environment.

Different sectors of the economy are subject to unique patterns of change. For example changes in asset structure may be an appropriate growth measure for the manufacturing sector yet inappropriate for the service sector. By the same token subjective measures which include perceived market share or customer and performance satisfaction rely on the entrepreneur's perception or personal judgment of past performance. Very little research has looked at the intentions or expansion plans of entrepreneurs or small businesses.

### **5.2.3-New Approaches to Defining Growth**

There are several new views related to business growth worth noting. For example Von Krogh and Cusumano (2001, p. 53) stressed an internal based approach of measuring growth which addressed product and market combinations, size aspirations in a particular

time frame, and most important, the know-how and organizational structure which will support expansion or diversification.

The Krogh and Cusumano (2001, p. 60).growth perspective centered on learning and entrepreneurial know-how. Von Krogh and Cusumano (2001, pp. 54-60) proposed to measure growth through the success on a combination of three particular strategic dimensions: 1) Scaling: doing more of what your good at, 2) Duplication: repeat the business model in new regions, and 3) Granulation: growing selected business cells.

Eisenhardt, Brown, and Neck (2001, p. 54) contended that new ventures want to remain entrepreneurial: however with growth comes added structure as product offerings increase, new markets are entered, and additional staff resources are required. They theorized that growth occurred by 'competing on the edge' as measured by employee growth, added structure components, product additions, and professional management development.

Alvarez and Barney (2000, p. 63) contended that an important aspect that should not be overlooked with respect to growth and competitive advantage was innovation and the driver of innovation, entrepreneurship. Within a resource based view framework Alvarez and Barney (2000, p. 71) theorized that entrepreneurial strategies and capabilities such as agile and flexible decision making, creativity, ingenuity, and foresight were essentially inimitable resource bundles that were important in defining and measuring growth.

Pistrui, Welsch, and Roberts (1997, pp. 101-110) developed, tested and confirmed the validity of an alternative growth model based on entrepreneurs intentions to implement specific attributes associate with market expansion, technological upgrades, and operation/production expansion. They found that those entrepreneurs surveyed seemed



to have definite, well-defined expansion plans for the future (Pistrui, Welsch, and Roberts, 1997, p. 110).

Building on the work of Pistrui, Welsch, and Roberts (1997) Gundry and Welsch (2001) used the same 'implementable attributes of planned growth' model to study high growth entrepreneurs. Results of their empirical investigation showed that a group labeled 'ambitious entrepreneurs' had distinctive strategic intentions that emphasized market growth, technological change, and a greater willingness to sacrifice on behalf of the business (Gundry and Welsch, 2001, p. 454).

Davidsson and Delmar (1998) pointed out two important issues related to research on small business growth. First they postulated that few studies take into account the many different forms growth can take. Secondly Davidsson and Delmar (1998) cited an example of a firm which may increase sales while reducing the number of employees. Which criteria should be used to judge growth sales or employees? To further understand small business growth attention needs to turn to the state of growth based empirical research.

#### **5.2.4-The State Of Growth Based Empirical Research**

Researcher Delmar (1996) produced a summary of empirically based growth research between 1989 and 1996. To qualify the research had to include growth as the dependent variable plus focus on small or new enterprises. Fifty five articles published in scholarly journals were identified and examined. According to Delmar (1996), with additional support from Delmar and Davidsson (1998), and Davidsson and Delmar (1998) the following characteristics represent the current state of growth research.

- 1) Most research focused on manufacturing and high technology enterprises. Approximately half of the studies focused on manufacturing industries. While the service industry only accounted for 3.6 percent of the studies.
- 2) Three principle research streams were found to be present including; strategy & networks (45.5%), psychology based behavior of the entrepreneur (29%), and economic development (25.5%).
- 3) Although there has been an array of measures, 96 percent focused on past behavior. Sixty percent used employment or sales turn over as a measure. Thirty six percent incorporated leading indicators, marketshare, or a performance index. Objective measures were favored over subjective.
- 4) Too much emphasis has been put on achieving high explained variance and significant variables. There has been a high variation in explained behavior.
- 5) Relative growth measures favor SMEs, and absolute growth measures favor large enterprises. Growth measured as relative or absolute changes differed significantly, and consequently yielded different models.
- 6) Research will only evolve by systematizing the choices related to the dependent variable (growth). There is a need to make studies more comparable, as research can only evolve if it becomes possible to accumulate findings that are easily comparable.

#### **5.2.5-Major Limitations Of Current Research**

There are several major limitations of the research related to small business growth. First, most studies, using growth as a dependent variable, define it as an unidimensional

construct measured by increases in sales revenue, or number of personnel employed, or return on assets. Such a simple treatment seriously hampers the model predictability, which contributes to conflicting results among existing studies.

Second, most studies measured growth as the realized growth of an enterprise. By focusing on the past as opposed to the future most research fails to capture entrepreneurial growth intentions and expansion plans. By probing future plans and intentions research may be able to capture how entrepreneurs formulate small business growth. Entrepreneurial growth intentions and expansion plans would not necessarily be reflected in current sales or profit figures.

#### **5.2.6-Shortcomings Of Existing Theoretical Frameworks**

The majority of existing theoretical frameworks studied growth measured by final outcomes. Sales, profits, growth in employees and financial ratios have truly failed to uncover the basic nature of entrepreneurial led small business growth. Consequently to advance the understanding of enterprise growth it becomes necessary to investigate how final outcomes are consummated.

These traditional approaches towards measuring growth are not applicable to the circumstances and conditions found among new entrepreneurs in transforming economies, especially those found in the former Soviet Bloc nations. Three examples serve to illustrate the fundamental problems with this approach;

- 1) Many entrepreneurs in the transforming economies of East Central Europe would be hard pressed to disclose the actual number of employees working for a firm. The number is likely to change and fluctuate both short and long term. At best this measure would

produce ambiguous results. Potentially researchers would have to include both official and unofficial employees.

2) Using profits fails to factor in such conditions as the impact of bureaucracy, taxes and general societal distrust all of which are curtail factors impacting entrepreneurial based small firm growth. Given the general high level of mistrust it is safe to say most new entrepreneurs would be hesitant to calculate or identify much less share actual profit information thus making any evaluation less than scientific.

3) With no track record of sales including no historically creditable measures in combination with little know-how related to sales forecasting it is virtually impossible to use sales as an accurate forecast or measure of small business growth. For example a small firm may post an increase in sales, yet when put in perspective with competition or the marketplace in general the firm is actually inefficient and under performing the market and on its way to extinction.

One alternative way to investigate small business growth in country's like Romania is to consider expansion plans and growth intentions. In Romania a new entrepreneurial class is emerging following over 40 years of a centralized state planned economic model. Intention based behavior represents a much more realistic framework by which to study entrepreneurial led small business growth and clearly a logical starting point.

#### **5.2.7-Intentions Based Behavior And Transforming Economies**

By studying a variety of transforming economies in the former Soviet Bloc including Hungary, Poland, the Czech Republic, Russia, Estonia, Lithuania and Romania observations can be made concerning entrepreneurship and private enterprise development. For example Lane (1995) suggested that an important component of the

long run transformation of Central and Eastern European countries may be the growth of existing small firms and the continuing start up of new forms. Lane (1995) goes further to point out than in Hungary for example new private ventures were found to be introducing new products and new methods of production and distribution.

Poland has a long tradition of private sector based entrepreneurial led small enterprises. Prior to World War II about 70 percent of the Gross National Product (GNP) came from the private sector. In the 1970s while most Soviet Bloc countries restricted entrepreneurship 350,000 private firms employed 600,000 people in Poland (Kolvereid and Obloj, 1995).

As a result entrepreneurship and small business development has become a socially accepted method for personal growth. Researchers Kolvereid and Obloj (1995) discovered the existence of a financially orientated entrepreneurship culture in Poland. In Poland it appeared that entrepreneurs intended to develop and expand their small businesses in pursuit of greater profits.

Romania represents an unique case. As recent as 1990 over 90 percent of the economy was still under state control. Only following the overthrow of the Ceausescu regime did entrepreneurship become legal. In essence the establishment and development of small business has been truly stymied in Romania for over forty years. Consequently entrepreneurship and small business growth and development is a new concept, or at best re-emerging after a long absence. Therefore the intentions and expansion plans of these new entrepreneurs represents an accurate and logical way to investigate planned growth.

### **5.3-The Development Of A Multidimensional Framework Of Planned Growth: A Unified Definition**

Willingness, aspirations, intentions, motives, and expansion plans are all common terms used in existing literature to describe entrepreneurial small business growth. Four categorical antecedents have been identified and associated with planned growth; 1) Growth Aspirations 2) Growth Willingness, 3) Growth Intentions, and 4) Enterprise

Expansion Plans. A multidimensional perspective of planned growth is offered in Figure 4

**Figure 4**  
**A Multidimensional Perspective Of Planned Growth**

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In order to add some clarity a review of some of the most current research will be used to construct and support a multidimensional framework. The following studies have been identified as a noteworthy starting point; Davidsson, 1989; Kolveried, 1992; Krueger and Carsrud, 1993; and Hoy, McDougall, and Dsouza, 1992.

**5.3.1-Growth Willingness-Continued Entrepreneurship**

Entrepreneurs must first be willing to grow their enterprises. According to Davidsson (1989; 1991) firm growth is an indication of continued entrepreneurship. One study in particular ( Davidsson, 1989) focused on the relationship between the expected outcomes

and growth willingness. The Davidsson study relied heavily on psychological theories of motivation. Specifically the study strove to identify factors which either enhanced or reduced the willingness to grow.

Drawing from a random sample of over 400 Swedish entrepreneurs, most firms were found to be quite small with between 2 and 20 employees. Enterprises of this size are routinely labeled micro-businesses. From the sample four distinct categories of enterprises emerged: Manufacturing, High-Tech, Repair Services, and Retailing. Three size categories were also created, 2-4, 5-9, and 10-19 employees. Davidsson (1989) also identified a potential external environmental peculiarity in the fact that Swedish legislation restricted the owner-manager's right to lay off personnel. This may suggest that unique environmental factors influence entrepreneurial growth intentions.

Davidsson pointed out that the focus of his investigation was to try to answer the following questions; 1) Can differences in growth willingness be explained by differences in expected outcomes; 2) What expected outcomes are important growth motivators, or deterrents; 3) Do different levels of achievement motivation affect growth willingness; 4) How does growth willingness, and its determinants differ among different classes of trade? The dependent variable, growth willingness was developed as the logarithms of the percentage difference between present size and ideal size (five years latter) based on the number of employees, and turnover (Davidsson, 1989).

### **5.3.2-Shortcomings Of Swedish Investigation Of Growth Willingness**

Three inherent weaknesses become apparent in Davidsson's work. First was how the dependent variable, growth willingness was defined as the percentage difference between present and ideal size (five years latter) based on the number of employees, and turnover.

Simply looking at the number of employees can be most misleading if an enterprise intended to use technological expansion as a means of growth, whereby possibly reducing head count while increasing productive output.

By the same token, turnover can also be misleading. Turnover can be subject to unique environmental conditions found within certain political and economic systems. Sweden is a small rather homogeneous nation steeped in social protection and orderly markets. Consequently findings may be misleading.

Secondly, Davidsson (1991) himself pointed out “there will be a lot of situational influences, unique to each firm, blurring relations.” The author hints at cultural peculiarities yet fails to properly address any details. It seems that in many fields scholars mention culture in passing yet do very little to build on the understanding of its roles and impact. Third, the regression model does provide valuable insight, yet as the author himself points out, the major share of growth willingness remains unexplained. The study does have merit and should be considered foundational in nature.

### **5.3.3-Growth Aspirations-The Decision To Grow The Business**

If the decision to start a business is a choice made by the founder, it may also be assumed that the decision to grow the business is a choice made by the entrepreneur (Kolvereid, 1992). In his study of Norwegian entrepreneurs Kolvereid adopted a multilevel approach looking at the relationships between the entrepreneur’s motives to start their business, education, experience, industry, localization, characteristics of the organization and its environment, the firms history of growth, and the entrepreneur’s growth aspirations.

The dependent variable chosen for the analysis was a combination of revenue growth and employment aspirations. In turn, four groups of entrepreneurs were identified 1)



entrepreneurs who do not want to grow and do not intend to hire; 2) entrepreneurs who want to grow but do not plan to hire; 3) entrepreneurs who want to grow and intend to hire; 4) entrepreneurs who do not want to grow, but intend to hire. Following the methodology of Scheinberg and MacMillan (1988); Dubini (1989); and Blais, Toulouse, and Clement (1990) variables in the analysis were factor analyzed using the Varimax rotation method.

Kolvereid (1992, p. 213) found that 60.9 percent of entrepreneurs sampled answered that they wanted their firms to grow, while 35.6 percent replied that they intended to hire new employees within the next two years. To the surprise of Kolvereid almost 40 percent of the entrepreneurs did not aspire to grow their firms. This calls in to question as to whether revenue growth and hiring employees are perceived as measures of growth by Norwegian entrepreneurs. Or if unique cultural forces present in the Nordic socio-economic environment influence growth aspirations?

It was also puzzling that the author did not go into greater detail regarding the large (40%) of Norwegian entrepreneurs who did not aspire to grow. Kolvereid (1992) did suggest that growth aspirations may be related to a series of cultural and environmental factors. For example forces such as legislation may support or hinder small business development in some situations.

#### **5.3.4-Shortcomings Of The Norwegian Investigation Of Growth Aspirations**

The Kolvereid (1992) study does provide some valuable insights. However the study has a number of short comings. First, using revenue growth and changes in the number of employees as the dependent variable may provide limited, or at best distorted insights. This approach suffers from the same short comings as the Davidsson (1989) study by

failing to incorporate environmental conditions within the prevailing political and economic forces.

Second, the failure to provide any insights related to both the internal and external environment severely limits the depth of the study. Cultural orientations are all but ignored. Given that most of the firms studied were micro-enterprises it would have been insightful to discover the role of the family in the entrepreneurial growth process.

Third, an assortment of business sectors were included in the sample including manufacturing, services, construction, and agriculture. Yet no reference was made to the various industry segments and their status within the economy. It seems probable that growth opportunities were perceived differently due to an assortment of external economic conditions. Lastly, the model was presented as a multidimensional approach. Nevertheless the scope was way too narrow. It failed to investigate the relationships between the entrepreneur, social, economic, and market conditions. Consequently, it becomes clear that a multidimensional approach should be incorporated into the study of entrepreneurship, and small business growth.

#### **5.3.5-Planned Behavior-Theory Driven Models Of Intentions**

Researchers Krueger and Carsrud (1993) developed a theory driven model of intentions building on existing models of psychology and entrepreneurship. According to Krueger and Carsrud (1993) theory-driven models are necessary do to the complex perception-based process underlying intentional planned behaviors such as new venture initiation.

Their study was grounded in the socio-psychological approach found in Icek Ajzen's intentions based 'theory of planned behavior.' This approach was based on two contentions; 1) Intentions are the single best predictor of behavior conceptually and

empirically; 2) Intentions based models of entrepreneurial behavior are comparable with existing research results, and open new approaches to studying venture intuition.

Some of Ajzen's (1991) most recent empirical investigations have been found to explain approximately 30 percent of future behavior (Krueger and Carsrud, 1993).

### **5.3.6-Organizational Emergence And Intentions**

Research has also shown that entrepreneurial intentions are critical to understanding the overall process of organizational emergence (Bird, 1989; and Boeker, 1989). Drawing from the Ajzen-Fishbein (1980) framework which empirically confirmed that intentions successfully predict behavior and attitudes successfully predict intentions Krueger and Carsrud strived to integrate studies focused on entrepreneurial intentions. Shapero and Sokol's (1982) model of the entrepreneurial event serves as the main linkage.

The Shapero and Sokol (1982) model theorized that the perceptions of the entrepreneur impacted actual intentions. Exogenous influences such as unemployment, divorce and other external events operated indirectly through attitudes of perceived desirability and feasibility (Krueger and Carsrud, 1993). The Shapero and Sokol model considered the attractiveness, social perceptions, along with the entrepreneur's perceived power to produce the desired result (Self-Efficacy).

Krueger and Carsrud (1993) supported the relationship between the Ajzen-Fishbein (1980) model, and the Shapero and Sokol (1982) frameworks. They pointed out that some testing of the Shapero and Sokol model showed that perceived feasibility, perceived desirability and the propensity to act were all significant antecedents of entrepreneurial intentions. Krueger (1993) suggested that exogenous factors such as prior exposure to entrepreneurial activity influenced the various types of perception.

### **5.3.7-Shortcomings Of Theory Based Models**

Theory based intention models, especially the hi-bred proposed by Kruger and Carsrud offer some valuable guidance to understanding the process of entrepreneurship. However the approach has some shortcomings. First, an understanding of how intentions are formed, particularly across different socio-economic environments is missing.

The exogenous mechanisms tend to be an area recognized, yet the understanding of their impact on perception, desirability, and feasibility are grossly underdeveloped. For example in the case of economies in transition, like those found in the former Soviet Bloc, self-efficacy, government, family, infrastructure and other exogenous variables must be integrated with person-based variables in order to develop a strong multidimensional predictive model.

Theory driven models offer some valuable insights yet should be utilized with a bit of caution. As Kruger and Carsrud (1993) pointed out some of Ajzen's (1991) empirical work has explained approximately 30 percent of future behavior. Although this can be considered insightful it also indicated that must more work is needed to advance the fields understanding of planned behavior.

### **5.3.8-Velocity of Environmental Change and Market Factors**

Hoy, McDougall, and Dsouza (1992) identified the role of environmental factors in the growth process. They pointed out that the few studies that directly addressed growth issues highlighted two factors; market growth and environmental velocity (Hoy, McDougall, and Dsouza, 1992). Hanan (1987) argued that firm growth was related to market growth. Thus a rapidly growing firm typically operates in a rapidly growing market place. While researchers Cooper, Willard, and Woo (1986) advocated that new opportunities associated with market change were necessary to maintain growth.

High velocity environments experience very fast rates of change. Examples can include urban environments and economies in transition. Building on the work of Leahy and McKee (1976) and Bourgeois and Eisenhardt (1988) researcher Dsouza (1990) identified six environmental dimensions in which firms may achieve high growth.

Dsouza (1990) and Hoy, McDougall, and Dsouza (1992) went further to acknowledge that there was also some similarities between the six dimensions and Porter's (1980; 1985) five forces. Dsouza goes further to add that firms are also subject to the impact of the general environment in which they operate. The six environmental dimensions identified included.

- 1) Technological Drive as it related to technological change, research and development and technological sophistication.
- 2) Power of buyers and suppliers as it related to after sale service, and the number of raw material suppliers.
- 3) Environmental heterogeneity including the number of new product introductions and the number of competitors.
- 4) Environmental dynamics. The ability to predict industry sales and consumer behavior.
- 5) Threat from substitute products and services such as like products, substitutes including price differential.
- 6) Global activity including shifting and expanding markets, which expand import and export activities.

### **5.3.9-Shortcomings Of Environment Based Approaches**

Although Hoy, McDougall, and Dsouza (1992) offered some valuable insights and direction related to the study of entrepreneurship and small business growth, the study suffered as a result of its unidirectional thrust. Based on conditions associated with the United States economic system they recognized high velocity environmental phenomenon yet failed to concisely identify the general linkages between entrepreneur, enterprise and environment.

The study failed to provide insights into the possible linkages between strategy and environment in high velocity environments. Furthermore, little detail was given to the impact of the market infrastructure as it relates to resource availability. Specifically, how does the availability of capital, policy implications and the physical infrastructure impact environmental velocity?

Hoy, McDougall, and Dsouza (1992) called for a multidisciplinary approach. However they failed to identify and consider the political, economic, and cultural dimensions which shape the environment and entrepreneurial value system, and subsequently strategic behavior.

One of the major problems with the study of small business growth is separating the various growth perspectives from the actual predictors of growth. This may be a contributing factor as to why much of the existing research on growth has produced conflicting results. Growth predictors can shape, influence and determine growth intentions and expansion plans and thus demand special attention.

### **5.4-The Need To Further Probe**

#### **Entrepreneurial Intentions And Expansion Plans**

Small business growth is a central element of entrepreneurship. Although there is a growing interest in the topic of small business growth there is a limited amount of knowledge. Entrepreneurship and small business growth are considered an economic necessity in existing market based economies and those emerging from communism.

Gibb and Davies (1990) developed a series of four broad growth frameworks. They contended that research has tended to fall in four categories including; 1) Entrepreneurial personality, 2) Organizational development, 3) Business & management skills, and 4) Sectoral economic approaches. The Gibb and Davies (1990) framework was helpful yet clearly demonstrated the contradictory and inconclusive nature of growth research to date.

Furthermore the complex nature of the topic has resulted in a lack of uniformity. In fact there is no agreed upon definition of what constitutes small business growth. In particular the development of growth as a dependent variable, as well as the development of the independent predictors of growth have varied and raised many more questions than they have answered.

Theoretical models have traditionally focused on past performance as a measure of growth. Intern, empirical research has tended to be unidimensional mainly looking at sales, revenue, and the number of people employed. Although some better understanding of small business growth has occurred most is inconclusive and often vague.

In order to gain a better understanding of small business growth research needs to look at the intentions and expansions plans entrepreneurs have. By using planned growth as a dependent variable a multidimensional framework can be put forth which will lead to a better understanding of small business growth. Although some research has looked at

willingness, intentions, aspirations, and expansion plans it has suffered from the same weakness as other growth studies by developing unidimensional measures related to past performance.

Within today's turbulent and changing environments traditional measures such as changes in sales, revenue, and head count can be misleading, incomparable and mundane. Intentions based research related to small business growth needs to develop and empirically test a new and different approach towards planned business growth. Entrepreneurial based small business growth needs to be forward looking. Growth research should draw from some grounded theoretical model and identify and test implementable attributes of planned growth.

Given the magnitude of socio-economic change taking place, especially in places like the former Soviet Bloc sensitivity needs to be given to the unique cultural and environmental forces impacting entrepreneurs growth intentions and expansion plans. By probing multiple dimensions including the individual (entrepreneur), socio-cultural aspects (family & society), and environmental conditions (infrastructure) a more thorough and comprehensive understanding of small business growth can be developed.

In Romania the radical shift from a State dominated monopolies (over 90% of the economy) towards a more private sector market based socio-economic system has created the opportunity for Romanian entrepreneurs to develop and introduce really new products and services as well as business organizations. In fact what is taking place in Romania and the former Soviet Bloc is the overhauling and reorganization of industries including the creation of entirely new forms of business organizations led by private entrepreneurs. More than likely Schumpeter would have viewed Romania as an interesting environment



to study entrepreneurship because many new firms which are not part of the old state infrastructure are being created.

#### **5.4.1-Implementable Attributes of Planned Growth**

Inspired by the five characteristics Schumpeter (1934, p. 66) associated with entrepreneurial behavior a series of Implementable Attributes of Planned Growth (IAPG) can be established. Table 5.2 provides an overview of 18 specific entrepreneurial behaviors reflecting strategic characteristics associated with the IAPG. The IAPGs serve to identify and operationalize the specific types of new combinations entrepreneurs intend to pursue.

**Table 5.2**  
**Strategic Behavioral Characteristics**

<u>Implementable Attributes of Planned Growth</u>
1) Adding a new product or service
2) Expand scope of operating activities
3) Adding operating space
4) Acquiring new equipment
5) Computerize current operations
6) Upgrade computer system
7) Selling to a new market
8) Researching new markets
9) Expanding advertising and promotion
10) Expanding distribution channels
11) Seeking professional advice
12) Offsite training of employees
13) Redesign of operating methods
14) Adding specialized employees
15) Replace present equipment
16) Seeking additional financing
17) Expand current facilities
18) Redesign layout

#### **5.4.2-Implementable Attributes of Planned Growth and the Romanian Context**

The Romanian transition process is creating the need for technological upgrading, developing specialized human resources, and acquiring new business skills. Perhaps more importantly transition is creating vast new markets, fostering the introduction of new goods and services. Methods of production are also radically changing. In general Romanian entrepreneurs are redesigning how enterprise is conducted.

Romania provides an excellent field site in which to investigate entrepreneurial growth intentions and expansion plans. The transition from socialist toward a market based economic system offers a rich environment to investigate entrepreneurship and small business growth.

***Introduction of new goods and services-*** The demand for new goods and services in Romania is monumental. Most people have done without for years. This is especially true for consumer goods including electronics, basic professional services, trade and transportation. With the state system in paralysis it follows logically that the entrepreneur will play a leading role in providing these goods and services which will foster entrepreneurial growth intentions and expansion plans.

***Introduction of new methods of operations and production-*** Given the outmoded and inefficient resources of production including the technological infrastructure and service industries, entrepreneurs are in great need of new and improved operating facilities and equipment. For new entrepreneurs to prosper and grow their enterprises they will need to develop new methods of production. This requires that entrepreneurs carry out new combinations including the introduction of new ways and methods of enterprise.

***Opening of new markets-*** Romania is the ninth largest country in Europe with a population of almost 23 million. Like other Balkan nations the country has strong regional and ethnic variations. Entrepreneurs who aspire to grow their firms will eagerly pursue new markets. This would most likely include local, regional, national and global market orientations. The development of new markets will provide growth minded entrepreneurs with an expanding network of resources necessary to support enterprise growth.

***Development of new supply and distribution channels-*** Growth minded entrepreneurs will both seek new sources of supply, as well as, create them. For example the distribution system left by the communists is in need of complete overhaul. Entrepreneurs will be the driving force in this process because the state system simply does not work. In addition entrepreneurs are in a great need of many new sources of supplies themselves. As a result growth minded entrepreneurs will both produce and consume new sources of many goods and services.

***Industrialial organization-***The socio-economic transition taking place in countries moving from a centralized socialistic approach towards more of a market based system is massive. Especially in a country like Romania where the state monopolies controlled over 90 percent of the economy until 1990. With the previous system in complete ruin a process of total industrial reorganization is taking place with entrepreneurship at the forefront.

#### **5.4.3-An Alternative Approach Towards The Development Of A Better Understanding Of Small Business Growth**

It goes without question that entrepreneurs are carrying out new combinations of enterprise stimulated by the discontinuity and disequilibrium of Romania's volatile

transition environment. The objective will be to try and capture the strategic behavioral characteristics of the entrepreneur in relation to growth intentions and expansion plans for their enterprises.

At this point attention needs to be devoted to the identification, investigation, and assessment of the determinants of entrepreneurial led small business growth. Chapter 6 provides an in-depth study of the predictors commonly associated with enterprise growth.

## **6-DETERMINANTS OF SMALL BUSINESS GROWTH: EXPANSION PLANS AND GROWTH INTENTIONS**

### **6.1-Lack Of An Accurate Predictive Model**

*“There is no comprehensive theory of small and medium enterprise development which clearly brings together all the relevant parameters into a model and indicates how each part interacts with each other.” (Allan Gibb and Les Davies, 1990, p. 26)*

The literature review conducted thus far has suggested several major limitations of current research in the area of entrepreneurial expansion and growth. First, most studies, using entrepreneurial growth as a dependent variable, defined it in a unidimensional construct measured by increases in sales revenue, number of personal employed, or return on equity. Such simple treatment seriously hampers the model predictability, which contributes to conflicting results among existing studies.

Second, most studies measured growth as “realized” growth, which fails to capture entrepreneurial growth related to an enterprise’s resource base, market expansion, or technological improvement. Entrepreneurial growth related to these aspects would not necessarily be reflected in sales or profit figures of an enterprise. Consequently it is necessary to establish and measure accurate growth intentions and identify predictors which enhance or detract expansion initiatives.

Entrepreneurial visions must be transformed into intentions, which are in turn the precursors of behavior. Therefore it is necessary to establish and measure accurate growth intentions as well as identify predictors which enhance or detract expansion and growth initiatives.

Very little research has focused on growth intentions primarily since economists have viewed the precursors of economic growth too behavioral and ill defined for their econometric models. If a preliminary model examining multiple dimensions is developed, a more elaborate understanding of the predictors of economic behavior can be gained.

### **6.1.1-Predictors And Measures Of Entrepreneurial Growth:**

#### **Central Streams And Research Themes**

Two perspectival streams of predictive measures have been found to permeate growth research. The first perspective focuses on the micro behavioral aspects related to the entrepreneur. This Micro Behavioral Perspective (MBP) places emphasis on the individual characteristics of the entrepreneur including demographics, traits, gender, motives and managerial experience as predictors of growth.

The second stream of predictive measures looks at the macro aspects related to the strategic perspective of an enterprise. The Macro Strategic Perspective (MSP) considers the broader aspects of an enterprise and their predictive relationships to growth. Examples of MSPs include culture, social networks, capital investment, environmental dynamism, organizational structure, firm characteristics and life cycles.

In order to gain a through understanding of both the MBP and MSP an assessment of the prominent themes associated with entrepreneurial growth perspectives is called for.

### **6.2-Research Themes Associated With Entrepreneurial Growth Predictors**

Research related to entrepreneurial growth prediction has been dominated by three themes; 1) the individual characteristics of the entrepreneur, 2) the strategic perspective of the enterprise, and 3) the organizational stage or life cycle. MBP centered research has been found to be dominated by isolating the individual characteristics of the entrepreneur as the predictor of enterprise growth.

MSP based research tends to flow from looking at strategy, process and environment as predictors of entrepreneurial growth. Another predominate research theme uses organizational theory to link stages of development and life cycles as predictors of enterprise growth. It becomes appropriate at this time to examine each of the themes more closely.

#### **6.2.1-Micro Behavioral Perspective:**

##### **The Individual Characteristics Of Entrepreneurs As Predictors Of Growth**

The MBP has been primarily concerned with the characteristics of the individual entrepreneur. Individual psychological makeup including locus of control, need for achievement, sacrifice and motivation have all been investigated as predictors of behavior. Demographic characteristics related to experience, education, and gender have also been used as predictors and measures of entrepreneurial growth. Table 6.1 provides a summary review of the MBP based research perspectives of entrepreneurial growth predictors.

To begin with Dunkelberg and Cooper (1982) looked at the owners background characteristics as predictors of small business growth. Begley and Boyd (1985; 1987) used personality characteristics such as need for achievement, locus of control and risk taking propensity as predictors of entrepreneurial performance. Their studies produced mixed results. Begley and Boyd concluded that there was very little relationship between psychological attributes and financial performance.

Bailey (1986) discovered that among 67 Australian entrepreneurs those with a trade qualification or certificate of education showed a higher index of enterprise growth. Davidsson (1991) argued that the magnitude of experience including functional and managerial experience were major predictors of entrepreneurial growth in Sweden. While Cooper, Gimeno-Gascon, and Woo (1994) found that education, race, gender and know-how contributed significantly to growth.

However MBP based research suffers from a series of shortcomings. For example Cooper, Gimeno-Gascon and Woo (1994) conducted a literature review which found 31 different attributes such as sacrifice, motivation, intensity have been investigated for their predictive relationship to entrepreneurial growth. In addition to inconsistency and fragmentation findings in MBP research have often been contradictory.







### **6.2.2-Macro Strategic Perspective:**

#### **Strategic Planning As A Predictor Of Growth**

The MSP has presented considerable evidence that a firm's strategy, structure, process, environment and the interface between these variables influence the entrepreneurial growth of an enterprise. Studies in this direction are mainly concerned with predictors related to strategic planning (Shuman and Seeger, 1986), and environmental dynamism related to the interaction between structural, cultural, and firm characteristics (Fombrun and Wally, 1989).

Veciana (1981) recognized the importance of the interactive processes between an enterprise and its environment for growth and survival. He set forth a concept called 'the environmental concept of enterprise effectiveness.' Veciana (1981) concluded that the effectiveness of an enterprise was dependent on the ability of the business to adapt to the relevant changes in its environment.

Peterson (1985) evaluated strategic decision making in relation to environmental stagnation across 11 different cultures. Aldrich, Rosen, and Woodward (1987) examined the impact of entrepreneurs social networks on firm profitability over a period of six years. The results of this study confirmed that networks may impact not only the process of starting a business but also operation and growth of an enterprise.

Slevin and Covin (1987) found a systematic relationship between managerial orientation, strategic posture, and business performance under different environmental contexts.

Research by Covin and Covin (1989) found some relationship between environmental

dynamism and competitive aggressiveness. While Covin and Slevin (1990) looked at competitive strategy and structure in relation to product life cycles.

There is also a tradition of studying the financing and the effects of initial firm size as predictors of business growth. For example, Bruno and Tyebjee (1984) looked at the connection between the sources and amount of initial capital on entrepreneurial centered business growth. Cooper, Woo, and Dunkleberg (1989) focused on the effects of initial firm size and enterprise growth. Recent work by Brown and Kirchoff (1997) explored the effects of resource availability and entrepreneurial orientation on firm growth. They confirmed that the small business owner's perception of resource availability affects their entrepreneurial orientation and subsequently, the firm's rate of growth.

While MSP directed research illuminates the usefulness of certain activities and strategies in relation to entrepreneurial based small business growth, most falls short in providing policy guidelines to promote small business growth.

### **6.2.3-Organizational Life Cycle Theory As A Predictor Of Growth**

The organizational life cycle perspective contends that firms grow in distinct evolutionary stages with each stage followed by a revolutionary transformation phase as the enterprise proceeds into the next stage. Organizational life cycle theory hypothesizes that firms go through discontinuous growth patterns and that each stage requires a specific configuration. Hence as a business grows within a particular stage its configuration becomes unsuitable requiring the firm to transform into the next growth stage.

The Greiner Model (Greiner, 1978) was built around the five stages of growth describes a series of evolutionary and revolutionary stages organizations experience as they grow. Churchill and Lewis (1983) developed a five stage growth model for small business. While Scott and Bruce (1987) set forth a theoretical model which argued that growth was accompanied with change related crisis which impacts both the entrepreneur and enterprise.

Miller (1990) theorized that dimensions of business configuration were interrelated and thus affected each other in a circular manner. The central underlying theme behind the life cycle perspective has been that to give a firm a marked new direction, quantum changes across multiple dimensions of the organization are required.

Raffa, Zollo, and Caponi (1995) discovered that as new small Italian firms grew they converted from one type of configuration to another within a limited number of configurations. This finding contradicts the argument that at every stage of enterprise development there is an optimal configuration. Osborne (1996) looked at the differences between companies which had stopped growing and those which achieved sustained growth. He suggested that differences in the fundamental approach to environmental changes and trends were the key factors to business growth.

Stages of growth theories may suggest which types of companies grow (like high technology firms) yet the approach does not offer insight into what aspects trigger growth intentions and expansion plans. The main criticism with the life cycle approach is the deterministic nature of the argument. First the assumption that every firm proceeds through each stage lacks validation. The second short coming of the approach is the

assumption that for each stage of development there is an optimal configuration. Thirdly the general lack of empirical validation calls for further research on the impact of organizational life cycles and small business growth.

### **6.3-Limitations Of Existing Research:**

#### **The Treatment Of Entrepreneurial Growth Measures**

The preceding literature reviews suggests several major limitations of current research in the area of entrepreneurial expansion. First, simple treatment of entrepreneurial growth measures seriously hampers model predictability, which contributes to conflicting results among existing studies.

Consistent with the assessment of Hoy, McDougall and Dsouza (1992), to date most studies define entrepreneurial growth as a unidimensional construct operationalized by a variety of growth measures ranging from increases in venture capital and market share, to growth in sales revenue, accounting-based return on investment (ROI), or number of employees. One major problem of these measures is that new business ventures oftentimes do not exhibit monotonic sales growth. Therefore single-year sales or employment growth figures may capture aberrations while not depicting the true health or growth of an enterprise.

Conversely, if a researcher uses growth averages, such aggregated statistics again fail to capture complex growth patterns across time and may not accurately reflect the firms current growth. Another problem related to the accounting based measures such as ROI, and ROA is that the data can be heavily influenced by other decisions commensurate to the owner-managers compensation or the nature of industry profit margins. The effect of

this variety of measures is that comparability across studies is difficult. This is one of the reasons that little cumulative research can be identified in this area.

### **6.3.1-The Need For A Contextual And Process Oriented Approach**

Most studies measured growth as realized growth, which may have failed to capture entrepreneurial growth in resource aggregation, technology improvement and even market expansion. Entrepreneurial growth in these aspects would not necessarily be reflected in current sales or profit figures of a business venture. Whereas these measures may be final outcomes, it is necessary to ask the question about how these final objectives are achieved. A set of implementable attributes which are intentions based represent one possible alternative approach to investigating small business growth.

In fact, researchers focused on entrepreneurship have noted the lack of reliable, valid and meaningful growth measures which have hampered researcher efforts (Chandler and Hanks, 1993). They criticize existing growth measures, lamenting the use of simple accounting based measures which do not deftly fit disjointed, discontinuous, and the non-linear processes of emerging businesses (Bygrave, 1989).

Researchers need to incorporate concepts, measures, and methods grounded in theory and knowledge of entrepreneurial phenomena. For example Low & MacMillan (1988) called for a contextual and process-oriented approach in developing growth measures. They viewed the development of reliable, valid and meaningful growth measures as imperative to the efforts to explain and facilitate entrepreneurial growth. Surprisingly little efforts have been devoted to this approach.

### **6.3.2-The Need For A Multidimensional Model**

Schumpeter (1947, pp. 228-130) argued that to understand entrepreneurial based business growth multiple dimensions of the environment needed to be taken into consideration.

Schumpeter contended that social and economic forces are inseparable and consequently need to be studied as one system. According to Johnson (1990) studying individual parts in isolation from each other results in failure to comprehend the whole.

Furthermore Van De Ven (1993) concluded that the study of entrepreneurship is deficient if it focuses exclusively on the characteristics and behaviors of the individual entrepreneurs, on the one hand, and if it treats the social, economic, and political infrastructure as externalities on the other hand.

What is called for is the development and empirical testing of a multidimensional model that considers the interorganizational community which shapes, influences and impacts small business growth. One alternative approach to advance this call is to consider three dimensions; 1) The individual entrepreneur including their enterprising spirit, motives and commitment, 2) The social organization including cultural orientation, family dynamics, and demographic components, and 3) environmental dimensions including political orientation, along with the legal, financial and physical infrastructures.

In addition Davidsson (1995) concluded that understanding the cultural environment including the relationships between culture and entrepreneurship is important for both theory building and correct interpretation of established empirical relationships.



### **6.3.3-The Role Of Culture**

The cultural environment greatly shapes the prevailing values and beliefs of the entrepreneur. Comprehending the cultural forces at work is vital to understanding variations in entrepreneurship and economic development across different regions. Shapero and Sokol (1982) theorized that social and cultural factors shape the individual value systems of a society and thus the entrepreneurs' personality characteristics.

Culture has been considered an important force shaping entrepreneurship. Etzioni (1987) argued that legitimization and cultural acceptance of entrepreneurship was a major factor determining the level of entrepreneurial spirit found within a society. Carsrud and Johnson (1989) pointed out that the study of social norms, mores, and values was an effective avenue of research investigation with respect to the initiation and growth of new ventures. While Gundry and Ben-Yoseph (1998) in their comparative study of female entrepreneurs in Romania, Poland, and the United States concluded that culture was a powerful and relevant framework in which to examine entrepreneurial cognition's and behavior's.

Culture plays a meaningful role in shaping a society's view of entrepreneurship and consequently its role in the socio-economic system. Investigating the development of entrepreneurial based small business in societies like those of the former Soviet Bloc requires sensitivity to culture. With out such consideration the level and depth of interpretation of empirical testing could be incomplete.

### **6.3.4-The Entrepreneurial Environment**

Cultural forces shape the environment in which entrepreneurship and small businesses operate. Important environmental forces include political, legal, financial systems as well as the physical infrastructure of a socio-economic system. Gnyawali and Fogal (1994) described a dichotomous entrepreneurial environment which included two principle dimensions; 1) the overall macro environment including the socio-cultural, economic, political, and legal factors which influence people's willingness and ability to undertake entrepreneurial activities, and 2) the availability of assistance and support services that facilitate the start-up and development process.

The macro environment comprised of the political, legal and socio-culture dimensions of a society greatly shapes the environment in which entrepreneurs operate. The environment has been found to impact entrepreneurship and small business development. For example Covin and Slevin (1989) found that high levels of strategic posturing contributes to high performance for firms facing hostile environments, while more conservative approaches benefited firms operating in a more benign environments.

Kirzner (1982) set forth the assumption that entrepreneurship was more important to those countries where growth in the standard of living was most urgently needed. However, in reality governments are not always willing to support free enterprise as a leading economic agent. Yet according to Storey and Johnson (1987) in the UK government support policies have had little effect on new venture birth rates.

By the same token Van De Ven (1993) emphasized that the process of entrepreneurship functions within a socio-economic system with numerous actors including not-for-profit, public and private sectors all of which shape the environment entrepreneurs function in. Furthermore, Becher and Maurer (1997) found partial support for the role of both environmental hostility and turbulence in influencing the relationships between a firm's marketing and entrepreneurial orientation.

Like the majority of existing research related to entrepreneurship contradictory and mixed results call for the continued exploration of the role the environment has on entrepreneurial led growth and development of small business across different socio-economic systems.

#### **6.4-The Romanian Post Communist Environment: Society And Transition**

As post-communist economic reforms sputter and the promised improvements remain an illusion, the trauma and mental strain of daily hardship and sacrifice that has shaped attitudes, behaviors and values remains (Thurow, 1994). With over half the population of Romania currently living under the poverty level many people are still looking forward toward the illusion of new opportunity felt after the overthrow of Ceausescu regime. The Romanian population has had a very low confidence level in both the ruling coalition as well as the opposition. There has been a negative assessment of the performance of the whole political system during the post communist transition process (Zamfir, 1994) which continues today.

#### **6.4.1-Romanian Transition And The Impact On Values And Beliefs**

One of the reasons for lack of civic confidence has been the unbelievable amount of corruption being experienced. As a result Romania is a society confronted by a dual crisis. In a socio-economic sense society lacks the essential economic resources especially an infrastructure to support a rapid transition. In a socio-cultural sense society is suffering from an economically driven moral crisis.

As Romanian society struggles with its transition from totalitarian regime to an open society organized according to more market driven patterns there appears to be a great feeling of psychological uncertainty. Society is attempting to suspend the previous norms which are not a reference point any longer for economic and cultural behavior.

Researchers Radulescu (1993), Larionescu (1994), Cartina & Tone (1994), Zamfir (1994), Pistrui, Welsch, and Roberts (1995) and Sandu (1996) have all identified and documented the strong presence of anomie in the transition process taking place in Romania. As a result transition has created the dual challenges of creating and maintaining new systems of economic and social beliefs and values.

Radulescu (1993) has taken the Durkheim (1947) theory of anomie and identified the following characteristics present in Romania during transition. Although Durkheim's model focuses on transition from a traditional society to a modern society it is relevant in a theoretical sense to the Romanian case.

1) The absence of rational regulations of the social actions due to the lack of coordination between overlapping elements of the social system.

2) The absence of rational norms, including few limits imposed on actions which extend in unpredictable and often negative directions.

3) The lack of rationality of actions. Some societal norms exist, but they often lack rational character, or are no longer adequate to the existing realities.

4) The lack of action orientation, determined by the contradiction between norms: together with the change of the society, some norms have no longer have an object, but keep functioning as parasites, while others are even in contradiction with the new tendencies of the social life.

Romania is a society which today lacks a unified and cohesive system of beliefs and values. Behavior is often unpredictable. Flexibility is called for because Romanian society is partially paralyzed in a bureaucracy experiencing a great level of anomie. The restructuring of bureaucracies which followed the overthrow of the totalitarian communist regime affected in varying degrees, all of the institutions of society (Mihailescu, 1992).

The magnitude of change impacting the existing institutions including managerial change has created an environment filled with new questions and problems no one has ever had to deal with. For example the legal system has undergone tremendous change simply by incorporating private enterprise and land ownership. Communication and information flows are out dated or do not exist. As a result everything takes longer to do. People feel the need to be flexible to accommodate the uncontrollable demands of bureaucratic turmoil, economic needs and family time.

#### **6.4.2-A Paradox Of Transition: Central Themes Of Romanian Societal Transition**

Romania has had a traditional rather than modern cultural orientation. Family, kinship, friendship, and neighborhood are at the foundation of daily life. The attitudes and values associated with a modern societal orientation are almost directly opposite to traditional attitudes and beliefs.

The transition to a more market driven socio-economic system which encourages individual risk taking and enterprise development goes against traditional Romanian attitudes and values. Thus a paradox confronts the newly emerging entrepreneurs in Romania. Do they embrace the concepts and activities associated with entrepreneurship and private enterprise growth and development which tend to favor an individualistic orientation? Or do they continued to support a more traditional orientation built around group values?

The consequences of the brutal communist era have produced four central themes which characterizes Romania society during transition. First, society in general holds a great deal of suspicion towards all aspects of daily life. This is particularly true as it relates to the abilities and motives of the nation's political leaders. Secondly, the great level of suspicion has resulted in an overall level of mistrust. Increases in the magnitude of corruption along with high levels of anomie are examples of just how severe the conditions are. The third theme permeating transitional Romania is the fact that over half the population is living under the poverty level (The Economist Intelligence Unit, 1995). Declining food consumption, shortages and economic instability are placing additional hardships on the people.

### **6.5-A Tri-Dimensional Model Of Entrepreneurial Growth Predictors**

Based on a series of exogenous and individually orientated variables a sequence of relationships are hypothesized to be related to entrepreneurial expansion plans. Three dimensions comprise the predictive model; 1) Micro level variables associated with the entrepreneurs personality, 2) Intermediate level variables related to societal dynamics and 3) Macro level variables affiliated with the comprehensive environment firms operate in.

First, the micro dimension probes the individual values associated with the psychological scope of the entrepreneur including their levels of intensity, sacrifice, and motivation. This is essential to gain insights into the unique individual psychological dimensions of the newly emerging Romanian entrepreneur. The second dimension, considers the intermediate forces shaping growth intentions and expansion plans. The intermediate dimension will explore the societal aspects associated with family dynamics, education, age, and year of venture establishment.

The third dimension factors in the macro environmental aspects related to market orientation, financial infrastructure and the support services available to emerging private enterprises. To truly capture the complex nature of entrepreneurial based small business growth the micro, intermediate and macro dimensions must be probed together. This set of predictors are intended to probe and examine the impact and influences each dimension has on shaping entrepreneurial growth intentions and expansion plans. Figure 5 provides a visual depiction of the proposed model.

**Figure 5**  
**Multidimensional Model Of The Predictors Of Expansion Plans**

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**6.5.1-Multidimensional Predictor Variables:**

**Individual, Social And Environmental Dimensions**

Entrepreneurial growth and development is affected by a myriad set of interrelated variables. One set of variables that are included in many predictive models are those based on the individual entrepreneur and his or her personal characteristics, such as drive, creativity or initiative. However, individual characteristics are by themselves not



strong enough predictors as they are influenced and shaped by intermediate societal factors (such as family dynamics and education) and macro economic and political forces such as socialism, corruption/bureaucracy, inflation and market infrastructure.

Consequently the objective is to study three categorical dimensions which have been found to impact and influence small firm growth; 1) individual entrepreneurial orientation, 2) the intermediate societal aspects specifically family dynamics and community networks and 3) the macro environmental components associated with infrastructure which may either support or hinder entrepreneurship. This will allow for the multidimensional study of the individual components and the interrelationships between them which impact and shape growth intentions and expansion plans.

#### **6.5.2-The Micro Dimension: Individual Entrepreneurial Orientation**

Researchers have found entrepreneurial orientation to be a key determinate of small firm growth. Brown (1995) suggested that entrepreneurial orientation has a positive impact on small firm growth. Fox (1996) pointed out many entrepreneurs believe that growth is as much a matter of attitude as it is of economic aggregates.

Hence the values and attitudes of the entrepreneur can have a significant impact on firm growth. From this cause entrepreneurial value orientations will serve as a predictor variable. Entrepreneurial value orientations are grounded on three antecedents; Entrepreneurial Intensity, Sacrifice, and Motivation.

Drawing from research related to the personality and psychological profile of the entrepreneur specifically the work McClelland (1965), Kets de Vries (1977), and

Brockhaus (1982) the goal is to probe the individual orientation of the Romanian entrepreneur.

### **6.5.3-The Intermediate Societal Dimension:**

#### **The Role Of The Family And Demographic Networks**

Social dimensions especially the societal orientation associated with a group or individual focus can impact impacts entrepreneurial growth intentions and expansion plans. At the societal core is the family and the role it plays in the entrepreneurial process. For example, Benedict (1991) argued that firms rely on kinship networks as foundational resources, especially in family firm development and growth in developing or less stable economies.

Societal aspects have also been found to impact attitudes, beliefs and perceptions (Shapero and Sokol, 1982), while the use of social networks (Aldrich and Zimmer, 1986) have been set forth as resources entrepreneurs can draw from to foster growth. Each case theorizes some relationships between social dimensions and entrepreneurial growth.

Societal aspects have special significance to environments within the former Soviet Bloc. For example Stoianovich (1976) reasoned that Romanian society relied on family and personal networks for basic security and survival. While Cobianu-Bacanu (1992) identified the family as the engine driving transition and change in Romania. Therefore it will be necessary to investigate the societal dimensions of family and community networks and how they impact growth intentions and expansion plans.

Society shapes values, attitudes and norms as they relate to education, vocation as well as socio-economic orientation. Thus to gain further insights into the complex forces shaping entrepreneurial growth intentions the intermediate dimensions associated with societal demographics need to be investigated.

#### **6.5.4-The Macro Economic Dimension:**

##### **Environmental Obstacles And Support Structures**

The environmental settings including external factors related to market conditions, legislation, financial markets, infrastructure and bureaucracy have been found to impact small business growth. For example Bruno and Tyebjee (1982) looked at environmental factors that stimulate entrepreneurship. They investigated the influences related to the availability of capital, land and facilities, accessibility of customers, suppliers, skilled labor, support services as well as living conditions. Their study suggested that to date much of the research related to this perspective lacked scientific rigor.

Hoy, McDougall, and Dsouza (1992) argued that both the environment and enterprise strategies must be considered when investigating firm growth. Their contention has been that various dimensions of environmental velocity may impact a firm's growth potential.

The former Soviet Bloc and its environment of drastic change is a special case. For example in Romania there is a general lack of civic confidence. One of the reasons for the lack of civic confidence is the amount of corruption being experienced. The preliminary results of a study conducted by the Ministry of Domestic Affairs suggested that between 1988 and 1992 corruption increased by some 400 percent (Radulescu, 1993).

Second, flexibility is called for because Romanian society is partially paralyzed by bureaucracy. The restructuring of bureaucracies which followed the overthrow of the totalitarian communist regime affected in varying degrees all of the institutions of society (Mihailescu, 1992).

The magnitude of change impacting the existing institutions, including managerial change, has created an environment filled with new questions and problems no one has ever had to deal with. Thus the environmental velocity associated with transition and change must have some impact on both the macro-economy and entrepreneurs growth intentions and expansion plans.

#### **6.6-Hypotheses Development:**

##### **The Micro Dimension- The Psychological Scope Of The Entrepreneur**

This level of investigation strives to scrutinize characteristics associated with the entrepreneur's attitudes, beliefs and motives. Specific elements explored include levels of entrepreneurial intensity, motivations and sacrifice.

***Intensity-*** Very intense entrepreneurs, those with a high level of commitment toward developing their enterprises should seek to expand and take advantage of all possible opportunities. Growth intent entrepreneurs should therefore exhibit a philosophy associated with a strong commitment, drive and effort.

*Hypothesis 1: Entrepreneurial intensity is positively related to expansion plans.*

The relationships associated with entrepreneurial intensity can subsequently be compared with the work of Davidsson, (1989, 1991, 1995), and Krueger and Carsrud (1993). This offers an opportunity to gain insights into the cognitive process which serves to channel beliefs, perceptions, and other exogenous factors into the intent to act (Ajzen, 1991; Krueger and Carsrud, 1993).

**Motivation-** The objective with this predictor will be to test Kolvereid's (1992) Norwegian prediction that higher growth aspiration levels would be related to entrepreneurs who desired personal achievement. In this study Kolvereid's achievement predictor can be expanded to include additional entrepreneurial motives such as need for independence, freedom, and financial reward. In addition some comparisons will be made between the cultural orientations found in Northwestern Europe (Norway) and Southeastern Europe (Romania).

*Hypothesis 2: Entrepreneurial motivation is positively related to expansion plans.*

By expanding on the Kolvereid study the intention is to probe what elements trigger the desire for growth. In other words how do the perceptions associated with a changing high velocity environment influence the entrepreneurs desire for growth.

**Sacrifices-** Individuals making major investments in the growth of their enterprise should be willing to make substantial sacrifices in the course of their daily lives in order to "score big" with respect to the success of their business. Short term sacrifices should be made in order to provide for long term business success.

*Hypothesis 3: Entrepreneurial sacrifices are positively related to expansion plans.*

Examples of specific types of sacrifices include personal priorities related to family, leisure, and recreation time; financial commitment, and work ethic. Investigation into these aspects should provide some insights as to the impact of cultural norms.

**6.6.1-The Intermediate Dimension-**  
**Societal Scope And Demographic Composition**

This category includes such elements as age/year of enterprise establishment, education and family support. The intent is to investigate the predictive nature of some of the general cultural attributes associated with society. The idea is to explore the sociological aspects associated with family, community and personal networks and how they impact entrepreneurial growth intentions.

***Age/Year of Venture Establishment-*** Since younger entrepreneurs have less invested in the outmoded socialistic economic system than their older counterparts, they should be more willing to “let go” of communism and invest their lives into expansion opportunities. They may also have decided to establish their business earlier, and thus could possibly have a stronger commitment to growth their enterprise.

*Hypothesis 4: Younger enterprises started by older entrepreneurs are negatively related to expansion plans.*

With no free enterprise permitted prior to 1990 the idea of developing one's own business was a completely new concept for the vast majority of Romanians. Perhaps many got their enterprise ideas as a result of observation and participation in the previous system.

However, most Romanian entrepreneurs could have had only a limited amount of experience with private enterprise development since entrepreneurship was illegal until January of 1990. Accordingly the age and year of enterprise startup may have a notable impact on entrepreneurial growth intentions and expansion plans.

***Education-*** The quality and level of education in Romania is quite high. The majority of the urban population attended a university. Consequently Romanian entrepreneurs most likely have had some training beyond high school. The objective with this predictor will be to analyze the impact of education on business expansion plans.

*Hypothesis 5:           Expansion plans are positively related to the level of education.*

The Communist era emphasized rapid heavy industrialization which placed an emphasis on technical education and engineering. The prominent status of engineers often included better job opportunities and access to fringe benefits resulting from personal networks.

By further exploring this dimension a greater depth of understanding of how education impacts entrepreneurial growth intentions and expansion plans can be achieved.

***Family Dynamics-*** The objective with this predictor will be to test the impact of family support on entrepreneurial growth intentions and expansion plans. Testing this predictor builds from the work of Benedict (1991) and Cobianu-Bacanu (1992).

*Hypothesis 6: Expansion plans are positively related to family support.*

Benedict set forth the notion that family enterprise was especially important for turbulent developing economies similar to those found in Romania. Cobianu-Bacanu (1992) argued that the family was the engine driving both economic and social transition. Thus there is a need for the deeper exploration of the family network system and how it impacts entrepreneurial growth intentions and expansion plans.

The idea is to develop further insights into the role and level of family based enterprise. Specific types of family support including family financing, family employment and family advice need to be probed.

#### **6.6.2-The Macro Dimension-**

##### **Environmental Scope, Infrastructure, Obstacles And Support**

Romania is a country that is not yet fully operational to support entrepreneurial endeavors, much less encourage expansion plans. Therefore, it is predicted that the frequency of infrastructure problems and obstacles would hinder the progress of entrepreneurial small business growth.

***Market Orientation-*** The concepts and experiences associated with an entrepreneurial market driven economy are new and only beginning to emerge. Aside from agrarian



entrepreneurship principally small family farms, private small and medium sized enterprise have historically played only a minor role in the economic system. Accordingly society has little tradition of embracing market based socio-economic values.

Market orientation can take on two dimensions, one permeating from the political orientation and another stemming from the mode of society and its values towards profit based free market enterprise. To explore this dimension the following is hypothesized.

*Hypothesis 7: Lower levels of market orientation are negatively related to expansion plans.*

This predictor seeks to probe two areas. First, the fact that the Romanian government has to date not encouraged or supported either the privatization of state enterprise or the development of a private sector. This should stymie entrepreneur's growth intentions and expansion plans. Second with little entrepreneurial experience combined with little public support or encouragement it seems likely that Romanian entrepreneurs should be discouraged to grow their enterprises.

***Financial Infrastructure-*** Romania is in critical need of financial intermediaries such as investment banks, mutual funds, venture capitalists and foreign trade investors. Presently Romania has only 30 fully licensed commercial banks and 9 foreign banks. To date the system remains unstable and risky primarily due to the clear lack of functional and enforceable bankruptcy procedures and regulations. This combined with the simple lack of market orientated financial experience further complicates the financial environment.

The objective with this predictor is to analyze how the lagging financial infrastructure impacts entrepreneurial expansion plans.

*Hypothesis 8: Financial obstacles are negatively related to expansion plans.*

The lack of a stable and honorable financial system together with the limited supplies of both local capital and hard currency create major obstacles for entrepreneurs. In addition the cost of borrowing locally is high. For example during the first quarter of 1996, the commercial bank's average nominal lending rate for nonbanking customers was at 54.06% (US Department of Commerce, 1997).

At present small private firms operate in a highly volatile environment with very little financial infrastructure to support expansion and growth. By exploring this aspect more can be learned concerning how infrastructure obstacles impact grow intentions.

***Support Services-*** The magnitude of change impacting both existing and new institutions, including managerial change, has crested an environment filled with new questions and problems no one has ever had to deal with. Infrastructure obstacles abound, particularly the lack of professional support services in combination with a lack of information.

For example, the legal system has undergone tremendous change simply by incorporating private enterprise and land ownership. There is a basic lack of managerial, legal, technical and marketing know-how. More importantly there are few people qualified to

provide the needed support services. Consequently this predictor strives to probe how the lack of support services impacts growth plans and intentions.

*Hypothesis 9: Support services are positively related to expansion plans.*

Romanian entrepreneurs face some giant challenges. With a lagging infrastructure enterprise development through growth and expansion faces some monumental challenges. Due to the basic lack of an entrepreneurial tradition the majority of Romanian entrepreneurs have little understanding or experience with the components of entrepreneurship and enterprise development.

While they appear eager to learn there is a gap in the infrastructure including critical support services entrepreneurs badly need. This hypothesis has some applications of a comparative nature to the research of Dsouza (1990) and Hoy, McDougall, and Dsouza (1992) which related environmental dimensions and strategies to growth by identifying hindering and supportive factors.

### **6.6.3-Empirical Testing Of The Tri-Dimensional Model**

With a multidimensional model developed and a series of hypotheses created the focus of the study will now turn to research design and methodology. Chapter VII provides details of the empirical investigation conducted in Romania. The chapter includes a summary of data collection, measurement and data analysis employed. Data was collected from 410 Romanian entrepreneurs through a series of survey interviews. This investigation represented one of the first independent empirical inquires to focus on entrepreneurship and enterprise development in Romania.

## 7-RESEARCH DESIGN AND METHODOLOGY

### **7.1-Description Of Research Methods**

*“Entrepreneurship and small business research constitutes a multidisciplinary research field. The selection and combination of concepts and models must, however, be carefully conducted, so that they will be aligned with the entrepreneurship and small business situation” (Hans Landstrom and Morten Huse, 1995, p. 15)*

This chapter describes the method for testing the research model presented in the previous chapter by reviewing the data collection, measurement, and the data analysis procedures. This study utilized a cross-sectional survey design to gather the facts, opinions and attitudes of new entrepreneurs in Romania. Accordingly, data collection through the use of an interview based questionnaire that incorporated a Likert type summed rating scale in conjunction with vital demographic data was employed. Specific script cue recognition items across individual, societal and environmental dimensions were identified, tested and included in the questionnaire.

The Small Business Development Centers (SBDCs) at the Academy of Economic Studies-Bucharest, and the Polytechnic University of Bucharest, and the University of Bucharest’s International Center For Entrepreneurial Studies (ICES) worked together with local chambers of commerce to provide lists of legally registered and operational enterprises across eight major urban areas.

#### **7.1.1-The Entrepreneurial Profile Questionnaire And Measurement Logic**

The The Entrepreneurial Profile Questionnaire (EPQ) has been successfully piloted and validated through a series of studies in China, Turkey, Venezuela, Russia, Poland, the Czech Republic, Hungary, Lithuania, Estonia, and the US. The research of Romanian entrepreneurs was part of an ongoing cross-sectional project of investigating the factors affecting entrepreneurial expansion in transforming economies.

The EPQ collects information on two fronts. First the EPQ asks a series of questions related to the demographic profile of the entrepreneur and business characteristics of the enterprise. Using a nominal scaling technique this data provides measures of the social, educational, and enterprise dimensions. Social indicators and associated statistics that reflect social conditions and human status will be used to measure the conditions of socio-economic transition. This approach has been supported by the work of Kerlinger (1964), Bauer (1966), and Campbell (1976) as an accepted method of behavioral measurement.

Second the EPQ contains ten sections which ask a series of questions placed on an agreement continuum. Using a summed rating scale, specifically a 5 point Likert-type scale the study identifies and measures the properties and characteristics associated with entrepreneurial growth intentions. The determinants of small business growth are likewise measured. The approach of assigning numerals to behavioral incidents and properties provides the framework to measure the relationships between the individual, societal and environmental dimensions and growth intentions.

Using the Likert (1932) model of item analysis a number of statements related to the topic of interest were asked. From this point an item analysis technique can be used to sort through the data and select the best statements for the final scale. This measurement technique has been widely used in behavioral research and thus represents a valid measurement methodology (Kerlinger, 1964; Mahler, 1953; Roesnthal and Rosnow, 1984).

### **7.1.2-Development Stages Of The Entrepreneurial Profile Questionnaire**

The EPQ was professionally translated and edited into Romanian, pre-tested and then revised to clear up ambiguities or idiosyncratic terminology. Table 7.1-I details the steps undertaken to development the Romanian EPQ.

**Table 7.1**  
**Development Stages Of The Romanian EPQ**

<b><u>Stage 1:</u></b>	Research Objective: Multidimensional Empirical Investigation (See Figure 5 for Theoretical Model). Selection of the EPQ based on the scope and validation as a scientific instrument.
<b><u>Stage 2:</u></b>	EPQ translation from English to Romanian by language expert. Lingual translation by independent expert on sight in Romania.
<b><u>Stage 3:</u></b>	Back translated and revised the EPQ with language expert and professors from the Small Business Development Centers (SBDC) at the Academy of Economic Studies-Bucharest and the Polytechnic University of Bucharest .
<b><u>Stage 4:</u></b>	Pre-tested the EPQ on a group of Romanian entrepreneurs from the the SBDCs. Gained feedback, comments and encouragement. Made decision to include cover letter explaining the EPQ and research study on the stationary of the participating SBDCs.
<b><u>Stage 5:</u></b>	Final versions of the EPQ approved. Cover letters from the Academy of Economic Studies-Bucharest (AES) and the Polytechnic University of Bucharest (PUB) approved. Survey instrument ready to administer.

Appendix B provides samples of the three versions of the Romanian EPQ; 1) the original English version, 2) the first translation by the language expert and, 3) the final version of the EPQ following the back translation and pre-testing.

### **7.1.3-Field Site Development Activities**

Beginning in the autumn of 1992 through 1996 the author worked as a visiting professor at the Academy of Economic Studies, the Polytechnic University of Bucharest and the University of Bucharest-International Center for Entrepreneurial Studies. During this time the primary focus was to study the reemergence of entrepreneurship and private

enterprise following the fall of the Ceausescu regime. This included the development and execution of a country wide survey of Romanian entrepreneurs, consulting with new enterprises through the SBDCs and incubators and teaching. There was a great level of interest and enthusiasm by each institution to support the research effort.

The SBDCs and incubators provided a valuable conduit into the entrepreneurial community. Given the general lack of information and know-how, many entrepreneurs relied on university based SBDCs for guidance. The SBDCs staff consisted of Romanian, European and US small business experts so a special level of personal trust was established with these new entrepreneurs. Various activities such as workshops, seminars, business plan development and general consulting services led to the creation of a data base of small businesses from throughout the country. The SBDCs provided an excellent pool of entrepreneurs from which to draw data.

#### **7.1.4-Sampling Objectives And Design Challenges**

The sampling objective was to collect data on a cross section of new business ventures from a variety of geographic areas and industries. The fact that entrepreneurial led small business was a new phenomenon, plus the lingering effects of the brutal past created unique challenges concerning sampling procedure.

Four specific issues confronted the sampling technique required in Romania;

1) Romanian private enterprise were in the very early stages of development. Only legally registered, established enterprises functioning in the economy were sought. Caution was called for because many businesses although legally registered were not operational.

The vast majority of Romanians were unfamiliar with entrepreneurial concepts and have no previous experience running their own businesses. Put simply, the majority of these new entrepreneurs were pioneers representing a unique socio-economic microcosm never studied before.

2) Given the omnipresence of the communist system along with decades of political oppression, there was an extremely high level of suspicion and mistrust in society. Hence a level of legitimacy and professional trust needed to be developed with the entrepreneurs. Association with an academic institution working with a Western European or US supported program was held in high esteem.

The newly emerging entrepreneurial class was eager to seek out “western know-how” and value systems. Most sought both know-how and possible business opportunities. There has also been a special affinity for Romanians who had returned to the country following the overthrow of the Ceausescu regime.

3) There was a lack of viable options for data collection techniques. The unreliability of the postal system along with the perception of returning personal information through a governmental system made this option unrealistic. Plus a mail based survey did not permit the researcher to determine if the enterprise was in fact operating in the marketplace.

Telephone interviews were not an option. Telephone survey techniques were also impossible as many new businesses did not have telephones. The waiting list for a telephone was measured not by the number of days, weeks or months, but by the number of years one waited for a phone line. Moreover the telephone system was known to be monitored by the police even after the fall of communism. Entrepreneurs and the public in general were unwilling to discuss confidential information over the telephone.



4) Another challenge related to data collection was the sheer lack of official registers of new private enterprises. No reliable or comprehensive listings of small businesses existed. Consequently there were no existing public data bases from which to draw a sample.

#### **7.1.5-A Three Pronged Sampling Procedure**

The goal was to capture the initial and early stages of Romania's newly emerging entrepreneurial class. Yet the unique circumstances surrounding the socio-economic environment during transition and the newness of entrepreneurship created special challenges. To capture a cross-sectional sample of registered operating new small businesses a three pronged strategy was developed.

The three components of the sample procedure included; 1) the use of personal interviews, 2) cluster sampling via data sets of registered operational enterprises from the university based SBDCs and incubators and, 3) cross sectional subsets from eight urban areas where the SBDCs and incubators had activities. The following section provides further details related to the sampling procedure.

#### **7.1.6-EPQ Based Personal Interviews**

Personal interviews were determined to be the optimum data collection technique. The EPQ was administered through personal interviews conducted by the author and a team of professors and graduate students. The decision was made to develop a set of procedures to guide the EPQ interview process. This included training sessions for interviewers where a series of policies and procedures were established and reinforced. Furthermore a system of back checking by with the author would review some EPQs with both interviewees and interviewers were implemented. All written correspondence

including the EPQ and accompanying cover letter would carry the logo and endorsement of the Romanian institution along with DePaul University-Chicago who was a cosponsor of the research project.

The cover letter would be written in Romanian on the stationary of the SBDCs host institution and would include the signatures of myself and a Romanian university official. To encourage response and build trust the EPQ carried the logo of DePaul University and the names of myself and Prof. Dr. Harold P. Welsch, Coleman Foundation Chair in Entrepreneurship who co-supervised the research.

Completed EPQs would be returned to Western Europe and the US where they would be coded, entered into SPSS software, processed and analyzed under confidentiality. To provide further credibility and trust participating entrepreneurs were promised access to the information through a series of ongoing reports.

#### **7.1.7-Cluster Sampling Combined With A Random Sample Of Valid Subsets**

The SBDCs and incubators provided the best pool of legally registered and operational small private enterprises. Academy of Economic Studies and the Polytechnic University of Bucharest each had SBDCs and incubators with out-reach programs throughout the country, while the University of Buchares had an incubator and Center for Entrepreneurial Studies working in different regions of the country. These centers faced two primary challenges; 1) a great demand for services and information by entrepreneurs, 2) some uncertainty by the SBDCs as to what these newly emerging businesses thought they actually needed.

The SBDCs clearly had the best subsamples of small businesses from which to draw.

A random sample of the SBDC subsets represented not only a creditable technique but the best method of capturing data on the newly emerging entrepreneurial class in Romania. The SBDCs were supportive of the research project. The EPQ offered an opportunity to gain insights into their clients, especially information related to some of their specific needs.

Academy of Economic Studies, the Polytechnic University of Bucharest and the University of Bucharest all operated programs in conjunction with local chambers of commerce throughout the country. This provided access to entrepreneurs in different areas of the country. Accordingly a cluster sampling technique was utilized to collect data from eight urban centers throughout Romania, including Bucharest, Brosov, Timisoara, Cluj-Napoca, Constanta, Arad, Craiova and Galati. Business ventures were randomly selected from the client lists of the SBDCs as well as local chambers of commerce data bases.

### **7.1.8-Sources And Composition Of The Sample**

The sample includes entrepreneurs from all three of Romania's principle regions of Wallachia, Transylvania, and Moldavia. A data set consisting of 410 interview based EPQ survey responses was collected. The sources and composition of the sample are shown in Table 7.2. Of the 410 Romanian entrepreneurs surveyed 75 percent were from Bucharest and 25 percent from the remainder of the country. Other cities included Arad (3.4%), Brosov (3.9%), Cluj-Napoca (3.4%), Constanta (3.2%), Craiova, (3.4%), Galati (3.7%), and Timisoara (3.9%). The aggregate population of these cities represents 20 percent of the country's total population.

Furthermore the sample included 292 males and 118 females. Males comprise 71 percent of the sample, women 29 percent. In terms of distribution across SBDCs both AES-

Bucharest and PUB accounted for 42 and 43 percent. ASE-Bucharest and PUB were the most active primarily due to their resources and capabilities. The UB with a much smaller staff focused on groups primarily in the south and west areas of the country.

**Table 7.2**  
**Sources And Geographical Composition Of The Sample**

Urban Center City	Data Source		Summary		
	AES-Bucharest	PUB	UB	Total	%
Arad	14			14	3.4
Bucharest	142	145	21	308	75.1
Brosov	16			16	3.9
Cluj-Napoca		14		14	3.4
Constanta			13	13	3.2
Craiova			14	14	3.4
Galati			15	15	3.7
Timisoara		16		16	3.9
<b>Total/%</b>	<b>172/42%</b>	<b>175/43%</b>	<b>63/15%</b>	<b>410</b>	<b>1.00</b>
Male	115	133	44	292	.71
Female	57	42	19	118	.29
M/F%	67/33%	76/24%	70/30%	71/29%	1.00
<b>Total/%</b>	<b>172/42%</b>	<b>175/43%</b>	<b>63/15%</b>	<b>410</b>	<b>1.00</b>

### 7.1.9-Some Sample Limitations

The use of the existing sample poses certain limitations upon the generalizability of the results of the study. For example, the majority of respondents (75%) are from the capital city of Bucharest. Although the sample skews towards Bucharest, each region of the country has been included. Wallachia excluding Bucharest comprises 6.6 percent Transylvania 14.6 percent, and Moldavia 3.7 percent of the total sample.

The technique employed was primarily one of convenience rather than a pure random sample. Also there was some concern that certain industrial groups or business categories may be under or over represented. Given these constraints, care will be exercised in the inferences that are drawn from the analysis of the data.

#### **7.1.10-Worthy Features And Strengths Of The Sample**

These limitations notwithstanding, the sample has several worthy features. First, the sample includes a cross section of registered, operating businesses across various geographical regions. This meets the objective of sampling only entrepreneurs who are geographically dispersed. They represent the newly emerging entrepreneurial class.

Second, the sample includes a mix of male and female respondents. Almost one-third of the sample are female entrepreneurs. This fact in and of itself reinforces the strong role of women in Romanian society. Plus it provides an opportunity to probe some of the fundamental and unique characteristics associated with gender and entrepreneurship, as well as, the role of family dynamics.

Third, the data generated contains some fairly extensive information related to the individual, societal and environment dimensions. This includes specific information related to the Implementable Attributes of Planned Growth as well as vital demographic, psychographic and environmental infrastructure dimensions. In turn, this information will make it possible to rigorously describe the sample and to clarify its generalizability.

Fourth, the sample size of 410 is sufficiently large. For the purposes of statistical analysis the intended assumptions of inferential statistics may be presumed to hold.

Fifth, there is absolutely no reason to suppose that another sample would better represent

the population of interest, i.e., legally registered, operating, newly established entrepreneurial led small businesses.

### **7.2-Operationalization Of Research Model:**

#### **Nominal And Ordinal Measurement Techniques**

The operationalization of a research model and subsequent empirical testing required the development of nominal and ordinal measurement techniques. The EPQ used both nominal and ordinal measures. The following sections provide details of how the EPQ measured the properties and characteristics associated with entrepreneurial growth intentions and expansion plans together with the multidimensional predictors of small business growth. This will be followed by a section discussing data analysis.

The EPQ includes a series of questions divided into two categories; 1) Demographic Characteristics, and 2) Business Characteristics. The objective of the nominal measurement is to identify and label groups and subsets which can be counted and compared. This will assist with the creation of demographic profile characteristics. The method of entrepreneurial entry (purchase vs. originate), business description and family participation represent critical characteristics impacting entrepreneurial behavior.

**Demographic Characteristics:** The first step in the measurement process was to create a demographic profile of the entrepreneur. The EPQ included a series of basic questions related to personal background, education, experience and family. Table 7.3 summarizes the demographic characteristics contained in the EPQ.

**Table 7.3**  
**Nominal Demographic Characteristic Measures**

<b><u>Individual</u></b> Name, age, gender, address, nationality	<b><u>Family</u></b> Marital Status, number of children, Father or Mother entrepreneurs
<b><u>Education</u></b> Number of years of education completed, area and level of study	<b><u>Experience</u></b> Number of years of business experience, number of years of experience in entrepreneurial field, number of equity positions in other firms

**Business Characteristics:** Other nominal measures of entrepreneurship and small business growth are the business characteristics of the enterprise. How the entrepreneur entered the business, a general business description, and the year of business start up were important measures. The role of family involvement in the business through investment or active participation in enterprise operations were also measured. Table 7.4 provides a summary of the business characteristics of Romanian entrepreneurs which were measured.

**Table 7.4**  
**Nominal Business Characteristic Measures**

<b><u>Entrepreneurial Spirit</u></b> When the entrepreneur realized they wanted to start a business, year business started, hours per week devoted to business	<b><u>Enterprise Profile</u></b> Method of inception, type of business activity, sources of capital, entrepreneurs percent of ownership
<b><u>Sales And Number Of Employees</u></b> Sales in thousands, number of employees, Last year, this year, next year, 5 years, ideal	<b><u>Family Participation</u></b> Number of family members who are investors in the business, number of family members who work full time and part time in the business

Appendix B includes copies of the EPQ which illustrate the order and presentation of the questions used to measure the demographic and business characteristics of Romanian entrepreneurs and their enterprises. Measurement and categorization of these fundamental characteristics are central to building an understanding of entrepreneurial based small business growth.

### **7.2.1-Ordinal Measurement Of Important Properties And Attributal Characteristics**

Operationalization of the research model also requires the ordinal measurement of some of the properties and characteristics associated with growth intentions and expansion plans of new entrepreneurs in Romania. To accomplish this, a series of script cue recognition items were incorporated. Ordinal measures are important because certain objects within the data set need to be rank-ordered based on operationally defined characteristics. This technique provides the ability to assert ordinal or rank-order statements across multiple dimensions.

Ordinal measures are used to create the dependent variable of growth intentions and expansion plans. By assigning numerals to behavioral indicators the study will measure the relationships between growth intentions and expansion plans and multiple levels of influence which shape small business growth.

To measure these aspects, a series of items are placed on an agreement continuum of corresponding attitude questions. By incorporating a summed rating scale, specifically a five point Likert, various sections of the EPQ measure the indicators and properties of the referent and cognitive objects impacting and shaping entrepreneurial small business growth intentions.

The EPQ contains a series of sections which measure personality and societal dimensions. Specifically individual psychological dimensions, as well as, social,



demographic and environmental dimensions. Most sections contain a series of script cue recognition items assigned numerals across a five point scale with 1 being strongly disagree, 2 disagree, 3 no opinion, 4 agree, 5 strongly agree.

Special note should be made regarding the measurement of the social dimensions and demographics. Social indicators are critical to measuring entrepreneurial growth intentions and expansion plans especially in transforming post centralized economies. To unlock the complex properties related to entrepreneurship, there is a need to measure the concepts which reflect social conditions and human status under the process of socio-economic change. To accurately measure the impact of the three dimensions, demographic data were statistically analyzed and tested.

Details related to the statistical analysis will be covered under separate section later in this chapter. With an understanding of the measurement techniques to be incorporated a detailed discussion concerning the dependent and independent predictor variables follows.

### **7.2.2-EPO Survey Measurement Categories**

The EPQ contains twelve sections; 1) Demographic Profile, 2) Business Characteristics, 3) Entrepreneurial Intensity, 4) Sacrifice, 5) Reasons and Motives, 6) Expansion Activities, 7) Quality of Life, 8) Attitudes and Beliefs, 9) Finance For Start Up, 10) Operational Assistance, 11) Sources of Advice, and 12) Difficulties and Obstacles.

As previously discussed, the Demographic Profile and Business Characteristics sections measure primarily nominal aspects. The remaining sections use a series of questions placed on an agreement continuum using a summed rating scale. Some sections measure the properties and characteristics associated with entrepreneurial growth intentions and

expansion plans while others focus on the various dimensions which impact and shape them. At this time individual components of the theoretical model will be discussed and the measurement of each construct operationalized.

### 7.2.3-Dependent Variable-

#### Entrepreneurial Growth Intentions And Expansion Plans

To measure the properties and characteristics associated with entrepreneurial growth intentions and expansion plans a series of IAPG were placed on an agreement continuum. Each IAPG item was assigned numerals of behavioral indicants using a summed rating scale (Likert-type five point scale). The following script cue recognition questionnaire items are suggested to represent the behavioral characteristics associated with entrepreneurial growth intentions and expansion plans or IAPG.

Entrepreneurs were asked.

“What is the likelihood of your firm engaging in the following activities within the next two years?”

*1 = Strongly disagree, 2 = Disagree, 3 = No opinion, 4 = Agree, 5 = Strongly agree*

1. Adding a new product or service.	1	2	3	4	5
2. Selling to a new market.	1	2	3	4	5
3. Adding operating space.	1	2	3	4	5
4. Expanding distribution channels.	1	2	3	4	5
5. Expanding advertising and promotion.	1	2	3	4	5
<hr/>					
6. Acquiring new equipment.	1	2	3	4	5
7. Computerizing current operations.	1	2	3	4	5

8. Upgrading computer systems.	1	2	3	4	5
9. Replace present equipment.	1	2	3	4	5
10. Expanding current facilities.	1	2	3	4	5
11. Adding specialized employees.	1	2	3	4	5
12. Redesigning layout.	1	2	3	4	5
13. Offsite training of employees.	1	2	3	4	5
14. Redesigning operating methods.	1	2	3	4	5
15. Seeking additional financing.	1	2	3	4	5
16. Seeking professional advice.	1	2	3	4	5
17. Researching new markets.		1	2	3	4
5					
18. Expanding scope of operating activities.	1	2	3	4	5

The results of this section of the EPQ were factor analyzed to help identify patterns and guide the construction of a series of measures of entrepreneurial growth intentions and expansion plans. Ultimately the cumulative variance explained by the IAPGs was determined. Through data analysis these IAPGs were factor analyzed and compared with Schumpeter's five categorical combinations theory.

#### **7.2.4-Independent Variables-**

##### **Determinants Of Small Business Growth, Multidemsional Predictor Variables**

Entrepreneurial growth and enterprise development is affected by a myriad set of interrelated variables. Three dimensions of predictor variables have been set forth in the theoretical model; Individual, Societal and Environmental. To measure the Individual or micro dimension, personality measures was used.

The measurement of the societal and environmental aspects strive to measure intermediate and macro forces. The objective was to measure the impact of social conditions associated with socio-economic change and subsequently how they impacted entrepreneurial growth intentions and expansion plans. Each of the subsequent predictor variables will be discussed individually.

### **7.3-The Micro Dimension-**

#### **Individual Entrepreneurial Orientation: Personality Measures**

The EPQ was structured to measure the personality traits and characteristics related to Entrepreneurial Intensity, Motivation and Sacrifices. The study will used a priori method constructed to reflect the personality dimension to be measured. The goal was to measure personality traits and attitudes which were enduring characteristics of an individual and reflected by the entrepreneur to respond in a certain matter. These personality traits shape the attitudes of Romanian entrepreneurs and are considered as an organized predisposition to think and behave toward a referent or cognitive objective.

Entrepreneurial Intensity, Motivation and Sacrifices are cognitive referents related to the personality of the entrepreneur. These behavioral referents provide categorically classified sets of behaviors and predictive theoretical constructs. The individual psychological dimensions of the entrepreneur frame the cognitive objectives pertaining to an entrepreneurs' level of commitment toward growing the enterprise.

The EPQ used summed ratings scales across sets of items of equal attitude value. Individual scales were summed, compared and measured. This allowed for the assessment of the intensity of attitude expression through the measurement of the variance. With a set of descriptive characteristics operationalized a more detailed

statistical analysis and testing was possible. Each of the three individual psychological dimensions will now be presented separately.

### **7.3.1-Entrepreneurial Intensity**

The level of personal commitment to entrepreneurship or entrepreneurial intensity represents an important personality measure. The EPQ contains a series of questions comprising a set of cognitive attitudinal phenomenon related to entrepreneurial intensity. Explanatory terms are presented to measure how intensely entrepreneurs approach their business endeavors. Questions related to personal priorities, achievement motivation and commitment to entrepreneurship as a vocation are important measures of entrepreneurial intensity.

Entrepreneurs were asked.

“Circle the response to indicate how you feel about the statement.”

*1 = Strongly disagree, 2 = Disagree, 3 = No opinion, 4 = Agree, 5 = Strongly agree*

- |    |  |   |   |   |   |   |
|----|--|---|---|---|---|---|
| 1. | My business is the most important activity in my life.   | 1 | 2 | 3 | 4 | 5 |
| 2. | I will do whatever it takes to make my business a success.   | 1 | 2 | 3 | 4 | 5 |
| 3. | There is no limit as to how long I would give a maximum effort to establish my business.               | 1 | 2 | 3 | 4 | 5 |
| 4. | I would be willing to make significant personal sacrifices in order to stay in business.               |   | 1 | 2 | 3 | 4 |
| 5. | I would go to work for someone else only long enough to make another attempt to establish my own firm. | 1 | 2 | 3 | 4 | 5 |
| 6. | My personal philosophy is to do “what ever it takes” to establish my own business.                     | 1 | 2 | 3 | 4 | 5 |

- |     |  |   |   |   |   |   |
|-----|--|---|---|---|---|---|
| 7.  | I plan to eventually sell my business.   | 1 | 2 | 3 | 4 | 5 |
| 8.  | I would like my business to make a significant contribution to the community.          | 1 | 2 | 3 | 4 | 5 |
| 9.  | I would rather own my own business than earn a higher salary employed by someone else. | 1 | 2 | 3 | 4 | 5 |
| 10. | Owning my own business is more important than spending more time with my family.       | 1 | 2 | 3 | 4 | 5 |
| 11. | I would rather own my own business than pursue another promising career.               | 1 | 2 | 3 | 4 | 5 |

Entrepreneurial intensity measures the entrepreneur's values and attitudes towards entrepreneurship and enterprise development. Effort, spirit, and drive are measured against the entrepreneurs desire to expand and grow their businesses.

### 7.3.2-Entrepreneurial Motivation

Entrepreneurial motivation can include reasons for forming a new business, the drive to put resources to work, and the incentive not to work for someone else. The need to have freedom to adopt one's own ideas, to learn, and to work with who you want are all entrepreneurial motives. The willingness to accept responsibility, setting financial goals through one's own effort and risk taking with enthusiasm and excitement result from entrepreneurial motivations. The following EPQ script que recognition items include traits and attitudes commonly associated with entrepreneurial motivation.

Entrepreneurs were asked.

"The following were reasons for going into business:"

*1 = Strongly disagree, 2 = Disagree, 3 = No opinion, 4 = Agree, 5 = Strongly agree*

- |    |  |   |   |   |   |   |
|----|--|---|---|---|---|---|
| 1. | To contribute to the welfare of the community I live in. | 1 | 2 | 3 | 4 | 5 |
|----|--|---|---|---|---|---|

2.	To have considerable freedom to adopt my own approach to my work.	1	2	3	4	5
3.	To keep learning.	1	2	3	4	5
4.	To give myself, my husband/wife and children security.	1	2	3	4	5
5.	It was the only thing I could do.	1	2	3	4	5
6.	To have an element of variety and adventure in my work.	1	2	3	4	5
7.	To have an opportunity to lead, rather than be led by others.	1	2	3	4	5
8.	To escape unsafe working conditions.	1	2	3	4	5
9.	To contribute to the welfare of my relatives.	1	2	3	4	5
10.	To be able to work in a desirable location for me and my family.	1	2	3	4	5
11.	To make better use of my training or skills.	1	2	3	4	5
12.	To be able to develop an idea for a product or business.	1	2	3	4	5
13.	To have fun.	1	2	3	4	5
14.	Desire to have high earnings.	1	2	3	4	5
15.	I wanted to continue a family tradition.	1	2	3	4	5
16.	To be challenged by the problems and opportunities of starting a business and making it grow.	1	2	3	4	5
17.	To achieve something and get recognition for it.	1	2	3	4	5
18.	To achieve a personal sense of accomplishment.	1	2	3	4	5
19.	To become part of a network of	1	2	3	4	5

entrepreneurs.

20.	To increase the status and prestige of my family.	1	2	3	4	5
21.	Needed more money to survive.	1	2	3	4	5
22.	Not to work for an unreasonable boss.	1	2	3	4	5
23.	To take advantage of an opportunity that appeared.	1	2	3	4	5
24.	To achieve a higher position for myself in society.	1	2	3	4	5
25.	Frustrated in previous job.	1	2	3	4	5
26.	To follow the example of a person I admire.	1	2	3	4	5
27.	To control my own time.	1	2	3	4	5
28.	To be able to work with people I choose.	1	2	3	4	5
29.	To be my own boss, to work for myself.	1	2	3	4	5
30.	To make a direct contribution to the success of a company.	1	2	3	4	5
31.	To have greater flexibility in my personal and family life.	1	2	3	4	5
32.	To be respected by friends.	1	2	3	4	5
33.	To be innovative and be in the forefront of technological development.	1	2	3	4	5
34.	To contribute to the welfare of my ethnic group.	1	2	3	4	5
35.	To have access to fringe benefits.	1	2	3	4	5
36.	To have influence in my community.	1	2	3	4	5
37.	To be able to work with people I like.	1	2	3	4	5



Entrepreneurial motivation will measure the entrepreneur's traits and attitudes towards important behavioral referents associated with small business development. This section will probe the entrepreneurs need for independence, need for achievement, locus of control and leadership aspirations. The stimulus to action represented by entrepreneurial motivation can be measured against the entrepreneurs growth intentions and expansion plans.

### **7.3.3-Entrepreneurial Sacrifices**

Entrepreneurs must make significant personal sacrifices in order to establish and develop their businesses. They must be willing to incur conflict, to give up family time and surrender personal savings. Entrepreneurs who aspire to grow their businesses often surrender family and leisure time to spend more time at work. The entrepreneurs' attitude toward sacrificing personal freedom for the sake of growing the enterprise represents an important measure of personality. The following script que summed rating scaled items are suggested to represent the notion of personal sacrifice.

Entrepreneurs were asked.

"In establishing my business I would be willing to incur the following."

*1 = Strongly disagree, 2 = Disagree, 3 = No opinion, 4 = Agree, 5 = Strongly agree*

1.	Conflict with the family.	1	2	3	4	5
2.	Lost time with the family.	1	2	3	4	5
3.	Use of all my savings.	1	2	3	4	5
4.	Lost time in another profession.	1	2	3	4	5
5.	Risk of total failure in this business.	1	2	3	4	5
6.	The wrath of my family.	1	2	3	4	5

7.	My position in the eyes of my friends. 5	1	2	3	4	
8.	Give up my friends.	1	2	3	4	5
9.	Quality time with my children.	1	2	3	4	5
10.	Mortgage on my house.	1	2	3	4	5
11.	Borrowing on my assets.	1	2	3	4	5
12.	Willingness to take on additional debt.	1	2	3	4	5
13.	The break up of my marriage.	1	2	3	4	5
14.	Significant recreation time.	1	2	3	4	5
15.	60 hours of working per week.	1	2	3	4	5
16.	Sending my children to a better college (school).	1	2	3	4	5
17.	Watching my favorite TV program.	1	2	3	4	5
18.	Attending my favorite sporting event. 5	1	2	3	4	
19.	Attending to a variety of undesirable responsibilities in my business.	1	2	3	4	5
20.	Willing to take on any task in my business.	1	2	3	4	5
21.	Willing to acquire additional skills at significant personal expense.	1	2	3	4	5

Entrepreneurs attitudes scaled through the summing of individual responses will allow for the measurement of the level of entrepreneurial sacrifice. Entrepreneurial sacrifice represents an organized predisposition to give up something in order to grow and expand their businesses and thus constitutes an important personal dimension.

**7.4-The Intermediate Socital Dimensions-**  
**The Role Of The Family And Demographics**

Education, Family Dynamics, Age and Year of Venture Establishment represent important societal components claimed to impact entrepreneurship and enterprise development. The challenge is how to measure, test and interpret the results. What follows is the operationalization of each of three determinants shaping growth intentions and expansion plans.

#### **7.4.1-Education And Entrepreneurship**

Does education impact entrepreneurial growth intentions and expansion plans? Is it positively related to small business development? Do entrepreneurs tend to come from any particular educational background? These are all questions which will be answered by the measurement and testing of education as a predictor of expansion plans and growth intentions. What follows is a description of how education is measured.

Entrepreneurs were asked.

Number of years off education completed (Please Circle)

Grammar School	High School	College	Graduate
5 6 7 8	9 10 11 12	14 15 16 17	18 19

Area of Study: (technical, economic, humanities, law, other)

---

The pretesting stage (Stage 4, Table 7.1) of the EPQ development led to asking for the area of study major. It was noted that the Romanian communist system had emphasized technical education placing special social prestige and economic opportunity to engineers and technical experts. Economics study also posed an interesting dimension as the socialist economic doctrine stressed centralized State controlled policy. Free enterprise and market economic concepts were viewed unfavorably.

#### **7.4.2-Family Dynamics And Entrepreneurship**

Family firms are the dominant form of business in market based economies.

Consequently there is a great need to measure the family's impact on entrepreneurship and enterprise development in post Soviet socio-economic systems. In less developing and transforming economies family and kinship networks have been theorized to contribute to small business development. However little empirical evidence supports such theories. Romania presents an excellent laboratory to measure and empirically test the impact of family dynamics on entrepreneurial growth intentions and expansion plans. Entrepreneurs were asked.

2. How many family members work in the business: \_\_\_\_\_  
                     Full Time \_\_\_\_\_                      Part Time \_\_\_\_\_
3. How many family members are investors in the business: \_\_\_\_\_

The family serves as a social intermediary linking the family network and household to the socio-economic system and helping both the group and individual adapt to change. The family network system impacts attitude, beliefs and perceptions imposing a strong influence over the entrepreneur. Thus it is vital to measure the impact of family dynamics on entrepreneurial intentions and expansion plans.

#### **7.4.3-Age/Year Of Venture Establishment And Entrepreneurship**

The entrepreneurs age reflects the influences of the social system where they have grown up. Age reflects a generation of socio-economic influences which shapes entrepreneurial orientation. The tenets towards entrepreneurship and small business development are an important to measurement and test. By measuring age, a sense of the lingering grip of communism can possibly be exposed. Are older entrepreneurs who have lived the majority of their lives under communism less entrepreneurial then younger more "Westernized" ones?

Entrepreneurs were asked.

Age: \_\_

4. What year was the business started: \_\_\_\_\_

By probing and measuring societal demographics in relationship to entrepreneurial expansion plans and growth intentions much can be learned about how culture impacts small business development. The Romanian context presents a unique set of circumstances ripe for investigation.

### **7.5-The Macro Economic Dimension-**

#### **Environmental Obstacles And Support Structures**

The environmental setting businesses operate in are greatly impacted by market conditions, financial systems, legislation, infrastructure and support services. To truly gain an understanding of how the macro environment influences entrepreneurship and small business growth various aspects need to be measured and statistically tested.

Which environmental dimensions are selected should depend on the particular circumstance at hand. For example, in the former Soviet Bloc three environmental aspects are critical to fostering a positive environment for entrepreneurs. Financial Infrastructure, Market Orientation and Support Services are vital macro environmental dimensions which can support or inhibit entrepreneurship and enterprise development. All three require a new way of economic thinking in transforming systems like Romania.

#### **7.5.1-Financial Infrastructure And Entrepreneurship**

How does the financial infrastructure or the lack of it impact entrepreneurship and enterprise development in transforming economies? In transition economies especially those as economically devastated as Romania, very little market based financial know-how or infrastructure exists. Start up capital, small business loans, access to credit, and

financial know-how all pose new issues no one has previously had to deal with. Using a summed rating scale a series of questions related to Financial Infrastructure were postulated

Entrepreneurs were ask.

The following difficulties were encountered in starting my business:

*1 = Strongly disagree, 2 = Disagree, 3 = No opinion, 4 = Agree, 5 = Strongly agree*

1.	Obtaining a loan.	1	2	3	4	5
12.	Extension of credit from supplies.	1	2	3	4	5
15.	Lack of access to capital.	1	2	3	4	5
29.	Lack of employees trained in financial affairs.	1	2	3	4	5
34.	Entry-level financial requirements.	1	2	3	4	5

The opportunity to measure and test the impact of the financial infrastructure on entrepreneurial growth intentions and expansion plans under the conditions of post communist socio-economic transition is noteworthy. Probing the financial infrastructure provides an opportunity to measure the impact of economic policy and small business growth.

### **7.5.2-Market Orientation And Entrepreneurship**

The establishment of a market orientated system is a revolutionary phenomenon in post communist economies. In the past the most basic principles of a market based system were considered unacceptable. In Romania private enterprise was illegal until 1990. Anti market sentiments were strong among both the politicians and the population in general. With the failure of the centrally planned economic system, a more democratic market system was implemented. Thus there is a need to measure how new entrepreneurial based small enterprises are impacted by the introduction of new socio-economic concepts.

Again using a summed rating scale, a series of questions related to Market Orientation were covered.

Entrepreneurs were asked.

The following difficulties were encountered in starting my business:

*1 = Strongly disagree, 2 = Disagree, 3 = No opinion, 4 = Agree, 5 = Strongly agree*

16.	Lack of clear regulations regarding private enterprise.	1	2	3	4	5
19.	Lack of understanding of entrepreneurship.	1	2	3	4	5
20.	Negative attitude towards profit making.	1	2	3	4	5
21.	Corruption.	1	2	3	4	5
22.	Anti market attitudes and behavior by the government.	1	2	3	4	5
	the people.	1	2	3	4	5
33.	Bureaucratic red tape.	1	2	3	4	5

Measuring the impact of Market Orientation on entrepreneurial growth intentions and expansion plans help answer questions related to macro environmental forces during transition. In turn this learning can assist policy makers as they struggle to transform their crippled economies.

### **7.5.3-Support Services And Entrepreneurship**

As entrepreneurs establish and grow their businesses they rely on a number of support services. This can range from guidance and professional counsel including managerial, marketing or technical know-how to the availability of basic information. In transition economies like those in Romania even basic information such as the rules and procedures regarding tax liability are non existent or in a state of constant change.

Thus the availability and quality of support services impacts entrepreneurial small business growth. To measure this determinant of growth intentions and expansion plans of new entrepreneurs in Romania EPQ respondents were asked a series of questions using a summed rating scale.

Entrepreneurs were asked.

The following difficulties were encountered in starting my business:

*1 = Strongly disagree, 2 = Disagree, 3 = No opinion, 4 = Agree, 5 = Strongly agree*

9.	Lack of guidance and counsel.	1	2	3	4	5
10.	Lack of knowledge and information sources.	1	2	3	4	5
17.	Lack of distribution channels.	1	2	3	4	5
33.	Lack of market information.	1	2	3	4	5
35.	Lack of sources of technical assistance.	1	2	3	4	5
36.	Lack of managerial services.	1	2	3	4	5



- |     |                         |   |   |   |   |
|-----|-------------------------|---|---|---|---|
| 39. | Lack of legal services. | 1 | 2 | 3 | 4 |
|     | 5                       |   |   |   |   |

Measuring the impact of support services provides an excellent opportunity to probe how macro economic infrastructure influences entrepreneurial growth intentions and expansion plans. Through empirical testing in the Romanian context much can be learned as to how entrepreneurs approach obstacles and support structures in relationship to small business development.

At this point the focus shifts towards how the sample data were analyzed and used to test the hypotheses and theoretical model presented in Chapter 6.

#### **7.6-Data Analysis:**

##### **A Combination Of Descriptive And Relational Research Techniques**

Data were analyzed using a combination of descriptive and relational research techniques. This two tiered data analysis approach is essential to address the research questions as well as to test the hypotheses. A series of statistical procedures were used to analyze the data from the EPQs. First a test of sample randomness by different industrial group was carried out. An ANOVA was used to test for sample bias. Second a series of general descriptive statistics was calculated.

Third an exploratory factor analysis using the Principal Components Method was used to transform the data, prepare it for further analysis and determine the levels of construct validity and reliability. Fourth, Pearson Correlation Coefficients were generated to probe the strength of the relationships between variables. Fifth the proposed hypotheses were tested using multiple regression analysis. The regression models tested the extent that the

Individual, Societal and Environment Dimensions impacted and shaped Entrepreneurial Growth Intentions and Expansion Plans.

#### **7.6.1-Test Of Sample Randomness By Different Industrial Groups**

The first stage of the data analysis process incorporates relational statistical techniques to determine the extent the empirical findings can be generalized to the population level.

Thus an analysis of variance test is undertaken as a method to look at the variability of sample means. As a method of testing for sample bias an ANOVA was utilized and an analysis of variance table presented and analyzed. This included estimating within and between group variability in the sample population.

To operationalize the analysis of variance the sample was divided into categorical variables. One variable is defined by industrial classification and the other, a dependent variable, by company size as measured by the number of employees. By testing the population variance between these variables determination may be made concerning the application of the sample across the general population.

The analysis of variance includes a series of five calculations comprising the ANOVA table presented in Chapter 8. First the sum of squared deviations about the mean was computed. Second the total number of degrees of freedom between the two sources of variation were calculated. Third the mean squares were calculated by dividing the sums of squares by their corresponding degrees of freedom. Next the F statistic comparing the group mean squares was determined. The significance of the F value variance between populations is the fifth and final calculation.

#### **7.6.2-Series Of General Descriptive Statistics**

Once the sample was tested for randomness the data analysis shifted towards a descriptive research perspective. The primary goal of this section is to map out the

circumstances, characteristics of the situation and socio-economic forces present in Romania. To begin with, a general demographic profile of the entrepreneur was created and accessed. This was followed by creating an enterprise profile which provided insight into the characteristics associated with entrepreneurship and enterprise development.

By using sample means as a method of comparison, the data analysis identified which type of activities and behavior occurred between entrepreneurs, the family and society in general. Starting with a basic approach of analyzing sample means, patterns of behavior can be analyzed to gain preliminary insight into a complex phenomena.

These results had to be utilized in three ways: 1) create a primary psychological profile of the Romanian entrepreneur; 2) develop some fundamental insights into how the family network affects the entrepreneur and enterprise relationships; 3) gain insight into the forces shaping the socio-economic environment; and 4) identify the general levels and central types of expansion plans entrepreneurs have. The results of the descriptive data analysis provide direction for further analysis related to the levels, types and predictors of growth intentions and expansion plans.

### **7.6.3-Exploratory Factor Analysis Via The Principal Components Method**

Many variables influence and shape entrepreneurial phenomena. Therefore some exploratory data analysis was called for in order to more deeply and realistically probe into this phenomena. The objective was to examine the multiple influences of several independent variables and determine what measures belong together. Accordingly a series of exploratory factor analysis using the principal components method was incorporated to help locate and identify unites and fundamental properties underlying the measures of the dependent and independent variables.

By engaging in a series of exploratory factor analytic principal components analysis the idea was to investigate and statistically validate the construct validity of the latent variables which comprise the theoretical model. By testing the construct validity of a hypothetical entity the concept was to analyze the constitutive meaning of the constructs. In other words statistically analyze the theoretical expectations of the key variables.

Principal components analysis provides insights to access the effects of latent variables on other variables. This exploratory procedure leads to analyzing the magnitude of the effects related to the series of independent predictor variables described in the multidimensional model in Chapter 6. The principal components analysis helped clarify the structure and construct validity of the variables.

#### **7.6.4-Pearson Correlation And Multiple Regression Analysis:**

##### **The Effects Of Dimensional Predictors**

With this learning in hand two additional procedures will be employed Pearson Correlation and multiple regression analysis. First, Pearson Correlation coefficients will be generated to provide insights into the strength of the relationships between variables. Second, multiple regression analysis will be undertaken. The regression procedure tested the hypothesized entrepreneurial phenomena associated with the growth intentions and expansion plans of Romanian entrepreneurs.

Multiple regression, and analysis of variance represent basic and useful statistical applications to analyze propositions which explain complex phenomena. Regression modeling provides a powerful statistical method with some control for variance. Multiple regression, and analysis of variance techniques represent a relatively precise method to measure the complex interactions between entrepreneurial expansion plans and

growth intentions (the dependent variable) and a series of multidimensional predictors (independent variables).

The goal is to measure the relative amounts of influence associated with the various predictors of entrepreneurial growth intentions. Probing the magnitude of different sources of influence on entrepreneurial growth intentions and expansion plans provides for the opportunity to test the hypotheses presented in Chapter 6 . From this point some inferences may be drawn based on the statistical significance of the outcome.

The decision to use multiple regression lies in the desire to predict values of the dependent variable from a set of independent multidimensional variables. As a method of building a regression model with more than one independent variable, a series of statistical tests are called for in order to analyze the data.

First the level of model predictability was calculated and used to measure the predictable variability between variables using Pearson's product-moment correlation. Reported as R and R Square scores this helps measure the proportion of variance accounted for in the model. This measured the proportion of variability explained by the various multidimensional independent predictor variables.

Next an ANOVA was calculated including the sum squared deviations of the means, mean squares, and degrees of freedom. This phase of the data analysis includes F statistic tests which bring to light the significant differences among treatment means. The overall regression F test was used to test the population regression coefficients. The level of significance of the F test helped indicate if one or more of the population means are different.

Beta weights will be calculated to avoid the common mistake in regression analysis of equating the magnitude of partial regression coefficients to the relative importance of the variables. The beta coefficients specify the probability for some error in the analysis. T statistics were incorporated as a method of looking at the differences between sample and population means. Specifically the T statistic measures the standard error differences between means. The T statistic test provides further insight into the partial regression coefficients.

The strength of the linear relationships among the independent variables principally the tolerance and collinearity were also measured. The objective is to look at the stability of the regression coefficients. Tolerance is the proportion of variability that is not explained by its linear relationships with other independent variables in the theoretical model. This analysis helps indicate how much of a particular independent variable's variability is explained by other independent variables.

#### **7.6.5-Summary And Next Steps**

This chapter has described the research design and methods for analyzing the data, answering the research questions posed, and testing the research model presented in Chapter 6. With data collection, measurement and data analysis procedures described in detail this study is now prepared to report the results. Chapter 8 proceeds to report the results as this method is applied.

## 8-RESULTS AND FINDINGS

### 8.1-Results Of The Multiple Analysis Of Data

*“Household and community lives derive from the pre-socialist past, when sociability was expected to ameliorate the effects of economic underdevelopment , upward social mobility was admired and wealth, entrepreneurial behavior, and technological innovation were respected” (David Kideckel, 1993, p. 24)*

This chapter presents the results of the empirical investigation. The chapter focuses on seven areas. First it begins with a test for sample randomness by different industrial groups. Next a description of the sample is presented leading to the creation of a profile of the Romanian entrepreneur. Third a profile of the Romanian small business is set forth. From this point descriptive statistics are used to probe the level of entrepreneurial spirit and vitality. Next the types and levels of Entrepreneurial Growth Intentions and Expansion Plans are probed and operationalized. This serves to address the research questions as well as assist with validation of the measures of entrepreneurial based small business growth.

Fifth, the role and the impact of the Family Network System on entrepreneurship is described. This is followed by the description of how the socio-economic environment shapes and impacts entrepreneurship. Lastly the predictors of entrepreneurial growth intentions and expansion plans including the series of proposed hypotheses are tested using multivariate statistical techniques to further probe small business growth.

#### 8.1.1-Results Of The Test Of Sample Randomness By Different Industrial Groups

One question that arises from the cluster sampling technique employed is weather there is a random sample and to what extent the empirical findings from the research can be generalized to the population level. Therefore an analysis of variance or ANOVA was

used to test for sample bias. The sample was grouped by different industries to create a categorical variable while company size measured by the number of employees represented the dependent variable.

The results of an analysis of variance are presented in Table 8.1. The ANOVA test indicated that the group variable-industrial classification is not a predictor of firm size, suggesting that the data represented a reasonably unbiased sample set.

**Table 8.1**  
**ANOVA: Industrial Classifications As Categorical Variable And**  
**Size Of Company By Number Of Employees As A Dependent Variable**

<b>Source of Variation</b>	<b>Sum of Squares</b>	<b>Degree of Freedom</b>	<b>Mean Square</b>	<b>F</b>	<b>Significance</b>
Main effect					
Size of company	5199.097	8	649.988	1.528	0.147
Explained	5199.907	8	649.988	1.528	0.147
Residue	115736.449	272	425.502	1.528	0.147
Total	120936.356	280	431.916		

N=410

Although it was not possible to determine exactly which means were different it was possible to conclude that the population means based on industrial classification were different from those of company size (number of employees). Based on this ANOVA it may be concluded that the cluster sampling technique across eight urban centers in Romania provided a valid random sample from which empirical research findings may be generalized at a population level.



## **8.2-General Demographic Profile Of The Romanian Entrepreneur:**

### **Age, Education And Experience**

This section presents general demographic information which helps to describe the sample. Age, education, experience, gender and ethnicity provide important insights and offer a clear account of the central characteristics of the Romanian entrepreneur.

The average age of the Romanian entrepreneurs was approximately 40 (38.82) years old. Men tended to average 39 years of age while women were found to be slightly younger at approximately 38 years (see Table 8.2). Consequently it appears that many of the entrepreneurs sampled lived the majority of their lives under communism.

The quality and level of education in Romania was quite high. The majority of the urban population attended a university. With an average of 15 years education, most Romanian entrepreneurs had some training beyond high school.

The Communist era emphasized rapid, heavy industrialization which explained the technical focus of most entrepreneurs. The prominent status of engineers often included better job opportunities. Not surprisingly, Romania's aspiring entrepreneurs had substantial work experience (an average of 14.5 years, see Table 8.2). Perhaps many got their enterprise ideas as a result of observation and participation in the previous system. However, most Romanian entrepreneurs could have had only a limited amount of experience with private enterprise development, (only 3.9 years, Table 8.2), since entrepreneurship was illegal until January of 1990.

**Table 8.2**  
**Age, Education And Experience Of Romanian Entrepreneurs By Gender**

Category	Total	Male	Female
Age	38.82	39.22	38.12
Years of Education	15	15.6	14.7
Predominant Area of Study	Technical	Technical	Economics
Years of Work Experience	14.5	14.5	14.5
Years of Business Experience	3.9	4.3	3.2
Total Sample	410	292	118

### **8.2.1-Leading Role For Woman Entrepreneurs**

Almost one third (29%) of entrepreneurs surveyed were women. According to the 1994 Romanian Statistical Yearbook approximately 40 percent of the work force was comprised of women (Anuarul Statistic Al Romaniei, 1994). They averaged approximately 15 years of education. Based on the Romanian system this revealed that many female entrepreneurs had some advanced training, but not necessarily a university degree.

Women gravitated toward economics since the centralized system of the communists generated a large number of administrative positions. Under communism women were fairly well integrated into the economic system (Fischer-Galati, 1970). Results show men tended to study in technical fields and to have completed one more year of education (Table 8.2).

Women's active partnership role in the socialist economic system was best demonstrated by their level of work experience. Averaging 14.5 years, equal to their male counterparts, women represented a key component of the pre-transition socio-economic system.

By contrast, women lagged behind men by 1.1 years of business experience.

Three likely reasons account for this: Many women remained employed in their state sector positions, tending to work in more stable non-technical fields during the early years of transition; many male Romanian entrepreneurs used their wife's income as seed capital in establishing new enterprises; and many women turned to part-time employment in the private sector because of better wages, and more time for the family.

### **8.2.2-Summary Profile** **Of New Romanian Entrepreneurs**

Romanian entrepreneurs were found to be middle aged (approximately 40 years old) with some tangible educational training beyond high school. With a technical emphasis entrepreneurs were found to have substantial work experience (an average of 14.5 years) yet very little business experience (less than 4 years). In terms of nationality 95 percent were Romanian, the remaining 5 percent were primarily Hungarian.

With no free enterprise permitted prior to 1990, small businesses had to be created without a model to follow. Only 19.5 percent of their fathers and 10.7 percent of their mothers had been entrepreneurs. Thus it was not surprising that 70 percent of the Romanian entrepreneur's surveyed had only between one and two years of business experience. Therefore it may be concluded that these Romanian entrepreneurs were pioneers who represented a new social class. In addition these enterprises were truly at the very beginning of conception and development.

This data set represented a unique once in a life time opportunity to study entrepreneurship in an embryonic stage. These were new entrepreneurs with little experience in pursuit of small business growth and development.

### **8.2.3-General Profile Of New Entrepreneurial Led Romanian Small Businesses**

With a profile of the Romanian entrepreneur established the findings now shift toward the enterprise. This portion of the study reports important observations related to the newly emerging small private enterprise in Romania. Entrepreneurship and enterprise formation, sources of capital, business type, ownership and firm size follow.

Romania had one of the highest state-dominated economies in East Central Europe, with over 95 percent of the businesses nationalized. For example prior to 1990, private sector shops accounted for less than 1 percent of retail sales. The idea of owning one's own business started to take root only in 1989, the same year President Ceausescu fell from power (Table 8.3).

As Romania began its social and economic transformation in 1990, news and information began to flow freely from the West (Gilberg, 1992). Under the illusion of a newfound freedom, Romanians' interest in establishing one's own business apparently began to grow. In 1990 over 50 percent of the sample indicated they wanted their own business. Another 27 percent seemed to require a year of observation and change to catch the entrepreneurial spirit.

**Table 8.3**  
**Spirit And Enterprise Formation**

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<i>Question</i>	<i>1988</i>	<i>1989</i>	<i>1990</i>	<i>1991</i>	<i>1992</i>
Question 1: When did you first know you wanted to go in to your own business?					
Question 2: What year was your business started?					
Question 1	.5	7.3	52.3	27.3	12.6
Question 2	.2	.2	35	35.1	29.5

---

Owning a business was forbidden by law until January 1990 when Decree Law No. 54 authorized the establishment of private small business. Table 8.3 shows that approximately one-third of those who aspired to develop their own business did so in the first year it was possible. Approximately one-third of the sample began in 1991 with the remaining 29.5 percent engaging in entrepreneurial activities by 1992.

#### **8.2.4-Sources Of Financing For Startup**

Family savings were the primary financial resources used to establish private enterprises. In fact, family members were the predominant sources of capital (see Table 8.4). Spouses, fathers, mothers and siblings were all in the Top 10 sources of finance for startup. Two and three generations worked together to establish a business. From these data it was clear that investors were likely part of the extended family or network of friends.

Extended personal relationship networks represented the second most common source. These included work colleagues, the entrepreneur's closest friend, and other friends all of which appeared in the top 10. Bank loans played a visible role in startup. Unfortunately, this often proved to be extremely costly. Funds borrowed at twenty-five percent interest in 1993 grew to a rate of 75-80 percent based on inflation (The Economist Intelligence Unit, 1994).

**Table 8.4**  
**Sources Of Financing For Startup**

<i>Category</i>	<i>Mean Importance</i>
1. Family savings	3.67
2. Bank loan	2.61
3. Spouse	2.52
4. Someone you work with	2.06

5. Investor	1.89
6. Closest friend	1.76
7. Father	1.68
8. Mother	1.59
9. Brother/Sister	1.59
10. Other friend	1.54
11. Daughter	1.36
12. Son	1.35
13. Other family member	1.28
14. Uncle/Aunt	1.22
15. Cousin	1.21

Range 1-5; N = 410

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What became clear in startup was the importance of the family financing. These findings parallel the research of Cobian-Bacanu (1992), Stanoiu and Voinea (1993) and Pistrui (1993), which suggested that entrepreneurs relied on family and personal networks for resources. In most cases both husband and wife worked. It was common practice for one family member worked full time on developing the business, while the other household adult worked with an established enterprise.

Table 8.4 identifies that out of fifteen sources of capital listed, the family accounted for ten. Table 8.4 also illustrates the involvement of multiple generations as sources of startup capital. Given the lack of financial markets combined with the overall level of

mistrust and uncertainty, it became evident that entrepreneurs relied primarily on the family with some assistance from personal networks for startup financing.

### **2.2.5-Business Activities Of Romanian Entrepreneurs**

Private firms in Romania were predominately companies of limited liability (SRL). Eighty-four percent comprised this segment. This type of association was the logical choice in view of the ease of entry, financial requirements and liability. Private collectives (6.4%) and sole proprietorships (5.9%) made up the next two types of business associations.

Commerce, trade, and the services segments represented the majority of industries entrepreneurs entered. These three categories represented 69.5 percent of all business activities. Table 8.5 provides a ranking and percentage breakdown by business activity.

The tendency of business activities toward trade, commerce, and service could be based on two criteria. The government allowed entrepreneurship in these sectors as great demand for these services arose (Pistrui, 1993). Also some tradition of entrepreneurial activities in these segments existed in the past (Georgescu, 1991). Additionally, the dysfunctional centralized system did not possess the resources or know-how to engage in many of these industries leaving pent-up demand.

The remaining sectors, including transportation, construction, and financial services, were slowly evolving to play support roles by providing enterprises with vital operating resources.

**Table 8.5**  
**Business Activities Of Romanian Entrepreneurs**

<i>Type of Activity</i>	<i>Percent of Total</i>
Trade and Commerce	49.1
Professional Service	20.4
Distribution/Wholesale	7.6
Manufacturing	7.1
Transportation	5.9
Service Organization	5.1
Construction	2.3
Finance/Insurance/Real Estate	2.0
Other	0.5

N=410

#### **8.2.6-Ownership Profile And Size Of New Romanian Small Businesses**

On average, Romanian entrepreneurs owned a 63 percent share in their firms. Only 33 percent owned the entire business, and 25 percent owned one-half. Two-thirds of the Romanian entrepreneurs surveyed were employed in enterprise development, and relied on the participation and involvement of others. As for the other investors it seems likely that Romanian entrepreneurs relied heavily on family members, friends, and trusted colleagues.

Based on the turbulent conditions associated with transition, entrepreneurship appeared to be the result of close networks helping to establish and develop new enterprises.



Relationships established in the workplace, neighborhood, and family surfaced in the data as the fundamental components of entrepreneurship networks during transition.

The average number of employees was 11 per enterprise. Fifty-five percent had between one and five employees, while 23 percent had over ten. These employment figures indicated that most business development has been on the micro level, in less labor-intensive fields. With no free enterprise permitted prior to 1990, combined with the general lack of capital, the idea of developing their own business was a foreign concept for the vast majority of Romanians, and only small businesses were created.

Of the entrepreneurs surveyed, 88 percent took new ideas and developed their own enterprises. As the entrepreneurial spirit grew, a second entry mechanism evolved. The purchase of a private business became an option and 11 percent chose this path. Only one percent became second generation entrepreneurs through inheritance.

#### **8.2.7-Summary Profile Of New Entrepreneurial Led Small Enterprises**

Entrepreneurial led small business development is a phenomenon which began in the early 1990s following the fall of communism. These brand new enterprises rose out of the ashes of economic destruction primarily in 1990, 1991, 1992. They were indeed very unique entities representing new private enterprises which began at the moment of socio-economic transition.

Family savings contributed by multiple generations with strong support by the spouse served as the principal source of seed capital. The family coupled with trusted members of the entrepreneur's personal network provided additional financial support to these new fledgling enterprises.

Focusing primarily on commerce, trade and service offerings these new enterprises provided new products and services the government was not able to fill. As these market driven businesses emerge they are creating new demands for transportation, construction and financial services. This in turn fosters continued entrepreneurship encouraging more new venture creation.

Two thirds of these new enterprises were partnerships where the entrepreneur owned an average of 63 percent. Additionally these new ventures were micro enterprises with an average of 11 employees. Only 23 percent had over 10 employees. The entrepreneurs surveyed clearly represent brand new businesses in the early stages of development.

These new Romanian entrepreneurs were risk bearing innovators. Eighty eight percent of these entrepreneurs created new ideas in developing their enterprises. Only 11 percent purchased the business while a mere 1 percent took the enterprise into a second generation from a founding family member.

This sample of post-communist entrepreneurs represents an extremely unique set of individuals with little business knowledge yet a lot of spirit and drive. The family network system provided critical financial resources to support the entrepreneur. With these insights in context attention will now shift to addressing the research questions set forth in Chapter 1.

### **8.3-Answers To The Series Of Related Research Questions**

At this point three of the four related research questions are addressed; 1) What are the levels and specific types of expansion plans?, 2) How does the family network impact growth intentions and expansion plans?, and 3) How does the socio-economic environment impact expansion plans and growth intentions? The results and findings

which follow address the three dimensions which shape and influence entrepreneurial growth intentions and expansion plans. The fourth research question related to the predictors of expansion plans will be addressed later in a separate section.

### **8.3.1-Entrepreneurial Orientation: Reasons And Motives For Entrepreneurship**

Entrepreneurial orientation is a key determinant of small business growth. Accordingly the entrepreneurial motives, intensity and sacrifices provide an appropriate measure of the entrepreneurial value orientations shaping the psychological disposition towards enterprise growth and development.

Romanian entrepreneurial activity was based on the desire for security, freedom, and personal sense of accomplishment (see Table 8.6). Family security was a primary motive. Given the economic uncertainty and overall instability within Romania during the transition, entrepreneurs believe that freedom to adopt and create a less centralized approach to work provided them with the best opportunity for family well-being and security. There was a strong drive to achieve a personal sense of accomplishment along with a hunger to make better use of training and skills.

A second theme in the ranking was the desire to develop new ideas for products or businesses. This represented the creative desires which motivate. Working for one's self, creating new products and businesses, and gaining recognition reflected a somewhat romantic motivation, boosting both self esteem and societal recognition.

Romanian entrepreneurs also sought to select with whom they worked. Given the general high level of mistrust in Romanian society, (Radulescu, 1993; Zamfir, 1994; and

Sandu, 1996) it was not surprising that entrepreneurs wanted to choose people they like and trust.

In other words, to further the security for the immediate family, the Romanian must have a reliable and trustworthy group of co-workers.

In terms of reward for efforts, it was not financial incentive which motivated, but "access to fringe benefits" which can be used to reward employees, provide extras to the family, and to maneuver to get things accomplished amidst the political/bureaucratic corruption.

**Table 8.6**  
**Top 15 Reasons And Motives For Entrepreneurship**

<i>Items</i>	<i>Mean Importance</i>
1. To give myself, my husband/wife and children security.	4.49
2. To have considerable freedom to adopt my own approach to work.	4.46
3. To achieve a personal sense of accomplishment.	4.44
4. To make better use of my training and skills.	4.30
5. To be my own boss, to work for myself.	4.29
6. To be able to develop an idea for a product or business.	4.27
7. To achieve something and get recognition for it.	4.23
8. To be able to work for people I choose.	4.20
9. To have access to fringe benefits.	4.16
10. To be able to work with people I like.	4.15
11. To increase the status and prestige of my family.	4.12
12. To have greater flexibility in my personal and family life.	4.06
13. To keep learning.	4.03

14. To make a direct contribution to the success of a company.	3.98
15. To be able to work in a desirable location for me	3.93
Range 1-5; N = 410	

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Driven by the motivations of increasing the security, status, and prestige of the family unit, these values reflected the strong cultural tradition of emphasizing the group over the individual. The underlying motivational factors suggested that entrepreneurship was greatly influenced by the need to improve the family's well-being within the socio-economic turmoil of transition. This included the motivation to enhance the family's position in the eyes of society.

Romanian entrepreneurs were also motivated by a series of individual aspirations including the need for creative and personal independence, craving for personal accomplishment, and the desire to better utilize personal skills.

### **8.3.2-Levels Of Romanian Entrepreneurial Intensity**

Entrepreneurial intensity surfaced as a distinctive trait in the entrepreneur's psychological makeup. Romanian entrepreneurs exhibited an extremely high level of intensity and commitment towards their enterprises. They appeared to have a passionate determination toward building an enterprise and being independent.

A "do whatever it takes attitude" toward maximum effort underscored the intense focus Romanian entrepreneurs displayed (see Table 8.7). They were willing to make significant sacrifices in order to stay in business and preferred owning their own business to another promising career. The Romanian entrepreneur viewed the enterprise as one of the most important activities of their lives.

**Table 8.7**  
**Entrepreneurial Intensity**

<i>Item</i>	<i>Mean Importance</i>
1. I will do whatever it takes to make my business a success.	4.73
2. I would be willing to make significant personal sacrifice in order to stay in business.	4.48
3. I would rather own my own business than pursue another promising career.	4.47
4. My personal philosophy is to do “what ever it takes” to establish my own business.	4.12
5. I would go to work somewhere else only long enough to make another attempt to establish my own firm.	4.11
6. My business is the most important activity in my life.	3.99
7. I plan to eventually sell my business.	3.82
8. There is no limit as to how long I would give a maxim effort to establish my business.	3.36
9. I would rather own my own business than earn a higher salary employed by someone else.	3.33
10. I would like my business to make a significant contribution to the community by developing a successful business.	3.24
11. Owning my own business is more important than spending more time with my family.	1.58
Range 1-5; N=140	

By the same token the question arises as to the long term commitment to the enterprise. This becomes apparent by the fact that many appeared to be already planning to sell their business. Perhaps the fact that these were new enterprises operating in an emerging

economy, entrepreneurs maybe contemplated building, selling and pursuing other entrepreneurial opportunities. It seemed highly likely that entrepreneurs would reinvest and enter into another new business.

Above all, Romanian entrepreneurs were found to be deeply committed to the development of their enterprises. However Romanian cultural norms reinforced the traditional orientation towards “familyness” as entrepreneurs appeared less willing to give up time with the family even to build their business. Overall Romanian entrepreneurs indicated a focused intensity and individual drive towards enterprise growth and development.

### **8.3.3-Willingness To Make Personal Sacrifice In Support Of Entrepreneurship**

Romanians take their entrepreneurial activities very seriously and exhibited a great willingness to make personal sacrifices to support business development. The first indication of their sacrifice was found in the Romanian entrepreneurial work ethic. Entrepreneurs rank “60 hours of working per week” at the top of what they were willing to incur in establishing their business (see Table 8.8).

Romanian entrepreneurs were also willing to relinquish leisure and recreational activities to build their businesses. In fact three of the top six mean rankings included giving up TV viewing, attending sports events and giving up recreation time.

Given the fact that most private enterprises in Romania were small, it is not surprising to see that entrepreneurs were willing to take on any task related to their business. Not only were entrepreneurs willing to give up leisure time they are also willing to make direct personal sacrifices in the workplace.

Romanian entrepreneurs appeared to be willing to make considerable personal and financial sacrifices. This indicated an appetite to invest in training and personal development to acquire additional skills. In terms of financial sacrifice Romanians were willing to take on additional debt and to use all of their personal finances to support entrepreneurship and enterprise development.

**Table 8.8**  
**Entrepreneurial Sacrifice**

<i>Item</i>	<i>Mean Importance</i>
1. 60 hours of working per week.	4.24
2. Watching my favorite TV program.	4.14
3. Willing to take on any task in my business.	4.13
4. Willing to acquire additional skills at significant personal expense.	4.12
5. Attending my favorite sporting event.	4.07
6. Significant recreation time.	3.99
7. Attending to a variety of undesirable responsibilities in my business.	3.92
8. Willingness to take on additional debt.	3.45
9. Use of all my savings.	3.44
10. Lost time with my family.	3.42
11. Risk of total failure in this business.	3.32
12. Sending my children to a better school.	3.32
13. Lost time in another profession.	3.16
14. My position in the eyes of my friends.	3.09
15. Quality time with my children.	2.94



16. Conflict with my family.	2.79
17. The wrath of my family.	2.69
18. Borrowing on my assets.	2.62
19. Give up my friends.	2.76
20. Mortgage on my house.	2.55
21. The breakup of my marriage.	1.76

Range 1-5; N=140

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Perhaps the most significant indication as to the level of sacrifice found among Romanian entrepreneurs was found in their willingness to give up time with their families. By Romanian socio-cultural standards this was the ultimate sacrifice and perhaps the best indication of the deep commitment entrepreneurs had towards their enterprises.

#### **8.3.4-Romanian Entrepreneurial Value Orientations**

##### **Towards Small Business Development**

Romanian entrepreneur's psychological disposition suggested that they had an orientation toward expanding and growing themselves personally and subsequently their enterprises. Entrepreneurs appeared to possess a strong drive and are willing to give maximum effort to their business endeavors (see Table 8.9). They appeared committed and willing to do what ever it takes to make their enterprise a success.

Family security rated high as a primary motive of Romanian entrepreneurs. This suggested a strong traditional cultural orientation emphasizing the group over the individual. By the same token entrepreneurs strived for personal prestige and growth. Creative independence and the need of achievement further supported the idea that

Romanian entrepreneurs have a psychological disposition toward growing their businesses.

**Table 8.9**  
**Romanian Entrepreneurial Value Orientation**

<i>Value Characteristic</i>	<i>Mean Importance</i>	<i>Psychological Thematic Traits</i>
1. Intensity	3.81	Drive and maximum effort, committed entrepreneurial orientation, willingness to make significant personal sacrifice.
2. Motivation	3.54	Family security, prestige and personal growth, need for achievement and independence.
3. Sacrifices	3.28	Strong work ethic, relinquish personal freedom and leisure, build skills at significant personal expense.
Range 1-5; N=410		

Romanian entrepreneurs also tended to place emphasis on a strong work ethic and were willing to give up leisure and recreation to pursue entrepreneurship. In fact they indicated that they were willing to build personal skills while incurring significant personal expenses.

The value orientation of Romanian entrepreneurs strongly suggested that they had a hunger and need for achievement. They were clearly committed to personal growth and development. Their psychological characteristics in terms of intensity, motivations and sacrifices suggested an early indication of hearty drive toward expanding and growing

their businesses. At this point the questions becomes what are the types of expansion plans these entrepreneurs have?

### **8.3.5-Entrepreneurial Venturing:**

#### **Innovative Strategic Growth Intentions And Expansion Plans**

Romanian entrepreneurs seemed strongly committed to entrepreneurial expansion and small business growth (see Table 8.10). Five growth themes emerged among these new entrepreneurs. First, entrepreneurs desired to expand into new markets by offering new products and services. This included looking ahead by researching new markets.

Second, Romanian entrepreneurs felt strongly toward expanding operations including adding new equipment, space and distribution channels. Expanding advertising and promotion was another growth intention. The third growth theme was the entrepreneur's desire to expand the knowledge base within their enterprise. Both offsite training and adding specialized employees ranked high with Romanian entrepreneurs.

**Table 8.10**  
**Entrepreneurial Growth Intentions And Expansion Plans**

<i>Items</i>	<i>Mean Importance</i>
1. Adding a new product or service.	4.46
2. Acquiring new equipment.	4.37
3. Adding operating space.	4.28
4. Offsite training for employees.	4.22
5. Expand current facilities (tie).	4.20
5. Researching new markets (tie).	4.20

5. Expanding scope of operating activities (tie).	4.20
6. Expanding distribution channels (tie).	4.11
6. Expanding advertising and promotion (tie).	4.11
7. Adding specialized employees.	4.05
8. Computerizing current operations.	3.97
9. Seeking additional financing.	3.94
10. Selling to a new market.	3.91
11. Redesigning operating methods.	3.84
12. Replace present equipment.	3.83
13. Upgrading computer systems.	3.81
14. Redesigning layout.	3.81
15. Seeking professional advice.	3.63

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Range 1-5; N=410

Upgrading technology was the fourth type of general expansion plan entrepreneurs have. For example computerizing current operations ranked as an important activity among Romanian entrepreneurs. Fifth, entrepreneurs intended to seek additional financing to support operations and expansion.

Romanian entrepreneurs showed a clear orientation toward growing and expanding their enterprises. Five general types of expansion plans and growth intentions received high rankings by Romanian entrepreneurs. These themes represented streams of intended implementable growth plans. Mean rankings strongly suggested that Romanian entrepreneurs were committed to growing their small businesses.

### **8.3.6-Romanian Growth Intentions And Expansion Plans**

Table 8.11 provides an operational summary of the Mean Importance rankings of the SBCs as measured by the mean scores of the IAPG. Romanian entrepreneurs identified the introduction of new goods and services as a top growth priority. They also seemed eager to introduce new methods of production. This calls for adding operating space and new equipment. They also appeared to be aggressively pursuing new sources of supply both in terms of business expansion and personal advice.

As they introduced new produces and services Romanian entrepreneurs strongly identified the need to open new markets. Yet industrial organization received the lowest mean ranking suggesting that technological advancement, additional financing and major operational upgrades may be more difficult. Without doubt Romanian entrepreneurs indicated the intense desire to bring together new productive means associated with entrepreneurial led enterprise growth.

**Table 8.11**  
**Strategic Behavioral Characteristics**

<i>IAPG-Growth Intentions And Expansion</i>	<i>Mean Importance</i>
1. Adding a new product or service.	4.46
2. Expand scope of operating activities, adding space and new equipment.	4.28
3. Expanding distribution channels and seeking professional advice.	4.07
4. Researching and selling to new markets.	4.06
5. Adding knowledge, new methods of operations, technology upgrade, seeking financing.	3.98
Range 1-5; N=410	

### **8.3.7-General Levels And Types Of Growth Intentions And Expansion Plans**

Romanian entrepreneurs had strong value orientations towards enterprise growth and development. Although they had little small business experience these new entrepreneurs exhibited an intense drive and willingness to put forth a committed maximum effort into their enterprises.

The entrepreneurs primary motives included family security and the desire to achieve some personal growth. Romanian entrepreneurs showed a strong work ethic including a willingness to give up leisure and personal time. Together these psychological trait components indicated a general high level of entrepreneurial orientation suggesting a strong intention to expand and grow their enterprises.

The Mean Importance ranking suggested that these new entrepreneurs aggressively intended to expand and grow their enterprises. Adding new products and services, expanding into new markets, upgrading and augmenting operations all rated strongly with Romanian entrepreneurs. These pioneers also planned to add technology and seek additional financing further underscoring their aggressive growth intentions and expansion plans.

Furthermore the Mean Importance ranking of the SBCs reinforced the general levels and specific types of growth intentions and expansion plans Romanian entrepreneurs had. These new and unique entrepreneurs exhibited significantly high levels of growth intentions and expansion plans. The SBC rankings identified that entrepreneurs aggressively pursued creating new combination of resources to introduce new products, services, operations and economic organization in a turbulent and rapidly changing socio-economic environment.

Romanian entrepreneurs had a deep personal commitment to entrepreneurship and enterprise development. Clearly these new entrepreneurs appeared committed to growing and expanding their enterprises. One noteworthy observation was that the top ranked motive for starting their businesses was to provide security for the family. To further underscore the power of the family entrepreneurs placed significant value on sacrificing some business time for family time.

Based on the preceding findings and the traditional cultural orientation of Romanian society a logical second research question becomes; How does the family network impact entrepreneurial growth intentions and expansion plans?

#### **8.4-Family And Enterprise Relationships: The Impact Of The Family Network On Entrepreneurial Growth Intentions And Expansion Plans**

This section focuses on family and enterprise relations. Romanian culture tends to be traditional in nature emphasizing the group over the individual. By probing family investment and enterprise involvement the impact of the family network on entrepreneurship and enterprise development will be determined.

Grounded in the household and linked to a kinship network, the family operates as a system to support its own welfare and survival (see Chapter 3). Family security, prestige and status were discovered to be primary entrepreneurial motives. Entrepreneurs also indicated a resistance to encountering family conflict, and sensitivity to giving up family time.

##### **8.4.1-Family Investors, Start Up Capital, And Ownership**

The family played an active role in enterprise formation and development. Of the total sample 94 percent of all enterprises had at least one family member as an investor (Table 8.12). Over one-third had two family investors. As previously pointed out family

savings was the primary source of start up capital. In fact the spouse, father, mother, and brother/sister all ranked in the top ten sources of start up capital. Considering that two-thirds of these new enterprises relied on the participation of others it seems very likely that the family served as a primary business partner assisting entrepreneurs with enterprise development.

#### **8.4.2-Family Members As Employees**

On the employment front, the family was active in enterprise development and operation. Almost 90 percent of all businesses in the sample had at least one family member working full time (see Table 8.12). One-third had two full-time members. On the opposite end only 9 percent of the enterprises had no family member employed on a full time basis. Part-time employment played an important but less significant role. Forty percent of the firms had at least one part-time family employee, while 58 percent have no part-time family employees.

**Table 8.12**  
**Family And Enterprise**  
**Relationships Investment And Employment**

Question	0	1	2	3
Question 1: How many family members are investors in your enterprise?	5%	52%	35%	7%
Question 2: How many family members are full-time employees in your firm?	9%	50%	33%	7%
Question 3: How many family members are part-time employees in your firm?	58%	26%	13%	1%
N=410				

#### **8.4.3-Role Of Family Advice**



While the family was critical for startup financing and human resources it played a less important role in providing advice. Although the entrepreneurs surveyed relied heavily on their spouse for advice (Table 8.13), other family members appeared to play a much less significant role. However, based upon the families' roles as human resources and capital providers, it could be surmised that many entrepreneurs also recognized the dual roles (of business associates and someone they work with) that family members play.

**Table 8.13**  
**Sources Of Advice**

<i>Item</i>	<i>Mean Importance</i>
1. Business associate	3.14
2. Spouse	2.80
3. Partners	2.66
4. Someone I work with	2.63
5. Closest friend	2.43
6. Suppliers	2.18
7. Bank	1.96
8. Employer	1.93
9. Investor	1.87
10. Other friend	1.84
11. Father	1.76
12. Small Business Administration	1.64
13. Mother	1.63
14. Brother/sister	1.60
15. Former Owner	1.51
Range 1-5; N = 410	

Several economic institutions also appeared as sources of advice. These were most likely a result of necessity and tied to personal relationships. Suppliers, banks, and even the entrepreneurs' previous or ongoing work in state industries also appeared in the Top 10 sources of advice. It appears that Romanian entrepreneurs developed and depended on a systematic network comprised of family members, trusted colleagues and a few support institutions.

#### **8.4.4-Role Of The Family Network System In Supporting Entrepreneurship And Enterprise Development**

The cultural tradition that emphasizes the group over the individual remains evident during transition. The family represented what was probably the only societal institution that remained intact and functional. The family network system played a dominate role in supporting entrepreneurship and enterprise development.

Entrepreneurs relied on family and friends to both start and operate their businesses. Findings indicated that 90 percent of the new enterprises started during transition can be considered family businesses, and that personal networks of trusted friends and colleagues were also found to support entrepreneurship and enterprise development.

Based on the results of this portion of the investigation, it becomes clear that entrepreneurship and enterprise development was motivated by the need for family security and welfare during transition. Given the overall high level of uncertainty and mistrust, entrepreneurs turned to a family network system for support. In fact, entrepreneurship can be viewed as a family based activity during the post communist transition in Romania.

Entrepreneurs seemed to have the encouragement and participative support of their families and extended kinship network. Thus the conclusion is that the family network system fundamentally encourages entrepreneurial growth intentions and expansion plans.

The family network system is but one dimension shaping entrepreneurship. Consequently there is a need to probe other factors which play a role in supporting entrepreneurship. Therefore the next appropriate question becomes; How does the socio-economic environment impact expansion plans and growth intentions?

### **8.5-The Impact Of The Socio-Economic Environment**

#### **On Expansion Plans And Growth Intentions**

This section addresses how the macro-economic dimensions impact entrepreneurial growth intentions and expansion plans. The magnitude of change impacting the macro-economic environment in Romania has created an atmosphere of hardship, uncertainty and distrust. The lack of government commitment to free enterprise, the desperate need for structural reform and the overall lack of capital markets dominated the Romanian macro-economic landscape.

The environmental velocity found in transition Romania was intense. Lagging infrastructure, corruption, and bureaucracy challenged entrepreneurs daily. The Financial Infrastructure, Market Orientation and Support Services are vital macro economic dimensions which can support or inhibit entrepreneurship and enterprise development.

#### **8.5.1-The Financial Infrastructure, Entrepreneurship**

##### **And Small Business Development**

Romanian entrepreneurs seemed to be somewhat ambivalent to the financial infrastructure (see Table 8.14). This may have been a reflection as of how antiquated and

dysfunctional the financial infrastructure actually was. The fact that entrepreneurs strongly identified with the lack of knowledgeable employees trained in financial matters pointed to the root of the problem. Taking note that Romanian entrepreneurs intended to hire specialized employees and pursue additional education further supported the notion that the overall financial infrastructure has disabled and a completely new one must be built.

Another reason entrepreneurs may have had some indifference to the financial infrastructure was their strong reliance on the family network for start up capital. More than likely they completely distrusted the financial system. Entrepreneurs relied on cash transactions many in hard currency. Very little credit from suppliers appeared available with barter being an important means of doing business.

**Table 8.14**  
**Financial Infrastructure Difficulties**

<i>Item</i>	<i>Mean Importance</i>
1. Lack of employees trained in financial matters.	2.99
2. Entry-level financial requirements.	2.87
3. Lack of access to capital.	2.84
4. Obtaining a loan.	2.78
5. Extension of credit from suppliers.	2.31
Range 1-5; N=410	

Even though they showed strong feelings toward expanding and growing their businesses the lagging financial infrastructure may have actually stymied, slowed or limited the growth intentions and expansion plans of Romanian entrepreneurs. The fact that entrepreneurs had little formal training in financial management may also be impacting

opinions. With little reform of the financial infrastructure entrepreneurs may have had limited access to the flow of capital they needed to grow their newly emerging enterprises.

### **8.5.2-Market Orientation, Entrepreneurship**

#### **And Small Business Development**

Measuring the impact of Market Orientation<sup>2</sup> on entrepreneurial growth intentions and expansion plans will help uncover some of the principal macro-economic challenges confronting small business development in Romania. Table 8.15 identifies three distinctive characteristics which shaped the macro-economic environment. First, it appeared that the post communist government had done very little to support the development of small private enterprise. Both the lack of clear regulations and anti market behavior by the government are believed to be impacting entrepreneurial activities.

The second theme was the problems created by bureaucratic red tape and corruption. Entrepreneurs viewed these phenomena as strong free enterprise deterrents. In fact the intense level of corruption and the immense amount of petty bureaucracy represented negative obstacles to small business.

**Table 8.15**  
**Market Orientation**

<i>Item</i>	<i>Mean Importance</i>
1. Bureaucratic red tape.	3.89
2. Lack of clear regulations regarding private enterprise.	3.68

<sup>3</sup> The use of Market Orientation here refers to the degree that the public administration and political institutions shape the macro-economic environment and either support or hinder the development of private enterprise.

3. Corruption.	3.49
4. Anti market behavior by the government.	3.29
5. Anti market behavior by the people.	3.02
6. Negative attitude toward profit making.	2.65
7. Lack of understanding entrepreneurship.	2.13

Range 1-5; N=410

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It seemed that Romanians were embracing the concepts associated with market based entrepreneurship while the politicians and economic policy makers were not. Among entrepreneurs there was the belief that for the most part people understand the basic concepts behind free market based enterprise development.

Yet the long standing tradition of state controlled enterprise and socialist economic policy dominated macro-economic policy at the expense of small business and entrepreneurship. Although entrepreneurs exhibited a passion for small business development, the lack of Market Orientation and continued centralized control could be negatively impacting entrepreneurial growth intentions and expansion plans.

### **8.5.3-Support Services, Entrepreneurship And Small Business Development**

The availability and quality of support services can have a great impact on assisting entrepreneurs with small business growth and development. With little private enterprise experience Romanian entrepreneurs may have often turned to outside guidance and professional counsel. Transition economies like those in Romania present a unique set of challenges as even basic information is often difficult to obtain. Thus as entrepreneurs developed their enterprises they may turned to outside Support Services to assist with growth and expansion plans.

However, Romanian entrepreneurs seemed to be rather indifferent towards Support Services (see Table 8.16). By the same token they did strongly recognize the overall general lack of market information. This lack of market information may very likely have a negative impact on entrepreneurs growth intentions and expansion plans. A lack of market information may limit strategic decision making resulting in slower growth possibilities.

**Table 8.16**  
**Support Services**

<i>Item</i>	<i>Mean Importance</i>
1. Lack of market information.	3.48
2. Lack of sources of technical assistance.	3.17
3. Lack of managerial services. <sup>3</sup>	3.07
4. Lack of distribution channels <sup>4</sup> .	3.00
5. lack of knowledge and information sources.	2.99
6. Lack of guidance and counsel.	2.84
7. Lack of legal services.	2.80
Range 1-5; N=410	

Three possible explanations may clarify why Romanian entrepreneurs seemed neutral toward Support Services. First they simply may not be used to business Support Services and therefore not understand them. Second they did not expect such services during the turmoil of transition. Third, even if they were available they do not trust them and consequently would not come to rely on them out of distrust and suspicion.

<sup>4</sup> By managerial services I refer to general managerial services that were previously unavailable yet in demand during post communist transition, examples include general business management for small private enterprises, marketing management, payroll services, advertising-promotional services, and real estate. etc.

<sup>5</sup> By support services I refer to two types; 1)-transportation services (rail, trucking) are still dominated by the state sector, and 2) Delivery, postal, information and retail, and wholesale sectors.

Even though Romanian entrepreneurs appeared uncertain or at best neutral toward Support Services, logic suggests that the lack of them could in fact hamper growth intentions and expansion plans. Thus the conclusion can be drawn that the lack of market information, and ambivalence toward Support Services could very likely have a negative impact on entrepreneurial growth intentions and expansion plans.

**8.5.4-The Impact Of The Socio-Economic Environment On  
Growth Intentions And Expansion Plans**

The Romanian socio-economic environment offered very little in support of entrepreneurship and small business development. The government did not support market based free enterprise (see Table 8.17). With little macro economic policy supporting small business development Market Orientation was limited to the micro level. Entrepreneurs embraced small business development and struggled to overcome the anti market behavior of the government.

**Table 8.17  
Socio-Economic Environmental Dimensions**

<i>Item</i>	<i>Mean Importance</i>	<i>Environmental Themes</i>
1. Market Orientation	3.16	Centralized government control of economy, bureaucracy, corruption.
2. Support Services	3.05	Lack of market information, general ambivalence towards support services.
3. Financial Infrastructure	2.76	Lagging infrastructure, lack of know-how, rely on family capital, little credit available.
Range 1-5; N=410		



Given the lack of emphasis placed on private business and the continued centralized control of the economy it seemed to follow that there was a both a lack of, and ambivalence toward Support Services. Few, if any, Support Services seemed available. Or perhaps some were available but not affordable?

Little reform had taken place in the financial sector. The Financial Infrastructure was dysfunctional and distrusted. Entrepreneurs lacked access to affordable capital. To make matters worse, there was a lack of financial know-how. Most private enterprise appeared to rely on cash. Entrepreneurially centered small business relied heavily on family capital. The macro-economic environment did very little to support free enterprise. While the macro-economic environment could best be described as archaic and inept, Romanian entrepreneurs still exhibited a hearty enterprising orientation and indicated strong intentions to grow and expand their business.

#### **8.5.5-Summary Of The Descriptive Insights And Next Steps**

So far this chapter has provided descriptive insights and preliminary understanding into entrepreneurship and small business development in Romania. Using descriptive data analysis, a profile of the Romanian entrepreneur and their enterprise was presented. These businesses are new, unique and family centered. Entrepreneurs conceived micro enterprises in the ashes of socio-economic destruction which operated in a volatile and turbulent environment.

These pioneers exhibited a reasonably high level of entrepreneurial orientation including strong growth intentions and expansion plans. Together with their family and trusted personal networks these new entrepreneurs created small pools of financial and human capital and acquired the most basic of resources to start and build businesses. In a savage environment of government control, bureaucracy, corruption and chaos Romanian

entrepreneurs seemed adamant about overcoming macro-economic turmoil to create new businesses. They intended to expand and grow their enterprises in an environment which does not encourage private sector economic development.

With this knowledge at hand there is both a need and opportunity to learn more about the growth intentions and expansion plans of these new entrepreneurs. Specifically there is a need to probe deeper into this complex microcosm. Thus the major research question becomes; What are the factors which can be used as predictors of expansion plans?

#### **8.6-Measuring And Testing The Multidimensional Model's Construct Validity**

With an understanding into the exogenous and individually oriented variables impacting entrepreneurship, attention can now turned to the exploratory factor analysis of the dependent variable. To transform and orthonormalize the original data, a Principal Components Analysis (PCA) was selected. The Principal Components Analysis was chosen to transform the various sets of correlated variables into sets of uncorrelated variables or principal components.

The Principal Components Analysis was selected to re-write the data in a concise, parsimonious form as a prelude to a regression analysis as well as to explore and further describe the relationships in the data set (Davies, 1984). The goal of the exploratory factor analysis was to produce factor results that can be utilized in subsequent statistical analysis, an orthogonal rotation such as that provided by the Varimax procedure was used to eliminate collinearity (Hair, 1992).

Johnston (1980) pointed out that rotated components allow for better group identification, which may be desirable if the scores are to be used as independent variables. Such a rotation also facilitates easier interpretation of the solution. In addition the rotated

component model was found to be an appropriate factor analytic model to test for sampling adequacy and as a test for communality (Norusis, 1988, 1995).

Principal Components Analysis research techniques have been used in numerous studies associated with entrepreneurship. For example Scheinberg and MacMillan (1988) used Varimax rotation in their 11 country study of motivations to start a business. Dubini (1989) used the same methodology to study motivations and environment on business start-ups in relation to public policies.

Furthermore, two additional examples further indicate the relevance of such statistical analysis to the study of entrepreneurial business growth. Birley and Westhead (1994) used Principal Components Analysis to study firm growth and size, while Gundry and Welsch (1997) incorporated factor analysis into their analysis of high growth strategies.

From the exploratory factor analysis of the Tri-Dimensional Model Of Entrepreneurial Growth Predictors presented in Chapter 6, a series of hypothesized relationships related to entrepreneurial expansion plans and growth intentions can be tested using multiple regression analysis.

#### **8.6.1-Measurement Validation Of The Dependent Variable:**

##### **Growth Intentions And Expansion Plans**

The eighteen Implementable Attributes of Planned Growth items were factor analyzed to determine if they fell into natural theoretical groupings. The extraction method was utilized via a principle components analysis. Three factors, resource aggregation, market expansion, and technology improvement, were identified.

These factors combined explained 60 percent of the cumulative variance, demonstrating strong validity (see Table 8.18). Furthermore each of the factors identified yielded acceptable levels of reliability (Chronbach's alpha .8986 for Resource Aggregation, .7879 for Market Expansion, and .6744 for Technology Improvement). Each factor category will be discussed further.

**Resource Aggregation**-This factor represents the fundamental stages of enterprise conception and development. Resource Aggregation portrays the initial bringing together of new combinations of basic resources. Integrating basic technology, accelerating knowledge through training, specialization and professional advice serve as examples.

As firms aggregate resources they may create new and innovative methods and techniques which require additional financing to support expansion and growth.

**Market Expansion**-As a business establishes itself and begins to grow it starts to research and explore new markets. Simultaneously the enterprise may continue to innovate through the development and introduction of new products and services. Improved distribution networks in combination with advertising and promotion may be used to differentiate and create competitive advantage. The firm may need to add operating space or acquire specialized know-how to support new marketing activities. Consequently the firm may reenter the Resource Aggregation phase. The factors are not necessarily mutually exclusive.

**Technology Improvement**-Technological know-how and improvement are vital if an enterprise is to remain competitive. Replacing old equipment, buying new equipment and expanding operating facilities introduce new combinations of innovation and efficiency to the growing enterprise. In transforming economies even simple

technological improvement like adding a fax machine, a refrigerated cooler or new truck can revolutionize the absolute growth potential for an enterprise. The amount of inexpensive technological innovation available to small businesses can greatly impact growth potential.

### **8.6.2-Level Of Construct Validity And Reliability**

The component test on the dependent variable Entrepreneurial Growth Intentions and Expansion Plans demonstrated excellent construct validity with an acceptable level of reliability. Principal Components Analysis was chosen and computed because of the desire of orthogonality of the measures in subsequent multiple regression analysis. With this in mind the focus will shift to the validation of the independent predictor variables.

**Table 8.18**  
**Factor Analysis Of The IAPG: The Dependent Variable,**  
**Entrepreneurial Growth Intentions And Expansion Plans**

<i>Dimensions</i>	<i>Factors</i>		
<i>IAPG</i>	<i>Resource Aggregation</i>	<i>Market Expansion</i>	<i>Technology Improvement</i>
Computerizing current operations.	<u>.67562</u>	.16080	.39686
Upgrading computer systems.	<u>.75169</u>	.13801	.35209
Adding specialized employees.	<u>.50997</u>	.28878	.39490
Redesigning layout.	<u>.70612</u>	.15634	.20802
Offsite training of employees.	<u>.63702</u>	.18472	.28599
Redesigning operating methods.	<u>.77669</u>	.10429	.19011
Seeking additional financing.	<u>.68532</u>	.20874	-.04473
Seeking professional advice.	<u>.71995</u>	.20976	.07246
Expanding scope of operating activities.	<u>.49574</u>	.16172	.38090
Adding a new product or service.	-.00030	<u>.70850</u>	.11896

Selling to a new market.	.25643	<u>.71719</u>	-.00910
Adding operating space.	.08556	<u>.64224</u>	.16952
Expanding distribution.	.27710	<u>.7790</u>	.10915
Expanding advertising and promotion.	.30434	<u>.63887</u>	.10803
Researching new markets.	.32797	<u>.49908</u>	.05801
Acquiring new equipment.	.19302	.13472	<u>.72805</u>
Replace present equipment.	.39722	-.09928	<u>.65728</u>
Expand current facilities.	.05007	.33438	<u>.75644</u>
<b>Cronbach <math>\alpha</math></b>	<b>.8986</b>	<b>.7879</b>	<b>.6744</b>
Cumulative Variance explained by the three factors: 59.9%			N=410

### **8.6.3-Measurement Validation**

#### **Of The Independent Multidimensional Predictor Variables**

Each of the nine predictor variables were factor analyzed to determine if they fell into theoretical groupings. The extraction method utilized was a Principal Components Analysis which included Varimax rotation with Kaiser normalization . By looking at the cumulative variance explained each independent predictor variable's construct validity was determined. Appendix C provides further details related to the statistical analysis. Component Matrices, Rotated Component Matrices as well as a Pearson Correlation Matrix are provided.

#### **8.6.4-Micro Level Variables Associated With The Entrepreneur's Personality**

The Individual Psychological Dimensions of the entrepreneur included characteristics associated with Motivation, Entrepreneurial Intensity and Sacrifices.

**Entrepreneurial Motives**-In total eleven factors accounted for 62.5 percent of the variance indicating a strong level of construct validity (see Table 8.19). The eleven Component Factors which emerged suggested reasons and motives driven by family and local community culture. Entrepreneurs seemed motivated by the need for independence, financial gain and personal achievement. Most notably a strong family focused motivation appeared to be rooted in the traditional cultural orientation and uncertainty of transition.

**Table 8.19**  
**Measurement Validation Of The Independent**  
**Multidimensional Predictor Variable-Motivation**

<i>Component-Factors</i>	Extraction Sums of Sq. Loading			Rotation Sums Of Sq. Loading		
	<i>Total</i>	<i>% of Variance</i>	<i>Cum. %</i>	<i>Total</i>	<i>% of Variance</i>	<i>Cum. %</i>
1. Contribute to community	8.031	21.135	21.135	2.573	6.771	6.771
2. Need for independence	3.079	8.102	29.237	2.571	6.623	13.949
3. Family focused, spirit	2.170	5.709	2.447	2.447	6.439	19.833
4. Need for social achievement	1.785	4.698	39.644	2.426	6.383	26.217
5. Profit motive, financial need	1.628	4.285	43.929	2.394	6.299	35.515
6. Create, learn, apply skills	1.140	3.710	47.639	2.297	6.045	38.560
7. Economic necessity	1.272	3.347	50.986	2.169	5.708	44.268
8. Need for freedom	1.177	3.096	54.083	1.969	5.181	49.449
9. Individual need for achievement	1.120	2.948	57.031	1.921	5.056	54.505
10. Family gratification	1.065	2.803	59.834	1.850	4.868	59.373
11. Opportunity motive	1.003	2.640	62.474	1.178	3.101	62.474

<i>Cumulative variance explained by the eleven factors: 62.47%</i>
--

**Entrepreneurial Intensity**-Table 8.20 presents the results of the Principal Components Analysis (PCA) on Entrepreneurial Intensity variables. The rotated sum squared loading reported an acceptable level of construct reliability at 49.2 percent. Two central themes emerged out of the analysis. First entrepreneurs indicated a driven priority toward developing their enterprises. Second, entrepreneurs were intensely committed and indicated they would work for someone else only long enough to start another business.

**Table 8.20**  
**Measurement Validation Of The Independent**  
**Multidimensional Predictor Variable-Entrepreneurial Intensity**

<i>Component-Factors</i>	<i>Extraction Sums of Sq. Loading</i>			<i>Rotation Sums Of Sq. Loading</i>		
	<i>Total</i>	<i>% of Variance</i>	<i>Cum. %</i>	<i>Total</i>	<i>% of Variance</i>	<i>Cum. %</i>
1. Priority, maximum effort	2.736	34.200	34.200	2.726	34.074	34.074
2. Entrepreneurial commitment	1.202	15.020	49.220	1.212	15.146	49.220
<i>Cumulative variance explained by the two factors: 49.2%</i>						

**Entrepreneurial Sacrifice**-The PCA created seven factorial categories which explained 65 percent of the total variance demonstrating excellent construct validity. Romanian entrepreneurs appeared to be willing to make a combination of sacrifices centered around social, financial and individual themes. By the same token even within the context of the traditional cultural orientation, entrepreneurs exhibited a willingness to make substantial personal sacrifices.

**Table 8.21**  
**Measurement Validation Of The Independent**  
**Multidimensional Predictor Variable-Entrepreneurial Sacrifices**

<i>Extraction Sums of Sq. Loading</i>			<i>Rotation Sums Of Sq. Loading</i>		
---------------------------------------	--	--	-------------------------------------	--	--



<i>Component-Factors</i>	<i>Total</i>	<i>% of Variance</i>	<i>Cum. %</i>	<i>Total</i>	<i>% of Variance</i>	<i>Cum. %</i>
1. Social-psychological sacrifice	5.805	27.624	27.624	2.530	12.048	12.048
2. Financial sacrifice	1.976	9.410	37.052	2.296	10.934	22.983
3. Leisure time sacrifice	1.483	7.063	44.115	2.075	9.880	32.863
4. Personal sacrifice	1.256	5.980	50.094	1.951	9.290	42.153
5. Family, and marital sacrifice	1.117	5.320	55.414	1.872	8.916	51.070
6. Individual sweat equity	1.037	4.940	60.354	1.654	7.878	58.948
7. Life style sacrifice	1.006	4.790	65.144	1.301	6.197	65.144
<i>Cumulative variance explained by the seven factors: 65.1%</i>						

#### **8.6.5-Intermediate Societal Dimension-The Role Of Family And Demographics**

Societal Dimensions and Demographics have greatly shaped both the entrepreneur and their enterprise. Family Dynamics, Education and the Entrepreneur's Age are justified to serve as predictor variables which impact growth intentions and expansion plans. Due to the nature of the measurement Education and Age were not factor analyzed via the Principal Components Analysis.

**Family Dynamics**-Two factors accounted for 84.3 percent of the variance indicating a strong level of construct validity. The two primary themes which emerged were family investment and full time employment of family members. Examination of the data suggested that part time employment may be on a volunteer basis and thus considered as a form of investment in the business (see Table 8.22 and Appendix C).

**Table 8.22**  
**Measurement Validation Of The Independent**  
**Multidimensional Predictor Variable-Family Dynamics**

<i>Component-Factors</i>	<i>Extraction Sums of Sq. Loading</i>			<i>Rotation Sums Of Sq. Loading</i>		
	<i>Total</i>	<i>% of Variance</i>	<i>Cum. %</i>	<i>Total</i>	<i>% of Variance</i>	<i>Cum. %</i>
1. Family investment	1.357	45.238	45.238	1.320	43.986	43.986
2. Full time family employment	1.175	39.151	84.389	1.212	40.404	84.389
<i>Cumulative variance explained by the two factors: 84.4%</i>						

**Education**-Education was measured by the number of years completed. Since there was only a single item the Education predictor variable could not be factor analyzed or rotated. Consequently there is nothing to report.

**Age/Year Of Establishment**-Age was also a single item so this predictor variable could not be factor analyzed or rotated. Thus there is nothing to report. It appeared that since these were brand new enterprises the year of establishment played little importance.

#### **8.6.6-Macro Economic Dimension-**

##### **Environmental Obstacles And Support Structures**

The Environmental Dimensions shaped by the macro economic environment included characteristics associated with Market Orientation, Financial Infrastructure and Support Services. Each predictor variable was factor analyzed using Principal Components Analysis (PCA).

**Market Orientation**-Two factors explained 64.3 percent of the variance which indicates solid construct validity (see Table 8.23). One suggested that anti-market behavior by the government including bureaucratic red tape was really impacting the macro economic environment. The second factor showed the lack of an understanding of profit driven entrepreneurship. This perhaps reflected how new the idea of free enterprise and entrepreneurship truly was to Romanians.

**Table 8.23**  
**Measurement Validation Of The Independent**  
**Multidimensional Predictor Variable-Market Orientation**

<i>Component-Factors</i>	<i>Extraction Sums of Sq. Loading</i>			<i>Rotation Sums Of Sq. Loading</i>		
	<i>Total</i>	<i>% of Variance</i>	<i>Cum. %</i>	<i>Total</i>	<i>% of Variance</i>	<i>Cum. %</i>
1. Anti-market orientation by government	3.484	49.770	49.770	2.768	39.546	39.546
2. Lack of understanding, negative towards profit making	1.017	14.534	64.304	1.733	24.758	64.304
<i>Cumulative variance explained by the two factors: 64.3%</i>						

**Financial Infrastructure**-The PCA extracted a single factor which explained 48.6 percent variance indicating an acceptable level of construct validity (see Table 8.24). This variable captured the fact that there was a general overall lack of a functional financial infrastructure. This included the idea that most people lacked the necessary financial training and know-how.

**Table 8.24**  
**Measurement Validation Of The Independent**  
**Multidimensional Predictor Variable-Financial Infrastructure**

<i>Component-Factors</i>	<i>Extraction Sums of Squared Loading</i>		
	<i>Total</i>	<i>% of Variance</i>	<i>Cumulative</i>
Lack of capital	1.946	48.641	48.641
<i>Cumulative variance explained by one factor 48.6% The solution could not be rotated</i>			

**Support Services**-Two factors emanated out of the PCA. Together they accounted for 66.7 percent of the explained variance indicating excellent construct validity. Without doubt Romanian entrepreneurs suffered from a lack of information and know-how. Table 8.25 shows the results of the PCA and the corresponding component factors. Many of

the important support services seemed to not exist. Entrepreneurs and small businesses suffered from a general lack of managerial, technical and legal services.

**Table 8.25**  
**Measurement Validation Of The Independent**  
**Multidimensional Predictor Variable-Support Services**

<i>Component-Factors</i>	<i>Extraction Sums of Sq. Loading</i>			<i>Rotation Sums Of Sq. Loading</i>		
	<i>Total</i>	<i>% of Variance</i>	<i>Cum. %</i>	<i>Total</i>	<i>% of Variance</i>	<i>Cum. %</i>
1. Lack of guidance, council and information	3.483	49.760	49.760	2.869	40.992	40.992
2. Lack of managerial, technical and legal services	1.186	16.943	66.703	1.800	25.711	66.703
<i>Cumulative variance explained by the two factors: 66.7%</i>						

### **8.6.7-Summary Of The Results And Findings Of**

#### **The Principle Components Analysis**

Overall both the dependent variable and independent predictor variables displayed strong construct validity and explained significant levels of variance. For example three factors came out of the dependent variable. These factors explained 59.9 percent of cumulative variance signifying solid construct validity. The tri-dimensional predictor variables also showed strong levels of construct validity.

The Micro Dimensions associated with the psychological characteristics of the entrepreneur contained twenty factors which accounted for an average cumulative variance of 58.94 percent. Societal Dimensions affiliated with the intermediate scope loaded into four factors. These factors accounted for an average of 76.7 percent of the explained cumulative variance.

An average of 59.8 percent of the cumulative variance was explained by the five Principal Components factors which comprised the Macro Economic environmental dimension. This further validated the strong construct validity of the independent predictor variables.

The results of the PCA identified the key factors which shaped the dimensional constructs. Furthermore the PCA justified the construct validity required to operationalize the Multidimensional Model Of The Predictors Of Expansion Plans set forth in Chapter 6. Thus at this time it is appropriate to undertake further analysis and hypotheses testing concerning the predictors of entrepreneurial expansion plans.

#### **8.6.8-Method Of Testing The Predictors Of Entrepreneurial Expansion Plans:**

##### **Correlation And Multiple Regression Analysis**

A series of tests and analysis were employed to measure the relationships between Growth Intentions and Expansion Plans and the series of multidimensional predictor variables. First Pearson Correlation analysis was undertaken. Correlation coefficients represent direct measures used to investigate the strength of the relationships between the dependent and independent variables.

Second the proposed hypotheses were tested using multiple regression analysis. Regression analysis tested to what extent the Micro Individual Psychological Dimensions, Intermediate Societal Dimensions and Macro Environmental Dimensions (see Chapter 6) predicted entrepreneurial Growth Intentions and Expansion Plans.

Each of the three dimensions are discussed separately followed by a summary analysis. Data presented include the unstandardized and standardized regression coefficients and

their accompanying  $t$ -values. Differences between the two means if significant will indicate that there is a relationship between the two variables.

Standardized beta coefficients are presented to identify the relative importance of each independent predictor variable and Entrepreneurial Expansion Plans. Moreover,  $t$ -values of the regression coefficients are used as a method of noting statistical significance. Standardized regression coefficients, if significant, indicate that the regression weight differs significantly from zero, verifying that the variable with which it is associated contributes significantly to the regression, while taking the other independent variables taken into account.

The proportion of the variance accounted for, specifically the coefficient of multiple correlation, or R Squared scores are also reported. Adjusted R Squared scores help control for sample size and depict a relatively unbiased estimation of the population correlation coefficients which take the analysis one step further. This is followed by reporting the F Statistics. F Statistics if significant provide additional verification of the relationship between multiple variables. In turn this data can be used to determine the statistical significance of each of the three dimensions of the model

### **8.7-Strength And Magnitude Of The Relationships Between**

### **The Micro Dimension And Entrepreneurial Expansion Plans**

Pearson bivariate correlation (1-tailed significance test) analysis was performed as a direct measure of the influences of the individual predictor variables on the dependent variable. Several observations were drawn from the data presented in Table 8.26.

As hypothesized there was a positive directional flow of the operationalization of two variables.

**Table 8.26**  
**Pearson Correlation Coefficients**  
**Micro Dimension-Individual Entrepreneurial Orientation**

Variable	Growth Intentions	Intensity	Motivation	Sacrifice
Growth Intentions	1.00	.413***	.413***	.300***
Intensity	.413***	1.00	.357***	.475***
Motivation	.413***	.357***	1.00	.266***
Sacrifice	.300***	.475***	.266***	1.00

\*p < 0.1      \*\*p < 0.05      \*\*\*p < 0.01

Intensity, Motivation, and Sacrifice were confirmed to have significant relationships with Expansion Plans. These psychological constructs are forces influencing the entrepreneur's business growth plans. The consistent high level of statistical significance validate the strength of the relationships between the independent predictor variables and Entrepreneurial Expansion Plans.

#### **8.7.1-Results Of The Micro Dimension Regression Analysis**

The three measurements associated with the Individual Psychological Characteristics were further tested to determine their predictive influence on Entrepreneurial Growth Intentions and expansion plans. The following regression equation and subsequent analysis serve to determine the impact of the Micro Dimension predictors on Entrepreneurial Expansion Plans and Growth Intentions.

*Regression Equation. Individual Psychological Dimensions =  $\beta_1$  \* Entrepreneurial Intensity +  $\beta_2$  \* Motivation +  $\beta_3$  \* Entrepreneurial Sacrifices +  $\epsilon$*

The results of the regression analysis are summarized in Table 8.27. The Micro Dimension associated with the individual psychological characteristics of the entrepreneur explained approximately 26 percent of the total variance associated with expansion (R Squared). This can be considered as a moderate yet acceptable level of measurement for such a complex set of variables. The F-statistic was significant at a level of  $p < 0.01$ . Furthermore the large size of the F-value (14.621) indicated a low probability of chance.

An examination of the  $\beta$  weights indicate that Entrepreneurial Intensity and Motivation strongly contributed to the Growth Intentions and Expansion Plans of the Romanian Entrepreneurs. Motivation and Entrepreneurial Intensity both had  $t$ -values statistically significant at  $p < 0.01$ . By the same token Entrepreneurial Sacrifices did not appear to have a significant predictive affect of shaping Entrepreneurial Growth Intentions and Expansion Plans.

**Table 8.27**  
**Multiple Regression Analysis**  
**Micro Dimension-Individual Entrepreneurial Orientation**

Independent Variable	B	$\beta$	t
Entrepreneurial Intensity	.350	.262	2.887***
Motivation	.429	.293	3.546***
Entrepreneurial Sacrifice	9.495	.097	1.110
R = .508      R Squared = .258      Adjusted R Squared = .241      F = 14.621***			

\* $p < 0.1$       \*\* $p < 0.05$       \*\*\* $p < 0.01$

**8.7.2-Hypothesis 1: Entrepreneurial intensity is positively related to expansion plans.**

Hypothesis 1 was confirmed showing evidence of high Entrepreneurial Intensity being positively associated with entrepreneurial expansion plans. Results indicate that Romanian entrepreneurs approach small business development with determination



toward building and growing their enterprises. The beta coefficient .262 with a  $t$ -value of  $p < 0.01$  suggests that Entrepreneurial Intensity is a significant predictor of expansion plans. Results confirm and support the hypothesis that Entrepreneurial Intensity is positively related to Expansion Plans.

**8.7.3-Hypothesis 2: Entrepreneurial motivation is positively related to expansion plans**

Hypothesis 2 was confirmed. In fact Entrepreneurial Motivations were not only positively related but were also the strongest, and most statistically significant psychological predictor of Growth Intentions and Expansion Plans.

Romanian Entrepreneurs Motivations are in fact an important component of small business growth intentions. With a beta coefficient of .293 and a  $t$ -value of a  $p < 0.01$  Motivation was found to be the strongest predictor of Entrepreneurial Expansion Plans on a micro level. Personal freedom, family security and innovative enterprise development appeared to be the attributes with the greatest predictive forces associated with growing and developing Romanian small businesses.

**8.7.4-Hypothesis 3: Entrepreneurial sacrifices are positively related to expansion plans.**

This hypothesis was found to be positive. However it was also found to have a nonsignificant and relatively small predictive impact on entrepreneurial growth intentions and expansion plans.

As Table 8.27 indicates the nonsignificance of the  $t$ -values, and in general small relative contribution to the model leave more questions than answers as to the impact and role of Entrepreneurial Sacrifices on small business growth. Romanian entrepreneurs seemed willing to give up time with the family and incur more risk as well as give up recreation

time. Yet this psychological dimension does not have as strong of a relationship as Intensity and Motivation. Although Hypothesis 3 was positively related to expansion plans it must be viewed with caution.

**8.7.5-Summary Of The Predictive Nature Of Individual Entrepreneurial Orientation  
On Growth Intentions And Expansion Plans**

The previous findings suggested that the Micro Dimension associated with the Individual Entrepreneurial Orientation including Intensity, Motivation and Sacrifices are positively related to expansion plans (see Table 8.32). More specifically Motivation and Intensity appeared to be valid measurable predictors of Entrepreneurial Growth Intentions and Expansion Plans (see Table 8.27).

Family security, prestige and personal growth including the need for independence and achievement comprised a predictive category of forces which shaped entrepreneurial small business growth. The level of drive, commitment and individual willingness to make personal sacrifice are in fact measures which can be used to predict small business growth.

Entrepreneurial Sacrifices like relinquishing personal freedom and leisure along with the desire to build skills at significant expense do appear to be related to expansion plans yet their magnitude of impact remains a puzzle. Overall the Micro Dimension including the entrepreneur's Motivations, Intensity and to some extent Sacrifices can serve as valid independent predictors of Entrepreneurial Growth Intentions and Expansion Plans(see Table 8.32). At this point it is appropriate to turn the focus of the investigation towards the role of the Intermediate Dimensions associated with Family Dynamics and Demographics.

**8.8-Strength And Magnitude Of The Relationships Between  
The Intermediate Dimension And Entrepreneurial Expansion Plans**

Once again a Pearson bivariate correlation (1-tailed significance test) analysis was performed as a direct measure of the influences of the intermediate predictor variables on the dependent variable. The directional flow of the independent variables were as predicted (see Table 8.28). As predicted Age had a negative flow while Years Of Education and Family Dynamics positive flows.

**Table 8.28**  
**Pearson Correlation Coefficients**  
**Intermediate Dimension-The Role Of The Family And Demographics**

Variable	Growth Intentions	Age/Year Of Establishment	Years Of Education	Family Dynamics
Growth Intentions	1.00	-.088*	.243***	.179***
Age	-.088*	1.00	.366***	.161***
Years Of Education	.243***	.366***	1.00	.073
Family Dynamics	.179***	.161***	.073	1.00

\*p < 0.1      \*\*p < 0.05      \*\*\*p < 0.01

Age and Education and were found to have strong relationships with Entrepreneurial Expansion Plans. However Family Dynamics was not found to have as strong a relationship as was expected. This set of intermediate variables appeared to capture a series of forces shaping Entrepreneurial Growth Intentions and Expansion Plans. Each of the three variables demonstrated an acceptable level of statistical significance. As Table 8.28 points out both Years of Education and Family Dynamics reflected the greatest

inequality of means and therefore the strongest measures. Age was negative as predicted but appeared not to have as strong a relationship.

### **8.8.1-Results Of The Intermediate Dimension Regression Analysis**

Once again multiple regression analysis was used to better understand the Intermediate Societal Dimension's influences on Entrepreneurial Growth Intentions and Expansion Plans. The following regression equation and subsequent analysis serve to measure the predictive relationships between Family Dynamics, Demographics and Entrepreneurial Expansion Plans.

*Regression Equation. Intermediate Societal Dimension =  $\beta_1$  \* Entrepreneurial Intensity +  $\beta_2$  \* Motivation +  $\beta_3$  \* Entrepreneurial Sacrifices +  $\beta_4$  \* Age/ +  $\beta_5$  \* Years Of Education +  $\beta_6$  \* Family Dynamics +  $\epsilon$*

Table 8.29 summarizes the results of the regression analysis. The Intermediate Societal Dimension associated with Demographics and Family Dynamics explained 35 percent of the total variance associated with entrepreneurial expansion (see R Squared). This is a reasonable level of explanation given the complex nature of the Intermediate Dimension components. The F-statistic, significant at a level of  $p < 0.01$  further supports the hypothesis that important relationships exist between variables.

The standardized beta coefficients support the idea that some Intermediate factors serve as predictors of Growth Intentions and Expansion Plans. Age and Years Of Education both had *t*-values that were significant. Years Of Education registered at  $p < 0.01$  and Age/Year of Venture Establishment at  $p < 0.1$ . To much surprise Family Dynamics was found to be a positively contributor but nonsignificant.

**Table 8.29**  
**Multiple Regression Analysis**

**Intermediate Societal Dimension-  
The Role Of The Family And Demographics**

Independent Variable	B	$\beta$	t
Age	-1.024	-.137	-1.667*
Years Of Education	8.253	.310	3.969***
Family Dynamics	.144	.116	1.535
R = .595      R Squared = .354      Adjusted R Squared = .322      F = 11.233***			
*p < 0.1      **p < 0.05      ***p < 0.01			

**8.8.2-Hypothesis 4:**

**Younger enterprises started by older entrepreneurs  
are negatively related to expansion plans.**

Age was negatively related at a statistically significant level thus supporting Hypothesis 4. The standardized  $\beta$  coefficient (-.137) and its corresponding  $t$ -value ( $p < 0.1$ ) reveal that younger entrepreneurs may in fact take to expansion sooner. Hence Age does serve as a predictor of Entrepreneurial Growth Intentions and Expansion Plans. It appears that younger entrepreneurs have less invested in the outmoded socialistic economic system and thus are more likely to grow their enterprises.

**8.8.3-Hypothesis 5: Expansion plans are positively related to the level of education**

The objective with this predictor is to determine the impact of education on business expansion plans. Education was in fact found to be a predictor of Expansion Plans. Table 8.29 illustrates the predictive contribution education makes toward Expansion Plans. Years Of Education exhibited the highest standardized  $\beta$  coefficient score (.310) of the three Societal Dimensions. Furthermore Years Of Education also had a

strong level of significance at  $p < 0.01$ . Education does in fact represent an important predictor of Entrepreneurial Expansion Plans.

**8.8.4-Hypothesis 6: Expansion plans are positively related to family support.**

The impact of Family Dynamics on Expansion Plans is positive as predicted, but statistically insignificant. Family Dynamics was found to be the least predictive of the Societal Dimension factors.

With a standardized beta coefficient of only .116 Family Dynamics does not appear to be a strong predictor of business Expansion Plans. With the traditional societal orientation including the long standing strength of the Romanian family this finding comes as bit of a surprise. Families play a central role in socio-economic life yet are a less than modest predictor of entrepreneurial led small business growth.

**8.8.5-Summary Of The Predictive Nature Of The Societal Dimension**

**On Growth Intentions And Expansion Plans**

These findings include several interesting observations. First, age was found to be a predictor of Expansion Plans. This suggests that the basic concepts associated with entrepreneurship and small business development may be harder for older generations to grasp and/or undertake. The argument could be made that it will take time, (perhaps a generation) for entrepreneurial led small businesses to flourish and that older entrepreneurs may not want to make such long term investments. While younger entrepreneurs tended to believe in the likelihood of such payoffs.

Approximately 54 percent of the sample were under the age of 40. This segment of the sample represented a key population which may assume a leadership role in socio-economic development. Education came forth as one of the strongest Demographic

predictors of entrepreneurial growth (see Table 8.32). Romanian entrepreneurs were found to have an average of 15 years of education, most with a technical emphasis. Perhaps advancing the level of education may support and encourage entrepreneurship and small business expansion.

Even though Family Dynamics was not found to be a strong predictor of entrepreneurial expansion the overwhelming majority of these new enterprises can be considered family businesses. Yet Family Dynamics does not play a central role as a predictor of growth intentions it still appeared that the family was a driving force behind new venture start up (see Table 8.32). For example, 94 percent of those sampled had at least one family investor. One-third had two family investors. Plus almost 90 percent had at least one family member employed. This seems rather counter intuitive and begs for further study. As an example the R Squared could be tested by itself without Age and Education.

**8.9-Strength And Magnitude Of The Relationships Between  
The Macro Variables And Entrepreneurial Expansion Plans**

Table 8.30 presents Pearson bivariate correlation coefficients which verify the directional flow and confirm the existence of significant relationships between variables. All three of the Macro Dimension predictors suggest that they are quite influential and represent strong measures.

**Table 8.30  
Pearson Correlation Coefficients  
Macro Dimension**

**Environmental Scope, Infrastructure, Obstacles And Support**

Variable	Growth Intentions	Market Orientation	Financial Infrastructure	Support Services
Growth Intentions	1.00	.359***	.181**	.313***
Market	.359***	1.00	.547***	.643***

Orientation				
Financial	.181**	.547***	1.0	.523***
Infrastructure				
Support	.313***	.643***	.523***	1.0
Services				

\*p < 0.1      \*\*p < 0.05      \*\*\*p < 0.01

This set of variables captures three important macro forces influencing Entrepreneurial Growth Intentions and Expansion Plans. Each of the three variables demonstrated an acceptable level of statistical significance. As Table 8.30 points out, Market Orientation and Support Services are both impactful and strongly significant. Financial Infrastructure is also supported as a measurable predictor of entrepreneurial growth and expansion yet at a lower level of significance.

### **8.9.1-Results Of The Macro Dimension Regression Analysis**

Subsequently multiple regression analysis was used to further probe the influences of the Macro Dimension on Entrepreneurial Growth Intentions and Expansion Plans. The following regression equation and subsequent analysis serve to measure the relationships between Market Orientation, Financial Infrastructure and Support Services.

*Regression Equation. Intermediate Societal Dimension =  $\beta_1$  \* Entrepreneurial Intensity +  $\beta_2$  \* Motivation +  $\beta_3$  \* Entrepreneurial Sacrifices +  $\beta_4$  \* Age +  $\beta_5$  \* Years Of Education +  $\beta_6$  \* Family Dynamics +  $\beta_7$  \* Market Orientation +  $\beta_8$  \* Financial Orientation +  $\beta_9$  \* Support Services +  $\epsilon$*

The results of the regression analysis are summarized in Table 8.31. The Macro Dimension including Market Orientation, Financial Infrastructure and Support Services explained 43 percent of the total variance (see R Squared). The F-value was statistically significant at a level of p < 0.01. The regression model indicates that in fact the Macro



Economic Dimensional variables are important predictors of entrepreneurial expansion plans.

Standardized beta coefficients support the idea that Environmental Obstacles and Support Structure serve as predictors of growth intentions and expansion plans. Both Market Orientation and Support Services were found to be significantly important predictors of Expansion Plans. Market Orientation had a *t*-value at  $p < 0.05$  indicating strongest statistical significance. As Table 8.31 points out Financial Infrastructure was negatively related to expansion plans at a statistically insignificant level.

**Table 8.31**  
**Multiple Regression Analysis**  
**The Macro Economic Dimension-**  
**Environmental Obstacles And Support Structures**

<b>Independent Variable</b>	<b>B</b>	<b><math>\beta</math></b>	<b>t</b>
Market Orientation	.147	.216	2.201**
Financial Infrastructure	-4.886	-.084	-.944
Support Services	.114	.163	1.699*
R = .657      R Squared = .431      Adjusted R Squared = .389      F = 10.108***			
*p < 0.1      **p < 0.05      ***p < 0.01			

### **8.9.2-Hypothesis 7:**

#### **Lower levels of market orientation are negatively related to expansion plans**

Market Orientation however was found to be positively related to expansion plans at a statistically significant level, the opposite of the prediction. Romanian entrepreneurs seemed likely to pursue expansion plans in spite of low levels of Market Orientation.

In fact Market Orientation was found to be the strongest predictor of Expansion Plans ( $\beta$  .216,  $p < 0.01$ ). This surprising finding suggested that Romanian entrepreneurs have developed strategies about overcoming this problem. Perhaps the many years that Romanians were confronted with numerous political/economic obstacles has hardened them and made them flexible enough so that the current obstacles do not become debilitating.

**8.9.3-Hypothesis 8: Financial obstacles are negatively related to expansion plans**

The regression analysis indicates that Financial obstacles are negatively related to Expansion Plans. However the nonsignificance of the  $t$ -values reported in Table 8.31 indicates that, in general, entrepreneurs might pursue Expansion Plans in spite of the lagging Financial Infrastructure. These findings are counter to those predicted. Thus the hypothesis cannot be confirmed.

Maybe Romanian entrepreneurs have already developed strategies to overcome some of the financial obstacles? Perhaps Romanian entrepreneurs use alternative methods such as barter to support small business growth. The lack of financial intermediaries, the social distrust towards them, as well as the general lack of financial knowledge appear to impact this predictor.

**8.9.4-Hypothesis 9: Support services are positively related to expansion plans**

Results indicate that Support Services are as hypothesized positively related to growth intentions. The more macro level support structures available the greater the opportunity to expand the business. Furthermore the  $t$ -value reported in Table 8.31 shows a strong level of significance associated with the variable.

With a standardized beta coefficient of .163 Support Services do surface as significant predictors of entrepreneurial expansion. From the Romanian perspective entrepreneurs may see Support Services as important while few actually exist. Perhaps this shows an optimism that change is occurring and additional support services appear on the immediate horizon.

**Table 8.32**  
**Hypotheses 1-3**  
**Predictive Ability Of The Micro Dimension-Individual**  
**Entrepreneurial Orientation And Growth Intentions And Expansion Plans**

<b>Predictor Variable</b>	<b>Behavioral Characteristics</b>	<b>Predictive Power</b>	<b>Quality Of Measure</b>
Entrepreneurial Intensity	Drive, effort personal sacrifice	Very strong	Very significant
Motivation	Family security, need for achievement, independence	Very strong	Very significant
Entrepreneurial Sacrifice	Work ethic, relinquish leisure, build personal skills	Questionable	Not significant

**Hypotheses 4-6**  
**Predictive Ability Of The Intermediate Societal Dimension-**  
**The Role Of Family Dynamics And Demographics And**  
**Entrepreneurial Growth Intentions And Expansion Plans**

<b>Predictor Variable</b>	<b>Societal Characteristics</b>	<b>Predictive Power</b>	<b>Quality Of Measure</b>
Age Of Entrepreneur	Average age 38.8 years 3.9 years of business experience	Moderately strong	Reasonably significant
Years Of Education	Average of 15 years, technical emphasis	Very Strong	Very significant
Family Dynamics	1-3 family members involved in business	Questionable	Not significant

**Hypotheses 7-9**  
**Predictive Ability Of The Macro Economic Dimension-**  
**Environmental Obstacles And Support Services**  
**And Entrepreneurial Growth Intentions And Expansion Plans**

<b>Predictor Variable</b>	<b>Economic Characteristics</b>	<b>Predictive Power</b>	<b>Quality Of Measure</b>
Market Orientation	State controlled, corrupt, bureaucratic	Strong	Significant
Financial Infrastructure	Lagging infrastructure, lack of capital, little know-how	Questionable	Not significant
Support Services	Lack of information, state dominated, unreliable	Moderately strong	Reasonably significant

**8.9.5-Summary Of The Predictive Nature Of The Macro Environmental**

### **Dimension On Growth Intentions And Expansion Plans**

The results of the correlation and regression analysis support the contention that the Macro Environmental Dimension can serve as predictors of Entrepreneurial Expansion Plans(see Table 8.32). Market Orientation and Support Services were found to be positively related to Expansion Plans. In other words the greater the Market Orientation and the more Support Services available the greater the likelihood of expansion. As Table 8.31 illustrates both variables were significant at an acceptable level.

By the same token Financial Infrastructure showed a negative directional flow as predicted yet was not statistically significant. Given the variables nonsignificance it suggests that Romanian entrepreneurs are truly a special breed. Without much financial know-how, tight credit and an archaic dysfunction financial system entrepreneurs seem adamant towards growing their enterprises. Perhaps this is the result of both financial necessity and a zealous entrepreneurial spirit?

The Market Orientation associated with socio-economic transition was found to be one of continued centralized government control, bureaucracy and corruption. Yet lower levels of Market Orientation did not seem to deter expansion plans. This counter-intuitive finding reflected the hardness and perseverance of the Romanian entrepreneurs. Even with a lack of government support policies and system of turmoil and confusion Romanian entrepreneurs seemed focused on growing their businesses.

In terms of Support Services many entrepreneurs may be turning to inexpensive technology for support. The Internet, cell telephones, cable television, fax machines and greater travel privileges may be helping Romanian entrepreneurs to overcome the lack of information available form within their system. From this point a summary of the correlation and multiple regression analysis will be set forth.

**8.10-Strength And Magnitude Of The Relationships Between The Multidimensional  
Predictor Variables And Entrepreneurial Expansion Plans**

Table 8.33 provides a summary of the Pearson Correlation Coefficients. The Micro variables associated with the Individual Psychological Dimensions of the entrepreneur were consistently significant at a level of  $p < 0.01$  indicating a strong relationship between variables.

The Intermediate variables especially the demographic characteristics of the entrepreneur were also found to have a strong relationships. The impact of the communist system including the emphasis on education, family and socialist ideologies seem to be captured in this dimension. Both Years Of Education and Family Dynamics showed strong relationships to Entrepreneurial Expansion Plans ( $p < 0.01$ ).

**Table 8.33  
Summary Of The Pearson Correlation Coefficients  
Micro Dimension-Individual Entrepreneurial Orientation**

Variable	Growth Intentions	Intensity	Motivation	Sacrifice
Growth Intentions	1.00	.413***	.413***	.300***
Intensity	.413***	1.00	.357***	.475***
Motivation	.413***	.357***	1.00	.266***
Sacrifice	.300***	.475***	.266***	1.00

<b>Intermediate Dimension-The Role Of The Family And Demographics</b>				
Variable	Growth Intentions	Age/Year Of Establishment	Years Of Education	Family Dynamics
Growth Intentions	1.00	-.088*	.243***	.179***
Age/Year Of Establishment	-.088*	1.00	.366***	.161***
Years Of Education	.243***	.366***	1.00	.073

Education				
Family Dynamics	.179***	.161***	.073	1.00

**Macro Dimension-Environmental Scope, Infrastructure, Obstacles, Support**

Variable	Growth Intentions	Market Orientation	Financial Infrastructure	Support Services
Growth Intentions	1.00	.359***	.181**	.313***
Market Orientation	.359***	1.00	.547***	.643***
Financial Infrastructure	.181**	.547***	1.0	.523***
Support Services	.313***	.643***	.523***	1.0

\*p < 0.1      \*\*p < 0.05      \*\*\*p < 0.01

The Macro dimension variables represent acceptable measures also. Market Orientation, Financial Infrastructure and Support Services showed strong relationships to Entrepreneurial Expansion Plans at statistically significant levels. The variables comprising the Multidimensional Model Of The Predictors Of Expansion Plans represent valid predictive measures of the factors impacting small business growth. Although these are the results of testing the model only in the Romania context the findings suggest a worthiness for further scientific investigation in different settings.

**8.10.1-Summary Of The Relationships Between The Multidimensional Model Predictors And Entrepreneurial Expansion Plans**

The micro dimensions associated with the Individual Psychological Characteristics of the entrepreneur were found to be important and significant predictors of Expansion Plans and Growth Intentions. As Table 8.34 demonstrates the regression analysis showed strong relationships between Motivation, Intensity and Expansion Plans. Although not

found to be statistically significant Sacrifices might be a socio-economic theme that Romanian's view as somewhat normal.

Two important predictive relationships emerged out of the regression model of the Intermediate Dimension. Years of Education appeared as a significant predictor of entrepreneurial growth. The socialist system with its emphasis on education and technical training can be considered as an important predictor of small business growth. Age/Year Of Establishment produced a negative directional flow and represented an important predictor of expansion plans. The cradle to grave socialism hailed by the communists seemed to perhaps have tainted the older generation of emergent entrepreneurs.

**Table 8.34**  
**Summary Of Multiple Regression Analysis**  
**Multidimensional Model Of The Predictors Of Expansion Plans**

<b>Independent Variable</b>	<b>B</b>	<b><math>\beta</math></b>	<b>t</b>
<b><i>Micro Dimension</i></b>			
Entrepreneurial Intensity	.350	.262	2.887**
Motivation	.429	.293	3.546***
Entrepreneurial Sacrifice	9.495	.097	1.110
R = .508      R Squared = .258      Adjusted R Squared = .241      F = 14.621***			
<b><i>Intermediate Societal Dimension</i></b>			
Age/Year Of Venture Establishment	-1.024	-.137	-1.667*
Years Of Education	8.253	.310	3.969***
Family Dynamics	.144	.116	1.535
R = .595      R Squared = .354      Adjusted R Squared = .322      F = 11.233***			
Model Summary      R Squared Change = .096      F Change = 6.077***			
<b><i>The Macro Economic Dimension</i></b>			
Market Orientation	.147	.216	2.201**



Financial Infrastructure	-4.886	-.084	-.944
Support Services	.114	.163	1.699*
R = .657      R Squared = .431      Adjusted R Squared = .389      F = 10.108***			
Model Summary      R Squared Change = .077      F Change = 4.430***			
*p < 0.1      **p < 0.05      ***p < 0.01			

The regression model identified significant predictive relationships between Market Orientation and Support Services. To much surprise Market Orientation was not confirmed as an important predictor of Entrepreneurial Expansion Plans. This seemed counter-intuitive given the breakdown of the communist system which was completely opposed to private enterprise development. Support Services also proved to have some predictive characteristics related to Growth Intentions. However it did not demonstrate the same level of significance as Market Orientation (see Table 8.34). With some surprise Financial Infrastructure did not prove to be a significant growth predictor. Romanian entrepreneurs appeared to be willing to pursue Expansion Plans in spite of the financial obstacles confronting them.

The Multidimensional Model Of The Predictors Of Expansion Plans identified and captured a series of relationships between the independent and dependent variables. Six out of nine variables were found to be significant. Data presented in Table 8.34 supported the argument that entrepreneurial growth intentions and expansion plans are shaped and influenced by multiple influences. The results of the multiple regression analysis support the argument that multiple predictors are identifiable and measurable.

### **8.10.2-Summary Of The Results And Findings**

This chapter set out to describe the results of the empirical investigation. Through the multiple analysis of data a series of descriptive and multivariate statistical analysis was

employed to answer the research questions set forth in Chapter 1. Additionally the Multidimensional Model Of The Predictors Of Expansion Plans was operationalized and tested via factor, correlation and multiple regression analysis.

Seven results have been discussed in Chapter 8. First an ANOVA by different industrial groups was undertaken to determine sample randomness. Results of the ANOVA indicated the cluster sampling technique across eight urban centers in Romania provided a valid random sample from which empirical findings could be generalized at the population level.

Second a general demographic profile revealed that Romanian entrepreneurs tended to be approximately 40 years old, had 14.5 years of work experience with an average of 15 years of education. By the same token these new entrepreneurs had only an average of 4 years of business experience. Women represented almost one third (29%) of the total sample.

Third, a profile of the Romanian small business enterprises was presented. Data indicated that these were new micro businesses with an average of 11 employees. Approximately 70 percent of these new micro enterprises were engaged in trade, commerce and professional services. Two thirds were partnerships where the entrepreneur owned an average of 63 percent. The family was also found to be playing a central role along with trusted personal networks.

Fourth, the levels and types of Entrepreneurial Expansion Plans were operationalized and measured. Romanian entrepreneurs demonstrated strong value orientations towards enterprise growth and development. Family security and personal growth appeared to play central roles. The strategic behavioral characteristics identified that entrepreneurs

aggressively pursued economic re-organization in a turbulent and rapidly changing socio-economic environment.

The fifth topic addressed was the role of the Family Network System in supporting entrepreneurship and enterprise development. Entrepreneurs relied on family and trusted friends to both start and operate their businesses. Based on family employment, capital, and advice 90 percent of these new enterprises can be considered family businesses. Family based enterprises were confirmed as the engine driving socio-economic change during transition.

Sixth, the impact of the macro environment was explored. The Romanian socio-economic environment offered very little in support of entrepreneurship and enterprise development. Transition governments similarly tended to not support market based free enterprise. Bureaucracy, corruption and a lagging infrastructure represented significant barriers to the development of entrepreneurial small business growth. Yet, even with the continued state control of the economy entrepreneurs exhibited a hearty orientation towards growing their enterprises. They appeared determined not to let the hardships of transition deter them from pursuing enterprise expansion.

The seventh and last portion of the study operationalized and tested the Multidimensional Model Of The Predictors Of Expansion Plans. Utilizing a combination of factor analysis, correlation and multiple regression analysis the series of hypotheses presented in Chapter VI were tested. The dependent variable of Expansion Plans and Growth Intentions was found to explain 60 percent of the cumulative variance demonstrating excellent validity. The dependent variable demonstrated superb construct validity within an acceptable level of reliability.

The independent predictor variables also displayed strong construct validity and explained significant levels of variance. Pearson Correlation and multiple regression analysis probed to what extent the Micro Individual, Intermediate Societal and Macro Environmental Dimensions were predictors of Entrepreneurial Expansion Plans. Results of the hypotheses testing supported the model in the majority of cases. Significant relationships among variables validated the idea that multidimensional predictors of Entrepreneurial Growth Intentions and Expansion Plans shaped aspirations and enterprise development.

The theory proposed in this dissertation was that Entrepreneurial Growth Intentions and Expansion Plans were shaped by multiple dimensions of influence. The results reported in this chapter clearly support this assertion. From this point the dissertation will move to Discussion and Conclusions phase. Chapter 9, is devoted to evaluating the implications of these findings, and to interpreting the importance of the evidence gathered to support it.

## 9-CONCLUSIONS AND RECOMMENDATIONS

### **9.1-Intentions Based Behavior: A Multidimensional Perspective Of Planned Growth**

*“The entrepreneurial drive shown in recent years, including the expansion of thousands of small, private businesses has clearly been the steadying economic force in Romania.”*  
(Thomas Carothers, 1996, p. 119)

This dissertation sought to address a series of questions related to a multidimensional perspective of planned growth. Theoretically speaking this study addressed a number of important issues related to growth intentions and expansion plans. The dissertation probed existing literature and explored areas in need of further attention. Multiple dimensions related to psychology, culture, environment and a future directed entrepreneurial growth intentions and expansion plans were addressed.

Accordingly, an evaluation of the possible impacts that the findings in this research had on the general theoretical framework in the field of entrepreneurship follows.

In this Chapter the main conclusions are discussed. The first section reviews the findings of the study. The data contained in the study are used to evaluate the extent to which the study answered the research questions posed. Also, the implications of the study are discussed in relationship to both a theoretical and applied settings. Next the focus will turn toward evaluating the limitations of the study. Unintended flaws or delineation's are sought out to evaluate the relative trustworthiness of the conclusions. From this point suggested extensions for further research are set forth.

### **9.2-Multiple Implications From The Empirical Investigation**

Stinchcombe (1968) claimed that theory was deemed to be much more creditable when three or more different implications of a theory were tested and confirmed. This

investigation proposed that Entrepreneurial Growth Intentions and Expansion Plans provided an alternative measure of entrepreneurial led small business growth.

This study represented one of the first independent investigations of the creation and development of new profit driven free enterprise in the former Soviet Bloc. Testable implications of the future growth intentions and expansion plans of entrepreneurs were achieved. The types and levels of Entrepreneurial Growth Intentions and Expansion Plans were identified and measured. Focus was placed on new entrepreneurs who had created new enterprises in the ashes of post-communist collapse.

Through the development and testing of a Multidimensional Model Of The Predictors Of Expansion Plans, four implications which have both theoretical and practical value can be drawn. The four different themes of this research that were tested and confirmed include:

***1) Growth Intentions And Expansion Plans Are A Fundamental Component Of Entrepreneurship And Small Business Development***

Entrepreneurial Growth Intentions and Expansion Plans were confirmed to be fundamental components of entrepreneurial behavior. Small business growth occurs on the basis of future expectations not just past performance. Entrepreneurial Growth Intentions and Expansion Plans could be identified, categorized, measured, and tested as part of a multidimensional model.

***2) Entrepreneurial Value Orientation Plays A Special Role In Supporting Entrepreneurial Growth Intentions And Expansion Plans***

The prevailing attitude of the entrepreneur was found to play an important role in shaping small business growth and development. Strong levels of Entrepreneurial Value Orientation had a significant and positive impact on Entrepreneurial Growth Intentions

and Expansion Plans. The individual psychological dimensions of the entrepreneur, including their Intensity and Motivations comprised a vital set of components, which predicted the potential for small business growth. Willingness to make personal Sacrifices however was discovered not to be a reliable predictor.

### ***3) Cultural Dynamics Including Family, Age And Education Impact Entrepreneurial Growth Intentions And Expansion Plans***

Cultural dynamics was confirmed to be a predictor of small business growth and development. Cultural Orientation played a unique and important role in supporting Entrepreneurial Growth Intentions and Expansion Plans. For example demographics related to education and age (generation affiliation) influenced Entrepreneurial Growth Intentions and Expansion Plans. Cultural orientations related family involvement worked to support entrepreneurship and small business on one hand yet was not confirmed as a reliable predictor of growth intentions and expansion plans. Family seems to be a complex component, which needs further study.

### ***4) The Macroeconomic Environment May Not Support Entrepreneurship Yet Entrepreneurs May Strive For Growth Anyway***

Romanian entrepreneurs demonstrated strong orientations to expand and grow their enterprises even within a non-supportive macroeconomic environment. The basic lack of Market Orientation, Financial Infrastructure, and Support Services provided little assistance to small businesses but did not seem deter growth intentions. Given the counter intuitive findings related to Market orientation and the low quality of measure related to Financial Infrastructure that further work is needed along these dimensions.

The preceding implications have been drawn from a truly unique point of reference. The study of post communist Romania provided a once in a lifetime field site to study the re-

emergence of entrepreneurship and small business growth. Captured in the early stages of enterprise creation, these new micro enterprises represented the opportunity to study the basic early fundamentals associated entrepreneurship.

### **9.2.1-Practical Implications To Foster Entrepreneurship**

#### **And Small Business Growth In Romania**

Added insights are offered through a series of suggested practical implications which could be undertaken in transition economies to foster entrepreneurship and small business growth. They include the following five recommendations:

##### ***1) Model Success And Encourage Entrepreneurial Leadership***

Policy leaders, educators and new emerging enterprises need to create some models of successful enterprises. By modeling success stories, entrepreneurial role models can be created. These entrepreneurs can create a leadership base. Successful entrepreneurs working with others can encourage continued entrepreneurship and small business development.

##### ***2) Foster More Market Orientation And Encourage Free Enterprise***

Romania badly needs more change. The government should actively diminish State domination and involvement in all levels of the economy. There continues to be a need to create more market orientation through privatization, intrapreneurship and more free enterprise development. This would help foster more overall economic reform. There continues to be the need to raise the level of credibility attached to entrepreneurship as a respected profession.



### ***3) Support Entrepreneurship Education At All Levels Of Society***

Creating knowledge and innovation related to entrepreneurship education would significantly help small businesses build skills and educate the public in general as to the merits of free enterprise. Entrepreneurial education should be introduced across society. Schools, universities, governmental institutions and community based organizations need to provide learning and interaction with entrepreneurs and the business community.

### ***4) Make The Creation Of A Stable Financial Infrastructure A National Priority***

Success and growth create profits and reinvestment opportunities which are vital for short term stability and long term growth. To foster continued entrepreneurship and long term small and medium size enterprise development financial services and capital are needed. There is the immediate need to create a basic functional and creditable financial system. More private banks and venture capital firms in partnership with foreign experts are needed. With a more developed capital structure additional small businesses development can take place.

### ***5) Create A Simple And Supportive Environment For Entrepreneurship And Private Enterprise Development***

Romania needs favorable legislation and minimal regulation to stimulate new venture creation, growth and the development of an entrepreneurial middle class. Tax laws, start up credits and wealth preservation could be used to support entrepreneurship and stimulate private sector business growth. Private property rights, regulation of intellectual property and simple tax laws could provide incentives and encourage small businesses. Less government and especially less centralized bureaucracy would create fewer obstacles and provide more time for entrepreneurs to focus on their businesses.

With the resourcefulness of the people and a supportive environment a plentiful and prosperous entrepreneurial class can help improve the quality of life for all Romanians. By addressing these central issues it seems likely that the general environment for entrepreneurship and small business development can be advanced.

### **9.3-Limitations Of The Results And Findings:**

#### ***1) Lack Of Recent Entrepreneurial History***

Although the empirical examination and testing of the Multidimensional Model provided valuable and interesting insights, a series of limitations have also emerged. Five specific limitations were discovered which draw attentions to the limitations of the results and findings. Each will be discussed separately.

The fact that there was no recent history of entrepreneurship and private enterprise development in Romania made comparisons to the past difficult. With little history to compare it makes benchmarking and comparisons difficult. The period of transition appeared to be the largest opportunity Romanians have ever had to be exposed to entrepreneurship and private enterprise development.

Yet entrepreneurship was discovered to exist but was under the direct and indirect influence of the government. Entrepreneurship was permitted in sectors the State could not compete in or completely control. This was why service, retail and trade especially in consumer products was dominated by entrepreneurs. By maintaining political chaos through an inefficient and corrupt bureaucracy, the government seemed to want to control the general environment in which Romanian entrepreneurs operated.

These conditions created predisposition's by the author toward certain psychological factors, which emerged in some of the hypotheses. For example the argument that the

lagging Financial Infrastructure would deter Expansion Plans and Growth Intentions proved quite the contrary. These counter-intuitive findings illustrated the unique and complex circumstances associated with the research site.

## ***2) Very Little Romanian Literature Related To Entrepreneurship***

### ***And Private Enterprise Development***

Further challenging the interpretation of the findings was the fact that very little literature related to Romanian entrepreneurship and small business development existed. Free enterprise was long forbidden. Consequently little know-how or interest existed prior to overthrow of communism. While there appeared to be some newly emerging thoughts and ideas, there was clearly a limited accessible body of Romanian based knowledge to draw from.

As a result most knowledge was based on US, Western Europe and British sources. This often created an “East vs. West“ paradigm which made identifying, predicting and interpreting of results complex. The depth and magnitude of this study was a step towards the creation of a greater knowledge related to entrepreneurship and small business development in transforming societies like Romania. However these findings create an opportunity for greater generalizability across countries.

## ***3) Sampling Technique Not A True Random Sample***

Due to limitations related to lack of reliable public data on private enterprises a cluster sampling technique was used. Drawing from the data bases of the Small Business Development Centers and Incubators affiliated with leading academic institutions a series of eight urban centers were sampled. The majority (75%) of the sample was drawn from Bucharest. It would have been advantageous to have a more dispersed sample. Greater

representation from the center of the country as well as the extreme northeast and northwest sections would have strengthened the sampling.

Likewise the eight clusters captured the urban entrepreneur. Some small secondary towns and smaller villages would have enhanced the sample. Although many of the enterprises in smaller settings would have been retail and agricultural establishments.

Although the cluster sampling technique focused on urban centers there were some advantages to this data collection method. These were legal, operating enterprises who were serious enough about their businesses to have established contact with outside resources. These newly emerging entrepreneurial enterprises did represent the new socio-economic middle class leading the drive to transform Romania's crippled society.

#### ***4) Limitations Of The Entrepreneurial Profile Questionnaire***

The Entrepreneurial Profile Questionnaire (EPQ) served its purpose well. However the EPQ did pose some challenges and limitations. First was the length of the EPQ. At ten pages the length of the EPQ required a substantial amount of time to administer. Some entrepreneurs seemed intimidated by the size of it at first glance. Soft spoken reassurance and the demonstration of a completed EPQ from another entrepreneur seemed to appease this concern in many interviews.

The translation of the EPQ from English into the Romanian language posed challenges. Perhaps the best example was in translating the word "entrepreneur." There were two words in the Romanian language which could have been used. Antreprenor, interpreted as "a contractor undertaking work related to enterprise," and Intreprinzator, perceived as "an undertaker of enterprise." This led to some analysis of meaning.

Following the pretesting of the EPQ it was determined that the Antreprenor would be the best definition. The idea of “contract for undertaking” associated with Antreprenor was found to be viewed more as an “official act of business.” In the Romanian context this indicated that the business was legally registered, official and contracted to undertake operations. This suggested that the previous communist system with its insistence on official papers in order to authorize socio-economic actions appeared to linger in the entrepreneur’s mind.

Along the same lines some entrepreneurs being interviewed would ask questions related to certain statements in the EPQ. For example, advertising and promotion were often in need of explanation. They were viewed more in terms of publicity and propaganda rather than as marketing tools. Entrepreneurs at times could become suspicious during interviews. With the prevailing overall lack of trust in society they appeared apprehensive to share certain information. This was discovered when entrepreneurs were asked to indicate the amount of sales and number of employees expected in the future. This could be the result of either not really knowing or concerns about confidentiality.

Overall the EPQ and the survey interview method provided a wealth of information. The majority of the interviews were conducted at the enterprise while some took place at one of the Small Business Development Centers. A small number were done in entrepreneur’s homes. Conducting the interview at the business provided a virtual window into the world of small business development in Romania. Observations and first hand experience provided the author with a rich complement to survey data.

##### ***5) Multicollinearity: Some Overlap Between Predictor Variables***

The use of multivariate statistical analysis can present problems for research of the type conducted for this study. One problem identified in this study has been that some of the

predictor variables have overlap among them. Put simply the independent variables were not found to be a completely clean set of predictors.

Examination of the Pearson Correlation Coefficients and multiple regression models indicated some multicollinearity among the independent dimensional predictors. One example of the overlap between independent variables can be found in the Micro Dimension-Individual Entrepreneurial Orientation. The Pearson Correlation Coefficients showed very strong relationships between Entrepreneurial Sacrifice and Growth Intentions and Expansion Plans, while the multiple regression analysis proved to be nonsignificant. This might suggest that Entrepreneurial Sacrifices overlapped with Intensity and Motivations.

Another point of concern was the order of entry of the independent predictor variables. This question arose out of the fact that while Family Dynamics indicated a strong relationship in the Pearson Correlation Coefficients it came up as nonsignificant in the regression model. This seemed further puzzling given the fact that Romanian society had strong family orientations. Family was confirmed to be active and involved in supporting entrepreneurship. Perhaps the forces of the family were intermingled with other independent variables in the regression equation.

There is no actual correct method for determining the order of independent variables. Given the complex nature of the relationships between variables it seemed impossible to determine the best order. Consequently the author let the computer create the order based on the amount each independent variables contributed to the variance of the dependent variable. Furthermore the order of the variables does not impact the final R-Squared and thus the overall prediction. The strength of the R-Square and adjusted R-Squared scores supported the relationships between dimensions.

#### **9.4-Suggested Extensions:**

The limitations outlined in the preceding section provided some valuable insights that can be applied to the continued study of entrepreneurship and small business development. What follows are some insights related to the extension of entrepreneurship research.

##### ***1) Establish A More Concise Set Of Predictors Of Entrepreneurial Growth Intentions And Expansion Plans***

One of the most useful features of this research is the potential for identifying a future research program. The careful reader of this dissertation has most likely identified topics for future research. The author has identified four specific research extensions:

As previously mentioned one of the biggest limitations of this study was the overlap between predictor variables. Thus one of the first logical extensions of this research would be to devote energies toward creating a better understanding of the relationships between complex dimensional growth predictors. Constructs such as motivation, intensity and sacrifices are without doubt interrelated. How could complex phenomenon within a specific dimension be measured more concisely with less multicollinearity? By developing a better understanding of the independent predictors of small business growth significant advancement can be made in unlocking entrepreneurship's complex nature.

##### ***2) Explore And Gain A Better Understanding Of The Relationships Between Different Dimensional Predictors***

There is a clear need to develop a better understanding of the relationships between different dimensional predictors of growth. The roles and relationships between internal and external predictors need study. For example are entrepreneurial motives more strongly related to growth than infrastructure predictors? Another approach worthy of exploration relates to the relationships between intrinsic pull factors and extrinsic push

factors and how they shape growth intentions. By developing a better understanding of the role and influences of the micro, intermediate and macro dimensions implications for theory and practice can be advanced.

### ***3) Advance The Understanding Of The Role Culture Plays In Entrepreneurship And Small Business Development***

Cultural orientation was found to have a substantial impact on entrepreneurship yet very little focused research exists. With the fall of the Soviet Bloc and the consequent global embracement of entrepreneurial free enterprise there is a need to know more about how culture impacts business development. Specifically how does culture shape and impact entrepreneurship and small business growth? Considering that family business represents the majority of all free enterprise more research on family dynamics and entrepreneurship is essential. Generation and age create socio-economic classes which need further probing as well.



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