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AND RURAL WORKSHOPS**

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**CREATION OF SMALL-SCALE INDUSTRY DEVELOPMENT IN
SOUTHERN SWEDEN—THE GNOSJÖ CASE**

Background Paper

CREATION OF SMALL-SCALE INDUSTRY IN SOUTHERN
SWEDEN: THE GNOSJÖ CASE

by

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1.1 Introduction

Interest in Swedish-small-scale industry has increased tremendously in the last ten years. This increased interest can be explained in part by the structural economic problems that have affected Sweden as well as many other industrialized countries. Certain locations in Sweden, especially in the northern regions, have been hard hit with high unemployment forcing the population to move to the southern and middle parts of the country. There is an intense discussion going on in Sweden today, trying to determine the significant factors directly affecting the economic development of a region. Within this discussion, the Småland commune Gnosjö is often pointed out as a region which has had an extremely positive economic development during the 20th century.

Gnosjö's economy is highly dependent upon a large number of small-scale industries primarily in the light manufacturing sector. Unemployment is low - so low that it is said that "the man who is without work in Gnosjö is not interested in working". It is not easy to analyze the positive economic development of Gnosjö commune with traditional research instruments and methods. Different disciplines have used different analysis models which vary considerably. This paper will consider Gnosjö commune as a practical case. This practical case will then be analyzed and then used as an analysis model which provides the best opportunity of understanding the reasons behind the positive economic development of a region.

1.2 Gnosjö - Sweden's most highly industrialized commune

Certain parts of Sweden, especially the province of Småland, are known for their small-scale industrial enterprise. Small-scale companies are predominant in Jönköping's county, which accounts for the largest number of industry workers by a company size classification (5-50 employees). 38% of the industry workers are employed by small-scale companies. Of the total 3 000 manufacturing companies in the county there are approximately 200 companies with more than 200 employees and over 1 300 companies with less than 5 employees. Small-scale industrial enterprise is highly concentrated in two places, Gnosjö and Anderstorp, both of which are situated in Jönköping's county. Gnosjö, however, is the place in which the small-scale industrial enterprise was begun and is the subject of this paper.

1.3 Some statistical data concerning Gnosjö

Table 1 Population growth in Gnosjö 1960 - 1975

| | <u>1960</u> | <u>1965</u> | <u>1970</u> | <u>1975</u> |
|----------------------------|-------------|-------------|-------------|-------------|
| Total population | 4 505 | 4 817 | 4 967 | 5 430 |
| (index) | (100) | (107) | (110) | (121) |
| Population 15-64 years old | 2 823 | 3 108 | 3 251 | 3 507 |
| (index) | (100) | (110) | (115) | (124) |

As has been pointed out in Table 1, Gnosjö has 5 430 inhabitants with a very high rate of employment.

Table 2 Rate of employment 1970 in Gnosjö commune (%)

| | 15 - 64 years | | 65 years and older |
|--------|---------------|-------|--------------------|
| | Men | Women | Men and women |
| Gnosjö | 87,8 | 44,4 | 21,0 |
| County | 84,3 | 44,2 | 11,3 |

Source: County Planning Commission 1974 and Central Bureau of Statistics

The employment rate for women in Gnosjö is not significantly higher than the average for the county. One must consider, however, that in Gnosjö there is an extremely low number of people employed in the public sector, a branch which traditionally employs a large number of women. There is good reason to believe that a large number of entrepreneurial wives (there are few women actually leading a company) are not recorded as being employed - so that the rate of employment for women in Gnosjö is most probably underestimated.

Why should one study Gnosjö ? One of the first reasons can be seen in examining the following table.

Table 3 Unemployment and reported employment opportunities in Gnosjö 1972 - 1977

| | Unemployed/population 15 - 64 years (hundreds) | | | | | | Newly reported employment opportunities/unemployed | | | | | |
|--------|---|------|------|------|------|------|--|------|------|------|------|------|
| | 1972 | 1973 | 1974 | 1975 | 1976 | 1977 | 1972 | 1973 | 1974 | 1975 | 1976 | 1977 |
| Gnosjö | 1.9 | 2.2 | 1.5 | 1.1 | 1.4 | 3.2 | 5.31 | 5.90 | 6.74 | 9.19 | 7.80 | 2.51 |
| County | 11.5 | 9.1 | 5.9 | 7.3 | 6.7 | 6.5 | 0.9 | 1.30 | 1.74 | 1.35 | 1.67 | 1.47 |

It is projected that the same percent of the population of Gnosjö will be employed within the light manufacturing industry as it is today.

Table 4 Real and projected employment structure in Gnosjö 1970 - 1990 (percent)

| Branch | 1970 | | | 1980 | | | 1990 | | |
|----------------------------|--------|--------|---------|--------|--------|---------|--------|--------|---------|
| | Gnosjö | County | Country | Gnosjö | County | Country | Gnosjö | County | Country |
| Farming + Forest industry | 8.0 | 9.4 | 8.1 | 5.3 | 5.7 | 5.0 | 5.1 | 3.2 | 3.5 |
| Light manufactur. industry | 66.1 | 41.0 | 31.0 | 68.4 | 40.5 | 31.0 | 68.4 | 39.0 | 29.0 |
| Building industry | 6.3 | 8.5 | 9.7 | 3.9 | 7.4 | 7.3 | 2.5 | 6.4 | 6.3 |
| Trade | 6.0 | 10.6 | 12.8 | 6.6 | 10.5 | 12.6 | 6.3 | 9.9 | 12.3 |
| Transport | 3.1 | 5.5 | 7.2 | 2.6 | 5.0 | 7.1 | 2.5 | 4.6 | 6.9 |
| Other services | 5.3 | 9.3 | 12.2 | 5.3 | 9.2 | 12.6 | 5.1 | 8.9 | 12.6 |
| Public sector | 5.2 | 15.7 | 19.0 | 7.9 | 21.7 | 24.4 | 10.1 | 28.0 | 29.4 |
| | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 |
| Total num. empl. | 3 542 | 13037 | - | 3 800 | 136050 | - | 3 950 | 144100 | - |

Source: County Planning Commission 1974

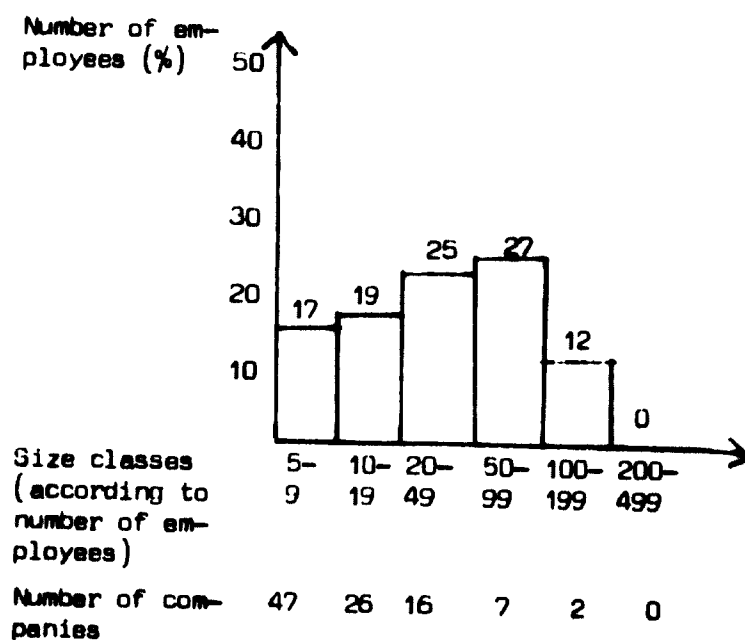
An explanation of this exceptional development can be found in the commune's historical development, which has caused Gnosjö to be a commune of small-scale private enterprises, primarily concentrated within the light manufacturing industry.

Table 5 Percent of employment by branch industry in Gnosjö (the information is taken from 1977 values and companies with at least 5 employees)

| Branch | Company | | Employees | |
|---------------------------------|-----------|------------|--------------|------------|
| | Number | Percent | Number | Percent |
| Light manufacturing industry | 77 | 79 | 1 572 | 87 |
| Building industry | 7 | 7 | 83 | 5 |
| Retail trade, restaurant, hotel | 12 | 12 | 130 | 7 |
| Wholesale trade | 10 | 10 | - | - |
| Transport | 2 | 2 | 26 | 1 |
| Total | 98 | 100 | 1 811 | 100 |

As has been indicated in Table 5, there are 98 small-scale companies with at least 5 employees. 47 of these 98 companies are in the very small-scale company category with 5-9 employees.

Figure 1 Company size and employment distribution in Gnosjö (all companies with at least 5 employees)



If one examines only the manufacturing industrial companies in Gnosjö commune, one sees that the light manufacturing industry is predominant. If one takes the 77 companies within the light manufacturing industry with more than 5 employees and adds the 65 companies that have 1-4 employees, one sees that within the total number of 142 manufacturing companies, 102 are in the light manufacturing industry.

Table 6 Manufacturing industry in Gnosjö. Number of companies and the employment distribution by branches (1977 values)

| Branch (sub-branch) | Company | | Employees | |
|-------------------------------------|------------|------------|--------------|------------|
| | Number | Percent | Number | Percent |
| Food products | 1 | 1 | 9 | 1 |
| Textile + leather products | 4 | 3 | 60 | 4 |
| Forest products | 11 | 8 | 85 | 5 |
| Paper + graphic products | 3 | 2 | 120 | 7 |
| Chemical products | 6 | 4 | 65 | 4 |
| Nonmetallic mineral products | 1 | 1 | 3 | 0 |
| Metal products | 11 | 8 | 123 | 7 |
| Light manufacturing ind. prod. | 102 | 71 | 1 211 | 71 |
| Other manufacturing ind. prod. | 3 | 2 | 27 | 1 |
| Manufacturing industry total | 142 | 100 | 1 703 | 100 |

3. Historical background

The reason why this region today has become one of the most industrialized regions in the world is to be found in the historical development of the region. Therefore, let us start up with a summary of this development.

17th century The earliest iron-handling companies started around the 17th century. They started up with simple production of swords, bayonets and other weapons for the Swedish army. The people who worked with this production were free from army duty. The prerequisites for this production was the availability of iron, both from the big iron-mine in Teberg, 60 km to the north of Gnosjö, and also "myr-malm", iron ore picked up from the bottom of the lakes in wintertime when the lakes were covered with ice.

The iron was melted into metal in small iron works. For the melting process they used charcoal produced from the forests. An essential result from this early production was that there were a lot of people who had a good knowledge of how to work with iron.

18th century Products coming from the wire-drawing process have made Gnosjö famous. With wire-drawing we mean the method of making iron-wires out of iron bars. This production started up as a side-line to the very poor farming. The people were forced to do something which would make them less dependent upon farming. As we have pointed out, the people already knew how to work with iron. An important iron-works, Nissafors Works, was founded in 1725. Nissafors is situated only 15 km from Gnosjö.

In the middle of the 18th century small iron-works were also founded in Härryda, Marieholm, Gyllenfors, Åminne and other places situated 10-40 km from Gnosjö. They played an important role for the inhabitants in the area as suppliers of side-line activities and are significant as regards later industrial development. It is important to note that none of the iron-works were situated within Gnosjö. Thus the people were not at first engaged directly in the iron-works. Wire-drawing in Gnosjö can be traced back to around 1730. To begin with, it was practiced by means of manual and horse power, but from the 1760s the

small factories were located near the rivers and streams so it would be possible to use the water as a power-source. In all there were around 100 such small factories in the countryside.

From the wires they made a lot of very simple products such as hair-pins, needles, hooks and eyes, ox-chains and so on. All people were involved in this production, both young and old.

The products were to a great extent sold by house-to-house peddling, but also by local distributors who sold the products in different local market places all over the country.

19th century In the beginning of the 19th century a number of new products were introduced, many of them for use in the households. This was possible because in the early 1800's the factory workers had learned how to "weave the metal". From the original manual wire-working the threading of the wire became more and more mechanical. The handtools were gradually transformed into machines, mainly through the inventiveness of the craftsmen. One might say that production on an industrial basis can be traced back to the 1860s in the sense that the production no longer was primarily a side-line to farming. During the 1860s a number of small factories were founded, some of which are still in existence.

Around 1870, the manual wire-drawing was faced with hard competition from the mechanical large-scale companies, but rationalization and a change-over to other resource materials ensured prolonged prosperity. New products were introduced during the last part of the 19th century, as different as snuff-boxes, spectacle cases, leather purses etc.

One very essential thing that contributed to the growth of the production was the building of a functioning infrastructure. The transportation problems were considerable and the railroad (completed in 1880) between the harbour of Halmstad and the town Nässjö linked Gnosjö not only to the other railroads in Sweden, but made it easier to export the products. As a result of the building of a railway system it became more profitable to take advantage of the forest resources.

Therefore forest-based industries developed at the end of the 19th century.

In 1899, electrical power was introduced. This meant that the old wire-drawing factories situated near the rivers and streams in the countryside were replaced by factories in the village.

When wire-drawing in the last decades of the 19th century started declining in Gnosjö, a number of new industries had been developed with sufficient strength to survive.

20th century The development of companies in the Gnosjö-Anderstorp area during the 20th century has been extremely expansive. There has been a number of "spin-offs" from certain "mother" companies. In Gnosjö, the starting of companies has been accelerated since the end of the 1920s, interrupted by the depression around 1930 and the second world war, and reached a culmination during the post-war era.

In many ways Gnosjö is a unique commune; the great number of industries and their dispersion all over the commune; the versatility in production - in Gnosjö almost anything can be produced, which is of course a result of extensive entrepreneurial activity. This and many other facts have contributed to Gnosjö's being an example of entrepreneurial initiative in Sweden.

J. A theoretical base for the study of entrepreneurship

3.1 Introduction

Scholars who have worked with this new and exciting area of research have come from different branches of study such as economics, sociology, cultural geography, history etc. Dependent on what starting-points the scholars have had in their research, they have also shown results which at first sight may seem in a contrasting relationship to each other.

It is natural, however, that the research in its initial state takes place starting from several ways of approach. It is in fact in this way that the research in the social sciences is brought forward; in using methods and ideas from different branches of study one may gradually arrive at a "true" description of the complicated process that the entrepreneur sets off when he builds up a new independent organization.

In the 1970s the scientists to a large extent have started taking an interest in the entrepreneur and the importance of the entrepreneur in the industrial development.

One of the reasons for this increased interest in starting companies is that regional problems of imbalance occur also in the industrialized countries. Certain regions are considerably more developed than others. In the regions where small-scale companies dominate the industrial structure, it seems as though industrial development has been much more even and, for example, unemployment rates lower. It is then quite natural that the scientists have, to a large extent, taken an interest in the entrepreneurship problems. Examples of issues that the scientist wants to illuminate in this context are:

Who is this person that starts a company? Under what circumstances does the person start new companies? In what ways does the enterprise-building process differ in different branches, regions, etc?

In order to understand the origin of a company as a natural process the scientists have chosen not only to study the organization, but, above all, the people

who made the companies. There is a great interest in seeing what events that influence a person and makes them break out of ^{their} ordinary surroundings and build up a new independent organization.

3.2 The psychological view of the entrepreneur

The theory that one may decide with the help of a limited number of psychological elements if a person possesses the qualifications necessary to lead a company successfully has its foremost advocate in the American psychologist David McClelland. McClelland has in his research primarily illuminated how a particular psychological factor, the need for achievement, is responsible for economic growth and decline¹.

Three types of study were carried out to test this hypothesis. The first type dealt with the relationship between group measures' need for achievement and overall rates of economic development². Thus, for example folk tales from primitive cultures were analyzed to see whether the tales containing large amounts of achievement in imagination came from tribes that showed a higher level of economic activity. The second type of study carried out by McClelland traced the origins of the need for achievement in studying the transmission of parental values and attitudes (from mothers to sons) and by studying the relationships between the occupational interests of adolescent boys and their levels of need for achievement³.

The importance of these studies, in our context, is in their relation to the third type of study carried out by McClelland, which dealt with the entrepreneurial role and the motives and behaviours of actual business entrepreneurs⁴.

McClelland suggests that the link between high levels of the need for achievement in a nation and the rapid economic development of a nation is the entrepreneur - "the man who organizes the firm and/or increases its productive capacity". McClelland suggests that the key components of the entrepreneurial role are moderate risk-takings in which the outcome depends more on skill than on chance; energetic, innovative activity; individual responsibility for generating and choosing among alternative courses of action; concrete

1) McClelland, D., The Achieving Society. New York 1967

2) Ibid., p. 65-70.

3) Ibid., p. 342

4) Ibid., p. 205-240

knowledge of results of individual actions or decisions; and long-range planning and organizational abilities.

McClelland and his successors have, besides the need of achievement, studied two other psychological needs: the need of affiliation (the need for contact with other people, to oblige other people) and the need of power (the ambition to dominate the behaviour of other people). It has been established in several studies that a combination of a high need for achievement and medium high need of power is a characteristic of the entrepreneurs that turn out most successfully. There is a negative link on the other hand between need of affiliation and successful entrepreneurship.¹

Starting from McClelland's studies in particular, other scientists have constructed test forms with which it is possible to measure the entrepreneurial capability of different people (that is, their need of achievement, power and affiliation). Furthermore courses have been developed where the ambition is to influence the achievement capability of the participants.²

In the last few years the views based on the research of McClelland have been questioned. Opinions have been raised like avoid focussing on the "superman" type of entrepreneur and that a large amount of research must be carried out before the "nature of the entrepreneur" can be made clear. McClelland's impact is similar in that he provokes discussion, stimulates arguments and explores a range of original hypotheses. For the time being, however, we must conclude that the examination of empirical studies leaves the question of entrepreneurial motivation unsolved. There has not yet been established a clear link between the personality characteristics of entrepreneurs and the success of their business.

3.3 The traditional economic view of the entrepreneur

Traditional economists see the entrepreneur as an irrelevant element and that the company aspires to achieve certain, for the employees, collective goals irrespective of the entrepreneur. Two economic scientists, Cyert and

1) Wainer, H.A., Rubin, I.M., Motivation of research and development entrepreneurs, Determinants of company success, Journal of applied psychology, vol 53, 1969, p. 178-184.

2) Miron, D., The economic effects of achievement motivation training, Thesis. Graduate School of Education, Harvard University. 1975. Mimeographed.

March¹, for example, describe the company as an apparatus of decision, where prices and output play a decisive part in the decisions made. Neither the entrepreneur nor the entrepreneurial role play any part in the theories of Cyert and March. But there are naturally other scientists who have pointed out the importance of the entrepreneur. An American economist, Baumol, speaks of the entrepreneur as:

"he has long been required as the apex of the hierarchy that determines the behaviour of the firm and thereby bears heavy responsibility for the vitality of the free enterprise system."²

Baumol furthermore differs between the entrepreneur and the company leader³, the company leader is "the individual who oversees the ongoing efficiency of continuing process" and the entrepreneur is:

"the Schumpeterian innovator and some more... it is his job to locate new ideas and to put them into effect. He must lead, perhaps even inspire... And he is virtually absent from the received theory of firm."

This view stated by Baumol has found ready listeners in many people in the 1970s. But let us go back and see how other scientists think of the importance of the entrepreneur.

In spite of this changed attitude of the entrepreneur, many of the measures hitherto carried out to stimulate the establishing of new companies have been directed more towards creating a favourable environment for the company than towards the eventual demands of an individual starting a company.

The state authorities have often built up a "support system" to support the establishment of new companies, and then forgot that entrepreneurship is an attitude very difficult to influence.

The support system that has been built up has also been criticized because it has become too complicated. Such a large number of institutions have been created, with the task of, among other things, informing the newly-started company, that the entrepreneur gets lost among them.

1) Cyert, R.M., and March, J.G., A behavioural theory of the firm, Englewood Cliffs, N.J., 1963.

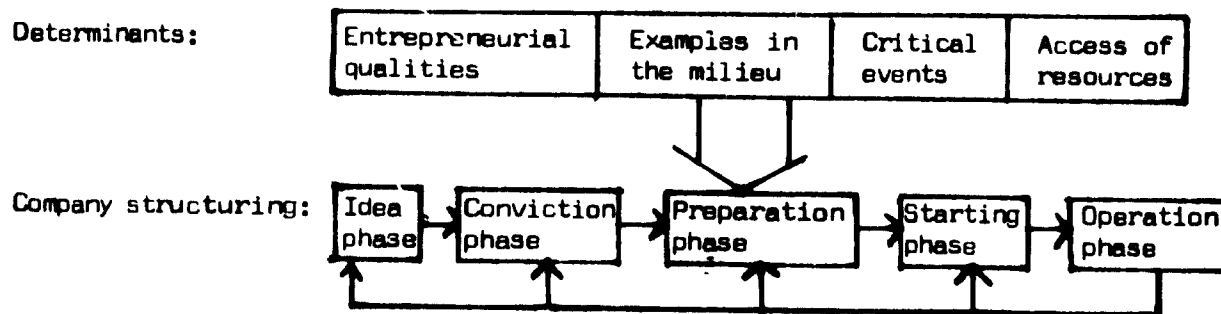
2) Baumol, W.J., Entrepreneurship in economic theory (with discussion). American Econ. Review, vol 58, No 2, (May 1968): p. 64-71.

3) Ibid., p. 65-66.

Despite this, there is an advantage also in the traditional economists' strong concentration on the importance of the surrounding milieu for a newly-established company. In the complicated and often haphazard process of building up a new company, the appearance of the company milieu may often be decisive for the possibilities of a company to survive. The scientists cannot answer the question of what combinations between the person who starts the company and his environment are a necessary condition for the building-up and survival of a company.

3.4 An integrated view of the company building-up process¹

In this section we will introduce a conclusive model of the building of companies and their determinants. Starting out from this description we will discuss the components that constitute the model. We wish to give expression to the complicated cooperation that takes place between the future entrepreneur - the company - and the surrounding company milieu in the establishment process.



Determinants

If you start with the determinants you may talk about a pattern consisting of the qualities of the entrepreneur - partly in a psychological dimension, the presence of examples or other social links in the milieu of the company starter, certain events more closely related to situations and physical and other resources - or which are more or less possible for the company initiator to acquire and which are necessary for starting the operation.

1) This model is based on the research of the author on Swedish entrepreneurs.

a Entrepreneurial qualities

Studies carried out with the intention of illuminating company qualities have often been based on a motivation theory. Against this background it is important to show a few contributions in this area that have been used in order to explain the behaviour in connection with the establishment of new companies¹.

b Examples in the milieu

The most important variable found in surveys regarding company-formings is the presence of examples of other company starters for the potential company starter. A company starter must be convinced that he is doing the right thing in starting a company of his own. Regular contacts with successful entrepreneurs, who have served as examples, have made this process easier.

The most obvious example of this is the parents of the potential entrepreneur². In surveys of, for example the company structure in the US, it is pointed out that the share of new entrepreneurs whose parents have had a more independent position, varied between 50-58% depending on the branch and the whereabouts of the community³.

1) For a conclusion of these, compare:

Shapiro, A, Entrepreneurship and economic development, Proceedings of Project ISEED, Summer 1975, Milwaukee 1975, p. 639 and Stanworth and Curran, Management motivation in the smaller business, Essex, 1973, p. 20-25.

2) See for example Carroll, I., The Filipino manufacturing entrepreneur, Cornell University Press, Ithaca, N Y, 1965, and Roberts, E B. Weiner, H A, Some characteristics of technical entrepreneurs IEEE Transactions on Engineering management, vol EM:18, No 3, 1972, p. 108.

Borland, C, Focus of control, Need for achievement and entrepreneurship, the University of Texas, Austin, 1974.

3) Draheim, K, Howell, R, Shapiro, A, The development of a potential defense R & D complex: A study of Minneapolis - St Paul, Stanford Research Institute, Menlo Park, Calif, 1966.

Copper, A C, The Palo Alto experience, Industrial Research, May 1970, p. 58-60 and Entrepreneurial Environment, Industrial Research, Sept 1970, p. 74-76.

c Critical events

What makes people initiate behaviour that results in forming a company? Certain studies claim that most company formings are related to some kind of "unbalance" - a displacement from a relatively comfortable existence to one somewhat more "eccentric and uncomfortable". Political refugees and people who have been fired are sometimes noted as examples of this.

The event may be both positive and negative, forced on you from outside or internally experienced in character¹. It is rather common that combinations of negative and positive conditions make the company starter act and take initiative. An accumulated "pressure" is often needed to make a person move out of a position previously established. In certain cases the large-scale companies may be of importance for an increased establishment of new companies. Studies have stated that in those companies there are more frustrated employees².

d Access of resources

The taking of initiatives, examples for establishing new companies and the inclination to act are necessary, but ^{are} not sufficient conditions for the starting. The company starter must have access to resources, that is labour, raw materials, capital, buildings, equipment and other things required to operate.

Foreign studies show that in times when the access to capital is good, the number of new companies tends to increase, while it shows signs of weakness in a rougher climate. There is reason to believe that company formers in general at the beginning of the company - rely on their own ^{savings} and extensive borrowing from friends, relatives, working partners etc³. It is also possible that a "financial" partner might provide the remaining support necessary to start the company. This would counter the statement that no substantial support from the regular capital market is normally provided on a large scale. Here also Swedish as well as foreign experiences show that the banks in general do not regard the financing of company formings as fit for the banks. It should also be noted that there are only a few studies in this area, but

1) See for example Rotter, J.B., Generalized expectancies for internal versus external control of reinforcement, Psychological Monographs, 1966, vol 80, No 1, p. 25; and Shapiro, A., Entrepreneurship and economic development, Proceedings of Project ISEED, 1975, p. 638;

2) Boswell, J., The rise and decline of small firms, London, 1973, p. 50.

3) Litvak, I.A., Maulo, C.J., Comparative technical entrepreneurship: some perspectives, Journal of International Business Studies, Spring 1976, p. 35.

the existing results indicate that the presence of financing institutes, acting positively in the growth of new companies play a key role when a region shall generate, develop and maintain new companies.¹

3.4.2 Founding a new company

Founding a new ^{company}, or more common, the establishment process, consists of a number of more or less limited and defined steps or phases². It starts according to our definition the first time the company founder thinks of starting on his own, and ends when the company has reached a stage of relatively stable operation.

a The idea phase

The idea phase opens the company establishment and consists of the time period in which the company starter for the first time comes into contact with the idea or thought of wanting to start a company of his own. The prominent feature of this introductory step is also that it generally stretches over a very long period of time in which the company starter does not make any concrete attempts to either test or examine closer his possibilities of realizing his idea.

The idea as such is not formed in such a way that he can say exactly what he wants to do, produce or market. This is more a question of an attitude, disposition or will to eventually - without being able to state it in precise dimensions - become his own master.

b The test and conviction phase

When the idea has reached a certain degree of maturity the company starter is apt to more or less try his thoughts of becoming an entrepreneur on people in his direct surroundings. It is primarily a question of family members, relatives, good friends, working partners etc. ^{Encouraging} Comments strengthen his belief in the idea and make him also go further and further from the nucleus of the family

1) Hoffman, C., The Venture Capital Investment Process, Univ. of Texas, Austin, Texas 1972 and Shapiro, A., Hoffman, C., Draheim, K.P., and Howell, R.P., The role of the Financial Community in the Formation, Growths and Effectiveness of Technical Companies, MDRI Press, Austin, Texas, 1969.

2) Similar models of the establishment process has been presented by Baker, R.J., Susbauer, J.C., The venture formation/development process, Proceedings of Project ISEED, Milwaukee 1975, p. 414 and Watkins, D.S., Towards an empirical basis for public policy on business initiation and aggrandisement, Rencontres de StGall, Merl.-76

to trying out his, by this time, more finely-shaped idea.

The company formation is in many cases interrupted at this stage when the test evokes mostly negative reactions on the part of relatives and friends.

This phase does not take as much time as the idea phase, but it can be slightly more intensive, a great deal of spare time is used for thinking about the problem. The phase is concluded with more or less concrete plans for a future company being drawn up.

c. The preparation phase

These plans for the future operation might range from simple cost-income calculations for the first months of operation to more sophisticated analyses of the market situation, production process, administration etc.

In the preparation phase resource components form important elements. Different sources of finance are examined and contacted, consultants are called upon for market- or product (idea-) analyses, suppliers are contacted, the trade is advertised (possible delivery contracts are drawn up). Contacts with local and regional authorities, for example, the community and the Regional Development Agency are created (often through an intermediary) to solve questions of premises, labour or any other question of resource. Machine purchases are planned and may be calculated with the help of an external consultant.

The increasing number of contacts outside a relatively stable circle of family, relatives, good friends and working partners is another characteristic besides the above-mentioned.

For the company starter a certain development often takes place in knowledge. He acquires elementary knowledge of company law (for the forming of the company) and takes a closer look at elementary book-keeping. The phase can be characterized as very labour-intensive, but is relatively short in time.

d The starting phase

It is not certain - nor in all cases probable - that the preparations really lead to the forming of a new company. The company start does not have to come as a logical consequence of the preparation. Some kind of trigger mechanism is required to release the company starter from his earlier position either (most common) it is a question of his previous employment or something that in another way threatens his security. To risk unemployment or to feel ill at ease in employment, having to leave the home community, or in any other way being placed in a negative change of position (from the point of view of the company starter or his family) are such liberating events. To have the question of premises, financing- or any other resource problem satisfactorily solved are examples of liberating positive factors - seeing a chance and taking it.

e The operation phase

In the operation phase all resources of the company are engaged, and the activity is selfsupporting. The production may not as yet run smoothly. The loan picture is somewhat stabilized. The first credits that were taken in a bank or another form of credit institution, in the preparation and starting phase, for security in personal security for the company starter and his family and for mortgage in real security is replaced in the period by mortgaging the enterprise. The working time of the company starter is still extensive and in excess of normal working hours engaged in production, the remaining time is spent in administrating the company, advertising the trade, contacts with suppliers and planning. As a rule, no addition is made in the number of employees.

4. The Gnosjö case related to the integrated view of the company build-up process. A concluding discussion

Undertaking a programme for the generation and encouragement of entrepreneurship does not guarantee the development of a region. We all know by now that development is a complex process and that a region or an economy is an open system in which old variables disappear forever and new ones appear to confront us. There is no single approach or technique that is both necessary and sufficient for regional development.

But let us consider how our experiences from the Gnosjö commune can be used in order to understand our analytical model presented in the preceding section (3.4).

a Entrepreneurial qualities

Compared to the experiences we and other scientists have had from the Swedish entrepreneurs, there are several differences between the entrepreneurs in Gnosjö compared to those in the rest of Sweden. The Gnosjö entrepreneurs are on an average 27 years old when starting their own companies, compared to 36 years old for the rest of the country. As a result of this, they have a shorter formal education. In similarity to other Swedish entrepreneurs, the Gnosjö entrepreneur usually has some kind of technical education and no economic education.

He possesses a great deal of product skill. He has chosen the line of industry that he has just left, or from which he has experience in previous entrepreneurship.

A remarkable thing is that even today in Gnosjö there are companies whose business idea is the original Gnosjö business idea: to handle the wire in some form !

There is a driving force. One person has been a driving force in relation to other persons involved. He is more willing than his partners to go on to "the bitter end".

There is also striving towards individuation. Each person involved in the process is striving towards individuation. However, need of achievement and power are also important incentives.

Both these factors, the driving force and the striving towards individuation are an effect of the special environment in Gnosjö. It is probable that this striving for individuation is higher in Gnosjö than in the rest of the country. You will not be accepted as a "real" man before you have started your own company.

b Examples in the milieu

The whole Gnosjö commune serves as a school for entrepreneurs. All inhabitants have access to a large number of examples of successful entrepreneurs in the neighbourhood. Already at an early age they come into contact with entrepreneurship.

There are favourable relations to environment. Family, relatives, friends, last employer, consultants and society have all in different ways supported the formation of the business. So too have customers and suppliers.

There are firm links with the place of birth and the place of origin. The persons involved in the process get more and more bound to their place of origin during the time of business formation. Quite often they saw the establishment of a business as a means of staying or returning there.

c Critical incidents

When successful entrepreneurs tell the story of their lives, it is common that they point out a number of critical incidents that have, often in a decisive way influenced their decision of starting a company of their own.

We have found that such critical incidents occur, but that it may be of some importance to speak of two different types of critical events; those that have a "pull-effect" and those that have a "push-effect".

There is a "pull-effect" when the persons involved have seen a chance and a possibility to show what they really can do. They have grasped the chance.

One might say that this "pull-effect" is very strong in Gnosjö, and is of great importance to explain the high rate of new companies establishing.

There is also a "push-effect". The persons involved have been dissatisfied with their earlier positions, e.g. not so well paid, frustrated because of lack of law and order in the organization, a risk of being dismissed or of being unemployed. This "push-effect" has been of minor importance for explaining the inclination of the Gnosjö entrepreneurs to start a company of their own, compared to what it has meant to other Swedish entrepreneurs.

d Access to resources

There is a positive environment for new businesses in Gnosjö. Businesses today have been formed in an environment well-supplied with different kinds of resources (consultancy, finance, facilities, machinery, workers, skill, education, transport etc.) There has also been absence of severe competition in the market. The local and regional communities have highly appreciated new industries.

Of all resources needed for a new-started entrepreneur, capital is regarded as the most essential. But even if the environment today can offer finance resources to the entrepreneur, it is true that most of them start their companies with very limited capital resources.

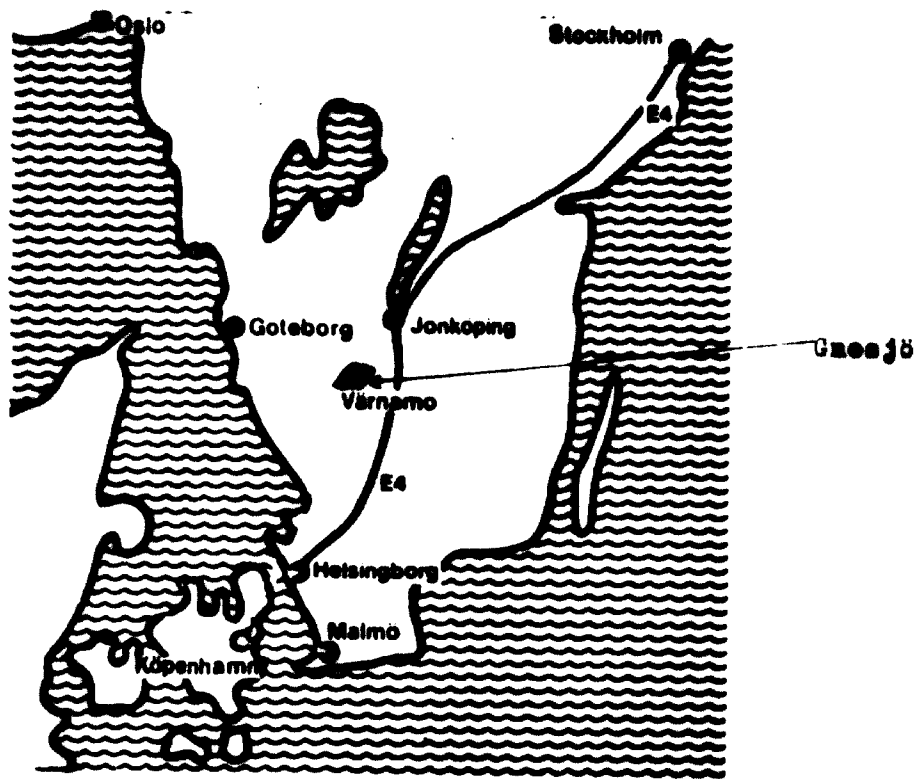
The operation is often started as part-time occupation, and hard work in the evenings and weekends. This has meant that there is a relative independence of banks and other financiers in the starting phase.

The explanation of this behaviour is to be found in the historical development. The Gnosjö entrepreneur is by tradition strongly directed towards being independent, which means independence towards the financiers.

Since you "start off furtively" this also means that the operation is often started with second-hand machines. The family is the resource most heavily

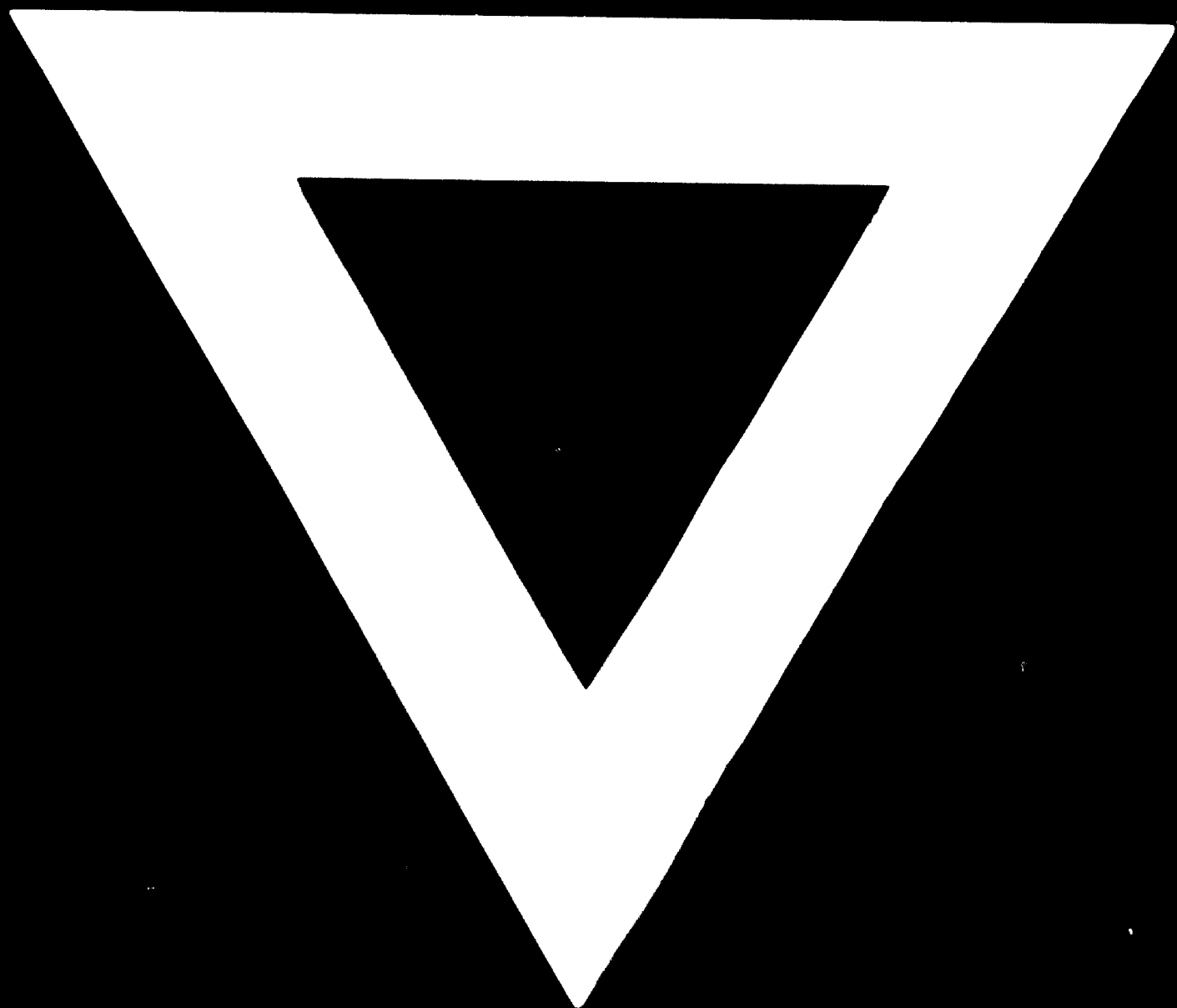
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relied upon. When a member of the family wants to start out on his own, it is natural that the rest of the family help, not only with advice, but also through helping out with the work in the company in the critical starting phase. The risk-taking of the entrepreneur is in this way minimized.



We regret that some of the pages of the microfiche
copy of this report may not be up to the proper
quality standard, even though the best possible
copy was used for preparing the master fiche.

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