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A PRIMER ON WESTERN CANADIAN ENTREPRENEURSHIP

By Edward J. Chambers and Stuart E. Shaw

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Executive Summary

A Primer on Western Canadian Entrepreneurship extends earlier work by the Western Centre for Economic Research (WCER) on the small business sector. *Portraits of Small Business Growth and Change in Western Canada: 1988-1999* found that small firms, including the self-employed, are a very large part of the Western Canadian economy, accounting for between two-fifths to one half of employment across the four western provinces. The background provided here supports the WCER's current research¹ – and wide scale survey – into the growth and stability of small business firms, their product demand sources and the channels through which small firms sell their output.

The report begins with a summary of the importance of small business to the Western Canadian economy. Part II of the discussion takes the position that useful insights into entrepreneurship must incorporate contemporary conceptual thinking with empirical studies into the dynamics of new venture creation. In the absence of a generally accepted model of nascent entrepreneurship, three current models are outlined: a person centred approach; an approach that stresses the interdependence of human, financial and social capital; and a view of entrepreneurship as a set of complex decision points. These current models are markedly different from earlier concepts of entrepreneurship in their emphasis on process rather than on personality.

What stands out in contemporary thinking is the non-linearity of entrepreneurial actions. The path from here (the idea) to there (the realization) is full of information assembly, segmentation and evaluation, of future reference points, of intuition, feedback loops and reassessment, of sustaining existing contacts and finding and incorporating new ones into an expanding network, of searching out and acquiring an appropriate resource bundle, of improvisation, of timing, and of the ability to act.

Part III of the *Primer* considers the complex process of information assembly directly and provides the lessons learned about entrepreneurship from current models and studies. Beyond the high prevalence of entrepreneurship in Western Canada, these lessons are:

- Entrepreneurial activity is high risk and involves responding to limited windows of opportunity
- Ideas are a spark but process is the engine of entrepreneurship
- Networking is at the heart of the entrepreneurial process
- Capital requirements – financial, human and social – evolve with start-up and growth. Bundling these resources effectively is critical
- The character of start-up opportunities is determined, in part, by the industry chosen
- Entrepreneurial motivation is complex – no mould fits all

¹ See for example, the third report in WCER's series which analyses an extensive survey, *A Survey of Western Canada's Small Business Markets* (forthcoming 2004).

Part IV turns to the special problems of entrepreneurial growth companies, to the internal and external tasks that a small business faces if it is to evolve into a growth company. The internal tasks relate to adaptability, to human resource breadth and depth, and to the reconfiguration of organizational structures; externally, they concern financing but also other factors such as the product distribution channels necessary to meet growth targets.

Part V assembles a selective sample of the support structures available to the entrepreneurs, particularly nascent entrepreneurs, to address the question: '*How has public policy been implemented to support entrepreneurship in Western Canada?*' The presentation bringing together the sampling of support system information is developed under the following headings:

- Information basic for start-up
- Action recognizing 'time is of the essence'
- Social capital/network niche availability
- Risk sharing
- The special issue of entrepreneurial growth companies

There is no attempt to provide an exhaustive list of what is available but rather to offer a useful overview. The information includes both general and targeted support in the areas of business plans, market research, financing, counseling, risk sharing, network availability, and what can be accessed by rapid growth companies.

The conclusions of the report (below) are directed to the question of: *Where have public policy initiatives been strongest and where are there opportunities for greater effect?*

1. There is an overwhelming amount of information available about the specific human capital requirements integral to start-up. This information exposes the nascent entrepreneur to the set of decisions that underlie start-up.
2. Start-up knowledge and the range of choice in sifting the materials for specific human capital development is orders of magnitude more effective for the person with access to the high speed Internet.
3. On-line registration of business should be generally available. Further, absence of high speed Internet deprives businesses in the rural areas of Western Canada of a major instrument in overcoming the disadvantages of distance and access.
4. Sources of financing for nascent entrepreneurs are many and varied. Whether there are gaps in financing and what their nature may be awaits the results of studies now underway.
5. Why only a few small businesses become entrepreneurial growth companies is a complex matter and not simply a question of financing availability. The issues include: owner motivation, transaction and the negotiation costs associated with expansion, diffusion of decision making (and possible loss of control), the high risks inherent in rapid growth, and possible tax disincentives once a net income threshold has been reached.
6. Modern thinking places an approximately equal emphasis on human capital, financial capital and social capital in the entrepreneurial process. Platforms – intermediaries – are present in abundance for transmitting specific human capital and for accessing financial capital. Lacking is an emphasis on

social capital intermediaries, on networking — social capital's concrete expression — as an essential condition of pursuing and reacting to the realities of entrepreneurship by expanding the action frame of the venturing process.

7. A further disadvantage in rural areas is that social capital development there is more difficult than in the metropolitan areas of the West. This needs to be addressed, perhaps through Community Futures Development Corporations.

Introduction

How do we think about entrepreneurship and what sort of insights do we hold about the entrepreneurial experience? Knowledge assembled in recent years demonstrates that engagement in entrepreneurial activity, the decision of individuals to leave paid employment and strike out for themselves, is more intense in the West than in other parts of Canada. Setting up a new business can be viewed simply as a case of individual effort in a personal space. But that scarcely seems to do justice to what takes place. More likely entrepreneurial activity occurs within a set of family, personal and other linkages, and these, when bundled together, constitute a network context for new endeavours. There is no reason to believe that there is a single motivation for starting a business. Indeed, motivations may be almost as numerous as there are new entrants to the marketplace. Nor should we accept as fact that the entrepreneurial path is an orderly and well sequenced one. More likely it is full of pauses, feedback loops and reappraisals.

Those considering a business venture must make a myriad of decisions before the business even starts – if it starts at all. We need to understand the factors, both rational and intuitive, that lie behind these decisions. We also need to grasp how the decision process is framed. Perhaps entrepreneurs are more prone to see their world as it ‘can be’ rather than as it is. Certainly, the prospective entrepreneur is able to see opportunity where others do not. But to recognize opportunity is not, in itself, sufficient. Those who venture have to figure out how resources – finance, experience, and specific knowledge – can be combined to produce a product or service that attracts a customer set. Thus, not only do they recognize opportunity, they are able to act on it in a timely and effective manner.

Very few businesses are started with the intention of becoming entrepreneurial growth companies. However, once a new business becomes a reality, is there any way of determining if it will become an entrepreneurial growth company (defined here as firm whose sales grow over a sustained period at a rate in excess of 20% annually)? We know that investors, both informal ‘angels’ and financial intermediaries, have a strong interest in these companies with substantial equity and debt capital needs to accommodate growth. But finance is far from the whole story. External growth is directly linked to internal change, to acceptance on the part of the entrepreneur for managerial rationalization, for delegation, for the capacity to make the right personnel choices, for clear lines of authority, and for coordinated decision making. With the complexities accompanying rapid growth, it is unlikely that we can identify, at the starting post, those who will acquire wide name recognition from those who do well, but whose primary interest is not growth, but rather consolidating a limited market presence.

Support for small business that encourages entrepreneurship involves public policy at various levels of government. Instruments of support range from the provision of a wide spectrum of information, to start-up and supplementary financing.

The issues are ones that many in the past have considered and with which many, going forward, wrestle. As knowledge accumulates, as times change, and as society

evolves, each generation revisits these issues applying its own distinctive lens, rethinking and re-evaluating with the insights provided by the new knowledge and altered circumstances. What may have been conventional wisdom a generation or two ago – and adopted as a building block for public policy – is eroded by the ongoing research of a new generation. Effectively, entrepreneurship, its character and processes, may be seen differently by each new generation. It follows that the underpinnings of public policy, and the instruments through which policy is exercised, will have to be judged against the latest thinking.

The object of this Report is to aid in understanding the potential that contemporary thinking about entrepreneurship holds for Western Canada. This is a large subject and requires that the many questions surrounding entrepreneurship be reduced in breadth in order to permit concentration on some key issues. Thus, the choice was to have the Primer address the questions outlined below.

We start with a brief overview that offers a general setting of the small business sector in Western Canada. This backdrop briefly describes the importance of small business to the Western Canadian economy in terms of jobs, share of GDP, and rates of new starts and exits.

The second section of the *Primer* outlines and synthesizes current studies, both conceptual and empirical, about entrepreneurship, and particularly nascent entrepreneurship. Three current models are selected and relevant empirical research conveyed. The focus questions are:

- *How do the emphases in new models of entrepreneurship contrast with those in the past?*
- *What sets of relationships and interactions are advanced in the new models and tested in empirical studies?*

The third section of the report outlines the key findings, or insights, that can be drawn about entrepreneurship from the newer models and empirical studies. The focus question is:

- *What principles that impact entrepreneurial development can be extracted from contemporary models and empirical studies?*

The fourth section of the *Primer* addresses the special concerns of entrepreneurial growth companies. The focus question is:

- *What are some of the key factors, internal and external to the firm, that determine whether a small business will become an entrepreneurial growth company?*

The fifth section of the report turns to the public policy implications of these insights into entrepreneurship. The focus question is:

- *How has public policy been implemented to support entrepreneurship in Western Canada?*

In the final section we address the following question:

- *Where have public policy initiatives been strongest and where are there opportunities for greater effect?*

Part I: The Prevalence of Small Business in Western Canada

Small businesses, defined as establishments with less than 100 employees including the self-employed, are integral to the Western Canadian economy.² (Chambers and Rylska 2001) Some selected measures will illustrate the position of small business in the region. In the last decade of the 1990s, there were, on average, 8.5 small businesses per 100 persons. This Western Canadian number was 37% higher than the comparable estimate of 6.2 per 100 in other Canadian jurisdictions. Provincially, the ratio of small businesses ranged from 10.7 in Saskatchewan to 7.2 in Manitoba.

The significance of small business can also be measured by employment. In Western Canada during the latter half of the decade, one half of the jobs were in small business establishments. The small business share of total employment ranged from 53.5% in Saskatchewan to 43.4% in Manitoba. British Columbia and Alberta shares were 51.8% and 49.8%, respectively. During this period in other parts of the country, 43.4% of the employment was in small business establishments.

A further benchmark is the contribution of small business to provincial Gross Domestic Product (GDP). During the last half of the 1990s, small business output as a share of aggregate provincial GDP ranged from 28% in British Columbia to 22% in Alberta. Shares in Saskatchewan and Manitoba were estimated at 24% and 23% respectively. (Industry Canada 2003a) These shares compare with an average of 23.5% in the rest of Canada.

1. Entrepreneurial Comparisons

The *Employment Dynamics* database reporting the annual number of new business ventures provides the most suitable indication available of provincial entrepreneurial activity. Entries can be expressed in terms of population in order to permit meaningful inter-provincial comparisons. Table 1 (below) shows the new venture rate as a percentage of the population of the labour force age (15 and over) and as a percentage of the population aged 18-64 for the late 1980s and most of the decade of the 1990s.

² Benchmarks for small business in Western Canada may be found in *Small Business Growth and Change in Western Canada*. (Chambers and Rylska 2001)

Table 1: Percent of Population Starting a New Business Annually, Average 1988-97

Jurisdiction	% of Population 15 and Over	% of Population 18-64
Alberta	0.95	1.5
British Columbia	0.91	1.4
Saskatchewan	0.86	1.5
Manitoba	0.65	1.1
Western Canada	0.88	1.4
Other Parts of Canada	0.62	1.0

Source: Chambers and Rylska (2001)

These are lower bound estimates because they do not take account of those among the self-employed who undertake new ventures without paid help. The measure indicates that entrepreneurial activity as measured by new venture creation in Western Canada is over 40% higher than in other parts of the country (0.88 vs. 0.62). This higher rate is evident in each of the four provinces but especially evident in Alberta, British Columbia and Saskatchewan. If the population aged 18 to 64 is taken as the base then all western provinces exceed the rate of formation in the rest of the country. Nor is this result a statistical aberration. Analysis of new venture rates by two digit SIC reveals that entry rates in Western Canada are higher in every sector save mining, logging and forestry and educational services. (Chambers and Rylska 2001) Unfortunately, *Employment Dynamics* does not contain information on either the gender or the age of those responsible for the new ventures. As would be expected, the industry sector distribution of the absolute numbers of new entrants over the period in each of the four provinces approximated the existing distribution of economic activity across sectors.

A complete view of entrepreneurship must also acknowledge that the life expectancy of new firms is truncated. The evidence is that, for those new businesses started during the 1984-1993 period, the half-life of new ventures in each of the four western provinces was just under 3 years. (Baldwin 2001) First year failure rates range from 31% in Manitoba to 23% in British Columbia with the rate for Saskatchewan and Alberta amounting to 29% and 25%, respectively. After six years, less than one-third of entrants were still in operation. The research does not provide data on the gender or age distribution of survivors. Unfortunately the data also does not provide a profile of the failures. This precludes an understanding of the character of exits among firms who had passed the early start-up phase and become going concerns. A small proportion of going concerns become rapid growth firms and the separation of their experience from other enterprises is important.

Nor does the *Employment Dynamics* data provide information on the reasons for exit. It is reasonable to presume that not all exits represent business failure. Some will represent voluntary withdrawals because of owner retirement or because expectations are not being met or because of a reverse movement from self-employment to paid employment. Movements into and out of self-employment are evident in Western Canada, particularly British Columbia and Alberta. (Chambers and Rylska 2001)

A recent study (Diochon *et al* 2003), although based on a small sample which includes those who were self-employed without paid help, casts additional light on the reasons for exit. This study found that the principal reason for ceasing operations within the first twenty-four months was to look for or take another job. This finding supports the quantitative evidence of significant self/paid employment mobility. Other important stated reasons for exit were that the work was too hard and that a better work/leisure balance was desired.

To conclude, it is evident that small business is of great significance to the Western Canadian economy.

Part II:

Understanding Entrepreneurship Through Contemporary Models

This section of the report is concerned with the focus questions:

- *How do the emphases in new models of entrepreneurship contrast with those in the past?*
- *What sets of relationships and interactions are advanced in the new models and tested in empirical studies?*

1. Early Orientation

Earlier attempts to explain entrepreneurship considered it as driven by the characteristics of the entrepreneur. Both theory development and research focused on personality differences between entrepreneurs and non-entrepreneurs. These differences were offered as an explanation of why some perceive opportunity and carry it forward to the point where they are actively pursuing their own venture. Certain traits were given special attention. These included:

- the need for achievement
- the propensity to take risks
- energy level and sustained effort
- the desire for personal control
- one's attitude about self

The suggested relationship between personal characteristics and entrepreneurship is well conveyed in self assessment tests like that on Western Economic Diversification Canada's web site ('Am I an Entrepreneur?') and the interpretation of results under headings such as: achievement drive; adaptability; autonomy; decisiveness; destiny; energy drive; enterprise; growth motivation; intuition; risk tolerance; and self-confidence. Excellent assessments of the personal characteristics of entrepreneurs are found in numerous studies. (Hornaday 1982; Brockhaus 1982; Carland *et al* 1984; Brockhaus & Horwitz 1986; Sexton and Bowman 1986; Knight 1987; Greenberger and Sexton 1988; Herron and Sapeinza 1992.)

This report does not develop further a stand alone, personal attribute approach to entrepreneurship. Recent studies take the position that entrepreneurship is both multi-layered and multi-dimensional so that the individual must be positioned in a broader context. A person-centric perspective on entrepreneurship is deficient in its simple emphasis on the explanatory significance of stable, lasting trait differences between entrepreneurs and non-entrepreneurs. (Low and MacMillan 1988; Gartner 1990) Newer approaches are built around integrative analyses of individual, organizational, market, and environmental characteristics in explaining how, where and why new ventures take place. Rather than exploring the differences between individuals, they stress differences in the information possessed by individuals about opportunities and the response thereto.

2. Contemporary Models of Entrepreneurship

2.1. Background

There is no one generally accepted contemporary model of entrepreneurship. What is clear, however, is the marked shift in emphasis to how entrepreneurs are able to create and sustain successful organizations, or put otherwise, a shift from the traits of entrepreneurs – the notion that they are different from the rest of the population – to the consequences of entrepreneurial actions. Aldrich and Martinez (2001) and Low and MacMillan (1988) point out that the number of pitfalls in starting a business appear almost infinite so it is essential to understand how entrepreneurs use knowledge, resources and networks to establish a viable operation within a particular environment.

This points quite obviously to the centrality of 'nascent' entrepreneurship and therefore the process which underlies new business formations. Aldrich and Martinez (2001) offer the following definition: *A nascent entrepreneur is someone who initiates activities with the purpose of creating a viable business start-up.* Some nascent entrepreneurs experience successful outcomes from the process, i.e. fledgling start-ups occur, while others either delay or abort the undertaking. In practical terms, the criteria of a nascent entrepreneur, as adopted in the US Panel Study on Entrepreneurial Dynamics (Kaufman Foundation 2003), are the following:

- someone currently trying to start a business alone or with others
- someone currently active in the start-up effort
- someone anticipating full or part time ownership of the new business
- someone whose effort has not yet generated a positive monthly cash flow covering all expenses and an owner/operator salary for more than three months

The Global Entrepreneurship Monitor (GEM) for Canada provides estimates of the extent nascent entrepreneurship in Canada for the year 2000, derived from cross-country interviews with a sample of 2,000 persons drawn regionally. The sample contained 700 respondents in Western Canada. This research represents Canadian participation in an international study of 21 countries (Kaufman Foundation 2003) which found that Canada ranked fourth in nascent entrepreneurial activity behind Brazil, the US and Australia in that order. (Peterson *et al* 2002) Those reported by the survey as intending to start a business include not only those planning a new venture with paid employees but 'soloists' as well, those planning to go into business on their own without any paid employees. Hence, it is an *upper bound* estimate. The Canadian survey reveals that in the year 2000, 4.2% of the population aged 15 and over were actively planning to start a business. It also reports results by gender. The national rate was 5.1% for men and 3.6% for women. On the alternative base of population aged 18 to 64, the comparable figures are 6.2% in total and 7.4% and 5.4% respectively for men and women.

The GEM survey, though not reporting a provincial breakdown, does offer a regional portrait of nascent entrepreneurship. The authors report the rates for

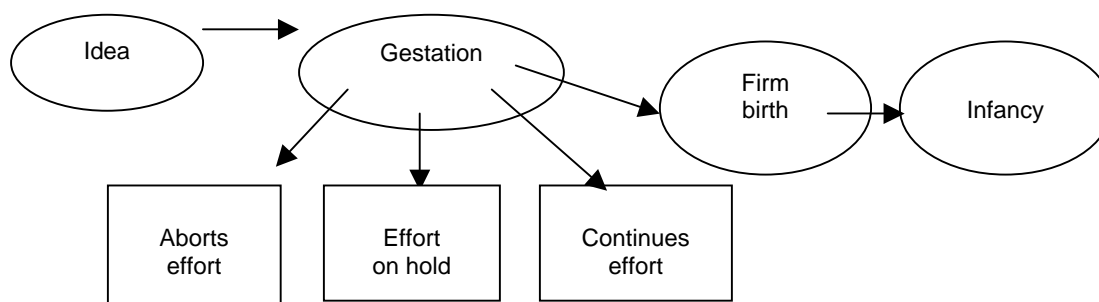
Western Canada at 5.6% of the population 15 and over, and 8.3% of the 18 to 64 age group, the highest rates in the country.

The sample survey also indicates that nascent entrepreneurship is more concentrated in the 25 to 44 age group. The study reports that nationally 8.8% of the men and 7.0% of the women in this age cohort were engaged in start-up activities. What these numbers suggest is that, prior to observing the actual physical presence of a new venture (as evidenced in completion of the paperwork, firm registration, and 'hanging out a shingle'), there is a tremendous amount of activity in terms of time, energy and effort bubbling beneath the surface. However, most would-be entrepreneurs never succeed in actually creating organizations. (Reynolds 1997)

In Canada, the GEM study estimates that one third (0.35) achieve the transition from idea and the planning stages research to actual start-up. The data in Table 1, when combined with the GEM estimate for nascent entrepreneurship in Western Canada above, suggests a lower rate of transition in the order of 0.17. However, the new venture estimate in Table 1 can be considered a lower bound as it excludes start-ups of the self-employed without paid help. These are a significant component of new ventures in Western Canada so an upper bound regional transition ratio of 0.40 is a reasonable approximation.

Nascent entrepreneurship is very much about process – what is beneath the surface of venture creation – and it is the importance attached to that process which characterizes contemporary models. Schematically, the process can be expressed in stages from idea formulation through to the infant firm (Figure 1 below).

Figure 1: From Idea to Infant Firm



The schematic recognizes that the gestation period can produce alternative outcomes. One result is the realisation of a new venture. Another possible outcome is a continuation and therefore lengthening of the gestation period, perhaps because some businesses take longer to develop than others, or possibly because some nascent entrepreneurs pursue opportunities less aggressively than others. A third outcome is that the effort may be put on hold simply because the individual may not, in her/his present circumstances, be able to execute the preconditions, or because they wish, after initial discussion with others, to think through more completely the specifics of their business idea. A fourth possible outcome is an abandoned effort because the nascent entrepreneur decides that the information assembled suggests a poor choice of their business opportunity, lacking the capacity to attract necessary

resource inputs and/or market potential. The obvious conclusion is that the transformation of a nascent entrepreneur's idea into a start-up firm is far from simple.

As further background to the selected models that follow, it has been suggested (Harrison and Leitch 1996) that entrepreneurial research is, in fact, highly fragmented ('accumulative fragmentalism') rather than a sequencing of follow-on studies that contribute to an identifiable, generally accepted structure. The interdisciplinary nature of entrepreneurship – a mix of psychology, economics, sociology, and strategic management – contributes to this. An understanding of the phenomenon requires synthesizing concepts from a number of disciplines so that there are many windows on the world rather than a view limited to a single discipline alone.

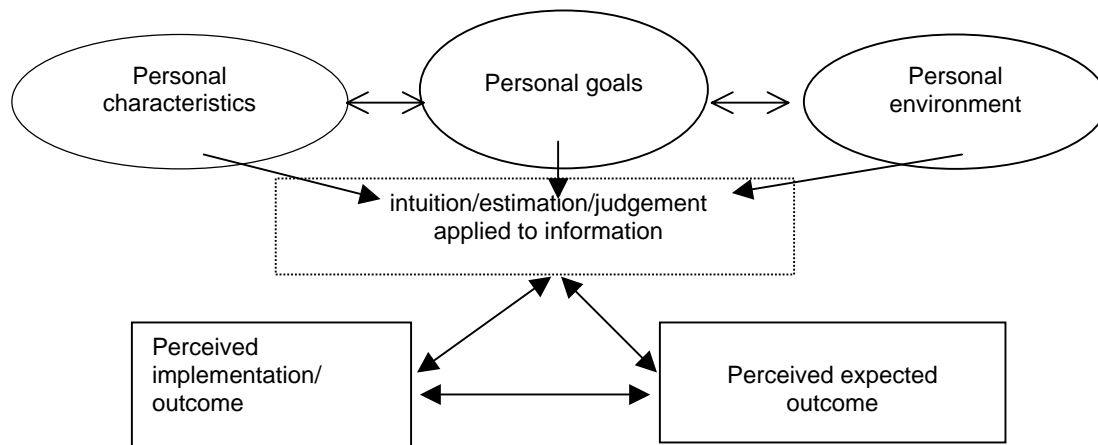
The following three models are offered as representative of contemporary approaches to entrepreneurship – to the process by which new businesses are formed. They synthesize much current thinking about entrepreneurship.

2.2. Person centred model

This model, summarized in Figure 2 below, represents a synthesis of the published research into the attitudes and circumstances of nascent entrepreneurs with perceptions of (a) how best to implement the prospective business, and (b) the expected outcome from operations. (Kuratko *et al* 1997) Effectively the model is based on the interaction of personal factors with perceptions of organizational process and outcomes. It is this interaction which may – or may not – transform a business idea into reality.

Getting a business idea is opportunity recognition. Personal characteristics in Figure 2 include the traditional attributes conveyed in earlier research including the ability to identify opportunities, energy levels, the drive for autonomy, the need to build something of one's own attitude toward risk-taking, and attitude toward self. The personal environment is identified as a variable. Here it represents a wide variety of factors ranging from the desire to turn a life-path in new directions, to educational background through experience, to 'social support' from family or others. Recent Canadian data show that more than four-fifths of small business owners had at least 9 years of experience in the industry in which their firm was doing business before setting up their own firm. (Industry Canada 2002) Another Canadian study suggests that educational attainment is most apparent in younger entrepreneurs, with more than three-fifths of those under 30 years of age having either a university degree or college certificate. (Industry Canada 2003b) Still another Canadian study finds that four-fifths of nascent entrepreneurs had some management experience, with two-fifths having six years or more. (Diochon *et al* 2001) This study also finds that for almost half the cases (46%) a parent(s) had owned her/his own business.

Figure 2: Strategic Planning Surrounding a Start-Up



The model also includes, within its personal environment variable, the social and entrepreneurial networks that provide support and expertise. Diochon *et al* (2001) found that two-thirds of Canadian nascent entrepreneurs received help from others in the start-up process. Personal goals are a third variable influencing a start-up decision and these may vary along a spectrum from establishing a high tech growth company at one end to starting a business for employment security at the other.

The perception rectangles in Figure 2 convey the strategic planning, including the business plan surrounding a start-up. The first, that on the left side, represents process expectations: can the implementation process achieve the desired outcomes? There will be an evaluation of deemed outcomes such as sales, market share and profitability associated with prospective strategic and managerial actions. The authors suggest that the stronger this perception the more likely it is that the nascent entrepreneur will proceed to start-up.

The perceptions about the expected outcome consider its relationship to entrepreneurial behaviour. Specific objectives encompass both extrinsic and intrinsic rewards, will reflect individual differences, and are likely to coincide with the initial reasons for entertaining a start-up. Some nascent entrepreneurs may seek to grow a company, others may seek a given rate of return within a specific time horizon, while others may expect the business to produce a more comfortable lifestyle for their family. Rapid growth is not the goal of the vast majority of small business founders. Searching for steady employment and a stable income stream with limited growth and continuing profitability – these are much more general economic objectives.

This model says little about how perceptions of the implementation process and expected outcome are formed, how they may be modified, and even iterated. This void raises a number of questions. How does the entrepreneur assemble the information to which intuition, estimation and judgement are applied? What degree of subjective bias is in that information? Do cognitive mechanisms and subjective opinions guide behaviour? Is information sourced from family members, close friends, and personal experience? Has the nascent entrepreneur developed a set of social and working relationships beyond family and close friends that deepen and

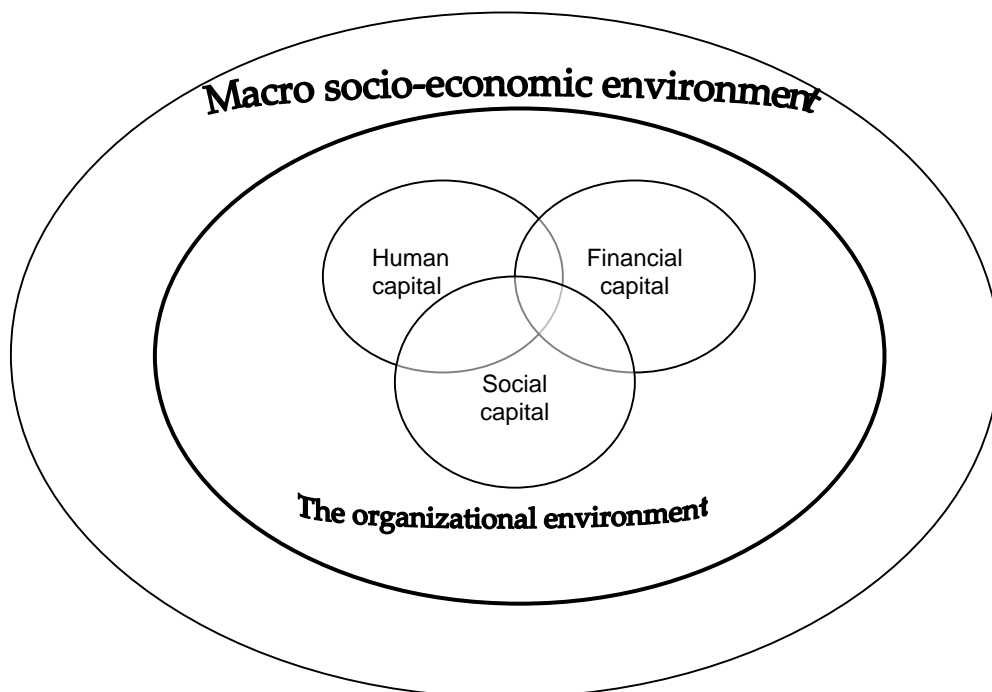
broaden the information available and reduce the likelihood of overconfidence and unwarranted generalization? These are hard questions which point to the limitations of this model.

Nor is anything explicitly conveyed about the time pressures that confront the nascent entrepreneur. Yet time is an important dimension, perhaps uniquely and explicitly characterizing the entrepreneurial process. (Baron 1998; Bird and West 1997) Windows of opportunity may be brief. Time constrains the information collection and decision process. Once time is built into the process, the nascent entrepreneur must decide on the adequacy of present information as opposed to undertaking incremental information assembly that, though it could yield a more accurate decision *ex post* about the opportunity's desirability, could also close the window of opportunity beyond.

2.3. Combining forms of capital approach

This model as presented by Aldrich and Martinez (2001) treats entrepreneurship as the capacity to combine different forms of capital. In this model entrepreneurship is the ability to tie together knowledge and resources by integrating human capital, social capital and financial capital within an environmental context. This approach places a natural emphasis on the circumstances and conditions under which an idea can be transformed into an organization. A schematic of the model is found in Figure 3 below.

Figure 3: Capital Combination Model



Human capital.

Human capital is a quality of individuals. It encompasses the knowledge an individual possesses which may be general or specific to entrepreneurial endeavours. A certain amount of general knowledge obtained through education, informal training, experience and the socialization process itself is a necessary condition for nascent entrepreneurs. However, entrepreneurship requires human capital of a more specific nature, *viz.* knowledge about what resources to pursue in order to create a venture. The model suggests that much of this can be acquired from established organizations both private and public, trade publications, industry newsletters, on-line databases, and experience as an employee. Vesper (1990) suggests that the most likely sources of entrepreneurial knowledge are previous work experience, advice from experts, and imitation and copying. Nascent entrepreneurs are attempting to reproduce the most common forms found in the sectors they seek to enter.

The talent to interpret and apply knowledge is also part of entrepreneurship. Calculative abilities are likely to be combined with awareness and heuristics since, almost always, nascent entrepreneurs will have to act with incomplete information.

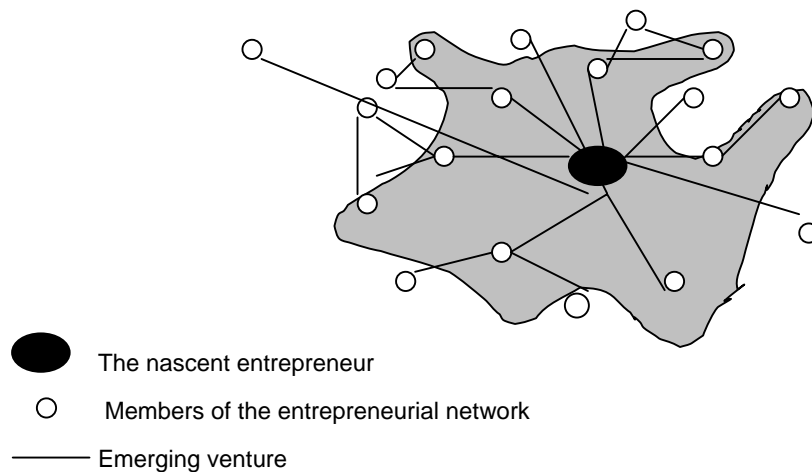
Social capital.

Social capital is a quality created *between* individuals and therefore is the context for human capital. The effectiveness of human capital in terms of returns to intelligence, education and experience depends in part on a person's or a venture team's location in the structure of a market. Social capital is about getting the 'right' resources together to develop an opportunity. It is a metaphor for advantage. (Burt 2002) Social relationships, therefore, yield instrumental benefits. The introduction of social capital into a model takes us far away from the proposition that ventures are the outcome of unique efforts by especially gifted individuals. The social capital approach invites the image of entrepreneurship as a collective phenomenon representing a collective effort orchestrated by an individual. (Johannisson 2000)

Social capital finds concrete expression in networks. A network as illustrated in Figure 3.1 (below) and adapted from Johannisson (2000) can be viewed as an expansion within the model of Aldrich and Martinez. The network consists of a set of dyadic relationships. The figure is a snapshot of the early evolutionary processes that form the set of relationships of the emerging firm.

The shaded area encompasses those single dyadic relationships that the nascent entrepreneur has expanded into a network underlying an emerging enterprise. Within the shaded area are a set of nodes – some of which may represent strong ties and others weak ties – necessary to get the new venture underway.

Figure 3.1: Networking and Entrepreneurship



Those nodes outside the shaded area represent the subset of continuing personal contacts (strong ties) not associated with start-up conditions, together with relationships that may have emerged in the search for new information (other weak ties) not necessary to the start-up process but which might become instrumental as the firm evolves. Some nodes, representing direct contacts, also serve as intermediaries for contacts with others as the network becomes increasingly complex. The nascent entrepreneur has transformed what started with a personal network and networking activities into the multidimensional socio-economic relationships that represent a new venture.

For those with an existing business who are contemplating a new venture, an extended network is already in place. The task for this category of nascent entrepreneur is to expand and reconfigure the extended network with new dyads of specific importance to the projected venture. The requirement is to augment her/his social capital with new network relationships. The experience acquired from already having built a network will undoubtedly be advantageous.

Several authors (including Burt 2002; Steier and Greenwood 2000), consider the ways in which networking and entrepreneurship go hand in hand. Broadly, a network allows those who venture to obtain a higher degree of access to resources, *i.e.*, more knowledge, capital, clients and better access to suppliers because of the resources that their contacts possess. Those who do better are somehow better connected.

Aldrich and Martinez (2001) and others emphasize that the nascent entrepreneur needs to be able to branch out – to diversify a personal network. This would suggest that dyadics, or one on one links with family members and close personal friends (a possible proxy for a personal network), would offer an insufficient range of information about potential markets, sites for the business, prospective investors, competitive conditions, customer prospects, potential technical developments and the like. Much of the information obtained from a personal network may be redundant. By 'branching out' the authors mean contact with those occupying different 'social locations,' those who move in different socio-economic circles. While

a personal network with its strong ties is a beginning point for the nascent entrepreneur, the process of creating a business requires securing new points of contact – new nodes whether persons, institutions or roles – to fill information gaps. Those who bridge the gaps, who can establish ties with those in other groups, effectively tap into different flows of information. The character of the information that moves through these gaps is likely to be additive rather than duplicative. These more newly established ties, while essential to the process, are described as ‘weak’ in the sense that they will lack the complexity and depth of those with family and friends found in a personal network. The point is that early access to a diverse set of perspectives, skills and resources provides, then, the broader base of referrals to customers, suppliers, sources of funding, and employees.

Financial capital.

Virtually all new ventures start small with limited resources but certain empirical studies indicate that those who begin with limited resources have a high risk of failure. Suffice it to say that the nascent entrepreneur must have sufficient resources to execute the organizational process but also enough to carry through the early months of operation when negative cash flow will occur. Personal savings, and possible financial support from relatives and close friends, will represent a major source of resources. (Industry Canada 2002) That portion of entrepreneurial network development related to the search for additional sources of finance, including angel investors, will provide evaluation feedback both on the potential venture and on how others appraise her/him.

The jury is still out on the significance of financial capital availability in start-up operations. Some studies argue that financial capital is critical to entrepreneurship and that liquidity constraints inhibit start-ups. (Bates 1997; Fischer and Massey 2000) Since personal and family savings are the main source of equity capital the suggestion is that those with high net worth, high income and homeownership are more likely than others to become nascent entrepreneurs. Other research finds that personal wealth is not a major factor in business start-ups. (Aldrich *et al* 1998) There is evidence that many nascent entrepreneurs reduce capital requirements through a variety of methods that include relatives working below market salary, use of the owner’s personal credit card for business expenses, borrowing from relatives, withholding the owner’s salary, taking on freelance assignments from other businesses, and leasing equipment rather than buying it. (Freear *et al* 1995; Harrison and Mason 1997; Winborg and Landstrom 2000; SME Financing in Canada 2002) Also according to the US Bureau of the Census in 1992 (Economic Census) one half of all business starts were home-based where capital requirements are apt to have a rather modest effect on new business formation.

There are some exceptions with regard to capital requirements, in particular biotechnology and Internet start-ups where relatively large amounts of capital will be necessary to launch the venture. A suggested adage in these cases is ‘get big, get niche, or get out’. (National Commission on Entrepreneurship 2001b)

Canada, like a number of other countries, has public policies targeting the unemployed or at-risk groups. Program targets in Canada include young people and aboriginal people where financial and mentoring assistance is offered in the start-up

and early development of their businesses. For these groups, government is an additional source of funding.

The population/community and societal environments.

This model finds the entrepreneur carrying on her/his process within a community and a societal environment (the outside ring of Figure 3).

With regard to the population/community environment a distinction is drawn between established and emerging firm populations. Where the firm is seeking to enter an established population in an already occupied niche it is likely to be patterned after the goals, structures and routines of existing organizations. The authors argue that those trying to create new companies in high density, established populations will find more opportunity to learn effective knowledge and create extensive social networks but will also encounter more intense competition.

The situation is quite different, however, for prospective enterprises in emerging populations, *i.e.* those attempting to find their own niche rather than occupying an existing one. They are in uncharted territory absent other organizations to imitate, with few precedents, and limited knowledge about successful start-up strategies. Further, beyond the high uncertainty, they face questions of legitimacy. The first concern is that the market has not yet incorporated the new product or process into its exchange routines. The second is that activities of the start-up may not necessarily conform to established cultural norms and values. The third is a public policy issue: do the production processes and product attributes meet existing government regulations and are they likely to precipitate new regulations. Hence, once these considerations are acknowledged, the environment becomes more daunting for the innovative nascent entrepreneur.

The organizational environment has other dimensions: it can be seen as ordered by the growth potential of the sector in which the enterprise is located. For example, retail trade and personal services are slow growth sectors of the economy in which there are high odds against new entrants expanding rapidly. In contrast, in knowledge based sectors of the economy (*i.e.* those with relative large input shares of highly skilled human capital) there are more likely to be niches where rapid growth can be realized.

Dominant in the societal environment are cultural norms and values and government policies. Changing norms and values, *e.g.* with respect to ecology, affect entrepreneurial intentions and the ability to command resources. Government policies have a major influence. For example, NAFTA removed many barriers to the movement of goods and services in North America and greatly increased opportunities for those prepared to work in multinational rather than local, provincial or national space. Similarly, regulations respecting monitoring of the environment open up opportunities for highly specific scientific and engineering applications.

In summary, Figure 3 (above) offered a sketch of the capital combination model. The nascent entrepreneur must assemble three forms of capital within an organizational environment nested in the macro socio-economic environment. The organizational environment represents the conditions – the competitive situation – in the activity space where the new venture is to be placed. Is the field already well developed and populated by numerous firms, or will it be part of an emerging

population with few, if any, precedents and where market demands have to be created? The macro socio-economic environment is the set of public policies – tax, trade, environment, and lines of demarcation between the private and public sectors – that, coupled with social norms, make up the parameters of the society. At the heart of the process is the human capital of the entrepreneur – intelligence, education, experience, intuitive capacity and self-confidence amplified by the social capital of her/his personal network. Human capital must be linked to financial capital in order to command resources. The nascent entrepreneur's own capital and that of extended family and friends may be supplemented by that of 'angel' investors. The latter can also provide advice and their own networks to assist in accessing resources. A nascent entrepreneur's personal network, while providing a foundation, is an insufficient stock of social capital. The venturing process requires network evolution, a branching out to realize new links. Social, business and strategic relationships will be identified – largely informal rather than formal – and more multidimensional than simply legal contracts between principals and agents or market transactions between homogeneous groups of stakeholders. The entrepreneurial network, in turn, feeds back on human capital reinforcing self-confidence, refining competencies and developing new ones in the nascent entrepreneur.

2.4. Entrepreneurship as complex points of decision

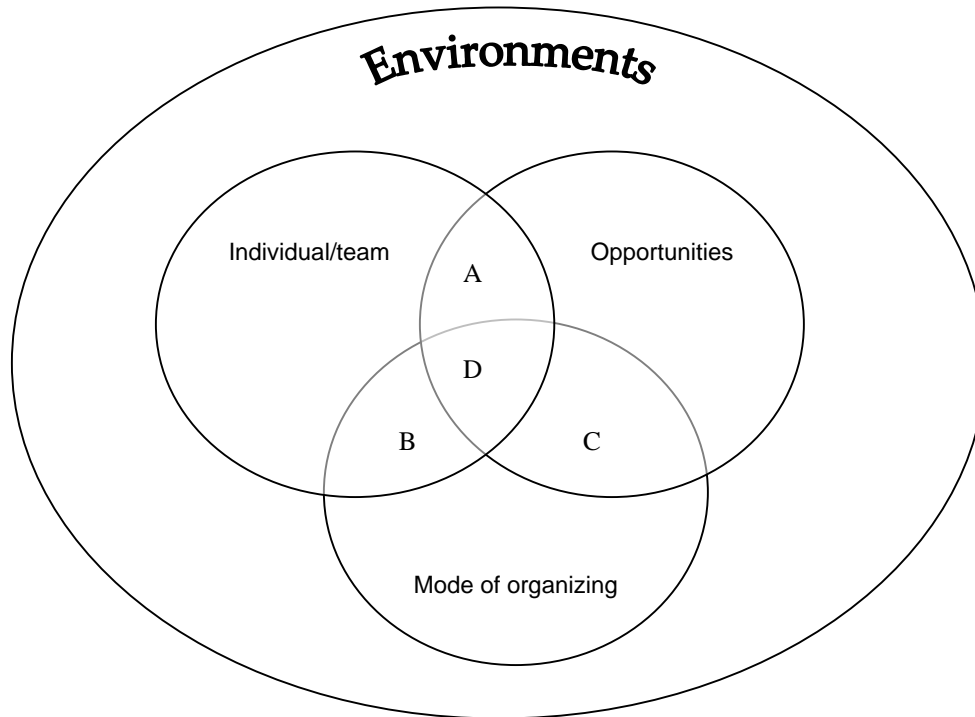
This model is based on the work of Busenitz *et al* (2003). They, like others, acknowledge that entrepreneurship is a multi-faceted phenomenon. In their approach entrepreneurship can be understood as actions taken where (1) opportunities, (2) enterprising individuals or teams, and (3) modes of organizing overlap within the context of wider environments. The authors argue that a series of decision points critical to venture development occur at the intersections of the elements that make up the domain of entrepreneurship.

Figure 4 (below) is a schematic of the model. Areas of overlap are designated as A, B, C and D. Taken together, these areas and the model's emphasis on decision making, allude to the central role of the individual/team to business formation. Area A in Figure 4 is where prospective entrepreneurs uncover new opportunities. This requires an understanding of opportunity identification, evaluation and response. Opportunity identification results from the application of entrepreneurial logic to new information. That logic is based to a considerable degree on hunches about the projected impact of a new development well in advance of a thorough analysis, which may require a large and costly investment in information. The argument is that 'over analysis' paralyses the entrepreneurial process.

In area A we also need to know the sources of information explored by nascent entrepreneurs. This raises the place of networks in the model and whether existing networks of family and friends are good enough. It is likely that they are not, and in expanding the network the nascent entrepreneur faces the question first, of with whom she/he shares, refines and assembles information, and second, of how much continued information gathering reshapes the prospective opportunity. Are feedback

loops associated with further learning part of the process of opportunity identification?

Figure 4: Model of Entrepreneurship as Complex Points of Decision



Area A points to how nascent entrepreneurs evaluate risk, why some will act on a perceived opportunity, while others will defer. The authors invoke Kahneman and Taversky (1979) who find that risk is better understood in terms of reference points rather than probable outcomes. The reference point for an entrepreneur is future goals rather than current standards. That will encompass factors like alternative employment opportunities and psychic income from running one's own shop. In addition, the model also raises explicitly the role of time constraints in opportunity realization. Opportunities usually have a time window and do not appear in a predictable fashion. Does the fact that some individuals can act more quickly than others in response to opportunity – make fast decisions – reflect their ability to span multiple time horizons – the past, the present and the future?

Area B identifies the overlap between individual/team nascent entrepreneurs and the putting together of an organization. Uncertainty plays a powerful role in this overlap. Uncertainty about how to address the opportunity is the reason why other entrepreneurs are not already in the process of capitalizing on it. If it were clear what particular resources were necessary to meet the challenge and how they were to be combined, then an opportunity space would be quickly filled. Acting on an opportunity requires combining resources and, while entrepreneurs may possess specialised skills in one or two areas, how do they acquire necessary inputs for an organization consistent with the needs of the opportunity? Hence, an essential entrepreneurial ingredient is the

ability to cut through the unknown and find an acceptable answer about resource requirements and the recipe for putting them together.

This overlap also points to the extent to which organizations possess sufficient flexibility to adapt to changing circumstances as the opportunity becomes a market reality. The priorities attached to specific entrepreneurial activities in the initial stages of a venture may no longer be those appropriate to an enterprise that has secured a foothold and is experiencing growth.

Area C is where mode of organizing overlaps with opportunity. Organization is synonymous with the bundling together of resources. A characteristic of entrepreneurs is that they have great improvising ability while others do not. Ingenuity and adaptability can play a role here. If a specific resource is unattainable, they take an imperfect substitute and adapt it. Also, given limited windows of opportunity, an organizational structure that can make fast decisions employing heuristics is a real advantage.

Overlap D is where the individual/team criss-crosses with organizational mode, where the entrepreneur faces how best to respond structurally to an opportunity. This is the 'make it or break it' time as the nascent entrepreneur strives to formalise an opportunity into a new firm. The authors argue the critical role of information processing. This includes how the entrepreneurial vision is presented to others in order to attract capital and other enabling factors such as personnel and market channels. In articulating the vision, the entrepreneur becomes an information broker and must decide what kinds of information are appropriate to share with respective audiences, and what core information – information central to the new venture – should be withheld.

3. Summary

In summary, the answer to the first focus question

- *How do the emphases in new models of entrepreneurship contrast with those in the past?*

is that contemporary thinking, unlike the models of the past, no longer views the entrepreneur as possessing unique personal attributes, nor perhaps even more importantly, does it judge entrepreneurship to be an activity that exists outside of a social context.

With respect to the second question

- *What sets of relationships and interactions are advanced in the new models and tested in empirical studies?*

no generally accepted model of entrepreneurship presently exists. Thus, our approach has been to provide a sketch of three alternative models, each of which recognizes the importance of process and the complexity of the interactions that occur. If one thing stands out in contemporary thinking it is the non-linearity of entrepreneurial actions. The path from here (the idea) to there (the realization) is full of information assembly, segmentation and evaluation, of future reference points, of intuition, feedback loops and reassessment, of sustaining existing contacts and finding and incorporating new ones into an expanding network, of searching out and

acquiring an appropriate resource bundle, of improvisation, of timing and of the ability to act.

Part III: Key Lessons from the Data and the Models

Models, of course, are not reality nor should they purport to be. The streamlining inherent in model construction cannot catch all of the nuances and account for all of the unforeseen events found in the real world. Yet, without some articulated set of structural and behavioural relationships it is impossible to further an understanding of the entrepreneurial process. The models, however imperfect, provide a road map whose signposts permit us to frame more incisive questions and, when integrated with existing empirical research, allow us to formulate some principles of entrepreneurship. Examination of these principles allows an assessment of the entrepreneurial support systems presently in place in Western Canada.

This section of the report considers the focus question:

- *What principles that impact entrepreneurial development can be extracted from contemporary models and empirical studies?*

1. The Principal Lessons

1.1. Strong presence of entrepreneurship in Western Canada

The evidence is that Western Canada ranks above other parts of the country in some key indicators of entrepreneurial activity. (Chambers and Rylska 2001) The data on the rate of start-ups reveal that on a *per capita* basis Western Canada as a whole, and three of the four provinces, exceed that in the rest of Canada by a wide margin. This experience is also evident, as might be expected, in nascent entrepreneurship where the percentage of the population considering and/or engaging in the process of starting a new business also exceeded that in the rest of the country.

1.2. Entrepreneurial activity is high risk

Data convey the degree of entrepreneurial risk. In the western provinces the percent of new ventures that do not make it through the first year of operation have ranged from 20% to 30%. The half-life of new ventures is less than three years, and just less than one-third are still operating after six years in business. Our models offer insights into why the existence of the small firm is so tenuous. New ventures whose launch involves the sale of product into markets where there is already a high-density population of firms can be identified as reproducers – those adopting the goals, structures and routines of established participants. The environment for reproducers will be intensely competitive, and the primary task will be to either enter successfully into or introduce modifications to an existing niche. They will be specialists concentrating their competence and fitness in a narrow niche of a much larger market. At the other end of the spectrum is the entrepreneurial innovator, one undertaking a new venture into an emerging and sparse enterprise population. Here probabilities are confounded by entry into what is really uncharted territory. Knowledge of how to go about getting started is hard to come by; the prospective new product needs market identification and acceptance, and may – or may not –

take hold; and the start-up requires regulatory acceptance, possibly requiring the promulgation of new rules.

Entrepreneurial risk also has a gender dimension. For women of child-bearing age – the demographic cohort most engaged in business venturing – going from paid to self-employment entails an opportunity loss by surrendering combined employee and social program benefits including, in the latter case, paid maternity leave under Employment Insurance. Of course, these risks must be balanced with other perceived benefits.

1.3. Action in response to limited windows of opportunity

Seizing an opportunity, once recognized, means using a limited window of time. Hence, the ability to act on the opportunity promptly will preclude an emphasis on rational analysis and rely extensively on intuitive and heuristic methods. This is not to suggest that rational thought is irrelevant. Obviously there is a need to formulate an acceptable – not a perfect – business plan. At the same time, windows of opportunity are frequently brief and the nascent entrepreneur cannot suffer the action paralysis that may accompany undue emphasis on rational analysis. Knowing when and how to act in the face of opportunity is essential.

1.4. Ideas are the spark but process is the engine

No one would deny that entrepreneurship begins with an idea – opportunity recognition – about how the new venture's product can attract and exploit market interest. One must be careful of identifying ideas as 'unique.' A more significant step may be marginally improving an existing product or service – finding a niche in an existing market that may already be high density. Here the problem is to effectively build upon and renovate the idea of someone else. But ideas are far from enough. The value of an idea must be weighed against the overall value of a business. This poses the risk of overvaluing the idea and undervaluing the contributions, the entire process necessary to develop a business.

1.5. Networking is at the heart of process

Individuals possess personal networks: relatives, friends, associates, and broader family linkages. The personal network – a concrete expression of social capital – is the starting point for assembling information about resources, markets, financing, and organizational requirements for transforming an idea into an actionable plan. One key indicator of entrepreneurship is the capacity to expand the starting point of a personal network into something more complex thereby filling information gaps, eliciting more objective feedback, clarifying options, and generally 'getting the word out' and relevant information 'in.'

In establishing and realizing an expanded network the entrepreneur will face judgements about what information to reveal – to put on the table – and what should remain confidential as her/his vision of the new venture is presented to others.

1.6. Organizational ability in bundling resources

Information assembly is a necessary but not sufficient condition for successful nascent entrepreneurship. The entrepreneur must bundle resources together in a fledgling organization sufficiently flexible and adaptable so that it can respond to the deemed opportunity. Flexibility and adaptability are key. These are much more important than a rational decision making process.

1.7. Capital requirements evolve with start-up and growth

Firm financing needs evolve with start-up and subsequent growth. Start-up capital requires an equity stake, most likely sourced from personal investment, family, friends, personal credit cards, possibly supplier credit, and other *ad hoc* arrangements. However, firms in some sectors such as biotechnology will require relatively large initial infusions of capital.

The situation is different for financing growth where retained earnings are primary. With positive performance other financing options including debt (*e.g.* lines of credit) become available. For firms experiencing rapid growth further infusions of equity will be required.

1.8. Industry sector is of some significance

Most small business enterprises are found in services, retailing and construction. Finding a niche and marginally improving a product or service is a vigorous test in sectors where the models and practices of doing business are well established. Opportunities for growth are often grouped around emerging industries, newly deregulated sectors, or those subjected to significant changes in public policy where there is no previous prevailing business model and, at best, only a vaguely established network of support.

1.9. Entrepreneurial motivation is complex — no mould fits all

There are numerous motivations for going into business such as an alternative to employment, a desire to be one's own boss, an expectation of higher monetary returns on assets, security for family members, a desire to develop a firm, and exploit an opportunity. It is also probable that feedback loops from experience with a new venture will alter expectations, either modify or expand original motivations, and affect the intensity underlying the project.

An overview of motivational complexity is attempted by Carland *et al* (1984) in their differentiation of small business from entrepreneurial ventures and entrepreneurs from small business owners. The authors express the differences as follows:

Entrepreneurial Venture: a business with the principal goals of profitability and growth characterized by innovative strategic practices.

Small Business Venture: any business independently owned and operated, not dominant in the field, and not engaging in any new marketing or innovative practices.

Entrepreneur: an individual who establishes and manages a business for the principal purposes of profit and growth. The entrepreneur is characterized principally by innovative behaviour and will employ strategic management practices in the business.

Small Business Owner: an individual who establishes and manages a business for the principal purpose of furthering personal goals. The business must be the primary source of income and will consume the majority of one's time and resources. The owner perceives the business as an extension of his/her personality, intricately bound with family needs and desires.³

Motivations are not only numerous but they are complex. Carland's attempt to explain subtle differences in motivation (above), and relating it to the resulting business entity, underscores how complex and numerous motivations are. For example, self-fulfilment is suggested as an important element in the entrepreneurs' make-up and yet there is reason to argue that motivation is neither set in stone nor impervious to events. Initial motivation can evolve in reaction to information acquired in establishing a new venture. There is feedback and market and resource bundling experience once the business is in operation. Further, some research indicates that the motivation for women entrepreneurs differs in degree from that of men. Buttner and Moore (1997) conclude, based on a study of 129 women in business, that the group measured success primarily in terms of self-fulfilment, and secondarily in terms of profit. This suggests that while profits were important to these modern business women, self-fulfilment was their most important measure of success.

³ Carland *et al* (1984), p. 359.

Part IV: The Entrepreneurial Growth Company

So far this report has emphasised nascent entrepreneurship. We want to turn now to the special case of entrepreneurial growth companies, those which experience rapid growth that is far above the average of the typical small business enterprise. Those firms successful in this transformation are no longer small businesses.

The focus question of the section is:

- *What are some of the key factors, internal and external to the firm, that determine whether a small business will become an entrepreneurial growth company?*

One study has defined an entrepreneurial growth company as one which expects to grow at an annual rate of at least 20% over the next five years. (Peterson *et al* 2002) The same source indicates that only a very small fraction of nascent entrepreneurs (1.5%) expected their enterprise to generate 20 jobs over this time period. Entrepreneurial growth companies are found by one US study to have a powerful positive influence on the economy. The study found that between 1988 and 1992 they amounted to 4% of the start-ups but generated 60% of jobs created by the small business sector as defined by the US Small Business Administration. (National Commission on Entrepreneurship 2001b) We have no comparable research for Western Canada.

Entrepreneurial growth companies are a very small proportion of small businesses in part because there are few nascent entrepreneurs whose motivation is rapid growth. Motivational complexity has been addressed previously in this report. It is possible, of course, that motivation may evolve into a growth orientation based upon feedback and market experience in the early phases of operation.

The perils of nascent entrepreneurship are conveyed by the conceptual models and by the exit data. Entrepreneurial growth companies present another set of challenges. These include new risk conditions and the need for radical reorientation in structure and culture within the enterprise.

1. Risk Conditions

The risk of failure in a new venture is high – in Western Canada about one in four do not make it through the first year. However, in the initial phases of the business it can be argued that there is some degree of risk sharing. Rather than being borne entirely by the founder, risk is distributed between the entrepreneur and those who may work for her/him, those who buy what the entrepreneur is selling, and those who act as suppliers to the business. To persuade others to assume some risk, the new venture may, for example, target resource providers with limited alternatives, and offer special services and deals to prospective customers. Bhide (2000) suggests that risk for the entrepreneur is highest, not in the initial stages of the company, but once a venture is established and the decision taken to pursue a growth strategy. In these circumstances the risk bears heavily on the entrepreneur who may lose all (*i.e.*, an established enterprise) if the outcome is unfavourable.

What are some of the tasks that a small business faces if it is to evolve into a entrepreneurial growth company? These tasks relate both to adaptability and reordering of the internal structure of the organization and to external factors necessary if growth targets are to be met. The requirement that has received the most attention in certain parts of the literature and in government reports is the need for additional financing, including an infusion of new equity capital. Some of the issues in this regard are considered in a subsequent section. But a consideration of what is necessary to achieve the transition to a thriving entrepreneurial growth company simply cannot focus exclusively on the need for financing. Financing there must be, but that is far from the whole story.

Consider some of what needs to take place within the organization and in the practice of entrepreneurship. The organization faces uncertainty about the appropriate business model to adopt for the growth transition. To continue to copy an existing business model – quite suitable as the venture established itself and successfully attained more modest objectives – will no longer suffice. In concrete terms, the growth business needs to settle on distribution channels, on the availability of market research, and on new commitments in exploiting national and perhaps international markets. The transition to a growth oriented business requires not only more but a higher quality of managerial expertise. This means for the entrepreneur a willingness to trust others to make key decisions about the business and to give up some measure of personal control. For many this is a change that is extremely difficult to accept.

Labour requirements also change. The entrepreneurial growth business will need to acquire both industry sector expertise and more specialised labour skills, including a research and development capability, suited to new needs as the company redirects its orientation. The range of business skills must be expanded. Further, while in a start-up phase entrepreneurial intuition and heuristics trump rational analysis and strategic planning, that will no longer be the case. Rough and ready business plans will not do the job. In Bhide's view (2000) spontaneity and speedy adaptation are supplanted by planning, targeted innovation and coordinated decision-making. To be specific, strategies and core competencies will have to be developed and made explicit in marketing, finance, the management of human resources, and production. There will also be a need for strategy development in research direction and technology management. And then these sector strategies must fold into an integrated whole.

In sum, the transition from a 'lifestyle' to an entrepreneurial growth company orientation presents a daunting challenge.

2. The Financing of Entrepreneurial Growth Companies

A detailed consideration of financing is beyond the scope of this report and is dealt with extensively elsewhere. Within the last three years there have been a series of studies relating to the financing conditions surrounding small business including the specific needs of rapidly growing companies and those in the high tech sector. By way of background, these studies are part of a program supported by Industry Canada, Statistics Canada and the Department of Finance in response to recommendations of the MacKay Task Force on the Canadian Financial Structure. A small part of the mandate of MacKay was to address possible gaps in the availability of finance to small business. However, the 1998 Task Force Report stated that insufficient data was available on which to base recommendations on this issue. What it did was recommend efforts be initiated to improve the quantity and quality of data available on the subject. Hence, the response of the three federal agencies.

The response has generated a number of research studies. (cf. Industry Canada 2002; Haines *et al* 2003; Equinox Consulting 2002; Gellatly *et al* 2003; Baldwin *et al* 2002) A significant portion of the research is directed at access to financing by entrepreneurial growth companies. Some 2.4% of small business firms in Canada sought equity financing in 2000. (Industry Canada 2002) This statistic may have a downward bias since some enterprises that may have wanted more capital did not actually seek it, believing they would be turned away in any case. Subject to this caveat, Table 2 below shows the relative importance of prospective sources.

Table 2: Per cent Distribution of Small Business Requests for Equity Financing 2000 by Source Approached

Source approached	Per cent
Government/crown corporations	44
Banks/credit unions	16
Family/friends	12
Informal (angel) investors	10
Venture capital firms	8
Current owners	4
Other	4
Employees	2

Source: Industry Canada 2003b, Figure 16.

We know that growth companies have heavy capital demands and that those in the high tech sector rely very heavily on equity capital. In the search for private sector capital, the total of family/friends, informal, or angel investors, and current owners rank as the most important potential sources of support, measurably above the formal institutions represented by banks and credit unions. There is also some evidence that support from informal investors increases the likelihood of subsequent financing from institutional sources. (Haines *et al* 2003) Some findings of the research with respect to angel investors are relevant to the topics covered in this report, both with regard to their place as a source of capital and to the perceptions these investors offer about the growth companies that request financing.

First, it can be inferred that network relationships are the means that bring potential investment opportunities to the attention of angel investors. These are both informal investor networks, and networks of those seeking financing. The information flows in entrepreneurial networks contain investor names; networks among informal investors generate suitable candidates for support. The importance of locally based networks is reinforced by the fact that the priority for informal investors are community based applicants.

Second, at least from the perspective of informal investors, many entrepreneurs seeking financing have simply not done their 'homework.' This is evident in poorly prepared requests for additional capital. For example, business plans may be sketchy, there may be no recognition of the human resource skills necessary to achieve growth, and there may be poorly articulated indications of how markets are to be developed. These deficiencies can be multiplied if, as is often the case, a high relative importance is attached to the idea behind the company in contrast to the value of its commercialization. An expression of this imbalance is reluctance by the entrepreneur to relinquish any control over the company.

Third, informal investors expect participation in the ventures they support. This involvement may range from advice and assistance in expanding a business network to a more hands-on involvement such as membership on board of directors and even participation in day-to-day operations. These expectations will conflict with those entrepreneurs unwilling to share some control over the company.

Part V: Entrepreneurial Support Structures in Western Canada

This final section turns to the public policy implications of these insights into entrepreneurship. The focus question is:

- *How has public policy been implemented to support entrepreneurship in Western Canada?*

This will lead us to the conclusion of the report:

- *Where have public policy initiatives been strongest and where are there opportunities for greater effect?*

Recent decades have generated a small business public policy envelope. These policies are embedded in a range of programs — at various levels of government — designed to promote the growth and health of the small business sector. Further, as the sector has become more visible and its role in the economy more widely recognized, our economic and educational establishments have also responded, in varying degree, to the evolution that has, and that continues to occur. Taken together, the public programs and the NGO and private sector initiatives have created an institutional support structure for small business development and entrepreneurship in Western Canada.

The *de facto* support structure that exists is not the result of any ‘master plan’ but rather represents an extensive range of *ad hoc* actions to address specific observed or perceived needs. That simply reflects the nature of change in a pluralistic society. From its simple beginnings the institutional support structure for small business and entrepreneurship has become, hand in hand with the growth in actions directed at the sector, substantially more complex. One might observe that for a complex structure with numerous sets of relationships — some intersecting and some running parallel — there is an urgent need for coordination lest overlap and redundancy take hold.

To get a grasp on the implementation of public policy it is necessary to explore the availability and quality of support structures in Western Canada. *In doing this, it is important to understand that we have not supplied an exhaustive listing of current programs, but rather we have elected to offer a broad sampling of available support structures.* This approach allows us to revisit the principal lessons gleaned from the theoretical and empirical research while taking stock of the realities faced by the new entrepreneur. We have organized the overall support system in place under the following headings:

- Fundamentals for start-up
- Actions recognizing that time is of the essence
- Social capital/networks
- Risk sharing
- The special issue of entrepreneurial growth companies

Some of this support is general, *i.e.* applicable to anyone interested in a new venture, and some is targeted at specific groups. In all cases access to the Internet

would be almost mandatory to obtain the full benefit of what is available on a worldwide basis.

1. Fundamentals for Start-Up

1.1. General support

Personality tests

Generally available information includes self-administered personality tests to screen for 'entrepreneurial attributes'. On the Western Economic Diversification Canada (WD) website, for example, there is feedback for assessing the potential strengths and weaknesses of those taking the test.

Business plans

Business Plan assistance ranges from very general at the federal level to more specific to local needs at the provincial and municipal levels.

The Government of Canada's most obvious resource is the Interactive Business Planner (IBP). When surveyed, the IBP was available from the Canadian Business Service Centre (CBSC) online. The program's main features includes: what should be contained in a business plan, where to find the information needed for a business plan, assembly of necessary information, and composition of the actual plan. In the past, workshops have been available to further refine business planning skills.

The provincial governments have cooperated extensively with the federal government with these assistance programs. Provincial websites commonly provide links to each of the relevant federal websites with contact information. In many cases, provinces provide specific information for their jurisdiction with federal staff at the CBSCs providing more general information. A major issue with the breadth of programs offering business plan assistance at the federal and provincial levels, is the potential amount of overlap.

Although each initiative or program is slightly different, they share many of the same characteristics. Some municipal governments in major western cities also offer planning assistance and there are other excellent sources available. 'AlbertaFirst.Com' is a good example of a Provincial, Municipal and Industry partnership. Vancouver's Economic Development Commission is a model municipal program, and there are various private sector business planning aids that can be accessed (e.g., Van City and the Royal Bank offer planning instruction). And finally, prospective entrepreneurs should not overlook foreign economic development offices, such as the US Small Business Administration.

Financial information

Industry Canada's 'Strategis' website is an excellent starting point for government financial assistance.⁴ Not only does it provide a list of both provincial

⁴ <http://strategis.ic.gc.ca>

and federal funding programs, the website includes an excellent database of private sector sources. It also provides a useful guide to the advantages and disadvantages of different types of funding. Possible financing types/sources are listed and discussed in depth.

Several organizations provide advice on financing and offer online workshops. All the western provinces co-operate to with the Federal Government to offer province-specific information concerning financial assistance/financing. The sites are excellent.⁵

Marketing and market research

Federally, marketing resources offered are generally guides on how to perform market research, what to look for, and how to begin advertising. These guides are extensive and offer a sufficient start if an entrepreneur knows exactly what she/he is doing. In many instances one can find a very specific guide for a sector, if not a niche. Like business planning assistance, the CBSCs are generally the best source for this type of information. In conjunction with each province the CBSC provides a basic guide to marketing and market research. These guides are fairly in depth and provide links to information sources directly concerned with marketing. Furthermore, the Online Small Business Workshop even offers a session on marketing.

Statistics Canada also provides a large amount of census data, and Industry Canada, through its Strategis program, provides extensive company profiles and other market information. The federal government has an excellent resource page called 'Resources about the Economy: About Business'. This site includes links to general, industry-specific, and region-specific economic data, as well as policy/programs information and Statistics Canada research information.

Provincial marketing guides and resources are heavily tied into the federal system. Most guides are published in conjunction with the CBSCs. However, each province offers detailed statistical data on economic indicators, population characteristics, export and import information, and company profiles.

The major western municipalities also collect and disseminate lists of helpful economic indicators. However, this information is also designed to advertise the strengths of the city. Obviously the nascent entrepreneur would want to take this into consideration when making marketing and planning decisions. Most cities sampled do provide online portals to useful sites and phone numbers and addresses of the relevant organizations ranging from private companies, to business associations, to provincial and federal government sources. These web sites provide an especially good base for venturing.

Business counselling/mentoring

Canada's Business Development Bank (BDC) offers extensive consulting services for new business. The BDC provides professional advisors to help with each step of the business start-up process. Advisors are available through local BDC branches.

⁵ See for example, the regional approach in BC <http://www.smallbusinessbc.ca/workshop/finance.php>

For more remote areas, some travelling consultant services are available. Provincial business counselling services are also in place.

1.2. Targeted support

Nascent entrepreneurs in a wide, often bewildering range of selected target groups are subject to special support arrangements. These groups include aboriginals, the disabled, francophones, women entrepreneurs, youth, and EI recipients. Eligibility requirements define the targeted groups.

The Government of Canada also offers extensive business planning through the Western Economic Diversification Canada (WD) program, which is linked to other resources available on the Strategis web site. Through its Business Service Network (BSN), WD provides business planning assistance specific to a variety of needs. The BSN provides links to the CBSC, the Women's Enterprise Initiative (WEI), the Community Futures Development Corporations (CFDCs), and the Francophone Economic Development Organizations (FEDO). Each of these networks/programs is active in the four Western Provinces and each caters to a certain target group. The CFDCs focus on entrepreneurial activity in rural regions. Their information varies slightly from province to province (and the CFDCs from area to area) according to varying needs and provincial requirements.

Aboriginal entrepreneurs

One of the missions of Aboriginal Business Canada is to provide support in the form of financial assistance and relevant information, to aboriginal entrepreneurs seeking to start their own businesses. Non-repayable contributions are available toward the following:

- developing business plans and undertaking feasibility studies
- establishing new businesses or joint ventures
- business support, such as counseling, management and technical training and hiring accounting or other professional advisors after starting a business
- advocacy activities which can benefit more than one firm and improve the overall climate or knowledge base for Aboriginal business

Women's enterprise initiative

In conjunction with WD, provincial groups of the Women's Enterprise Initiative (WEI) offer free one-on-one business counselling. In all Western provinces the service is available to run a new entrepreneur through the entire process of business start-up. Contact information is available for each program through the provincial groups' respective web sites.

Entrepreneurs with disabilities

The Entrepreneurs with Disabilities Program is designed to help rural Western Canadians with their pursuit of self-employment and entrepreneurship.

Entrepreneurs with disabilities can pursue their business goals and contribute to the economic growth of their rural communities in Western Canada by accessing business services that include:

- help in developing customized business plans
- mentoring and one-on-one counseling services
- training in business development

- help in identifying needs for specialised equipment and assistance acquiring it
- access to capital

Francophone entrepreneurs

There are various programs available for the francophone entrepreneur. In Manitoba and British Columbia francophones have access to business mentoring through the Conseil de développement économique des municipalités bilingues du Manitoba (CDEM) and la Société de développement économique de la Colombie-Britannique. Alberta offers business counseling through la Chambre économique de l'Alberta and Saskatchewan, like elsewhere, offers counseling for the French community through its CBSC offices (although Saskatchewan's CBSC is required to offer service in French under the Official Languages Act).

Young entrepreneurs program

The Young Entrepreneur Financing Program is aimed at giving start-up entrepreneurs between the ages of 18 and 30 (not on Employment Insurance currently or for 3 prior years) a solid foundation to build a new business. Twelve weeks of training is provided to write a business plan followed by 14 weeks of business development training. One on one counseling and mentoring is offered. A weekly training allowance for up to 26 weeks is available. Recipients should be either underemployed or unemployed.

Employment insurance (EI) self employment program

This self-employment program is available for EI recipients and those who have exhausted EI benefits. It offers 8 weeks of start-up training and one on one counseling. Income support is offered through continued EI benefits.

1.3. Support for micro business

The Micro Business Program supports the growth and development of some of the smallest innovative micro businesses (fewer than 5 employees). The Micro Business Program operated through the BDC is suitable for businesses/individuals who:

- are in the start-up or early growth phase
- can demonstrate realistic market and sales potential
- possess experience or expertise in their chosen field
- demonstrate key personal characteristics of a successful entrepreneur
- have invested reasonable financial resources in the enterprise

BDC will design a customized management support plan tailored to specific needs. This plan may include help with a business plan or assistance to enhance management skills. Counseling is mandatory and fee based.

1.4. University entrepreneurial education

Programs offered by academic institutions are extremely varied. Some of Western Canada's universities have institutes or courses designed specifically for entrepreneurial education. Others have none. A selected list of offerings in Western Canada includes:

- University of Victoria's MBA with a specialization in entrepreneurship
- University of Victoria undergraduate concentration in entrepreneurship
- University of Alberta's Centre for Entrepreneurship and Family Enterprise
- University of Calgary's Haskayne School of Business BCOM program
- Asper Centre for Entrepreneurship at the University of Manitoba
- Maurice Young Entrepreneurship and Venture Capital Research Centre located at the University of British Columbia.

1.5. College entrepreneurial programs

British Columbia

British Columbia's college entrepreneurship programs are extremely varied. Some offer little more than a certificate program, while others offer four year degree programs. To give some idea of the spectrum of possibilities, three different programs are listed:

- North Island College, with Campuses in Campbell River, Comox Valley and Port Alberni, offers a Business Administration Diploma
- The College of New Caledonia in Prince George offers two 'hands-on' diploma options for the budding entrepreneur
- Kwantlen University College in Surrey offers a specialization in Entrepreneurial Leadership in their Business Administration degree

Alberta

Alberta also has a wide variety of college programs. The list below provide a sample of what is available in the province:

- Bow Valley College in Calgary offers a 'Venture Online' Business Planning Certificate
- Medicine Hat College offers a standard variety of business programs along with a special concentration on agribusiness
- Northern Lakes College, with campuses in Slave Lake and Grouard, offers a one year Business Administration Certificate

Colleges across Alberta generally offer a Business Administration program with a certificate, diploma or university transfer program. Some, like the Bow Valley College, have entrepreneurship specific programs. The sampling conducted in Alberta reflected the province's relatively sophisticated approach to distance learning techniques and infrastructure.

Saskatchewan

Saskatchewan also has business education programs offered in colleges across the province. The Saskatchewan Institute of Applied Science and Technology offers a basic business program and Saskatchewan's network of regional colleges also offer periodic specialised business classes.

Manitoba

Like the other Western provinces, Manitoba colleges offer basic Business Administration programs.

- Brandon's Assiniboine Community College provides a two year diploma program
- Keewatin College with campuses in The Pas and Thompson, offers a program specifically designed for entrepreneurs
- Red River College in Winnipeg also offers a Business Administration two year diploma

In general, a systematic survey of colleges across the Western provinces revealed that many do offer a basic business education. However, only a small portion concentrate on the concept of running your own business. Most appear content to offer a program that will enable a student to find a job working for someone else.

1.6. Discussion about support for start-up

There is a surfeit of information on what might be termed the 'fundamentals' of starting a business – writing a business plan; market research; and sources of finance – accessible by any nascent entrepreneur without charge from public and private sources. Web access is almost mandatory to get the full benefit of these sources. For those in targeted groups – women, the disabled, youth and francophones – the support is even more extensive.

Counselling and mentoring can be obtained but there is variance both geographically and whether the nascent entrepreneur falls into a group targeted for support under a self-employment program.

Universities and colleges offer for fee degree or certificate programs that contain some entrepreneurial components. However, the limited focus in these programs on entrepreneurship inadequately reflects the importance of the small business sector to the Western economy.

2. Actions that Recognize that Time is of the Essence

Entrepreneurs must make decisions quickly. Actions that speed the decision process may be highly beneficial since windows of opportunity are always limited. One way in which public policy can acknowledge the importance of time to the new venture is to facilitate the completion of legal requirements to start-up. New businesses have to be registered provincially and with the municipality. Required documentation is substantial and turn around time upon filing is anything but immediate.

One way to reduce the complications of registration procedures and reduce turn around time is to apply the principles of e-commerce to the process. One western province, British Columbia, has done this. Registration can take place online with the provincial Corporate Registry. This includes registration for the provincial sales tax, registration as an employer and for optional protection with the Workers Compensation Board, application for a GST number, and application for a municipal license with participating municipalities. The other three provinces do not have on line registration of new businesses, although forms may be downloaded from the Internet.

It is clear that access to information that would place all potential ventures, irrespective of domicile, on an equal footing, and offer the conditions for timely decision making, would be greatly assisted by high speed Internet access throughout Western Canada. Obviously the benefits of high speed Internet access are multifaceted and not limited to new business ventures.

One of the conclusions from a recent study of Internet use is that self-employed entrepreneurs outside the top 15 Census Metro Areas are less likely to use the Internet compared with the self-employed in the top 15. (Statistics Canada 2004) Further, proportional results from a Western Canadian 2003 survey of markets served by small business indicate that web sites *outside* the 7 major Census Metro Areas in the West are significantly fewer than for businesses *within* the 7 major centres. (Chambers *et al* 2004 *forthcoming*)

3. Social Capital/Networks

Contemporary models place networking as a central focus of entrepreneurship. The National Commission on Entrepreneurship (2001a) has found that “entrepreneurs thrive in regions where they can effectively network with other entrepreneurs.” (p. 1) The Commission states:

Networking takes many forms, from Friday afternoon happy hours to formalized groups that help finance new businesses to traditional Chambers of Commerce. Moreover, these networks serve many purposes, from access to capital, to providing venues for political action, or supporting mentoring and educational opportunities. Entrepreneurs’ needs also evolve over time. When first considering a new start-up, entrepreneurs often need basic coaching and hands-on tips about leasing space, finding staff, and the like. They also need companionship and the opportunity to learn and share with

others facing similar challenges in starting a new business. As a firm matures, these needs become more focused, with special emphasis on growing the business through access to new finance, or strategic partnerships with related companies.

Put otherwise, an entrepreneur should find and enter the network niche that can best serve her/his particular needs. What is the social capital/networking situation in Western Canada?

Chambers of commerce

A good starting point for networks is the local Chamber of Commerce. As the organization responsible for representing and bringing together business people, a Chamber of Commerce is a natural environment for networking. In general, a Chamber's networking opportunities take the form of business 'mixers,' breakfasts, luncheons, seminars, networking clubs (that take place weekly/monthly), conferences and trade shows. While some functions are designed exclusively for networking, others simply provide the opportunity.

A selective list of the many Chambers of Commerce activities available in western Canada include:

- Vancouver's mini trade shows and networking breakfasts
- Edmonton Chamber's popular Toastmasters Club and their networking club Opportunities Unlimited
- Winnipeg's smorgasbord of networking lunch series

In each of the Chambers of Commerce surveyed, there is a member-to-member referral program where members are encouraged to use the services/products of other members. Although this is not a face-to-face networking opportunity, it provides new entrepreneurs with the prospect of an instant market.

The problems with such events are focus and the fact that there is no way of knowing who will attend. There is a good chance that an entrepreneur may find such gatherings to be of limited use because his/her fellow attendees may face completely different challenges in completely different fields. However, to a certain extent, entrepreneurs must take networking into their own hands and aggressively seek out opportunities. To this end, the Chamber of Commerce events, at the very least, attempt to facilitate such endeavours.

Smaller cities also have Chambers of Commerce active in fostering networks. However, due to an obvious difference in available resources, the extent of network support is more limited. For example, the Battlefords' Chamber of Commerce, Saskatchewan, Operations Manager Heather Guthrie describes the Chambers activities as

Hosting events throughout the year where members and business persons alike are able to meet with their peers and share concerns and address issues that pertain to the business environment in the Battlefords and surrounding areas. Various seminars, social functions and meetings are sponsored to facilitate these networking opportunities. Guest speakers are brought in to present different topics and training sessions.

A smaller Chamber of Commerce in Kelowna BC offers these types of programs, including a lunch speaker series, a monthly 'Business after Hours' program and a number of special events. Similarly, Alberta's Fort McMurray Chamber offers early morning and after hours networking events as well as Chamber luncheons and seminar and training programs. Likewise, Brandon Manitoba's Chamber also offers such services; and so on throughout Western Canada.

Community futures development corporations (CFDCs)

In a sense, CFDCs are intermediary organizations in support of rural entrepreneurship. In that capacity CFDCs offer limited rather than extensive networking opportunities. For example, the Nanimo-based Central [Vancouver] Island CFDC networking opportunities were described as follows by Executive Assistant Jane Rose:

Through our self-employment program we hold networking sessions for entrepreneurs involved in our program. Anyone who is on the program or has been in the past is encouraged to attend to speak about their businesses and pass out their cards and brochures. Other than that we belong to the local Chambers of Commerce and encourage our clients to form networks with others in the community.

As the description suggests, CFDCs generally do not host networking events. The networking opportunities in these organizations are, in general, associated with targeted self-employment programs and therefore their role as intermediaries is constrained.

Women's enterprise initiative (WEI)

The WEI is active in each province. One imaginative element in WEI programs is the PanWest Business to Business Link Program. This is a co-operative effort of the four WEIs. It links non-competing business owners to share thoughts and experiences. To participate, membership in a WEI is required.

Francophone entrepreneurial networks

Like the West's Women's Initiatives, francophone entrepreneurial networks are well supported. Other Francophone Economic Development Organizations (FEDO) across the West offer similar services and put a strong emphasis on the development of business networks. For example, La Société de développement économique de la Colombie-Britannique proclaims 'Networks First!' (Réseaux avant tout!).

Aboriginal business networks

Another important organization is the Canadian Council for Aboriginal Business (CCAB). Unlike many organizations, including FEDO and the Women's Enterprise Initiative, the CCAB seeks to create networks that cut across divides. Whereas FEDO and WEI are designed to promote francophone and women's networks respectively, CCAB seeks to create networks between Aboriginal and non-Aboriginal business

people. Of particular interest is their Circle for 2015 project. It is a CEO-level networking opportunity that brings together Aboriginal and non-Aboriginal leaders to showcase the economic and business opportunities that exist within Aboriginal communities.

Youth networking

Networking resources for young entrepreneurs are somewhat more diverse. Many organizations cater to the needs of younger business people. The Government of Canada and the Western Provinces each have programs to support youth and participation in these programs acts as an excellent networking opportunity. Furthermore, the mentoring programs described in the education/training section also provide such opportunities.

Business incubators

Business Incubators, ways of organizing services designed to nurture young businesses, are found extensively in Europe and the US. A wide range of services can be offered within an incubator, including management assistance, access to financing, business or technical support services, and shared office services such as access to equipment, flexible and affordable leases, and expandable space. Perhaps more importantly, incubators offer a supportive community with an entrepreneurial atmosphere, direct access to entrepreneurs, and networking and commercial opportunities with other tenant firms.

Business incubator missions vary. These range from local job creation, promotion of economic self-sufficiency among a specific population, diversification of the local economy, transfer of technology from universities or corporations, to the development of specific industries. The primary sponsors of incubator facilities may be: government and non-profit organizations; universities and colleges; collaborations between government, non-profit agencies, and private developers; privately-run investment groups or real estate development partnerships; or, less conventionally, a variety of groups such as art organizations, aboriginals, church groups, and chambers of commerce. (Meeder 1993) According to the US National Incubation Association, nearly half of the incubators in North America are mixed-use programs that work with a variety of early-stage companies, while more than one-third focus specifically on technology companies. In recent years, some incubators have developed programs to work with specific industry clusters, such as specialty food producers, biotechnology and biomedical, environmental, and information technology. Incubators have also been used as instruments for fostering rural economic development.

In Western Canada nine incubators were identified during the survey, including the Research Park in Edmonton housed with the Alberta Research Council. Of these nine, two are in Alberta, two in British Columbia, one in Saskatchewan and five in Manitoba. In the West, almost all of the nine business incubators are affiliated with universities or colleges and target technology development and/or transfer such as Winnipeg's Genesys Venture and Institute for Biodiagnostics.

3.1. Discussion about networks

Current research on entrepreneurship underscores the importance of networks in business start-up. The quotation from the US National Commission on Entrepreneurship provided above, points out that the expectations of entrepreneurial networks evolve with the development of the business. Networks need to be tailored to the specific requirements of the participants. That said, in the overview offered here it is clear that there are vast networking resources for entrepreneurs in Western Canada. Chambers of Commerce are heavily involved in networking activities directed specifically at their membership, which consists largely of established firms. It is fair to say that Chamber networks are very much concentrated on facilitating and expanding market exchange between member businesses and on membership development. Those network types differ in focus from the priorities of the nascent entrepreneur.

There is no doubt that the primary responsibility for networking involvement lies with the nascent entrepreneur. However, that is not an adequate reason to dismiss arbitrarily a concern about the availability of institutional platforms that foster an appropriate network focus for these individuals. To do so is analogous to saying that the primary responsibility for acquiring knowledge to start a business is an individual responsibility. Of course it is. But at the same time a great variety of institutional platforms – both public and private – exist for extending a helping hand and conveying necessary knowledge and skills to the nascent entrepreneur. A platform for encouragement of nascent entrepreneurial networks should be seen as an integral part of the preconditions for start-up.

The development of nascent entrepreneurial networks is particularly difficult in rural areas. Their smaller size and remoteness compound limited access to technology, equity capital and opportunities for skill development. This report has not examined all Community Futures Development Corporation web sites in Western Canada. But a sampling reveals that, apart from targeted self-employment programs for groups such as youth and EI recipients, networking does not seem to be emphasized as a necessary part of the mix for nascent entrepreneurs. Perhaps it is time to explore the potential role of CFDCs in this regard.

Another widely used instrument of business development is the incubator. These offer not only cost sharing opportunities for start-up firms but also significant, ready-made networking opportunities for new ventures. Their very limited presence in Western Canada is surprising.

Networks that have more relevance to nascent entrepreneurs are designed specifically for a group, like those platforms offered by FEDO and WEI. These are models that deserve wider application. With respect to programs targeted at Aboriginals, networks appear to be positioned to bridge gaps between groups like the CCAB (Canadian Council of Aboriginals) Circle 2015 program.

The more networks the better. It is a question both of availability and of the entrepreneur identifying the networking group appropriate to her/his needs.

4. Risk Sharing

Starting a business is a risky proposition. Failure rates exceed one in five in the first year of operation and the half-life of a venture in Western Canada is less than 3 years. The question is whether this higher risk results in an inadequate rate of formation of new businesses. No one knows the answer to that question. If the risk is too great, then should public policy offset it in some measure? Rightly or wrongly, and for whatever reasons, society has decided that some risk offset is justified. Thus, a key objective of many of the programs outlined in previous sections is to reduce the risk of entrepreneurial failure. Self-administered tests for entrepreneurial suitability (however tenuous their reliability), training opportunities, counselling and mentoring (building the knowledge and skill base for the entrepreneurial process) are all designed to reduce the probability of failure.

For the nascent entrepreneur, family and friends who have contributed equity, prospective suppliers, and even potential customers, may all share some risk. Governments have also assumed, through various financing programs, some of the start-up risk. Loans at competitive rates are available through the Canada Small Business Financing Program (loan guarantees for private source credit), from the Business Development Bank of Canada and, in rural areas, from CFDC at competitive rates. These do not necessarily require evidence of rejection by commercial lenders. Further, entrepreneurial self-employment programs targeted at women, youth, the disabled, EI recipients and aboriginals have a financing component.

Provincially, as an acknowledgement of the high start-up risk, a preferential corporate tax rate is available to smaller businesses. However, while the reason for lower tax rates is entirely understandable, there are potential drawbacks. One consequence of a preferential tax rate is that it presents a growth disincentive for those firms that have reached the maximum income threshold for the preferred rate. Effectively, it can be argued that these lower rates penalize firms seeking growth. If a goal of public policy is to encourage entrepreneurial growth firms, then a tax incentive to smaller enterprises is a perverse incentive that may hamper their later development.

5. Special Issues Relevant to Entrepreneurial Growth Companies

We have considered previously a number of the key non-financial issues confronting entrepreneurial growth companies. We will not revisit those here but instead touch briefly on some financing matters.

As indicated earlier, there are numerous studies, either completed or continuing as a result of recommendations of the Mackay Task Force on Financial Institutions, addressing the availability of financing for small business enterprises. The role of financing availability for growth companies is a major element in these studies. It is highly likely that among the minor percentage of small businesses that grow rapidly a large share will be knowledge intensive. It therefore seems appropriate to draw a distinction between these companies and others in more established or mature sectors.

5.1. Knowledge intensive firms

Technology transfer

University technology transfer programs are a support for knowledge intensive firms. Each of the major Western Canadian universities and a number of colleges offer technology transfer or research assistance. Generally, university technology transfer works in three ways: licensing, contract research and research partnerships. Universities also have 'spin-off' development programs allowing a company to be created as a result of university research. Colleges perform a different type of service. These generally involve the manufacturing of prototypes, testing, improvements and field trials.

Each university has an office responsible for industry cooperation. The names of these offices vary slightly but are generally labelled 'Industry Liaison Office' or 'Office of Research Services' and each provides the necessary practical and legal information.

The Westlink Innovation Network provides an excellent starting point for entrepreneurs interested in cooperating with western universities and colleges. It describes itself as 'an innovative, not-for-profit organization formed to facilitate communication, collaboration and technology development and commercialization in Western Canada.' It is supported by Western Economic Diversification Canada and the Natural Science and Engineering Research Council (NSERC).

Angel networks

A recent study identifies a strong relationship between capital structure and knowledge intensity. (Gellatly *et al* 2003) It finds that, on average, 38% of the financing of knowledge intensive firms – compared to 56% of financing in other industries – is in debt instruments. This suggests that while access to equity capital is not the whole story, it is nevertheless the integral part. For the knowledge intensive firm, angel investors appear to be a significant source of equity capital.

Angel networks in Western Canada tend to be found in the major centres, probably due to wealth being concentrated there. There are a few exceptions such as the Okanagan Angel Network implemented by the Okanagan Science and Technology Council.

An interesting model is The Vancouver Economic Forum, which runs VANTEC, an Angel network for Vancouver technology companies. Its goal is to link investors with new tech companies in the Vancouver area. Its Angels are

accomplished Vancouver area technology entrepreneurs who wish to make early stage investments in, and sometimes provide mentoring or advice to, new companies. An ideal angel is someone who has run a successful technology venture. Investment amounts will vary greatly, but typical angel investments are in the \$25,000 to \$100,000 plus range. Often, several angels will invest in a company. In some cases, millions of dollars are invested. Angels also help to attract traditional venture capital financiers, especially if they take an active role in the company and have relevant expertise.
(VANTEC web site)

For entrepreneurs to gain access to this network, they must be invited by a member. At that point, they make a presentation to a VANTEC meeting and provide an executive summary. Based upon this information, investors choose whether or not to pursue an investment in the company in question. Information on the web site makes clear also that angels are seeking multiple returns of \$10, \$100 or even \$1000 for every dollar invested. This is a very interesting concept.

Vancouver also has an Angel Investor Forum occurring in the fall and spring. At these functions "tech and non-tech pre-screened companies seeking equity financing of \$100,000 to \$1 million deliver 'live' presentations to pre-screened private & corporate investors. Companies showcase their products & services during networking breaks and the closing wine reception." The Okanagan Angel Network is a carbon copy based on the VANTEC network.

Another example is the new Calgary Angel Network (CAN). Established in 2002, with participation from WD, it is a non-profit organization led by investors whose goal is to find 'high-quality' investments.

CAN's operating model allows a 'Deal Flow Team' to attract, screen, develop and prepare potential investment opportunities for presentation to lead angel investors and others via an active database, investor-only events and collaboration with related stakeholder groups including the Venture Capital Association of Alberta (VCAA), Calgary Technologies Inc. (CTI), Partners in Technology (PIT) and several others. (CAN web site)

Economic Development Edmonton's 'Deal Generator' acts as the City's Angel Network. It provides access to angel investors for entrepreneurs and screens potential opportunities for investors. The Deal Generator helps prepare entrepreneurs for their 'pitch' to investors through four stages: Screening, Assessment, Pitch Readiness and Presentation to Investors. However, there is a cost. For the initial screening process, there is a fee of \$250 and for the second stage, the fee jumps to \$1,250. Angel investors benefit by being exposed to entrepreneurs who have

gone through a strenuous screening process. Basically, the Deal Generator acts as a medium for nascent entrepreneurs to sell themselves to potential investors.

While these types of programs are still finding their full footing in Manitoba and Saskatchewan, there is access to Angel investors through a national online reference for both entrepreneurs and the potential investors.

Venture capital

Venture capital companies are also a source of equity capital for knowledge intensive enterprises. Data from the Canadian Venture Capital and Private Equity Association web site reveal that in the years 2001 and 2002 about 75% of their investments were in technology sectors as opposed to 25% in traditional sectors. In 2001 venture capital firms invested \$660 million in 448 businesses located in Western Canada. By dollar investment, some 78% was in British Columbia and 13% in Alberta. Venture capital flows in 2002 were lower, a reflection of the generally difficult conditions in the high tech sector. In that year investment amounted to \$410 million with 61% invested in British Columbia and a further 19% in Alberta firms. In 2002 there were 402 investment undertakings in the West.

WD sponsored loan programs

WD, in co-operation with private financial institutions and the BDC, has facilitated access to alternative sources of capital that target knowledge intensive industry sectors important to Western Canada. While not a source of equity, these offer patient and flexible debt capital on terms tailored to small business needs. Capital is aimed specifically at market expansion and product development. Eligible companies must be involved in the development, manufacture, marketing or application of a technologically advanced product or service in a variety of sectors. Sectors specified on the WD web site include: advanced materials, aerospace, advanced manufacturing technologies, biotechnology, environment, health, information technology, multi-media, film, and ocean industries, or other products and services deemed eligible.

5.2. Entrepreneurial growth companies in traditional sectors

Debt financing

Since traditional sectors have a larger share of debt instruments in their capital structure, sources of debt financing are more significant. Term loans for acquisition or expansion, for example, are available from a range of private sector lenders and the BDC.

Equity capital

We have seen that venture capital firms are less likely (25% of their portfolio) to invest in traditional sector enterprises. Similarly, surveys of angel investors indicate a preference for knowledge intensive sectors. In the case of traditional sectors there is a disproportionate interest in financial services and real estate activities. (Haines et al 2003)

One potential source of equity capital was found in the experimental Canadian Community Investment Program (CCIP). This program, which consisted of 22 pilot projects across the country, was designed to foster the growth of a community's most promising small businesses through a match of growth oriented entrepreneurs with local, regional or national sources of equity capital. The 22 communities were outside main financial centres. In Western Canada, they were located in the Okanagan (Kelowna), Victoria, Canmore, Medicine Hat and Swift Current (and also in Whitehorse). Effectively, the program was designed to mobilise angel investors through the creation of a local investment culture. CCIP Centres were provided with two-thirds of their operating funds from Industry Canada. No other public funds were involved.

This experimental Program, which appears to have worked reasonably well, is now, unfortunately, over. For some information on the operation of the Program, its objectives and experience at the community level, the following Industry Canada studies can be consulted:

- The Winning Formula: Facilitating Investment in Small Business Growth
- The Winning Formula at Work: Investment Facilitation Techniques
- Turning Learning into Action: Report on 'Bridging the Investment Gap' Conference, June 2001
- Angel's Touch! An Entrepreneur's Guide to Informal Investment

Part VI: Conclusions

The report began with a brief positioning of the small business sector in the Western Canadian economy. The importance of the sector is self-evident. Further, in the West both the rate of nascent entrepreneurship and the rate of new venturing exceeds that in the rest of the country. This is taken as evidence that the rate of entrepreneurial activity ranks highest in this region of the country.

It is necessary to have a conceptual framework in order to assess the adequacy of institutional support for entrepreneurship. For this, the report summarizes three contemporary models of entrepreneurship: a person centred model stressing motivation and expected outcomes; a model emphasizing the interdependence of human, financial and social capital, and a model that regards entrepreneurship as a set of complex decision points. These all emphasize the *process* of venturing, in contrast to older models that placed primary emphasis on the unique nature of personal entrepreneurial characteristics and attributes.

The models when taken together with Western Canadian experience, lead to some key principles. To assess entrepreneurial support structures in Western Canada, these lessons reduced to the following topics: information basic for start-up; accommodating entrepreneurial time constraints; the adequacy of social capital in the form of network niches; risk sharing; and the special issue of entrepreneurial growth companies. These were adopted as guideposts to present an extensive sampling – but far from exhaustive treatment – of the support structures for entrepreneurship in Western Canada. This enables identification of the strengths and the weaknesses in current arrangements and to address the focus question:

- *Where have public policy initiatives been strongest and where are there opportunities for greater effect?*

Major conclusions follow.

Conclusion 1

There is an overwhelming amount of information available about the specific human capital requirements integral to start-up. This information exposes the nascent entrepreneur to the set of decisions that underlie start-up. It encompasses the writing and content of business plans, including the functional areas of business. There is even more intense support in the form of counseling, mentoring and income maintenance for those eligible for participation in self-employment programs: youth, aboriginals, EI recipients and those with disabilities. For example, how to put together a business plan can be accessed from the federal and provincial governments, crown corporations such as the Business Development Bank (BDC), the Women's Enterprise Initiative (WEI), Aboriginal Business Canada, banks and credit unions, and the Community Futures Development Corporations (CFDCs) -- not to mention foreign agencies such as the US Small Business Administration.

Conclusion II

Start-up knowledge and the range of choice in sifting the materials for specific human capital development are orders of magnitude more effective for the person with access to the high speed Internet. Sifting through those materials is likely to require – at least for many – some counseling assistance and this will necessitate face to face encounters in the absence of on-line tutoring, something unavailable on a general basis.

Obviously Canadian Business Service Centres (CBSCs), as central points of information, are helpful for those without Internet access but clearly the transaction costs in pursuing a venture without that access are substantially greater. Simply, it is considerably more complicated to secure the specific human capital necessary for start-up in those regions without high speed Internet.

For the general nascent entrepreneur, as distinct from those involved in self-employment programs or under the aegis of WEI, the assumption appears to be: 'here's the information you need, absorb it, and act on it.'

Conclusion III

For any venture, timing is critical. Platforms that enable the nascent entrepreneur to meet provincial regulatory requirements quickly should be a priority. Since registering the business is essential, improvements appear necessary here. Only British Columbia has one-stop on-line registration. For the other provinces necessary paper may be downloaded from the Internet but on-line registration is as yet unavailable.

Another element of timing is the high speed Internet. Its absence deprives businesses in the rural areas of Western Canada of a major instrument in overcoming the disadvantages of distance and access. Further, this handicap works against firms in more rural areas in that it robs them of the means for the prompt response that is demanded for realizing new market opportunities.

Conclusion IV

This report's purpose is not to determine the adequacy of small and medium enterprise financing and whether, in fact, gaps exist. That said, a few observations regarding financing for nascent entrepreneurs may be permitted. On the surface, sources of financing are many and varied. Most start-ups do not require a great deal of financial capital. Personal/family equity is the main source. There are exceptions – knowledge intensive sectors such as biotechnology require large amounts of capital from the beginning. The supply of debt financing for new ventures is not limited to private sector sources. The presumption of market imperfections in financing markets has led to public involvement in the supply of funding to selected targets such as youth, aboriginals, the disabled, micro businesses and business women. CFDCs have a general loan program as well as financing for targeted activities.

For knowledge intensive companies, including nascent entrepreneurs, capital investment is available through angel investors and venture capital institutions.

Conclusion V

There is a complex set of reasons explaining why only a few small businesses become entrepreneurial growth companies. It is not a simple matter of financing availability. The complexities include owner motivation, transaction and negotiation costs associated with expansion, diffusion and possible loss of control, the high risks inherent in rapid growth, and possible tax disincentives once a net income threshold has been reached.

Conclusion VI

There is a degree of disconnect between modern thinking about entrepreneurship and the platforms or intermediaries available for its development in Western Canada. Modern thinking places an approximately equal emphasis on human capital, financial capital and social capital in the entrepreneurial process. Intermediaries are present in abundance for transmitting specific human capital and for accessing financial capital. Lacking is an emphasis on social capital, on networking – social capital's concrete expression – as an essential condition of pursuing and reacting to the realities of entrepreneurship by expanding the action frame of the venturing process.

Existing networks are largely by-products of another activity. They may, for example, be spin-offs from topical seminars on the specific human capital components of starting a business. Networks are multifaceted and we may ask: where is the intermediation that supports those networks of direct interest to nascent entrepreneurs? The overwhelming program emphasis on financial capital and specific human capital needs to be balanced by encouraging network development of special importance to nascent entrepreneurs. The Women's Enterprise Initiative, for example, seems to understand and have acted on this condition.

Conclusion VII

Rural areas remain disadvantaged by access and distance. Point III above concerns the absence of high speed Internet access. Social capital development in rural areas is more difficult than in the metropolitan areas of the West. An observer must conclude that CFDCs place much emphasis on their intermediary roles in conveying specific human and financial capital. There is little emphasis, however, on the development of social capital and entrepreneurial networking or on the use of business incubators.

Rural area mobilization of capital resources is also of concern. Unfortunately, at least for rural areas, the experimental Canadian Community Investment Program (CCIP) has been terminated. The evaluation of CCIP experience certainly supports reinstitution.

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Web sites (urls as of March 30 2004)

Listed below are websites of agencies and services alluded to in *A Primer on Western Canadian Entrepreneurship*. This is not a comprehensive list, rather, it is a starting point for accessing further information.

General support

Western Economic Diversification. http://www.wd.gc.ca/default_e.asp

Business plans

Government of Canada Canadian Business Service Centre (CBSC) Interactive Business Planner. <http://www.cbsc.org/ibp/>

Government of Canada Canadian Business Service Centre (CBSC) Small Business Workshop. <http://www.cbsc.org/osbw/>

British Columbia Ministry of Competition, Science and Enterprise. <http://www.smallbusinessbc.ca/>

Vancouver Economic Development Commission. <http://www.vancouvereconomic.com/>

AlbertaFirst.com. <http://www.Albertafirst.com/>

Financial information

Industry Canada's Strategis. <http://strategis.ic.gc.ca/engdoc/main.html>

British Columbia Business Services aux Entreprises. <http://www.smallbusinessbc.ca/workshop/finance.php>

Marketing and market research

Statistics Canada.

<http://www.canadianeconomy.gc.ca/english/economy/index.cfm>

Vancouver Economic Development Commission. <http://www.vancouvereconomic.com/>

Victoria. <http://www.city.victoria.bc.ca/business>

Edmonton: Economic Development Edmonton. <http://www.edmonton.com/>

Calgary Economic Development.

<http://www.calgaryeconomicdevelopment.com/>

Saskatoon Regional Economic Development Authority. <http://www.sreda.com/>

Regina Regional Economic Development Authority. <http://www.rreda.com/>

Winnipeg: Destination Winnipeg. <http://www.destinationwinnipeg.ca/>

Business counselling/mentoring

Business Development Bank of Canada. <http://www.bdc.ca/en/home.htm>

Targeted support

Community futures development corporations (CFDCs).

<http://www.communityfutures.ca/>

Aboriginals

Canadian Council for Aboriginal Business (CCAB). <http://www.ccab.com/>

Women's enterprise initiative

http://www.wd.gc.ca/pos/wei/xindex_e.asp

British Columbia. <http://www.wes.bc.ca/>

Alberta. <http://www.aweia.ab.ca/>

Saskatchewan. <http://www.womenentrepreneurs.sk.ca/>

Manitoba. <http://www.wecm.ca/index.html>

Francophone entrepreneurs

la société de développement économique de la Colombie britannique.

<http://www.sdecb.com/>

la Chamber économique de l'Alberta. <http://www.lacea.ab.ca/>

Saskatchewan Conseil Canadien de la Coopération. <http://sk.gazel.ca/>

Manitoba Conseil de développement économique. <http://cdem.com/francais/>

University entrepreneurial education

University of Victoria. <http://www.business.uvic.ca/mba/main.html>

University of British Columbia Maurice Young Entrepreneurship and Venture Capital Research Centre. <http://www.sauder.ubc.ca/>

University of Alberta Centre for Entrepreneurship and Family Enterprise.

<http://www.bus.ualberta.ca/cefe/>

University of Calgary Haskayne School of Business.

<http://www.haskayne.ucalgary.ca/>

University of Manitoba Asper Centre for Entrepreneurship.

http://www.umanitoba.ca/management/acad_dept/acdep_navset.htm

College entrepreneurial programs

British Columbia

North Island College, Campbell River, Comox Valley and Port Alberni.

<http://www.nic.bc.ca/>

College of New Caledonia, Prince George. <http://www.cnc.bc.ca/bng/>

Kwantlen University College, Surrey. <http://www.kwantlen.ca/>

For a complete list of British Columbian post secondary education institutions please see http://www.pas.bc.ca/about_pse/links.htm

Alberta

Bow Valley College, Calgary. <http://www.bowvalley.ab.ca/>

Medicine Hat College, Medicine Hat. <http://www.mhc.ab.ca/>

Northern Lakes College, Slave Lake and Grouard.

<http://www.northernlakescollege.ca/index.html> For a complete list of Alberta post secondary institutions please see

<http://www.learning.gov.ab.ca/college/postsecsystem/postsecinst/postsecinst.asp>

Saskatchewan

The Saskatchewan Institute of Applied Science and Technology.

<http://www.siastr.sk.ca/>

For a complete list of Saskatchewan post secondary institutions please see

<http://www.cyr.gov.sk.ca/index.cfm?page=59>

Manitoba

Assiniboine Community College, Brandon. <http://public.assiniboine.net/>

Keewatin College, The Pas and Thompson. <http://www.keewatincc.mb.ca/>

Red River College, Winnipeg. <http://www.rrc.mb.ca/>

Actions that recognize that time is of the essence

Broadband internet service

British Columbia. <https://cits.gov.bc.ca/popt/map/>

British Columbia registration. <http://www.onestopbc.ca/>

Alberta. <http://www.albertasupernet.ca/>

Saskatchewan. <http://www.communitynet.ca/>

Government of Canada. <http://www.broadband.gc.ca/>

Networks

Chambers of commerce

Victoria. <http://www.victoriachamber.org/>

Vancouver. <http://www.nvchamber.bc.ca/>,

<http://www.westvanchamber.com/>

Kelowna. <http://www.kelownachamber.org/>

Edmonton. <http://www.edmontonchamber.com/>

Calgary. <http://www.calgarychamber.com/>

Fort McMurray. <http://www.fortmcmurraychamber.ca/>

Battlefords. <http://www.battlefordschamber.com/>

Regina. <http://www.reginachamber.com/>

Saskatoon. <http://www.eboardoftrade.com/index.php>

Brandon. <http://www.brandonchamber.ca/>

Winnipeg. <http://www.winnipeg-chamber.com/>

Community Futures Development Corporations (CFDCs).

<http://www.communityfutures.ca/>

Alberta Entrepreneurs Association. <http://www.aea.ab.ca/>

For Women's enterprise initiative, Francophone entrepreneurial networks and Aboriginal business networks please see Targeted support above.

Risk sharing

Corporate tax

British Columbia. <http://www.rev.gov.bc.ca/itb/cct/cct.htm>

Alberta. http://www.revenue.gov.ab.ca/publications/tax_rebates/corporate/overview.html

Saskatchewan. <http://www.gov.sk.ca/finance/taxation/corpincometax.htm>

Manitoba . <http://www.gov.mb.ca/finance/fedprov/mbcorpinctax.html>

Special issues of entrepreneurial growth companies

Technology transfer

Westlink's website provides links to the office responsible for technology transfers at each of the major universities, colleges and research groups in the western provinces. <http://www.westlink.ca/members.htm>

Angel Networks

National Angel Organization. <http://www.angelinvestor.ca/>

The Vancouver Economic Forum (VANTEC).
<http://www.vef.org/angels/index.html>

Vancouver Angel Investor Forum. <http://www.vef.org/web/index.asp>

The Okanagan Angel Network. <http://www.ostec.ca/angels/>

The Calgary Angel Network (CAN). <http://www.calgaryangelnetwork.com/>

Economic Development Edmonton Deal Generator.

<http://www.dealgenerator.com/>

Venture capital

Canadian Venture Capital and Private Equity Association. <http://www.cvca.ca/>

Venture Capital Association of Alberta.

<http://driveit.clickspace.com/webpage/1000214/1000110>