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## **Entrepreneurship in the public sector: a framework of analysis in European local governments**

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**Abstract.** In this paper we explore the potential role of entrepreneurship in public sector organisations. At first, we present a review of the entrepreneurship theme in the political science and public management research streams, comparing these ideas with the mainstream business literature on entrepreneurship. Thereafter, we illustrate empirically how Stevenson's classical framework of entrepreneurship can be applied in a European local government context to explain the recent initiatives to compete for and utilise European Union structural funds. The empirical basis of the study is comprised of ten in-depth case studies of local government organisations, five in the UK and five in Italy. Finally, we propose five distinct types of entrepreneurial agents in the public sector: professional politician, spin-off creator, business entrepreneur in politics, career-driven public officer and politically ambitious public officer. **Keywords:** Public entrepreneurs, local government, European funding, entrepreneurial typology

## 1. Introduction

Conventional wisdom often identifies entrepreneurs with private-sector businessmen. In this paper we challenge this view as too narrow, and we attempt to broaden the scope of entrepreneurship to include also public sector contexts (more specifically local governments).

Local governments in Europe are characterised by a fast-changing environment. Up to twenty years ago, they relied mainly on governmental funding and local taxes. However, the situation has changed (and is changing) everywhere in Europe. Central government funding has been reduced as a consequence of a new quasi-market approach. The existing service/tax situation is challenged by advocates of policy reforms to reduce local taxes and at the same time improve the efficiency of local government services (Ferlie et al., 1996; Massey, 1997; Bellone and Goerl, 1992; Osborne and Gaebler, 1992). The organisational behaviour and entrepreneurship literatures suggest that environmental turbulence lead to change and subsequently entrepreneurial behaviour (Schumpeter, 1949; Morris & Jones, 1999). Applying this broader thesis to the particular context of the local governments, we could argue that since national funds are reduced, services are becoming more costly and taxes cannot be significantly raised, entrepreneurial behaviour is likely to be observed in this public setting (this argument has been also posed but not really tested by Perlmutter and Cnaan, 1995: 35).

The purpose of this study is to test the applicability of entrepreneurship in the public sector by analysing a common recent 'venture' within European local governments: the competitive bidding for European structural funds. Local government represents a new and fertile setting to explore public entrepreneurship (the few existing studies focus mainly on universities as the most 'convenient' type of organisation for academic scholars). The study has two research objectives:

1. To model the European funding process in local government, testing specifically the applicability of entrepreneurship as an explanatory theoretical framework.
2. To develop a typology of entrepreneurial agents in the public sector.

The paper proceeds as follows: First we review the theoretical background on public entrepreneurship. Subsequently, we present an overview of the local government context. Then, we discuss the methodological choices undertaken. Afterwards, we discuss the findings on the European funding process, in light of a theoretical framework of entrepreneurship. We then present and discuss a typology of entrepreneurs in the public sector and conclude with the implications of this study and further research directions.

## **2. Theoretical background**

Mainstream definitions of entrepreneurship associated the phenomenon with new private firms making profit. Gartner (1985) have narrowly defined entrepreneurship as ‘the creation of new organisations’. Birley (2001) argued that entrepreneurship is about ‘wealth creation’ and ‘ownership’ and therefore, apart from new organisations, it includes other routes to ownership like franchising, corporate venturing, management buy-outs and business inheritance. Other scholars adopted ‘opportunity-based’ conceptualisations and suggested that entrepreneurship is about ‘discovery and exploitation of profitable opportunities’ (Shane & Venkataraman, 2000), ‘without current control of the required resources’ (Stevenson, 1997).

The concept of entrepreneurship in the public sector has only recently appeared in the mainstream entrepreneurship literature, defined as ‘the process of creating value for citizens by bringing together unique combinations of public and/or private resources to exploit social opportunities’ (Morris & Jones, 1999). The next section reviews three main streams of

studies, which touched upon public sector entrepreneurship: political science, public administration and business studies. Insights from these fields are valuable as they shed light on the same phenomenon from different angles.

During the 1980s, the political science literature coined the terms 'political' and 'policy' entrepreneur, which were used interchangeably. Kingdon (1984) introduced the concept of policy entrepreneur to analyse the policy agenda formation within US federal government. He described entrepreneurs as 'advocates who are willing to invest their resources - time, energy, reputation, money - to promote a position in return for anticipated future gain in the form of material, purposive, or solidary benefits' (Kingdon, 1984: 179).

Schneider and Teske (1992) focused on the local conditions that affect the probability of a policy entrepreneur being found in a certain community and they identified policy success and status as driving motivation. They found that entrepreneurs were attracted by slack public-sector resources and by the possibility of reallocating local budget to achieve their policy goals. In general, most of the research on political entrepreneurs applied the concept to biographical case studies focusing on the life of entrepreneurial leaders, or to the development and implementation of new policies (Kirchheimer, 1989; Roberts, 1992; Marsh, 1994; Borins, 1998).

In the public administration literature the focus of the research shifted from politicians, to public sector managers who acted as entrepreneurs. Scholars focused their attention on entrepreneurship models as means of achieving more efficient and successful organisations in non-profit and public settings (Moon, 1999). Ramamurti (1986) defined public entrepreneurs as 'individuals who undertake purposeful activity to initiate, maintain, or aggrandise one or more public sector organisations' and provided a practical description of what public entrepreneurs do. Some interesting books appeared on the subject, based more on practical

experience and observation rather than formal academic research. One of the most popular ones (Osborne and Gaebler, 1992) narrated interesting experiences drawn from the American public sector. The authors described how the tax-revolt (tax payers dissatisfied with government performance refused to pay taxes) and the cut of federal funds implemented by Reagan's government in the early 1980s have changed the way the public sector operates by developing alternative ways to deliver services. Osborn and Gaebler labelled this phenomenon "Entrepreneurial government". In a similar vein, Leadbeater (1997) reported on a series of British experiences focusing primarily on the person: the 'social entrepreneur'. The author referred to individuals who create innovative ways of tackling pressing and intractable social problems such as youth crime and drugs dependency. They take neglected and under-utilised resources - people and buildings - and find new ways to use them, which satisfy unmet and unrecognised needs. They often operate in non-profit and voluntary sectors.

The emergence of the entrepreneurship phenomenon in the public sector raised an interesting debate in the public administration literature over the democratic responsibility of public managers and politicians. Terry (1993) argued that the differences between the private and the public sectors do not allow the adoption of the entrepreneurship model for public organisations. Entrepreneurship includes anti-democratic characteristics such as heavy reliance on domination and coercion, a preference for revolutionary change, and disrespect for tradition. In contrast, Bellone and Goerl (1992) argued that the compatibility between the actions of the public entrepreneur and the democratic values of the organisation could be safeguarded if he/she acted as 'civic-regarding' entrepreneur by pursuing the principles of democratic theory and acting on the interest of the citizens. Borins (2000) supported empirically the 'proponents' view of public entrepreneurship proving that their impact on their respective organisations was actually positive rather than negative.

In the management literature on entrepreneurship, Johannisson and Nilsson (1989) and Johannisson (1990) defined community entrepreneurs as local facilitators of entrepreneurial events. Community entrepreneurs operated at the local-community level to create a context for autonomous entrepreneurs, inspire them to start their businesses and assist them through their extended networks. Laukkanen & Niittykangas (2003) extended this concept to local developers with a more hands-on approach to initiate and foster new firms, operating at the micro (rather than the community) level, naming them 'virtual entrepreneurs'. In our mind both community and virtual entrepreneurs have a regional-development objective and co-ordinate activity in the broader local community, as opposed to the related but in a way narrower notion of political and public entrepreneurs who have a (public) organisational performance objective, in a similar fashion that corporate entrepreneurs operate for and within a corporation (e.g. Kemelgor, 2002).

Boyett (1997) made an initial attempt to explore empirically the entrepreneurship process in the public sector. She defined as 'public entrepreneurs' individuals with the ability to spot market opportunities, to act on them through manipulation and driven by a desire for high level of social self-satisfaction. Uncertain environment, devolution of power, and re-allocation of resource ownership to unit management level are the precondition for the public entrepreneur to rise (Boyett, 1997).

On a similar stance, Morris and Jones (1999) posited the applicability of the entrepreneurial concepts to the public sector. They stressed the similarities between public sector entrepreneurship and entrepreneurship in large corporations as both types of organisations have formalised hierarchies, established stakeholder groups with competing demands, deeply entrenched cultures and procedures to guide operations, a desire for power and security, and quite rigid systems governing financial controls, budgeting, and employee rewards. Also, managers in both types of organisations have higher job security, lower



personal responsibilities, and access to an established pool of resources (a similar comparison was presented by Sadler, 2000 in the public administration literature). Morris & Jones proceeded to develop a modified version of Stevenson's (1989) framework applicable to public organisations. However, the conceptual development of the model is not backed or followed by any empirical evidence, or test of its applicability in the public sector context and therefore remains a mere theorising exercise (the authors argued but did not prove that the model can be applied in a public university).

Table 1 summarises some key points drawn from the three groups of literature that have touched upon entrepreneurship in the public sector. It also compares the concepts of 'political', 'public' and 'community/virtual' entrepreneurs with the mainstream literature concepts of the business entrepreneurs.

Insert table 1 about here

The literature review demonstrated that entrepreneurship in public organisations is a phenomenon that has been investigated very little to date, especially in the entrepreneurship literature. The existing studies are mainly conceptual (based on intuition or informed opinion) and non-cumulative. The main methods used to provide evidence are *ad-hoc* biographies or case-studies. With the exception of Boyett (1997) there are no studies, which attempt to systematically identify and empirically model the actions of public entrepreneurs in well-defined contexts. Additionally, the majority of the political science studies have focused on the American public sector, therefore remaining US biased.

This paper attempts to fill the above literature gap by empirically testing the applicability of the concept of public sector entrepreneurship in the context of European local government. The contextual basis of the study is elaborated in the following section.

### **3. The European funding context**

From previous professional involvement with local governments, the authors observed that competitive bidding for European funds, initiated and driven by key individuals within the councils, represented a solution to their major funding problem. Success in initiating and driving the European funding process involved proactiveness, innovation, risk-taking, leadership and creativity, a combination of attributes associated with entrepreneurial behaviour (Miller & Friesen, 1982; Timmons and Spinelli, 2003).

At this point we faced an interesting dilemma. What could be entrepreneurial regarding the European funding process? Would it be the creation of new infrastructure and/or services for the local residents (in which case the European funding represents the financial resource), or would it be the fund-raising itself (a ‘view’ of the phenomenon which focuses more on the planning and preparation of bids to acquire European funds, which are subsequently utilised for the planned project)?

The authors decided to view the phenomenon from a funding ‘angle’ for reasons, which are explained below. A classical study by Schumpeter (1934: 74) identified innovation in fast-changing environments as the essence of entrepreneurial behaviour. Schumpeter wrote:

“We call entrepreneurs not only those ‘independent’ businessmen in an exchange economy who are usually so designated, but all who actually perform the function by which we define the concept, even if they are ‘dependent’ employees of the company, like managers, members of boards of directors and so forth... It is the carrying out new combinations that constitutes the entrepreneur... On the other hand our concept is narrower than the traditional one in that it does not include all heads of firms or managers or industrialists who may operate an established business, but only those who actually perform that function (p.74).

Other writers have accepted his identification of entrepreneurship with innovation, changing the previous classical-economics tradition of the term entrepreneur meaning basically a businessman (Stevenson & Jarillo, 1990). Recently, Shane and Venkataraman (2000) underlined the element of innovation as the difference between entrepreneurial opportunities and (just) profit opportunities - in other words they implied that entrepreneurial opportunities involve innovative actions and do not just create wealth. In the local government context, the projects developed for European funding applications were not always innovative per se. Often they represented typical local government projects (such as a school or a bridge). The identification and tapping of an alternative and competitive source of funding, breaking out of the traditional order (the dependency on national funds), represented Schumpeter's "new combination", and a more 'innovative' action.

The current literature in public administration supports this view and labels as 'innovative' and 'entrepreneurial' a new range of actions developed within public organisations and directed towards generating external earnings. Palfreyman (1989: 208), in his case study of entrepreneurship within the University of Warwick, mentioned how, the policy change introduced during the Thatcher government since 1979 and the cut in national funds, placed emphasis on the generation of external income by the universities. He described the "entrepreneurial path" of the University of Warwick in generating external earnings and in developing links with industry/commerce/the community. Similarly, Slaughter and Leslie (1997: 9) analysed the "entrepreneurial activities" developed within the university environment and focused on "institutional and professorial market or marketlike efforts to secure external monies". Bellone & Goerl (1992) viewed public entrepreneurship as 'an active approach to administrative responsibility that included generating new sources of revenue as well as providing new services'.

For reasons explained above, we selected the new phenomenon of competitive bidding for European funding in local government as a potentially fertile context to test the applicability of entrepreneurship in public settings. We pose the following study-proposition:

Entrepreneurial behaviour can be observed in the European funding process.

#### **4. Research methodology**

A qualitative approach, involving multiple case studies was employed. The phenomenon of European funding in local government was new and case-study design suits well new areas of enquiry (Eisenhardt, 1989). Also, multiple-case designs following a ‘replication logic’ have the advantage of being more compelling and robust than single-case studies (Yin, 1994).

Our methodology had two phases:

a) The first phase included ‘inductive’ modelling of the European funding process (an under-researched phenomenon). A useful guide for this inductive part of the study was Eisenhardt’s (1989) clear and tested method for inductive theory-building from multiple cases. A slight variation from Eisenhardt’s method was the type of theoretical outcome: we aimed to build a ‘process’ model of the European funding rather than a variance-theory. Process theories provide explanations in terms of events leading to an outcome (Langley, 1999) as opposed to variance theories, which explain relationships between dependent and independent variables. Eisenhardt argued that an essential feature of building theory for new phenomena (such as the European funding process) is the subsequent corroboration of the emerging model with some broader theoretical backbone. That lead to the second step of our methodology.

b) In the second phase, we employed a ‘deductive’ logic (proposed by Yin, 1994) guided by our study-proposition. We aimed to test the fit between a pre-selected theoretical

framework (entrepreneurship) and the newly developed model of the European-funding process (a new 'public-sector' context).

Therefore, our method represents a combination of phenomenon-specific theory-building (described by Eisehardt, 1989; Langley, 1999) and subsequently deductive 'template testing' in a new context (e.g. Pinfield, 1986). Once the existence of entrepreneurial behaviour in the European funding process was proven, we could then proceed to explore potential 'types' of public entrepreneurs.

**Data Sources.** In-depth case studies were conducted among ten European local government units: five in the English region of Yorkshire and Humber and five in the Italian region of Piedmont. The profile of the Councils and the European Union (EU) funds they acquired are presented in table 2. The exact names of the local authorities are not disclosed, as some wished to remain anonymous and were promised confidentiality.

The two countries chosen had institutional differences in the political and administrative systems, which added practical difficulty in data collection, but could strengthen the generalisability of the emerging theory. The following institutional differences are worth noting:

a) The Italian local governments or 'communes' (unit of analysis) were well-known for their chronic fragmentation. The selected region of Piedmont on its own had 1,209 communes of which 634 had a population with less than a thousand (Spalla, 1995). This made the local administration fragile, with little resources available (in terms of financial and human capital). Instead, in England local councils on average are bigger in size and have more resources (Gray & Jenkins, 1998).

b) Italy is an example of 'clientelistic/patronage system' where local political leaders, who are directly elected, deliver favours to their voters in exchange for electoral support. Political

parties are important in the local elections and political networks are developed throughout the region to secure electoral and policy support. England represents an 'economic-development system' where local governments are engaged in promoting the economic development of their communities which they deliver in partnership with local institutions - voluntary and business organisations, citizens associations, etc. (Goldsmith, 1993; Gray and Jenkins, 1998; Savage and Atkinson, 2001). Political parties do not play an important role in the local councils elections, and most importantly, council leaders are not elected but are nominated by councillors.

Subsequently, one region was selected for each country. To fit the research domain the selected regions had to be eligible for European funding. Both Yorkshire and Humber and Piedmont were ex-industrial areas with high unemployment and low economic growth. Those characteristics made them eligible for Objective 2 European Union Structural Funds programme.

Insert table 2 about here

The study was conducted with a theoretical (and not statistical) sample (Gersick, 1988). The individual cases chosen within the two regions varied as much as possible in organisational setting and projects submitted. We started by identifying the success local government units had in their applications for European funding. Successful government units had a healthy and steady flow of funds whereas unsuccessful ones had either no European funds at all or negligible funding income for their size<sup>i</sup>. Within each of the two regions we chose one successful and one unsuccessful case (a similar sampling plan was designed by Pettigrew (1988) to build theories on success versus failure of large British corporations). After the first round of interviews, it became apparent that the two successful cases had

similarities in the European funding process whereas the two unsuccessful ones did not have a process in place. Since the objective of the study was to build theory on the European funding process (subsequently exploring its fit with the broader entrepreneurship theory) we needed more successful cases in order to compare their process and build a model.

Three additional successful councils were studied within each region, following the replication logic (Glaser & Strauss, 1967; Gersick, 1988; Eisenhardt, 1989). The additional cases were chosen from different geographical areas within the regions, and where possible, different types of councils were represented (unitary authority and metropolitan borough in England, and communes of various sizes in Italy, which included provincial and regional capitals). We stopped at a total of eight successful cases after observing that all the results were highly consistent.

**Data Collection.** To deal with the problems of construct validity and reliability, this study has applied the triangulation principle proposed by Yin (1994). Multiple sources of evidence were used including:

*Archival records.* We started by contacting the regional bodies responsible for administering structural funds within each state. This first contact provided data relative to the amount of funds available within each region and in particular the funds absorbed by each local authority within that region.

*Focused interviews* were conducted among members of support organisations with a central role in European funding such as regional offices and funding consultants.

*Structured interviews* were conducted among the senior managers of the local authorities selected for the study. Each interview, which normally lasted for about two hours, was divided into sections exploring the following issues: 1) The process of applying for European funds 2) The interviewee's experience in the job and the structure of the department 3)

'Europeanisation' (alignment with EU regulations) of the council under analysis 4) The professional and personal contacts of the interviewee and their role in the European funding process 5) The presence of an entrepreneurial agent within the council. Most of the questions were of an open-ended nature.

*A document analysis.* We analysed the web-sites of the local authorities under consideration, together with their relevant documents such as European funding guidelines, local networks mapping, European strategy documents, local action plans, departmental structure and job descriptions, and summaries of European funded projects.

A research database was created, which included notes and transcribed text from tapes recorded during the interviews, documents handled by the interviewees (such as figures of European funded projects, structure of the departments, local networks structure) and information collected by the researchers before the interviews, using the councils' web-sites. The presence of a case study database increased the reliability of the entire research (Yin, 1994).

*Data Analysis.* A descriptive analysis of each case taken as a separate unit was carried out at the end of data collection for that case. The overall idea was to gain familiarity with the cases as stand-alone entities and put order among the amount of data collected (Eisenhardt, 1989). Within-case analysis allowed us to improve the research tools, adding new questions and adjusting the ones formulated initially. A comparison of successful and unsuccessful cases was then conducted. A similar procedure was adopted for the analysis of the remaining six successful cases, where pairs of cases were selected and then similarities and differences were listed between each pair.



The main analytical technique used for the inductive part of the study (modelling of the European funding process) was ‘visual mapping’ (Miles & Huberman, 1994; Langley, 1999). Process data (events, activities and decisions) were chronologically coded and mapped into graphical drawings for each case. Visual graphical representations are particularly attractive for the analysis of process data as they can be used to observe precedence, parallel processes and the passage of time (Langley, 1999). The process model was derived by a comparison of the visual maps of different cases and identification of common sequences of events.

For the deductive part of the study the data was analysed using a ‘pattern-matching’ method (Yin, 1994). Starting from the general proposition that “entrepreneurial behaviour can be observed in the European funding process” we specified an expected ‘entrepreneurial’ pattern of behaviour, based on Stevenson’s (1989 & 1997) 6-dimension framework. To test our proposition we compared the actual pattern of behaviour from each successful case with the expected Stevenson’s ‘entrepreneurial’ pattern of behaviour. The ‘criteria’ for assessing the match between actual behaviour and entrepreneurial behaviour were described by Stevenson along each of the 6 dimensions.

To explore the presence of different types of public entrepreneurs, we first identified the entrepreneurial agents within each local government and then looked for possible classification criteria. Woo et al (1991) pointed out that the criteria used to classify entrepreneurs tend to group around three main areas: Background, goals and management methods. We described each agent in terms of the above criteria, positioned these descriptions on a table and then looked for patterns, which could ‘cluster’ cases (minimise variability within cluster and maximize variability across clusters).

## 5. Results and discussion

### 5.1 *Modelling the process of European funding*

The most common pattern found in the process literature is the linear sequence of “phases” that occur over time to produce a given result (e.g. Burgelman, 1983). The model of the European funding process (presented in figure 1) is comprised of 6 phases: Identification of the EU as a possible solution to the funding problem, Decision to develop projects and pursue the European funding route, Assessment of what is needed to acquire the funds, Development of new organisational initiatives in order to get the needed resources, Management of the process and Extraction of rewards for the driving individuals.

Insert figure 1 about here

1) *Identification of the EU as a possible solution to the funding problem.* The local government units under analysis identified the competitive European structural funds as a good new funding opportunity that could assist economic regeneration. One British MEP has argued:

The Government started to cut the national funds for local authorities. The worst came in the mid-1980s when the Government decided to close down most of the national coal mines and steel mills, creating a huge number of unemployed people within the Yorkshire and Humber area. Then it became almost impossible for the council to provide support for the community, especially for the large number of unemployed people. To find money became the main problem for the Council, which was trying to promote the economic and social regeneration of the area (Interview with an MEP for Yorkshire and Humber Region).

All the cases analysed faced similar problems with their traditional local industries (fishing, textiles, automotive) and they all stressed the need for extra funds in order to redevelop their poor areas. The political science literature on Europeanisation also supports the view that the

European funding was an opportunity for local government to get out of their financial problems, compensating for the erosion of domestic regional policy assistance (Martin and Pearce, 1993).

2) *Decision to develop projects and pursue the European funding route.* After identifying the European funding opportunity, a key individual within the local government decided to commit to its pursue (we call this person the ‘agent’). Envisioning the ‘concept’ of an organised and continuous process for generating project proposals developed with the specific goal of attracting European funds, and the subsequent decision to realise that vision was argued as a key step of the process by all the interviewees.

3) *Assessment of what is needed to write successful bids.* After deciding to proceed with the initiative, the agents within the local governments under consideration, assessed the resources required for developing, bidding for, and implementing the projects. These resources consisted of projects ideas (new competitive ideas), bidding skills (fitting the project idea within the EU guidelines), political support (at the regional, national and EU level), partnership (including businesses, voluntary organisations, trade unions, governmental organisations, higher education institutions and organisations with social interests), and matching funds (the EU programmes provide funds towards 50-75% of the total cost of the project).

4) *Development of new organisational initiatives in order to get the needed resources.* After the identification of the needed resources, the agents proceeded to action, i.e. the creation of initiatives in order to acquire the resources. The analysis of the interviews conducted has identified a range of such initiatives including: recruitment of skilled

professionals and training existing staff, employing external consultants, starting a European funding office, creating partnerships, and identifying financial sources for the matching funds.

5) *From planning to action: Management of the process.* The interviews showed that after putting in place the new organisational initiatives and acquiring the necessary resources, the European funding agents had to focus on the action, making sure that the process kept running in a continuous fashion. Managerial skills were essential in this phase to secure a stream of European funding rather than some ad-hoc successes. We identified three types of actions for this phase: submitting bids (managing the application procedure and making sure that bids were developed according to the EU principles and requirements), implementing the projects (failure to implement the projects according to the EU time-scale could result in losing the funds), and creating a European strategy (a corporate strategy which established aimed to maximise the benefits from the European funding).

6) *Extraction of the rewards for the driving individuals.* The interviews revealed at least one individual within each organisation, who drove the European funding process with an enthusiasm and determination, which went far beyond his/her job responsibilities. A variety of rewards were mentioned by the agents themselves. The English agents were driven primarily by professional visibility and career progression, aspiring to a higher level of responsibility within the organisation or to a bigger, more prestigious council. In one case (case A) the person began a political career as a consequence of her success in the EU funding process. On the other hand, the Italian agents seemed to be after social recognition and an enhanced political career<sup>ii</sup>.

The inductive part of our study has allowed us to develop a process model of European funding. Two main differences were identified between the English and the Italian local governments:

1) The English cases had a more linear approach to the European funding process. The required resources were first identified during a 'resource-assessment' phase and then controlled during an 'initiative-development' phase. Also, one of the main resources was already in place: They were experienced in working in partnerships, a strategy which was imposed by the central government as an effective way of promoting regional and local economic development (which makes England an economic-development system). In Italy, the agents learned incrementally (step-by-step) which resources were needed, and how to acquire and manage them and therefore there were iterative loops between the resource-assessment and the initiative-development phases of the model. The fact that the Italian councils were smaller than their English counterpart and had less financial and human resources to invest into the 'venture' might partly explain their 'trial and error' iterative process.

2) Also, the driving agents in the two regions had different career paths - public officers in England as opposed to politicians in Italy - and therefore had a different set of rewards. This could be explained by the fact that council leaders in England were not directly elected and had very little power while in Italy the mayors were high-profile politicians.

In conclusion, despite individual differences between cases, the data showed (at a more general level of analysis) the existence of a common underlying process that could be equally applied to all the councils involved.

In this section we deductively test the proposition that “entrepreneurial behaviour can be observed in the European funding process” by comparing the actual pattern of behaviour from the case studies with an expected ‘entrepreneurial’ pattern of behaviour, based on Stevenson’s (1989 & 1997) entrepreneurship framework.

Stevenson defined entrepreneurship as ‘the pursuit of opportunity without current control of the required resources’. He then proposed a framework of six dimensions (strategic orientation, commitment to opportunity, commitment of resources, control of resources, management structure, and reward philosophy) to differentiate entrepreneurial from administrative organisations. Entrepreneurial organisations were lead by ‘promoters’ who felt confident in their ability to seize an opportunity regardless of the resources under control. On the other hand administratively managed organisations were lead by ‘trustees’ who emphasised the efficient utilisation of existing resources (Stevenson, 1997). Stevenson conceptualised each dimension, as a continuum with promoters at one extreme and trustees at the opposite extreme and offered descriptions of entrepreneurial and administrative behaviour along each dimension. These descriptions were used as ‘criteria’ to match the actual (case-studies) to the expected (entrepreneurial) pattern of behaviour (as proposed by Yin, 1994), as follows:

*Strategic orientation* describes the factors that drive a company’s formulation of strategy. An entrepreneurial orientation places the emphasis on opportunity (rather than on the resources currently controlled), which can be related to a new product, a new mix of old ideas or the creative application of traditional approaches. The 8 successful councils had an opportunity-orientation as they ‘recognised’ the potential of the European funding (first step of the process) without controlling the needed resources. This opportunity driven behaviour

was triggered by changes in political rules (cut of national funds) and in local economic situation (closing down of local industries).

*Commitment to opportunity* is moving beyond the identification of an opportunity. For the promoter this refers to the willingness of acting in a very short-time frame. For the trustee it means to move slowly and commit within a long-time frame. In the second phase of the funding process, ‘entrepreneurial’ agents acted fast to seize the opportunity. The window of opportunity was short and timing was extremely important, both in lobbying to get the area eligible for European funds but also in meeting the strict application-deadlines.

*Commitment of resources* needed to pursue a given opportunity: The promoter’s behaviour is characterised by minimising the resources committed and by adopting a multi-staged commitment of those resources. The trustee instead analyses carefully the resources needed and then proceed to a large-scale commitment. In the European funding process, Italian agents adopted a ‘trial and error’ approach to assessing and committing resources, which clearly reflected the multistage approach of Stevenson’s promoter. The English cases had a more organised and holistic approach to assessing resources, but when it came to commitment they also implemented a cautious multi-stage approach.

*Control of resources* refers to the ability of the promoters to use other people’s resources and decide over time what resources they need to acquire. The trustee’s attitude instead is to own the required resources. In the European funding process the agents mentioned how difficult it was for the council to employ new personnel and how they had to identify ‘talented’ people from other departments to initiate the funding venture. These ‘borrowed’ professionals had to accomplish their daily job and, on the top of it, to deal with the new

funding initiative. This minimal exposure or bootstrapping behaviour was close to the promoter end of Stevenson's spectrum.

*Management structure* describes the management ability of the entrepreneurs to coordinate non-controlled resources. Entrepreneurial management is characterised by flat hierarchies with multiple informal networks while administrative management is based on hierarchy and authority. The European funding process, from the bidding to the implementation of projects, was managed through an informal network-structure with the agent at the central point. As mentioned above, often the people involved in the process were not employed directly by the agents (and therefore did not report formally to them) but they were part of their personal and professional network, being driven by the charisma of the leader and by the communicated enthusiasm for the project. Therefore, the management structure in the European funding process was close to the entrepreneurial end of the spectrum.

*Reward philosophy* refers to the creation and harvest of value. According to Stevenson, financial gain is the main factor differentiating behaviour between the two extremes of the spectrum. 'Entrepreneurial' organisations are more explicitly focused in the creation and harvest of value (i.e. wealth creation) whereas reward in 'administratively' managed organisations is often heavily oriented towards promotion to increase responsibility levels.

Our context and data challenges this behavioural distinction. The data showed that the local government agents who operated in an entrepreneurial way according to the 5 previous dimensions (having promoter rather than trustee behaviour) did not have direct financial rewards. Instead, they were motivated by political, social and career objectives. Therefore, we argue that the public sector context can contribute to and broaden Stevenson's entrepreneurial



theory (which is based on private firms) by modifying the expected ‘promoter vs. trustee’ behaviour spectrum for the ‘reward structure’ dimension. Performance-related rewards exist in entrepreneurial public sector organisations, but they are not necessarily financial.

Overall, this section illustrated that entrepreneurial behaviour was observed in the European funding process (along 5 out of 6 dimensions of Stevenson’s framework). The next section identifies types of public entrepreneurs, specifically focusing on their reward-structure.

### 5.3 *Different types of entrepreneurs in the public sector*

Departing from the argument of Woo (1991) that the criteria to classify entrepreneurs cluster around three main areas, background, goals and management methods, we classified our public entrepreneurs based on the following criteria: a) The factual ‘background-related’ criterion of the career-path (Politicians versus Public Managers), b) Three ‘goal-related’ classification criteria (rewards, exit strategy, and time horizon of association with the venture) and c) A ‘management method-related’ criterion which we called ‘personal strengths’.

The analysis identified 5 ‘types’ of public entrepreneurs, the broad characteristics of which (according to the classification criteria) are summarised on table 3.

Insert table 3 about here

To explain the typology, we turn back to our case descriptions and give an example of the profile of each type of public-sector entrepreneur.

1) *Politicians*. The Italian councils have shown three different ‘types’ of politicians-public entrepreneurs.

*The professional politician*

The mayor of council F, a professional politician, identified the European funding opportunity and demonstrated his commitment to it by lobbying for the acquisition of the Objective 2 and 5b status for the area. He led the council through the first round of structural funds (1994-97). His main strength was his ability to secure political support and to use his numerous political contacts (especially at the regional level) in order to acquire the needed resources (partners, match-funding, consultants and funding professionals). Interestingly, the mayor’s popularity and political career has subsequently flourished, and in 1997 he won the successive Provincial elections becoming the president of the province. The interviews illustrated that pursuing a political career was a major motivation for the mayor.

*The spin-off creator*

A second example of public entrepreneurship is found in the same council (F), although the agent was occupying a different political role. After the mayor moved on, a new project idea was launched to regenerate the territory. The PST project (Science and Technology Park) started as an idea of a councillor (a politician, elected member of the local government) and a small group of local professionals that he gathered together to develop the project. The councillor’s approach looked more business-like than political. He stressed the importance of being efficient, proactive, and target driven. The councillor’s strength was his ability to utilise both political and professional contacts. He clearly expressed his rewards – public recognition, personal satisfaction and independence (which he thought could not be achieved within the

limitations of a bureaucratic system) – and he exited the local government’s fund-raising ‘venture’ to take the leading role in the new spin-off organisation that he created.

#### *A business entrepreneur in politics*

Another interesting case was Council J in Italy, where the mayor was also a local business entrepreneur. This is not a common situation in Italy where politics represents a career path and mayors are professional politicians. Council J was facing serious problems in the early 1990s, caused by the closing down of its paper factories. The new mayor took up the challenge to increase the finances of the council and its efficiency. With the help of the new finance manager brought in from the private sector, the mayor led the ‘venture’ to acquire European structural funds. A year after, they obtained the Objective 2 status for the area. A stream of European funds started flowing into the council. The mayor’s strength was his ability to utilise his extended business contacts and experience in starting new ventures in order to recruit professionals, find partner organisations and raise matching-funds.

As a public sector entrepreneur he was motivated by status and social recognition. Because of his ‘local’ nature (he is a local businessman and a local public figure), he was not interested to upgrade his political career at the regional or national level. Instead he had a long-term leadership plan, involving a re-election in the same post.

It is interesting to compare and contrast the time-horizon of the three different types of entrepreneurs, which is related to their rewards and subsequent exit strategy. In the case of the spin-off creator, once the idea is funded by the EU and the new organisation is born, the entrepreneur leaves politics and becomes the director of his own project. Because of the particular reward structure, the time horizon of his association with the council’s funding venture is rather short and the exit strategy is to spin-off as soon as the opportunity arises.

Instead, the professional politician is driven by political success, being in the middle of a booming political career. Therefore, his association with the venture covers a longer time period (about four years) which is the election-cycle. Finally, the business entrepreneur in politics perceives that his rewards of social recognition, local status and fringe benefits for his own business, would only be achieved if the council's European funding venture keeps being successful for a long-time. Therefore, his time-horizon of association with the venture is longer and he is willing to exit only if he is convinced that there is a suitable successor.

*Public officers.* The English cases have shown 2 different 'types' of public officers – entrepreneurs.

*The career-driven public officer*

Case E represents an interesting example. The council appeared conspicuously successful throughout the 1990s in winning external funding to regenerate its economy and community. The entrepreneurial agent was a senior officer (at the time of the interview). She has been working for the council for more than five years, starting as a junior funding officer. With her continuous drive, the European funds became an important part of the Council activities, and the team slowly expanded from one person to six. The funding officer was then promoted to senior officer, responsible for the European funding unit. Her strengths included the knowledge of the internal structures and processes within the organisation (which helped to gain the approval and support of the councillors) and her professional contacts of public officers in a variety of local organisations (which allowed her to recruit professionals and to find partners and matching funds). Her rewards included professional visibility and career advancement.

Entrepreneurial (and successful) public officers in European funding could exit the 'venture' either by moving up in the internal hierarchy of the local government in a different position, or opt to move to funding role in a bigger and more prestigious council. Therefore, they have a medium time-horizon of association with the venture (3-5 years), a period in which their contribution can become visible.

*The politically ambitious public officer*

At council A, the newly-appointed officer had worked for eight years in Brussels where she gained experience in EU regional policy and developed contacts with the European Commission. Her main task became to bring more aid into the area in order to create new jobs, attract businesses and lift the area from depression. She engaged in building up political support at the regional, national and European level to attract Objective 1 funds<sup>iii</sup>. A network for sub-regional cooperation was created (known as the South Yorkshire Forum) in order to increase the lobbying power at the national and European level. In 1999, South Yorkshire was declared an Objective 1 area. Soon after, the principal officer left her post in the council and became a Member of the European Parliament. This is an interesting example of an entrepreneurial public officer, whose reward from a successful venture is social recognition and visibility and a subsequent new career in politics. The time horizon of association with the venture in this case was medium-term (about 4 years) and the 'exit' was linked with the election cycle and with an available opportunity for entry into politics.

It has to be noted that the above typology was based on in-depth analysis of a small number of cases rather than on cluster analysis using a broad sample of observations and is therefore exploratory. Despite the fact that the entrepreneurs in all our cases fit comfortably within one of the five categories with no 'in-betweens', we cannot claim that we have included every

possible 'type' of public sector entrepreneur (that is actually a common problem in most entrepreneurial typologies as pointed out by Woo et al. 1991).

## 6 Conclusions

The purpose of this study was to explore the applicability of entrepreneurship in the public sector by analysing empirically the European funding process in local governments. The main limitation of our research design is the possibility of rival explanations of the European funding phenomenon, based on organisational theories such as leadership (e.g. Harrison & Leitch, 1994) or management of change (e.g. Ferlie et al. 1996). Such theoretical comparisons of public-sector phenomena would be interesting for future research, but fell out of the scope of the current study. A subsequent practical concern was that space limitations did not allow for detailed case-by-case presentation of empirical evidence, and we often had to present aggregate findings (readers who are interested in more case-by-case detail of the analysis are referred to Zerbinati, 2002).

Despite these limitations the study was successful in modelling inductively the European funding process in local governments (a new public sector initiative) and illustrating that the model fits Stevenson's dimensions of entrepreneurship. The entrepreneurial framework adopted here has proven to be potent in making sense of public sector initiatives.

To tackle the question of inclusion or exclusion of 'public sector entrepreneurs' from the scientific discipline of 'entrepreneurship', scholars need to agree on a common, clear definition for research to progress (Cooper, 2001; Gartner 1985; Vesper, 1983). We propose the following 'inclusive' opportunity-based definition of entrepreneurship: Entrepreneurship is the 'discovery and exploitation of rewarding opportunities (and not only profit making opportunities), without current control of the required resources'. The main difference of the

above definition with the ones by Stevenson and Shane & Venkataraman is the 'acceptance' of other potential rewards apart from profit (such as career advancement, political re-election, social recognition etc.).

In general, we believe that the mainstream entrepreneurship literature should embrace and study the phenomenon in public settings, where politicians and public managers (and not traditional businessmen) act entrepreneurially, driven by non-profit rewards. Our view mirrors recent work on entrepreneurship in the society, presented in a special issue of *Entrepreneurship & Regional Development* (May 2004). Steyaert & Katz (2004) proposed that entrepreneurship takes place in multiple sites and spaces (many more than the ones currently considered), that entrepreneurship should not be seen solely from an economic-profit perspective and that entrepreneurship is a matter of everyday activities rather than actions of elitist groups of entrepreneurs.

Our empirical study has just touched the surface in the area of entrepreneurship in the public sector. There is plenty more room for research and in the following paragraphs we offer some suggestions.

First, the issue of the 'productivity' of public sector entrepreneurship is an interesting issue for future research. Baumol (1990) distinguished between 'productive' entrepreneurship or the pursue of opportunities that advance production and social well-being and 'unproductive' entrepreneurship that is the pursue of 'rent-seeking' opportunities that reward the entrepreneurs but are an actual impediment to production and the society in general (such as tax-evasion and organised crime). Looking at the productivity issue from of regional development perspective, Laukkanen & Niittykangas (2003) challenged the view that resource provision and passive waiting for entrepreneurs to emerge can change the economic fate of underdeveloped communities and Hjalmarsson & Johansson (2003) argued that not all publicly funded advisory services for local entrepreneurs are actually effective. Similarly, in

the case of European funding, there are political sceptics who argue that public organisations often become good in attracting funds, as opposed to actually producing value for their citizens using these funds (because the rewards for the driving individuals are associated with fund-acquisition rather than fund utilisation). Future research should investigate more into the real productivity issue of public entrepreneurship.

Second, the case studies showed five different ‘types’ of public-sector entrepreneurs involved in the European funding process: professional politicians, spin-off creators, business entrepreneurs in politics, career-driven public officers and politically ambitious public officers. This typology is exploratory and non-exhaustive, as it was derived by a small number of case studies. Further research could extend our knowledge in this area, expanding and strengthening the above typology.

In general, we believe that research in public sector entrepreneurship should be informed by the findings and the overall direction of the entrepreneurship field, but should also try to explore the particularities that the non-financial reward-structure implies. For example Shane & Venkataraman (2000) argued that entrepreneurship research should explain why, how and by whom entrepreneurial opportunities are discovered and exploited. That, we think, is an interesting line of exploration also for public sector entrepreneurship, but there could be an interesting twist. Does the nature of public-sector opportunities (difference set of rewards - no financial reward) change the way that people discover and exploit them? Are there particularities in the cognitive process, in the individual characteristics and in the resource base of people that are willing to exploit public sector opportunities? Such questions remain to be answered.

Concluding, the authors believe that the main contribution of this study is two-fold: it is one of the first studies to illustrate empirically and in detail the applicability of the entrepreneurship process framework to public sector initiatives such as the EU funding



process in local governments. Secondly, it is one of the first attempts to explore different 'types' of public entrepreneurs.

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## Tables

Table 1: Entrepreneurs in the public sector and their characteristics in comparison to independent entrepreneurs starting their own business.

	<b>Independent entrepreneurs</b>	<b>Corporate entrepreneurs</b>	<b>Entrepreneurs in</b> <i>a) Political</i>	<b>the public sector</b> <i>b) Public - social</i>	<b>Community/ Virtual entrepreneurs</b>
<b>Literature that analyses them</b>	Entrepreneurship	Entrepreneurship	Political Science	-Public administration -Management (entrepreneurship)	Entrepreneurship
<b>Organisational type</b>	New enterprise	Create innovative projects, run 'independently', but within the organisational umbrella	Governmental organisation	Non-profit/public/voluntary organisation (university, hospital, charity)	Act not in an organisation per se, but in a community
<b>Role and position</b>	Independent businessmen	Corporate executives	Politicians	Public officers	Local public figures/ Regional developers
<b>Main Activity</b>	Create and grow a business. Usually invest own cash (taking personal risk) aspiring to create wealth for them and their investors	Create value with an innovative project. No financial (but career) risk but also less potential for creating personal wealth.	Create value for citizens by bringing together unique combinations of resources. Career risk and no financial rewards	Create value for citizens by bringing together unique combinations of resources. Career risk and no financial rewards	Facilitate and inspire entrepreneurship and renewal within their community. No financial rewards

Table 2: The 10 city councils analysed

<i>City Councils in Yorkshire and Humber, UK</i>	<i>Local area*</i>	<i>Type of local authority</i>	<i>1994-99 Funds (GBP**)</i>	<i>Population</i>
Case 4	Humber	Unitary Authority	18,566,496.00	156,243
Case 3	South Yorkshire	Metropolitan Borough	12,341,728.00	290,468
Case 5	West Yorkshire	Metropolitan Borough	10,371,162.00	395,131
Case 1	South Yorkshire	Metropolitan Borough	8,748,935.00	228,103
Case 2	West Yorkshire	Metropolitan Borough	0.00	192,824
<i>City Councils in Piedmont, Italy</i>				
Case 6	Alessandria Province	Commune	6,262,088.00	26,724
Case 10	VCO Province	Commune (provincial capital)	2,965,570.29	30,307
Case 8	Alessandria Province	Commune	1,684,886.31	28,886
Case 9	Torino Province	Commune (regional capital)	6,403,416.03	909,741
Case 7	Alessandria Province	Commune (provincial capital)	0.00	90,852

\*Yorkshire and Humber region included 4 sub-areas and 3 were eligible for Objective 2 of the Structural Funds: South Yorkshire, West Yorkshire, and the Humber. Piedmont region included 6 provinces and 3 were eligible for Objective 2 of the Structural Funds: Alessandria, Verbanio-Cusio-Ossola, and Torino.

\*\*The currency adopted is Great Britain Pound.

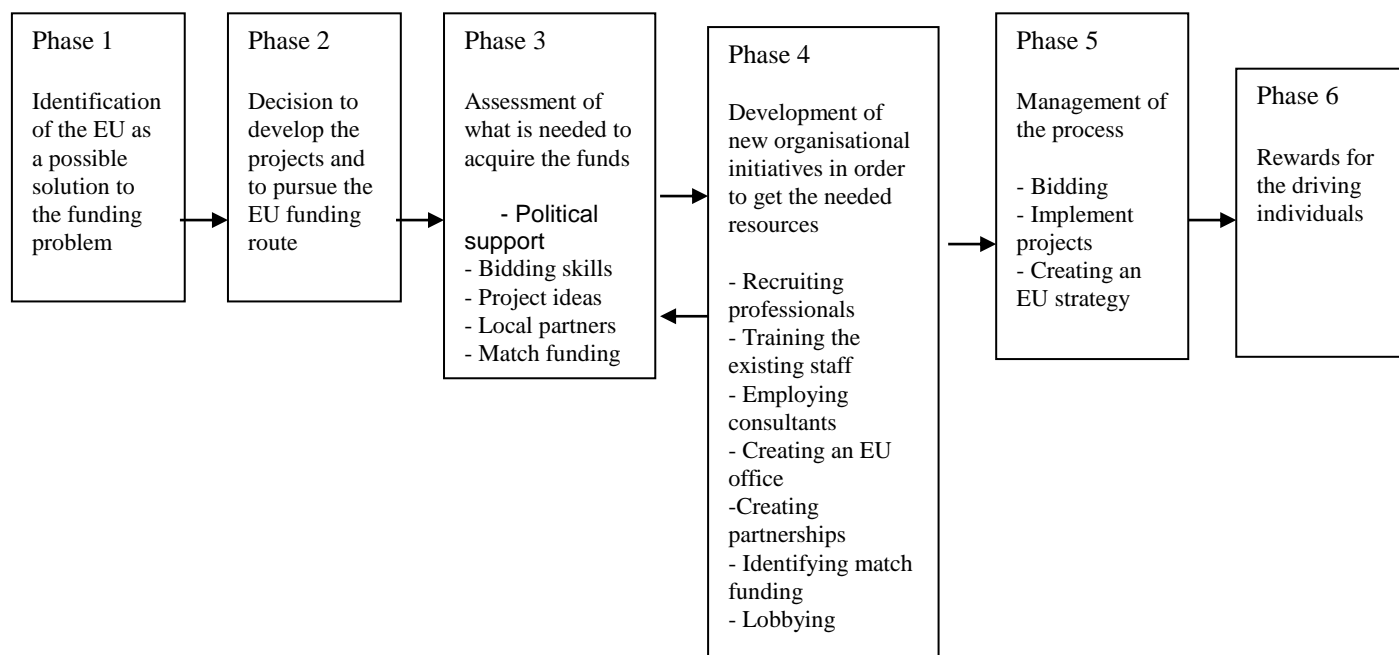
Table 3. A proposed typology of public entrepreneurs

Type	Background	Goals			Management method
		Reward	Exit strategy	Time-horizon	
<b>1. Professional politician</b>	Politician	- Popularity - Political support	Re-election at higher level	Medium-term (3-5 years); Exit dependent on election cycle	Personal strengths  Political contacts
<b>2. Spin-off creator</b>	Politician	- Social recognition - Independence	Spin-off	Short-term (about 1-2 years); Exit as soon as possible to spin-off	- Political contacts - Local professional contacts
<b>3. Business entrepreneur in politics</b>	Politician	- Social recognition - Local re-election - Potential fringe benefits for own business	No clear exit strategy	Long-term horizon; Rewards dependent of continuous success of project	- Business contacts - Management skill
<b>4. Career driven public officer</b>	Public officer	- Career advancement - Professional visibility	- Job opportunity in other organisation, with more prestige and responsibility - Internal promotion	Medium-term (3-5 years); Exit dependent on job opportunity	- Professional contacts - Knowledge of internal structures and processes
<b>5. Politically ambitious public officer</b>	Public officer	- Social recognition - Entry into political career	Election for a political post	Medium-term (3-5 years); Exit dependent on election cycle	- Professional contacts - Knowledge of internal structures and processes



## Figures

Figure 1: A phase model of the EU funding process



## Notes

<sup>i</sup> We stress that our concept of ‘success’ is constrained only to the absorption of European funds. Councils that were ‘unsuccessful’ in absorbing European funds, were not necessarily overall unsuccessful in their role to serve their citizens.

<sup>ii</sup> Section C will deal in more detail with the different types of entrepreneurial agents in local government.

<sup>iii</sup> The area was already eligible for Objective 2 of the Structural funds. The Objective 1 status (which opened a much bigger fund-pool) was available only for fewer areas and was difficult to achieve.