1. Introduction

Ruta Aidis and Friederike Welter

Currently, there is a dearth of information regarding innovative (and successful) enterprises in the countries that have most recently joined the European Union and which are often referred to as 'New Europe'. In the past, much emphasis has been placed on the barriers to entrepreneurship and innovation that exist in these countries. In this book, we shift the focus to the innovative potential that these environments provide and how entrepreneurs have been able to convert these possibilities into successful businesses. Through this collection of eight in-depth case studies, we illustrate how successful and innovative businesses were able to develop in each of these countries. The idea for such a book emerged from our research in Central and Eastern Europe and our interests in how enterprises developed during transition and after these countries joined the European Union. Both editors have come across fascinating stories showing the enormous adaptability of entrepreneurs in these countries that are often not reflected in statistical research. We hope that in sharing some of these stories with a wider audience this collection will contribute to deepening our understanding of what constitutes entrepreneurship and innovation in an enlarged Europe.

Each case study highlights specific aspects of the interplay between the institutional setting, the environment and the individual characteristics of the entrepreneur that created an 'enabling context' for innovative behaviour to develop and grow, drawing attention to the opportunities and constraints offered in each environment. Additionally, each case study presents an overview of the country's key economic indicators and the role of small and medium-sized enterprises (SMEs) in the economy.

Below we first briefly introduce the case studies contained in this book. This is followed by a summary discussion comparing the main themes raised in the individual case studies.

SUMMARY OF THE CASE STUDIES

In Chapter 2, Kate Bishop explores the role of the internal, external, strategic and network factors in the growth and development process of

Dekonta, a knowledge-based firm in the Czech republic. Dekonta was founded in 1992 by twin brothers, aged in their forties and with professional degrees and experience in engineering. It is a small firm established to pursue and commercialize a new technological invention in bioremediation and was the first *de novo* environmental service firm in the Czech Republic.

A crucial element for the establishment of Dekonta was government demand for environmental services, which continues to affect Dekonta's operations via the tendering process, regulations and promotion of R&D within the sector. In 1992 the government adopted a privatization strategy for industrial companies which involves the government taking responsibility for the remediation of these firms on a contract basis. This generated a lot of work in the field of remediation of contaminated soil. Thus the transition process, in particular the privatization programme, created a new market opportunity in environmental services which Dekonta has taken advantage of successfully.

In Chapter 3, Tatiana Manolova highlights the rise of the firm FILCOM/FILKAB in Bulgaria. This case, in particular, shows how hard work, realistic strategic objectives, persistence and a matter-of-fact approach to strategy execution provide a basis for distinct and durable competitive advantage in a transitional environment.

FILCOM was started in 1990 by four friends to fill the niche of trade in electrical equipment. In 1999 it was turned into a joint stock company and renamed FILKAB. In addition to distributing cables, wires and electrical equipment, it also provides engineering services and assembly of electrical parts. Even within Bulgaria's sometimes unclear legal environment, FILKAB demonstrated its integrity and commitment to business ethics by paying top wages, offering comprehensive health and retirement benefits and through strict compliance with labour and safety regulations. It also has a very democratic work environment with no secretaries or receptionists. As a result of these policies and practices, fewer than ten employees have left the company in its 16 years of existence. Furthermore it has won the 'taxpayer of the year' award three times. In essence, FILKAB chose the path of starting a legal business and 'following the rules' from its inception.

Chapter 4, written by Tõnis Mets, focuses on Estonia and the development of Regio. Rivo Noorkõiv was the CEO of Regio, which was founded as a small state-owned enterprise in the mid-1980s. But soon after Estonia issued a decree allowing for the existence of joint stock companies, Regio became a private company. It was first based at the University of Tallin. Regio's initial niche market for cartography was created by the Soviet Union's reluctance to provide accurate geographical data in the native language of its republics. Later it expanded its operations to mapping, geospatial data, geographical information systems, and mobile positioning.

The private firm began with two co-founders: Rivo and a geographer from the University of Tallin, Jüri Jagomägi. Juri also brought in his son Teet who at the time was 19 years of age. In order to improve their knowledge and use of technology, Teet was sent to the US for training as a programmer from 1992 to 1993. Upon returning to Regio, at the age of 23, Teet was appointed the company's CEO.

The technological advantage that Regio illustrates stems from the 'latecomer effect'. As Tõnis Mets argues, Regio was not restricted by old technological investments. The new modern knowledge obtained by Teet while in the US enabled Regio to start digital cartography from scratch because they were not limited by any old systems or practices. This enabled Regio to incorporate new ideas and technology more easily since there were no conflicts with any previous investments. In addition, the economic and social development processes in Estonia and its accession to the EU created more confidence in the domestic business environment.

This case also provides insights into the challenges of obtaining financing for business growth in the transitional context. For Regio, financing was finally secured through risk capital from the Baltics Small Equity Fund. It also exemplifies the difficulties of participating in an international merger. In the case of Regio, the merger did not last long. Ownership was taken back by Regio's initial founders after only a few years, when the new company went bankrupt.

In Hungary, even under the centrally-planned system, small businesses were able to operate, albeit in a limited way. Chapter 5 by Ágnes Tibor focuses on the new generation of entrepreneurs that emerged during transition in Hungary in the fledgling IT sector. These 'new' entrepreneurs, such as Márton Balog and his friend Dávid Szőts, tend to be young and creative, to like challenges and to be full of energy and business ideas. The embryonic idea for Prohardver emerged in 1998 when Márton and Dávid, both 19 years old, began to buy and sell computer parts. Their work was initially a hobby; they started testing computers and computer parts and made the test results publicly available on the internet 'just for fun'. At that time no one else was doing this in Hungary. As their popularity grew, they enjoyed their monopoly position. Having introduced something completely new to the market and having no direct competitors, Márton and Dávid were engaged in 'learning by doing'. Over time, and already being successful, Márton and Dávid decided to turn their hobby into a registered company in 2000. The main 'customers' (that is, visitors) to their site were producers and wholesalers, do-it-yourselfers and corporate buyers of IT products, while their main source of income was advertising. The case takes us up to the present, when Márton Balog is CEO at the age of 26 and considering how to diversify Prohardver into foreign markets.

In Chapter 6, Ruta Aidis focuses on Tomas Juška, the CEO of Libra Holding, in order to describe the development of the largest wood processing company in Lithuania. Tomas and his four friends started Libragroup in 1992. They were between 20 and 24 years of age and knew nothing about wood or wood processing, nor were they aware that the sector had any great potential. By 2006 Libra Group reorganized under the name Libra Holding, having grown to consist of 12 distinct companies exporting to 20 countries worldwide.

Libra Holding is striking in terms of its business philosophy and company strategy. As CEO, Tomas stresses the positive aspects of the transition environment when he emphasizes the great ambition that individuals in transition countries have to improve their livelihoods and the quality of life in their home country. If a company can harness this drive, then it can achieve tremendous success. In Tomas's view, Lithuanians have a deeper drive for achievement than in the old EU countries since they are trying to rebuild their native country to the level it was at fifty years ago, before the Soviet occupation. This philosophy has paid off in terms of attracting and retaining employees. Further, Libra Holding also maintains competitiveness by enhancing internal human capital resources in order to improve efficiency and productivity through its Libra School: a cultural centre which encourages, inspires and provides direction for further personal development of Libra Holding's employees. Finally, Libra Holding was able to cultivate the drive and patriotism of their employees to benefit its business activities and create a high level of team spirit and morale.

In Chapter 7, Arnis Sauka and Friederike Welter choose the case of Safety Ltd to illustrate how the specific transition context in Latvia influences the ability to convert new innovative opportunities into successful businesses. Safety Ltd was started by Peteris and two friends, Juris and Ivars, in 1994. Peteris and Juris had previous experience in setting up or working in private companies. Ivars had no business experience, but after losing his job as a tailor in one of the big Soviet factories, he was earning an income by working for himself sewing clothes. Though they had different backgrounds, they all shared the dream of getting rich. They decided to use Ivars's tailoring experience in order to start a business manufacturing men's suits. This business idea did not go exactly as planned.

By chance, Peteris came across a catalogue advertising uniforms for shop assistants in Germany – something that was still non-existent in Latvia! Initially no one seemed interested, since it necessitated a completely new way of thinking. But gradually they began receiving orders and are now a successfully established small company with 23 employees.

Entrepreneurship survived in Poland even during the centrally-planned period, but the nature of entrepreneurship changed during the transition process. Anna Rogut and Kazimierz Kubiak present the case of Mieczysław Kozera in Chapter 8. In 1981, at 30 years of age, Kozera lost his job after martial law was imposed in Poland. He had a technical background and experience and he applied that to his entrepreneurial endeavour. He borrowed a substantial amount of money from his brother and some family members to establish a store selling ceramic and glass products (artistic glass) and household appliances. There was a high demand for and low supply of these products in the initial transition stages, which aided the development of his company. In 1989 he was able to acquire a bankrupt rubber plant so that he could further expand his operations. He adapted the plant into a small glassware factory. Since he knew little about this field, he hired some experienced employees.

Kozera was astute to new market developments and noticed the rising demand for ceramic garden products in Poland as the standard of living continued to improve. He decided to buy one hectare of land in 1992 on which to build a ceramics factory. He was able to buy most of the equipment needed from bankrupt companies that had over-invested in their equipment. Kozera also diversified into unrelated areas such as petrol stations and a wholesale fuel delivery operation. His profits from fuel sales were reinvested in the development of furniture centres and another glassware manufacturing plant. He further diversified into the hotel service sector, building a hotel and also a shopping and service centre. In order to develop his staff, Kozera's company has its own training programme for technical and shop floor assistants. The owner is also planning on opening a Professional Training Centre in order to ensure the constant influx of qualified personnel.

In spite of its diverse operations, Kozera's company which is named after himself, remains a sole tradership and its organizational structure is very simple. Kozera himself is a one-man management board supervising the different operations. The influence of transition is clear in the case of Kozera. As Rogut and Kubiak argue, had he not been dimissed from work during martial law, Mr Kozera would probably still be an ordinary worker in a state-owned enterprise.

In Chapter 9, Daniel Shapiro, Aleš Vahčič and Lisa Papania showcase the development of Seaway in Slovenia. Slovenia was part of the communist system of Yugoslavia which had a fairly liberal view towards private business ownership, albeit with clear limitations. Seaway was founded in 1989 by two brothers, Japec and Jernej, and grew to be one of the world's leading developers of sailing boats and power boats, engaged in the end-to-end production process from design, engineering and tooling to the manufacture of components. It sells its products and services globally, and is currently the leading producer of rudders and bearings for sailing boats.

Its competitive advantage is, in part, based on its design and innovation capabilities, for which it has won numerous international awards, and which have enabled it to grow into a profitable mid-size producer of luxury boats.

The brothers came from an advantaged background. Both were highly educated: Jernej was an architect and worked for a period in Germany (gaining foreign experience and contacts) and Japec was a medical doctor and a cardiology researcher. Seaway developed out of a shared hobby as amateur yacht builders. In the 1980s amateur yacht building was a popular hobby amongst the Slovene elite who sought to imitate a Western lifestyle. As professionals and academics, Japec and Jernej were outside the ruling networks of the day, which may have played to their entrepreneurial advantage. Individuals embedded in the ruling networks tend to be more focused on developing existing ventures more closely linked to the political elite. However it also meant that their opportunity costs were high as they were both professionals seeking a risky career change.

In 2000 it became apparent that future growth would require the company to move beyond design to manufacturing its own moulds and tools with robotic technology. However, Seaway generated insufficient funds internally to buy this technology and needed outside financing. They sought and received venture capitalist investment but this led to the dilution of control and pressures to install professional management. This case clearly illustrates not only the critical importance of venture capital and financial markets in the process of growth for an innovative firm but also its conflicts.

ENTREPRENEURSHIP AND INNOVATION IN 'NEW EUROPE': ISSUES EMERGING FROM THE CASES

Taken together the stories of the entrepreneurs featured in the case studies provide insights into some of the typical features that characterize entrepreneurship in transition countries as well as illustrating some of the differences. As these eight case studies show, tolerance of entrepreneurs and small businesses during the centrally-planned period varied. Some forms of entrepreneurship existed in Poland, Hungary and Slovenia even during the centrally-planned period but entrepreneurship was severely restricted in Bulgaria, Czechoslovakia and the three Baltic States that had been part of the Soviet Union (Estonia, Latvia and Lithuania). But even in the countries where entrepreneurship of some kind was permitted, it was fundamentally different in nature, given the constraints of the centrally-planned system.

With the advent of transition, private enterprises became legal. But central planning has left an unfavourable legacy in the tendency of the general population to harbour negative attitudes towards these new entrepreneurs. While some of the early free-market entrepreneurs may have deserved this, other entrepreneurs trying to set up viable, honest enterprises, also had to contend with these negative attitudes. Consequently, one of the characteristics that many of the entrepreneurs discussed in this book share is an ability to persevere in a turbulent environment under adverse conditions.

Given the novelty of the private enterprise sector in these countries, it is not surprising that most of the enterprises were started from scratch, an experience common to all the transition countries. Only one enterprise, namely Regio in Estonia, grew out of a state-owned enterprise. This trend also might be seen as an indicator for the entrepreneurial drive that individuals in these countries showed once private entrepreneurship was allowed. This is partly reflected in the motives for entering entrepreneurship. The reasons given by the business founders for starting their businesses provide insights into the push as well as the pull mechanisms that exist in the transitional landscape. The Polish case (Kozera) illustrates the classic situation of an individual pushed into entrepreneurship after losing his job in a state-owned enterprise. Many individuals lost their jobs due to downsizing and the closure of state-owned enterprises. With no other means of support, these individuals often started their own enterprises as a way to make ends meet. In the case of Kozera, necessity-driven entrepreneurship opened up a tremendous opportunity that resulted in an extremely successful venture, thus pointing out the learning curves of entrepreneurs. Most of the other cases illustrate the various pull mechanisms operating in the transitional setting. Prohardver in Hungary and Seaway in Slovenia illustrate how individuals with limited experience or background turn a hobby into a successful business. Libra Holding in Lithuania was started by students who viewed their business start-up as if it were all ‘a bit of a game’, while the founders of Safety Ltd were motivated by the ‘universal’ ‘pull’ motive of ‘wanting to get rich’. Other cases, such as Dekonta in the Czech Republic, illustrate individuals taking advantage of an opportunity that was created during transition.

In general the eight enterprises showcased in this book were set up by entrepreneurial teams made up of friends (Safety Ltd and Libra Holding) and friendly neighbours (Filkab), but also by brothers (Dekonta and Seaway) and pairs of friends (Prohardver) and colleagues (Regio). This might reflect the importance of pooling resources in a transition environment, which in the case of starting a new venture is best done by teaming up with partners. It may also indicate the importance of creating an internal support structure, which in most cases was severely lacking in the transitional environment, via co-founders. Only one case study was set up by an individual (Kozera) who remained a sole proprietor even during the firm's growth and expansion. Most entrepreneurs were individuals with professional experience (Dekonta, Filkab, Regio, Safety Ltd, Kozera and Seaway). However in two cases, the entrepreneurs were students with no formal work experience (Prohardver and Libra Holding). All of these successful enterprises were started in the early stage of the transition process (1980s or early 1990s, depending on the country). As is typical in transition countries, most of the entrepreneurs presented in these case studies are young, university educated and male.

The challenges encountered by the entrepreneurs in these eight transition countries also capture the way in which, in spite of the obstacles, it is possible to be successful in a turbulent environment. One such 'turbulence' is caused by weak institutions that allow for corruption, informal networks and the prevalence of bribery in influencing private business development. In addition, most of these business owners had to contend with an environment where outside funding for start-up or business growth was in most cases non-existent. Given these barriers, it is interesting to observe the range of strategies these eight successful firms have used to address them. In terms of interference, not all firms seemed to notice it, either because it is a pervasive element in the environment and it is something the entrepreneurs have simply learned to 'deal with' or because the firms seemed to be 'off the radar' of rent-seeking officials because of the inexperience and youth of the entrepreneurs and the relative unattractiveness of the chosen industry (Libra Holding). Some firms, such as Filkab, have chosen to uphold their commitment to business ethics. However for others, the corrupt environment remains a barrier and may even influence the decision to cease operations in the future (Safety Ltd).

Even though the transition process was a source of many challenges for these entrepreneurs, especially in the early stages of transition in terms of the weak institutional environment, instability of regulation, excessive governmental interference, corruption and so on, it also provided tremendous opportunities for innovation, business development and growth that are unparalleled in mature market economies. Some opportunities arose as a result of government demand for specific activities, such as the need for waste management through bioremediation (Dekonta), or in areas previously restricted and controlled by the government, such as map making and global positioning (Regio). But mostly, opportunities resulted from the entrepreneurs taking the risk to enter previously under-developed and/or neglected sectors such as quality uniforms (Safety Ltd), wood processing (Libra Holding), electrical equipment (Filkab), ceramics and glass products (Kozera) and luxury yachts (Seaway). In addition, new technological developments created opportunities to grow in previously non-existent sectors (Prohardver).

The financial constraints for private sector development in transition countries are well-documented in the literature. In order to succeed, most of the entrepreneurs in these case studies had to develop strategies to address this barrier that are typical for the transitional environment. Some were able to borrow start-up capital from friends and/or relatives (Safety Ltd and Kozera), while others used capital obtained through an earlier business (Libra Holding). In one case (Prohardver), the founders chose initially to operate on a shoestring budget as a strategy to start a business without access to external financing. Financing future growth is another issue that a number of enterprises needed to address. Some companies, such as Kozera and Libra Holding, were able to finance their growth through reinvesting their profits, while Regio and Seaway needed to finance rapid expansion through external financing, which proved very difficult to obtain and often created additional problems.

In addition to providing tremendous opportunities for business development, the transition environment provided additional benefits that have led to the successful development of the eight companies highlighted in these case studies. All the case studies recognize the important and positive role in their business development played by human capital in the form of education inherited from the former centrally-planned system. Two case studies (Regio and Libra Holding) also stress the advantage of harnessing the power of patriotism and pride and the desire of individuals to catch up with the West in rebuilding their countries as free market economies as a very important incentive to operating in the transition context.

The experience of starting and growing a successful business in the turbulent transition environment also offers unique opportunities for further business expansion in other transition countries (Dekonta, Kozera, Safety Ltd, Libra Holding) or developing countries (Regio), thus indicating possibly differing internationalization patterns of new firms originating in a transition context.

All eight case studies highlight the forms of innovation that have taken place in the transition country environment. Most commonly, innovation in transition countries occurs through the introduction of a product known in Western economies but absolutely new to the developing domestic market (Safety Ltd, Filkab, Prohardver, Libra Holding and Kozera). Here, innovation is the result of taking the risk of introducing a completely new product or service into a turbulent ever-changing environment. In many cases, these entrepreneurs had to be forward-looking risk-takers, predicting the demand that would develop for their products. More typical forms of innovation, also characteristic of mature Western countries, include new sector development such as that illustrated by Dekonta in the area of bioremediation. In order to develop the most competitive designs, Seaway used the strategy of consulting lead users to introduce innovations to an existing sector. The lack of modern technology inadvertently allowed Regio to take advantage of the 'latecomer effect' by applying the latest new technologies to the development of innovative new products competitive on international markets.

'Learning by doing' can be seen as a form of innovation especially relevant in the turbulent environments that characterize early transition. In all of our cases, previously neglected areas of products and services were introduced into the domestic economy for profit. Though in many cases, the product or service already existed in another mature economy, it had not previously existed in the transition country. Transition adds an additional dimension to an entrepreneur's risk in starting a new business: macroeconomic instability and the uncertainty of demand coupled with an ever-changing regulatory environment.

To conclude, the cases reported in this book illustrate the variety of development paths taken by enterprises in economies where some entrepreneurship was tolerated throughout Soviet times (for example, Poland or Hungary) and those countries where no private entrepreneurship was allowed (for example, Bulgaria, the Baltic States, Czech and Slovak Republics). However, the case studies also demonstrate a need – both for researchers and policymakers – to take into account the specifics of not only the country environment, but also the transition process and its impact on entrepreneurship development and innovation, if entrepreneurship is to be analysed correctly and support measures are to be targeted in such a way that these innovative firms can contribute to economic development.