1. Introduction

David Smallbone, Hans Landström and Dylan Jones-Evans

INTRODUCTION

This book provides a window on contemporary European entrepreneurship and small business research, through a selection of some of the best papers presented at the twenty-first Research in Entrepreneurship (RENT) Conference held in Cardiff in November 2007. The papers selected for inclusion demonstrate the applied nature of entrepreneurship research, as well as the various contributions that entrepreneurship can make to local, regional and national development, from both a social and an economic perspective. The papers also reveal the heterogeneity of the field of entrepreneurship, especially in terms of substantive content and the methodologies employed, with both quantitative and qualitative approaches well represented. This heterogeneity partly reflects different traditions and priorities in different European countries, which has always been part of the attraction and relevance of the RENT conference since its origin in 1986.

Following this introduction, the papers selected for inclusion have been grouped into five main themes: regional perspectives on entrepreneurship; new venture creation and growth; business exits; knowledge-based entrepreneurship; and entrepreneurship and social inclusion. While the division represents a convenient way of organizing the book, a number of the papers selected contribute to more than one theme. In addition, although RENT is primarily a scientific conference, all papers included in this volume have some implications for the contribution of entrepreneurship to economic development at the local, regional and/or national scales.

Although the nature and extent of the contribution of entrepreneurship to economic development is a well-established theme in the field, the papers included in this book offer new insights or perspectives on the topic, with potential implications for both policy makers and academics concerned with theories of entrepreneurship. Regional perspectives on entrepreneurship are important to policy makers because regional variations in
Entrepreneurship and growth

economic development and resources affect the needs and priorities of regions from a policy perspective. As well as being at the heart of entrepreneurship as a field of study, both the level and qualitative characteristics of new venture creation are increasingly seen by policy makers as key factors influencing the performance of countries and regions in terms of economic development. Business exit is a topic that has been attracting increasing interest, not least because it is not easily defined by many academic studies. There is also growing recognition that entrepreneurial societies require easy exit from, as well as easy entry into, entrepreneurship, if scarce resources are to flow from less to more productive activities. Knowledge-based entrepreneurship is at the heart of the European Union’s Lisbon Agenda, with entrepreneurship and innovation as key pillars influencing the competitiveness of the European economy in the twenty-first century. Alongside this, entrepreneurship is seen as an important contributor to social cohesion across Europe, although some academics have challenged the evidence base in this regard (Blackburn and Ram, 2006).

REGIONAL PERSPECTIVES ON ENTREPRENEURSHIP

In the first of two chapters explicitly concerned with entrepreneurship at the regional level, Philip Cooke presents new research on ‘green’ entrepreneurship, innovation and clusters (Chapter 2). This is the latest in a stream of papers over the last 20 years in which Cooke has argued that the regional level is particularly well suited to supporting the innovation activities of small and medium size enterprises (SMEs), through the myriad of public and private knowledge organizations that make up regional innovation systems. In drawing attention to the variation that exists between countries in political traditions, Cooke describes a concept of collective entrepreneurship, where the latter is induced at the regional level through subsidy, contrasting with more individualized notions of enterprise that are typically part of the Anglo-Saxon political tradition. The emergence of clusters is presented as a topic where the role of collective, as well as individual, entrepreneurship may be explored, illustrated with reference to the entrepreneurial networks that underpinned the emergence of industrial districts.

The core of Cooke’s chapter is concerned with so-called ‘green’ innovation and green clusters, which he relates to technological convergence among diverse industries (e.g. biotechnology, ICT and clean technologies) within a particular geographic space. As well as referring to already documented clusters in California (agri-food, horticulture) and Denmark (solar thermal energy, wind turbine production), Cooke describes a recently
‘discovered’ cluster in Wales, which includes bioenergy from crops and other novel agricultural products. Cooke’s analysis demonstrates the role of small enterprises, as well as some large firms, in the emergence of green clusters, together with the importance of an applied and basic research infrastructure, demonstrating the interdependence that exists within the context of regional innovation systems. Emphasizing the need for a multidisciplinary perspective and referring to both North American and European examples of green clusters, Cooke highlights the replication of processes that have historically underpinned industrial districts in the emergence of new economic activities.

In the second chapter in this section on regional perspectives (i.e. Chapter 3), Niels Bosma and Veronique Schutjens focus on the determinants of early-stage entrepreneurship in European regions. Their core proposition is that regional economic development depends on the type, as well as the level, of entrepreneurship. Using 400,000 individual observations from the Global Entrepreneurship Monitor (GEM) database, the authors focus on innovation and growth oriented entrepreneurship at the regional level. The analysis considers regional variations in innovation and growth oriented entrepreneurs, contrasting the pattern of entrepreneurs with and without a growth ambition. The empirical part of the chapter uses data from the GEM study to create indicators of regional entrepreneurial activity (dependent variables) and attitudes (independent variables), with additional regional level variables obtained from other sources. Four types of early stage entrepreneurship are distinguished: non-ambitious, ambitious, high growth and innovative. Analysis of harmonized entrepreneurship data over 225 regions in 18 countries shows differences between the four types in terms of their determinants. This has implications for the types of policies that are likely to be effective in stimulating different forms of entrepreneurship.

NEW VENTURE CREATION AND GROWTH

Four papers are included in the section on new venture creation and growth. The first, by Pedro García-Villaverde and María Ruiz-Ortega, is concerned with the advantages and risks associated with the entry timing of new ventures (Chapter 4). It is suggested that entry timing is important because of the need to compare windows of opportunity to gain competitive advantage and the liabilities of newness. The focus of the study is on the relationship between external environmental conditions and the capabilities of new ventures (particularly marketing and managerial capabilities), which the authors suggest affect entry timing.
The results confirm the interactive effects between the capabilities of a new venture, on the one hand, and market conditions on the other, on the timing of market entry. For example, the presence of managerial and marketing capabilities favours pioneer behaviour by new ventures in industries with a high level of imitation. This suggests that such capabilities may be used by entrepreneurs to create barriers to impede follower firms from reducing first mover advantages. As well as contributing to the literature on industrial organization, the authors identify implications for practitioners and specifically owners/managers of new businesses who are interested in assessing if their enterprises have suitable capabilities to take advantage of first mover advantages in unfavourable environmental conditions.

In Chapter 5, Miguel Torres Preto, Rui Baptista and Francisco Lima focus on the choice faced by individuals between paid employment and self-employment, from an economic perspective. While the economic theory of occupational choice suggests that differences in expected earnings are the main factor influencing this choice, this is not fully supported by empirical evidence. In this context, the chapter analyses the earnings of individuals who switch from paid employment to business ownership, in comparison with individuals who change firms but remain paid employees.

A longitudinal matched employer–employee data set from Portugal is used to investigate the mobility of workers and business owners during the period 1995–2003. Four models are presented to examine the effects of switching from paid employment to business ownership on individual incomes. Results suggest a severe income penalty in the short run for individuals who switch from paid employment to self-employment. Overall, the results show that opportunity costs play a significant role in influencing whether entering self-employment leads to an increase in earnings in the short run. This is reflected in observed differences between those entering self-employment from paid employment compared with those who were previously unemployed.

The next paper by Colm O’Gorman (Chapter 6) focuses on the financial needs of ‘early-stage’ entrepreneurs, suggesting that international differences in levels of entrepreneurship may be influenced by variations in the level of resources required to start a business. GEM data from 2002–06 are used to identify the mean and median planned financial requirements of early-stage entrepreneurs across nine Euro-zone countries. The results show significant differences between countries in the mean level of finance required to start a firm, although this appears to mainly reflect a high mean in the Netherlands and a low mean in Spain. More generally, O’Gorman finds there are not large differences between countries in the anticipated
total finance required for market entry by nascent entrepreneurs. He also finds the expected financial requirements of early stage entrepreneurs to be low, with medians ranging from 20000 to 100000 euros across the nine countries studied. It should be stressed, however, that these are expected rather than actual start-up costs, since respondents are still at the pre-market or early market entry stage and not all of them will actually continue their efforts to start a business.

In Chapter 7, Anders Isaksson and Vladimir Vanyushyn examine the link between growth attitudes and realized growth, using a conceptual frame drawn from the theory of planned behaviour. The focus of the chapter is an important topic, in view of the growing body of evidence emphasizing the link between an entrepreneur’s motivation and aspirations and the growth performance of their enterprises. One of the distinguishing features of the research design is the attempt to measure attitudes to growth at one point in time and actual growth performance during a later time period. Moreover, unlike many other studies, the approach seeks a representative sample of enterprises rather than focusing on high performing firms, or firms where there are strong a priori reasons for expecting growth orientation (e.g. high-tech firms). As a result, the actual employment growth performance of enterprises during the study period included firms experiencing negative growth, as well as firms experiencing positive growth; although, not surprisingly perhaps, the majority showed no change in employment. Growth performance was analysed in relation to a four-fold classification of attitudes to growth. The results support the hypothesized link between intentions and outcomes, as stated by the theories of planned behaviour and reasoned action, although the association was weak and the differences in growth performance between high and low aspiration groups relatively small. This indicates the need to incorporate other factors when seeking to explain growth performance. In other words, entrepreneurs’ attitudes to growth are important, but should not be considered in isolation.

**BUSINESS EXITS**

The next two papers deal with different aspects of business exits. Chapter 8 by Miguel Amaral, Rui Baptista and Francisco Lima is concerned with entrepreneurs’ decisions to sell or dissolve their businesses, recognizing that business exit is not necessarily an indication of business failure, since some exit decisions are voluntary. Voluntary exit may be a result of an entrepreneur recognizing either a better business opportunity or more positive occupational prospects in, for example, paid employment. Voluntary
Entrepreneurship and growth

exit by an entrepreneur may be achieved through winding up the firm or selling it. Part of the context for the chapter is the high proportion of individuals in the Portuguese economy who become entrepreneurs through acquisition, rather than ‘de novo’ start-up, which is reflected in high rates of business ownership but low start-up rates.

More specifically, the chapter investigates differences between individual and firm level factors that influence the mode of voluntary exit (i.e. sell-out and dissolution), which the authors seek to link to firm performance at the time of exit. A large longitudinal matched employer–employee database from Portugal is used to test a typology of voluntary exits, while addressing three key issues: firstly, the factors associated with exit from entrepreneurship; secondly, distinguishing features of individuals who exit entrepreneurship by discontinuing a firm compared with those who exit by selling the firm; and thirdly, how an individual’s decision to sell or close a business relates to the performance of the latter in the market. Results from the logit model estimations for the two different modes of voluntary exit provide support for the hypothesized heterogeneity across forms of exit, in terms of individual and firm level characteristics. Interestingly, being the founder of a firm appears to impact negatively on the decision to leave the firm and exit entrepreneurship. This is interpreted as reflecting the fact that founders have assets that encourage and facilitate their persistence (such as specific business and market knowledge and a higher level of intrinsic involvement in the venture) than second or third generation owners. Not surprisingly perhaps, older firms are more likely to be the subject of voluntary exit than younger firms, with the negative association with the age of enterprise being stronger in the case of dissolution than for sell-out. Similarly, exit through dissolution is negatively associated with a firm’s sales revenue, although the relation is not confirmed in the case of the decision to exit through sell-out.

In contrast to the paper by Amaral and his colleagues, the second chapter in this section, by Colin Mason, Sara Carter and Stephen Tagg, is concerned with business failure, or involuntary exit, focusing on its personal consequences for entrepreneurs (Chapter 9). The chapter is concerned with the position of small business owners in a risk society, where risk is equated with the personal financial consequences of the failure of their business. Two key questions are examined: firstly, the proportion of small business owners that are highly exposed to personal financial risk; and secondly, how this risk is distributed across different types of business owners. Data for the study undertaken by Mason and his colleagues were drawn from a large biannual survey of small businesses undertaken on behalf of one of the main membership associations representing small firms in the UK. The survey involved almost 19,000 responses,
and included a question asking respondents for a self-assessment of the consequences of business insolvency. The results showed a marked variation in the perceived consequences of insolvency, ranging from a more restrained lifestyle to more severe effects. Detailed analysis showed that entrepreneurs seeking to grow their businesses rapidly are potentially vulnerable to greater personal financial risk. By contrast, owners who are the least exposed to personal financial risk should their businesses fail, typically have little or no household wealth invested in the business, operate from home, and are engaged in service industries with low capital intensity. It is important to emphasize that the chapter is concerned with perceived sources of personal financial risk rather than actual business failure. Nevertheless, the findings have implications for the understanding of growth orientation in small firms, as well as contributing to the under-researched area of risk.

KNOWLEDGE-BASED ENTREPRENEURSHIP

This section contains three papers concerned with knowledge-based entrepreneurship. The first, by Joana Mendonça, Rui Baptista and Francisco Lima, is a policy oriented investigation of the role of higher education institutions in the formation of knowledge-based ventures (Chapter 10). The chapter is based on Portugal, which is a country where the higher education system has expanded considerably in the last 30 years, with the emergence of several new public and private universities. The focus is on the effect of the creation of these new higher education institutions on regional levels of entry by knowledge-based firms, based on comparing firm entry rates of regions with new universities with similar regions where the number of universities has remained constant. The data used enable short, medium and longer term effects to be identified over the period 1992–2002. The results indicate that the creation of a new higher education institution in a region has a positive impact on the share of new firm entry in knowledge intensive sectors. This emphasizes the contribution of universities in Portugal to the regional development of knowledge intensive activities, as well as the wider contribution of higher education institutions to the shift to a knowledge-based economy, not only through knowledge spillover effects from institutions, but also through the effect on the supply of more educated people.

Chapter 11 by Ángela González-Moreno and Francisco Sáez-Martínez focuses on cooperation with universities and research institutions for entrepreneurship in established firms rather than in new ventures. The aim of the chapter is to examine how a firm’s innovation strategy influences the
decision to engage in research and development cooperation with universities and research institutes, which includes a comparison between high-tech and low and medium technology industries. The chapter is based on data from the European Community’s Innovation Survey in Spain, with a sample of 9684 firms in low and medium technology activities and 2094 in high technology sectors. The findings show that financial constraints are the main motive for cooperating with universities and research institutes in low and medium technology sectors, whereas in high-tech industries, it is a lack of market information and the perception of risk that are important. The findings also show that a firm innovation strategy affects its propensity to cooperate with universities and research institutes, as does increasing firm size, particularly in low and medium technology sectors. In low and medium technology activities, external cooperation of this type can act as a substitute for formal research and development activity in-house, although the frequency of such cooperation is typically less than in high technology sectors. More generally, firms that carry out internal research and development have a greater propensity to cooperate with universities and research institutes, suggesting that a firm’s internal absorptive capacity influences its propensity to collaborate externally.

The third paper in the section (Chapter 12), by Vinit Parida and Mats Westerberg, is concerned with collaborative network structures involving small firms in the ICT sector. The study focuses on external relationships that contribute to a firm’s revenue and are repetitive, in an attempt to concentrate on relationships that are important to the firms. Using entrepreneurial orientation (EO) as the dependent variable, the authors explore the relationship between the level of EO and different types of collaborative network, together with firm characteristics (age, size, etc.) and capabilities, specifically those related to networking and ICT. Hence, the purpose of the study was to investigate how different collaborative network structures of ICT-related small firms can be linked to ICT and networking capabilities and entrepreneurial orientation.

The analysis distinguishes four groups of firms. The first group (‘stuck without contacts’) comprises firms with few collaboration partners and low networking capacity, which is associated with low entrepreneurial orientation compared with other firms and low ICT capability. The second group (‘on the move’) consists of firms with few collaboration partners but high networking and ICT capabilities. Firms in this group also scored highly on entrepreneurial orientation. Firms in the third group (‘stuck with contacts’) have many collaborative partners but low networking capability, suggesting uncertain outcomes. Firms in this group are also low on ICT capability but exhibit a similar level of entrepreneurial orientation to firms in groups two and four. Firms in the fourth group (‘at full
potential”) have many collaboration partners and high networking capability. They also have high ICT capability, which they combine to achieve high entrepreneurial potential. Across the sample as a whole, a link is identified between entrepreneurial orientation and ICT capability and networking, suggesting that firms not only need collaboration structures but also the tools to handle them. With regard to entrepreneurial orientation, the results suggest there are different ways for small firms in the ICT sector to achieve it, although further research is required to investigate the relationship with firm performance.

ENTREPRENEURSHIP AND SOCIAL INCLUSION

The final set of papers deal with different aspects of the relationship between entrepreneurship and social inclusion. Chapter 13 by Carole Howorth, Caroline Parkinson and Alan Southern is concerned with the discourse of enterprise and whether or not it has the power to enable or disable deprived communities. The chapter is inspired by the number of economic development initiatives in the UK that connect enterprise with deprived areas, which includes, but is not confined to, the promotion of social enterprise. Following a critical overview of UK enterprise policy with respect to deprived areas and a literature review, the authors analyse the discourse around enterprise policy and compare the language used by three different groups involved in social enterprise activities: support workers, social entrepreneurs and community leaders. This is based on a series of interviews with representatives of each group, in which qualitative data were gathered.

From their analysis of the language used by these three groups, the authors conclude that application of the enterprise discourse to the social enterprise agenda can potentially lock out certain players and activities. This can result from the exclusionary effects of less business-minded people and/or activities that do not comply with the legal forms of social enterprise organizations. Although all three groups interviewed echo the imperative of existing social organizations becoming more businesslike, unlike support workers, social entrepreneurs and community leaders establish discursive boundaries between being ‘business like’ and serving important social needs. Bourdieu’s concept of ‘symbolic violence’ is used as an interpretive frame, which refers to the gradual subordination of people to ideas and structures promulgated by the dominant groups in the society. The study uses a novel approach to an important topic that has implications for wider debates about enterprise culture, as well as specific implications for policy on enterprise in deprived areas.
Chapter 14, by Trevor Jones, Monder Ram and Nicholas Theodorakopoulos, is concerned with Somali entrepreneurs in Leicester, which is predicted to be the first city in the UK where ethnic minority people will become the majority. The study adopts a mixed embeddedness perspective to critically analyse the characteristics and behaviours of one of the more recently arrived immigrant groups in the UK. The approach adopted emphasizes the social embeddedness of immigrant and ethnic minority entrepreneurship, and particularly the economic and institutional context. The empirical focus of the chapter is on the extent to which UK-based Somalis are drawing on transnational links to establish and develop their small enterprises. In so far as they are, this may be interpreted as an extension of social capital into the international sphere through transnational trading and investment linkages. The study is part of a critical examination of transnationalism, which the authors describe as the latest fashion in ethnic exceptionalism. A qualitative research design was adopted to examine the nature of transnational links and the actual experiences of Somali business owners in Leicester, based on in-depth interviews with them.

The results show that, in some respects, transnational co-ethnic links act as an important resource for ethnic minority and/or immigrant small business activity. Examples include accessing finance, labour and commercially useful information. At the same time, the political-economic context is said to impose harsh constraints on Somali business activity that the mobilization of social capital at any spatial scale is unable to circumvent. In such conditions, the authors conclude that transnational entrepreneurship is likely to be the preserve of a minority of minorities.

The final paper (Chapter 15), by Friederike Welter and David Smallbone, deals with the emergence of entrepreneurial potential in economies in transition, which like the previous two chapters emphasizes the importance of interpreting entrepreneurship in its social context. Specifically, the chapter is concerned with the process of creation and development of new ventures in three of the Newly Independent States (NIS): Ukraine, Belarus and Moldova, which are all relatively harsh environments for the development of productive entrepreneurship. The authors use case studies to demonstrate the potential for venture creation from simple petty trading activities (or informal arbitrage activity), in a context where more conventional approaches to venture creation face serious resource and other constraints. The empirical evidence suggests that some of the activities operating outside the legal framework are adding value to the process of economic and social transformation in these countries. Conceptually, the evidence is used to challenge simplistic divisions between entrepreneurs and proprietors, opportunity and necessity entrepreneurs and the formal
and informal economy. Instead, the cases are used to demonstrate the blurred nature of these boundaries empirically and thus the limitations of some of the related conceptualizations. Overall, the chapter demonstrates a need for entrepreneurship theory to be robust enough to be applicable in a variety of social contexts, of which the countries included here provide some of the harsh conditions for entrepreneurship to become established.

CONCLUSION

We very much hope that readers will find the selection of papers included in this collection stimulating and thought provoking. Entrepreneurship has grown rapidly as a field of study in Europe in recent years and this is demonstrated by the success of the RENT conference, which, in Cardiff, entered its twenty-first year. The dynamism of the field of study in Europe is also reflected in the emergence of entrepreneurship research groups in universities and research institutes across a growing number of countries. This is reflected in this volume, where contributions from Spain and Portugal feature prominently alongside the more traditional centres of research in the field in northern Europe. As editors of this volume, we are pleased to be able to report that, on the basis of the research presented at the RENT conference and specifically the contributions included in this book, European entrepreneurship research remains alive and well, both in terms of the heterogeneity of content and methods, and the vibrancy associated with emerging centres of research excellence.

REFERENCE
