

Introduction

**Jean Bonnet, Domingo García Pérez De Lema and
Howard Van Auken**

In recent years entrepreneurship has re-emerged as an important component underlying economic growth in Europe and North America. The restructuring of the US economy from an industrial-based economy to an entrepreneurial-based economy is well under way. Entrepreneurial firms (young and innovative firms) are an integral part of the transition process and have been the engine of economic growth for over a decade. The vast majority of all businesses in the USA are small, and a record number of new firms are started each year. Small firms make a significant contribution to private sector output, employment, net new jobs creation and innovations. Many of the new firms are the creators and leaders of new industries. Most job-creating firms are fast-growing and generating a disproportionate amount of innovations, patents and new technologies. Evidence indicates that the trend toward an entrepreneurial society is accelerating (Wong et al., 2005).

Small businesses are important to economy vibrancy, employment growth and wealth creation for almost all world economies (Craig et al, 2003). Europe is in this respect certainly more entrepreneurial than in the 1960s and 1970s. However European economies remain considerably less entrepreneurial than other world economies. In fact, the world economy has generally become more entrepreneurial than European economies (Audrestch, 2006; surveys of Global Entrepreneurship Monitor, GEM). According to Erkki Liikanen (2003) (Member of the European Commission, responsible for Enterprise and the Society Information), 'Europe suffers from an entrepreneurship deficit in comparison to the US'. Strong recent economic growth in the US economy is partly due to the entrepreneurial activity associated with the creation of knowledge-based companies. European economies may benefit from developing a similar economic strategy that is based on greater entrepreneurial intensity, especially in the innovation sectors. The lack of entrepreneurship capital leads to the European paradox; a high level of knowledge investment with poor results in terms of growth and reduction of unemployment (Audrestch,

2007b). Moreover the gap in productivity between Europe and the USA is deepening. In addition, some prospective studies predict that the European contribution to world production will decline due to the catching-up effect of the Asian emergent economies (IFRI, 2002). By stimulating the spirit of entrepreneurship, Europe might reinforce its economic position.

Many macroeconomic and institutional causes can explain differences in entrepreneurial intensity between countries and areas. These include economic growth, level of development, unemployment rate, development and operation of the financial system, intensity of administrative barriers, specificities of the labor market, self-employment taxation, legal consequences of firm failure, entrepreneurial spirit and collective perception of firm failure. As Audrestch (2007b, p.69) observes: 'Barriers to entrepreneurship can impede knowledge spillover entrepreneurship. Such barriers range from legal restrictions and impediments to the existence and availability of early stage finance, or to social and institutional tradition discouraging entrepreneurship and a stigma associated with failed attempts as entrepreneurship. The capacity of an economy to generate entrepreneurial behaviour is shaped by the extent of its underlying entrepreneurship capital'. This set of causes, which affects entrepreneurship capital, has to do with what Baumol refers to in a 1990 article as the rules of the game, that is, the structure of reward in the economy (Baumol, 1990). He notes that certain societies historically favored rather adverse structures of reward to the development of entrepreneurship. These structures divert national or local elites from the exercise of the entrepreneurial function and prove indirectly harmful to the diffusion of technical progress (ancient Rome with the valorization of the political office, medieval China with the mandarin system and so on). Over the recent period, these structures enable us to understand the 'unhooking' of certain European countries relative to the difference between an entrepreneurial society which embraces private initiative and a wage society which increases the opportunity cost associated with undertaking new ventures.

The decision to become an entrepreneur is mainly a decision of allocation of one's human capital balancing an entrepreneurship opportunity cost with a reward (financial, symbolic – social status –, indeed psychological) prospect. The microeconomic decision to get into entrepreneurship allows approaching entrepreneurship in terms of occupational choice. From a labor market perspective the decision to set up a new firm can be viewed as a self-employment choice, that is, an alternative to a salaried or unemployed position. In an entrepreneurial society wage earners are not guaranteed job security or economic stability because of employers' latitude to reduce labor costs through lay-offs. On the other hand, a flexible labor market can encourage individuals to undertake new ventures

because of the positive signal for future employers even if the company fails. Too rigid a labor market and the stigmatization of entrepreneurial failure discourages some qualified and experienced employees to value their human capital as entrepreneurs. In most European countries unemployed people are very much overrepresented in the population of new entrepreneurs. The share of unemployed new entrepreneurs is high because of the low propensity to launch a firm when employed or enrolled as a student. If we compare France, the UK and the USA we can notice that France has a low entrepreneurial activity, the UK a medium one and the USA a high entrepreneurial activity. This gap reflects the traditional opposition between a salaried society and an entrepreneurial society which encourages employment through entrepreneurship. If we consider the 2000–03 period, the average total entrepreneurial activity (TEA) varies from 4.35 per cent for France to 6.6 per cent for the UK and 12.7 per cent for the USA (GEM, 2004).

The first part of the book, comprising three contributions, is entitled: Contextualizing the link between factors and effects of new firm's formation.

Why would it be desirable to have more entrepreneurs? Taking into account structural changes, diversity of motives and new regulation in the labor market, a proportion of entrepreneurs (mainly self-employed) may not be considered as innovators in the Schumpeterian sense.

Yet, according to Ingrid Verheul and André Van Stel (Chapter 1), three positive effects can be found in the economic literature. The selection effect that accounts for the survival of the fittest; the breadth effect that stresses the diversity of the products ensuring opportunities for incremental innovations and new offers of products (spillovers) and the complementary effect that allows a direct positive welfare effect through a better match between the supply of goods with an increasing demand for variety. One may wonder whether all entrepreneurs fare the same in this respect. Differentiating among firms according to the criteria of age, education and gender and taking into account the level of development of the country, interesting patterns emerge. In developing countries older and more highly educated entrepreneurs are particularly important for stimulating economic growth, while younger entrepreneurs are more important in developed countries.

In the same vein, according to Jean Bonnet and Pascal Cussy (Chapter 2), the insufficient involvement of younger educated people and especially French elites – for instance, graduate students from 'Grandes Ecoles' – in entrepreneurship is critical for economic growth in the case of France. This insufficient involvement may be explained by the existence of sunk costs¹ for this type of population and contributes greatly to the inadequacy of

entrepreneurial capital described by Audretsch. The best talents apply for comfortable positions as executives as civil servants or working in public firms with attractive wage trajectories. 'Better paid (members of the five main state bodies) and more highly regarded than other civil servants, the members keep this advantage until the end of their career' (Lebègue and Walter, 2008). And, as innovative projects require a long time to finalize, they also imply the risk of a greater depreciation of the human capital when the project fails. In that case there exists a greater sunk cost for graduate individuals who have experimented with entrepreneurship failure that reduces the propensity to launch a project for this type of population.

Dieter Bögenhold and Uwe Fachinger (Chapter 3) question the solo self-employment in Germany. Does it serve as a valve of a pressing labor market or must it be regarded more positively as a new option in the classic division of labor by which an increasing number of people find new self-reliance and job stability? They identify structural changes but also changes in labor market regulation and changes in welfare state regulations that 'make it easier for firms to outsource jobs and to do business with the same people as freelancers'. Nevertheless the category of self-employment also reflects structural changes within an economy and society and the emergence of new innovative professions which can operate also through freelance activities or micro-firms. Self-employment is heterogeneous and mono-causal explanations do not match, especially at the regional level since regional differences can be regarded as different levels of historically grounded specific socio-economic differences. Regional differences must be taken as elements and variables of a holistic entrepreneurship research.

Once the importance of innovative entrepreneurship is acknowledged, one may think about the factors that enhance or rather constrain entrepreneurial firms to emerge or to develop. The science-technology-firm system, formed by the association of universities, research centers, scientific parks, incubators, public administration, business organizations and firms, develops, supports and improves research, technological development and innovation. In this context, Markman et al. (2005) highlight the role of University Technology Transfer Offices (UTTOs) in the success of business incubators and technology parks in university settings. This link is justified by the fact that research-orientated institutions are identified as the modern seedbeds for technological innovation. However, the scarcity of collaboration among the agents included in the science-technology-firm system often constrains potential profitability. Analysing this system to establish a better match between supply and demand of resources and knowledge could increase collaboration, synergies and incentives that

improve the regional research and development effort. Therefore, universities should be considered as critical agents in economic growth and development (Chrisman et al., 1995). Some authors put forward access to financial capital as a prerequisite for any entrepreneurial and especially any innovative commitment. A set of theoretical articles show that new entrepreneurs are financially constrained (Jaffee and Russell, 1976; Stiglitz and Weiss, 1981). However, there is no empirical consensus on the existence of credit rationing. For instance, Evans and Jovanovic (1989), Evans and Leighton (1989), Holtz-Eakin et al. (1994) show a significant positive relationship between individuals' wealth and their probability to become self-employed. They conclude that start-ups suffer from capital gap. Nevertheless financial capital could be correlated with unobservable factors such as managerial skills, or more generally human capital of the entrepreneur. Hence the introduction in some work (Blanchflower and Oswald, 1998; Lindh and Ohlsson, 1996) of exogenous events such as inheritances, gifts or incomes from the lottery confirms the positive influence of wealth on the entrepreneurial commitment. Financial constraints would exist and would tend to exclude those who have insufficient funds. According to Parker (2004) this leads to the endogeneity problem: 'Whereby the self-employed are wealthy because of previous success in self-employment'. Parker sheds light on several alternative explanations also consistent with the previous results on financial constraints. Cressy (1996), for his part, finds, using British data, 'that human capital is the true determinant of survival of new firms and that the correlation between financial capital and survival is spurious'. 'Provision of finance is demand – driven, with banks supplying funds elastically and business request governing take-up. Firms self-select for funds on the basis of the human capital endowments of the proprietors with "better" business more likely to borrow. A reason why others have seemingly identified start-up debt-gaps may be the failure to test a sufficiently rich empirical model' (Cressy, 1996, p. 1253). In a recent report the OECD (2006) supports the idea that 'in a number of high income OECD countries, there is little evidence of an overall scarcity of financing for SMEs' (p. 11). Although there is no empirical consensus on the existence of credit rationing, it is acknowledged that one of the main weaknesses for the development of European incubators is the lack and underdevelopment of seed financing and business angel networks (Aernoudt, 2004). This situation is in contrast with the USA where a financial system supporting business formation and growth has been created (Acs and Szerb, 2007).

The second part of the book is entitled: Understanding the importance of access to finance and to available support systems. Four contributions deal with access to resources for new entrepreneurs, highlighting access

to finance. Access to an adequate supply of resources is indeed crucial for firms to be able to operate and survive.

In the first contribution Ginés Hernández-Cánovas, Antonia Madrid-Guijarro and Howard Van Auken (Chapter 4) investigate the role of qualitative factors (for example, personality/experience of the entrepreneur, characteristics of the firm's product/services and firm's strategy/organization) for commercial banks when assessing applications for funding by technology-based firms in Spain. Capital acquisition among technology-based firms is difficult because of a number of factors, including, for example, the high perceived risk associated with lack of collaterals, limited stream of revenues and lack of understanding of technology commercialization among traditional providers of capital. Lenders assess funding requests using both qualitative and quantitative information. The study by Hernández-Cánovas, Madrid-Guijarro and Van Auken shows that qualitative factors are as important as quantitative information to assess the creditworthiness of technology-based firms. The study finds that qualitative factors related to the personality and experience of the entrepreneur, characteristics of the product and services offered by the firm, and the strategy and organization of the firm are taken into account in addition to the traditional quantitative factors. The value of soft information together with a high rotation of loan officers can help explain why financial institutions incentivize the use of more complete credit files where this information can be stored.

Sylvie Cieply and Marcus Dejardin (Chapter 5) study financial constraints that new French firms experienced during the mid-1990s when the role of banks was predominant. Financial constraints affecting new firms are some of the factors most cited for impeding entrepreneurial dynamics from flourishing. In fact, financing is one of the primary reasons for distress and failure among new firms. Obstacles to capital acquisition among new firms are due to a number of reasons that include, for example, a high risk of default and inadequate collaterals (especially for firms introducing innovation). The inability to provide well-established track records to bankers leads to information asymmetry which, in turn, commonly acts as a constraint to capital acquisition through credit rationing. Three types of credit rationing are distinguished: the well-known strong and weak credit rationing cases and a self-constraint case induced by the discouragement of entrepreneurs on the credit market. Cieply and Dejardin find that many new firms (more than half of their sample) are not, in fact, credit constrained. Also strong rationing and self-constraint rationing are higher for innovative firms, which supports the idea that the proportion of discouraged borrowers is higher in innovative sectors than in non-innovative sectors. Other means of financing, like venture capital, business angels

and trade credit, played a minor role in the financing of new French firms during the mid-1990s.

Antonio Aragón Sánchez, Alicia Rubio Bañón and Paula Sastre Vivaracho (Chapter 6) explore the context of entrepreneurship in Spain, focusing on regional environment factors assessed by a pool of experts disseminated in all the 17 Spanish regions (plus Ceuta and Melilla). The data were collected as part of the Global Entrepreneurship Monitor initiative. A central focus of their study is to better understand differences in entrepreneurial orientation among regions. This type of study is important as governments try to develop policies supporting entrepreneurial firms that can effectively compete in world markets. Greater access to capital from private investors and an active venture capital market were two of the differences between regions with relatively high and low entrepreneurial activity. Other factors explaining differences in entrepreneurial activity included availability of scientific parks/incubators, support for science and technology, economic support for engineers and access to physical infrastructure. Financial support for infrastructure is a prerequisite underlying all of these additional factors.

The importance of private equity is examined by Rafik Abdesselam, Sylvie Cieply and Anne-Laure Le Nadant (Chapter 7). Their chapter uses differences in financial and legal systems to explain the differences in the role of private equity in the financing of transfers of shares in five European countries (France, Germany, Italy, Spain and the UK) that have different corporate governance systems. Similarities and dissimilarities in the financing of transfers of shares are compared between the countries. Their study finds differences between the UK, which is a pure market-based economy, and the other countries, which are rather bank-centered economies. Private equity firms are very important in the financing of transfers of shares in bank-centered economies, and in the financing of transfers of shares in civil law countries. Their results suggest the need for financial intermediaries providing equity financing in the economies with a lower investor protection, lower quality of accounting standards and a lower quality of law enforcement. Differences between France and the UK in terms of deals' financing suggest that convergence towards the Anglo-US corporate governance system is not completed yet.

Education and culture play an important role in entrepreneurship. Examining diversified populations and their attitude towards entrepreneurship is a way to extend research at the micro-level while also considering macro-level implications. For example, Hofstede (2001) notices that uncertainty-avoidance is not equally distributed among cultures. The different populations may be, for example, ethnic populations, which raises the question of whether ethnic entrepreneurship exists and, if so,

is a response to labor market discrimination or driven by specialization or market niches and network supports. The object of analysis may also be countries where entrepreneurship was not permitted for a long time (Eastern countries). How does the entrepreneurial commitment take place in this context and what kind of support does it need? Education and experience may also have an impact on the commitment of the individual and the strategies pursued that facilitate firm success. Part of literature in management has identified what has been named the entrepreneurial orientation (EO) of entrepreneurs: 'An entrepreneurial firm is ones that engages in product market innovation, undertakes somewhat risky ventures and is first to come up with proactive innovations, beating competitors to the punch' (Miller, 1983). Lumpkin and Dess (1996) have identified five variables to specify the definition of the concept of entrepreneurial orientation (proactiveness, competitive aggressiveness, willingness to take risk, autonomy and innovativeness). Proactiveness is characterized by the anticipation of opportunities, the detection of future trends in the market and a high responsiveness to market signals that allows the firm to benefit from first mover advantages. The firm acts in advance to less responsive rivals, thus enabling it to be in a good position to seize market shares and to show superior performance over rivals. A proactive firm tends to shape its environment in its favor (Frese et al., 1996). It acts in anticipating future problems, needs or changes. Competitive aggressiveness is measured by the intensity of a firm to outperform its industry rivals: deliberate action/reactive action. To be aggressive requires adopting tactics towards competitors in order to weaken them or to benefit from their weaknesses. It also has to do with a reactive behavior, that is, the capacity to respond to threats, to trends and demands that already exist in the marketplace (Lumpkin and Dess, 1997). In the case of new firms the aggressiveness posture is a means to establish a position, a kind of legitimacy.

The third part of the book is entitled: Accounting for the interplay between the individual and the organizational levels and the firm's behavior and performance.

In the first chapter Domingo García Pérez De Lema and Antonio Duréndez (Chapter 8) focus the research on young SMEs, identifying organizational culture and assessing the relationship between organizational culture, particularly regarding innovative culture, management control systems (MCS) use, and their effects on performance. The development and evolution of young firms is a central issue in entrepreneurship research. The outcome in terms of firms' performance, particularly growth, has received considerable empirical and theoretical consideration, but the simultaneous pattern of growth and profit performance evolution of young firms has received relatively little empirical attention. Using

a sample of 89 young Spanish SMEs, they find that innovative culture and use of management control systems have a positive effect on firms' performance. The empirical evidence confirms that an innovative culture (a mixture of clan and adhocracy) affects positively young firms' global performance, while a hierarchical culture negatively influences the internal process model of performance. Additionally, their findings show that management control systems allow the young firms to achieve higher organizational performance. Thus they verify that management control systems are an essential factor for young firms, since they provide essential information for decision-making processes. Young entrepreneurs should be made aware of benefits resulting from the implementation of an innovative culture and the use of management control systems. They should understand that an innovative attitude implies the adoption of new ideas and values that are not threats but strengths, in order to gain competitiveness and ensure the future of the firm. The best strategy might be to focus on exploratory learning and innovation.

Jean Bonnet and Nicolas Le Pape (Chapter 9) show that post-entry strategies of new entrepreneurs have some implications on the duration of the new firm. The survival of the new firm depends not only on the entrepreneur's characteristics, the founding and environmental conditions of entrepreneurship, but also on the development policy that the new entrepreneur adopts and has the capacity to implement (Covin and Covin, 1990). Besides financial variables often cited in the economic literature, the real behavior of the firm and of its owner play an important role in the explanation of the survival of the firm. Entrepreneurial behavior that includes all activities or attitudes aimed at overcoming rivals increases the life span of the firm. A proactive posture then constitutes an efficient strategy for the survival and the development of the new firm. Proactiveness could result from a specific entrepreneurial spirit, from a lower aversion to risk or from entrepreneurial abilities that some individuals are endowed with. The intriguing connections between this 'entrepreneurial human capital' and the implementation of successful aggressive policies must be explored in further detail.

Csaba Deák and Stephania Testa (Chapter 10) use the concept of intellectual capital, the ability to utilize knowledge resources, in two dimensions, regional and organizational. Intellectual capital is a key element for the development of dynamic core competencies in firms. In SMEs the regional cognitive and intangible resources are especially important due to the scarcity of resources experienced by this kind of firm. In this chapter the authors deal with the factors that determine the participation of SMEs in regional and organizational intellectual capital exchange. Deák and Testa classify firms in different groups: (1) companies that play an essential

role in knowledge generation and diffusion (give and take subgroup); (2) companies that operate in egoistic terms (take subgroup); and (3) companies that remain isolated (no give-no take subgroup). As previous literature is devoted to knowledge-intensive sectors, this research is focused on non-knowledge-intensive sectors (food industries in Northwest Italy and North Hungary) in order to fill the gap. This research confirms that different firms' behaviors in relation to the intellectual capital exchange exist among SMEs, and that heterogeneity depends on individual-level entrepreneurial characteristics, and not only on a firm's knowledge base or position within networks.

Franck Bailly and Karine Chapelle (Chapter 11) explore the non-profit entrepreneurship in the French region of High-Normandy. Non-profit organizations are important in the economy due to their contribution to the GDP growth and employment. The type of entrepreneurship embodied in non-profit organizations is different from the one identified in for-profit organizations. The specificity is based on a high social motivation, as entrepreneurs or CEOs of non-profit organizations are more sensitive to social and ideological considerations. However, this specificity is at least somehow controversial, and several authors are cautious about it. In this sense, the decline of public funds may lead to non-profit organizations seeking commercial private funding; this fact could change the initial social goal of the company. The authors investigate the presence or absence of social motivations in non-profit organizations, and if this kind of firms has easier access to finance (public and private funds) than their for-profit counterparts. Better access to funds at non-profit organizations could be justified by the non-profit-distribution constraint and the social motivations. Bailly and Chapelle conduct an original survey on established organizations, and find that social motivations of non-profit organizations exist and are reflected in the target groups of firms' actions. However, the results about access to finance are not so clear. Although financial entities and public institutions favor the non-profit status, through larger loans and government subsidies, this treatment could be justified by the larger number of founders in non-profit organizations, and by the provision of stronger guarantees.

NOTE

1. In industrial organization, sunk costs refers to irreversible investments when the firm decides to enter an activity. Here the sunk costs refer to the depreciation of part of the human capital of the 'Grandes Ecoles' students when they decide to become entrepreneurs due to the loss of the Grand Ecoles networks.

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