1. Introduction

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DEFINING KEY CONCEPTS

With its focus on entrepreneurship and innovation, this volume is concerned with the two main drivers of economic development, whether this be considered at a national or a regional level. At the same time, both entrepreneurship and innovation are open to different interpretations based on differences in definition. In each case we propose a broad definition which is generally inclusive whilst recognising circumstances where a narrower definition may be justified.

Entrepreneurship has been defined as:

the manifest ability and willingness of individuals, on their own, in teams, within and outside existing organizations to perceive and create new economic opportunities (new products, new production methods, new organizational schemes and new product-market combinations), and to introduce their ideas in the market, in the face of uncertainty and other obstacles, by making decisions on location, form and the use of resources and institutions. (Wennekers and Thurik, 1999)

Clearly, this is a relatively narrow definition that refers to what would commonly be described as radical innovation, whereas a narrower definition describes what is sometimes called ‘incremental innovation’.

In contrast, some writers define entrepreneurs more broadly as anyone who starts or runs their own business, whether or not the business is growth-oriented. One could argue the rights and wrongs of these alternative definitions, although it is our contention that both broad and narrow definitions may be appropriate depending on the purpose of the study. At the same time, it is important to be clear about the nature of entrepreneurship that is being discussed.

In many ways innovation is a more elusive concept than entrepreneurship. Essentially there are two main definitional issues; the first of which is what should be counted as innovation. Should it include changes which are

new to a firm regardless of what other firms in the same market segment are doing? The second definitional issue is the breadth of the definition, for example: products, process, organisational, marketing. In empirical works such as that conducted for the European Innovation Survey, a distinction is sometimes made between products, processes and practices that are simply new to a firm, new to an industry, or new at a global level. The first of these represent incremental innovation and the latter, a more radical form.

The key question really is to what extent should changes that are made at the firm level be included even if the change has been made by many other firms in the sector. The firm is innovating in the sense that it is introducing new ideas, and new processes perhaps, but the innovation is not new in the broader sense. The answer to this question really depends on what the purpose of the application is, because at the individual firm level innovation is important to the competitiveness of a business.

Porter's (1990) definition of innovation as an attempt to create competitive advantage through new and better ways of competing in an industry and bringing them to market is essentially a broad definition, which in practice can mean that much innovation can appear rather mundane and incremental rather than radical from an industry perspective. But if this is the way that firms within a particular sector compete with each other then a broadly based definition that is inclusive would seem to be appropriate.

Many European countries have a regional structure which allows for variation in policy between regions based on need. In Germany, for example, regions are an integral part of the federal system. In such circumstances the combination of policy at the regional and national level is embedded in the system of governance. But alongside this there are other countries which are much more centralised; the United Kingdom (UK) and Romania for example. As a consequence, in Romania the European Union (EU) has found it necessary to create artificial regions, mainly for the purpose of the distribution of EU funds. In the UK, after a period when regional development agencies (RDAs) were actively involved in the promotion of economic development, these agencies have since been scrapped.

The main argument in favour of policies at the regional level is that the priorities for economic development vary considerably between regions. In the context of policies to promote entrepreneurship, the problems faced in the North East of England and Scotland are quite different from those faced in London and the South East. In the former case the rate of business creation needs to be stimulated, whereas in the London and South East region the focus tends to be more on the qualitative characteristics of fledgling businesses because high business densities result in high levels

Source: Figure adapted from original presented at a seminar of the Small Business Service (c. 2005).

Figure 1.1 Entrepreneurship and economic development

of competition. In addition, it may be argued that it is at a regional level that small business owners typically come into contact with government agencies and government policies, whether these have a positive or negative influence.

THE ROLE OF ENTREPRENEURSHIP AND INNOVATION IN ECONOMIC DEVELOPMENT

The important contribution of entrepreneurship to economic development is summarised in Figure 1.1, where an enterprising small and medium-sized enterprise (SME) sector would seem to be an important source of economic growth.

Figure 1.1 shows that the mechanisms for the transmission of these effects occur through three main channels: (1) competition, although in practice this may be mainly competition from other firms of a similar size rather than from large firms; (2) productive 'churn', where the productivity levels of new businesses are higher than those of firms leaving the market; and (3) innovation, where firms are able to gain competitive advantage over their competitors by developing products that are fundamentally innovative. All three of these processes can contribute to the productivity of individual firms and also of regions. At the same time, the figure probably underestimates the role of innovation in regional competitiveness. This is because of the development of external economies of scale and the emergence of regional innovation systems from regions where the innovative activity is considerable.

An innovation system consists of a production structure and an institutional infrastructure with scope for interaction between the two. The concept of an innovation system is linked to an interactive view of the innovation process. It is also a market-oriented system, with research and development taking place mainly at the individual firm level. This contrasts with the innovation systems operating in Central and East European countries during Soviet times when the main provider of research and development was the state.

Innovation systems are a key element influencing the innovative performance of SMEs in particular, whose size-related characteristics often mean that business owners and managers need to look outside the business from time to time to draw in resources to enable them to innovate. In mature market economies such as the UK, more generally, these innovation systems have evolved over a considerable number of years. The problem for new member states in the European Union and other post-socialist countries is that the innovation systems that existed prior to 1990 were focused mainly on the military effort of the country, and finance was almost entirely from state resources. However, the economic, social and institutional transformation of these countries includes changes to the innovation systems.

INTRODUCING THE CHAPTERS

Following this Introduction there are eight main chapters, which are grouped into the following parts:

- Part I: Innovation (two chapters).
- Part II: Entrepreneurship and SME Policy (three chapters).
- Part III: Entrepreneurial Activity and Regional Development (three chapters).

These chapters are followed by a final chapter, which summarises the main conclusions and draws out some of the implications for policy.

In Chapter 2, Kalantaridis and colleagues are concerned with the role of institutions in influencing the level of innovation in SMEs in Ukraine. Specifically, Kalantaridis et al. point to the role of institutions in influencing the level of innovation in private businesses. It is argued that in post-socialist countries in particular the slow pace of institutional change is a dominant factor. The key research question which the authors of this chapter address is to explore the strategies employed by enterprises operating in post-socialist institutional settings in order to access new knowledge

in the process of introducing innovation. More specifically they aim to explain how, and from where, knowledge has been generated.

The second chapter in Part I, Chapter 3, focuses on Eastern Poland and is presented by Rogut and Piasecki. Eastern Poland is a region characterised by rurality and underdevelopment in comparison with the rest of Poland. As a consequence, the region experiences an above-average degree of social exclusion. The authors also explore the notion of intelligent specialisation as a concept rooted in technological progress. Intelligent specialisation represents a mechanism which helps regions and countries to find their place in the global division of labour with respect to innovation. As the Organisation for Economic Co-operation and Development (OECD) and others have noted, rural regions face special challenges from an economic development point of view.

Part II is concerned with entrepreneurship and SME policy and contains three chapters. The first chapter in this section, Chapter 4, deals with entrepreneurship and industrial policy in Ireland and is co-authored by O’Gorman and Curran. Ireland is another country which has experienced rapid industrialisation in recent times. At the same time, industrial policy, which tended to focus initially on the attraction of foreign direct investment, was criticised back in the 1980s for its neglect of domestic enterprises. Encouraging entrepreneurship has been a central tenet in the platform of industrial policy in Ireland as part of a growing emphasis on the encouragement of and support for indigenous economic activity. In this context the authors provide a review of key literature related to entrepreneurship and industrial policy in Ireland, with a particular emphasis on policies affecting entrepreneurship and SME development.

The second chapter in this part, Chapter 5 authored by Roper and Richter, deals with a topic which has been much debated in recent years; namely the advantages and disadvantages of policy transfer. The chapter focuses on the case of the Western Balkans where the desire to join the European Union has resulted in countries following the guidelines contained within the EU’s SME Charter. Critics point to the lack of attention paid by the EU to the specific needs of individual countries. The chapter reports on a project which involves the generation of an SME Policy Index for the Western Balkans region. It is this index which provides the main focus for the Roper and Richter chapter. The chapter reports on the implementation of the SME Charter process across seven very diverse Western Balkan countries. Clearly the topic is of wider interest because policy transfer is a dominant theme in much of the economic development consultancy in less-developed countries these days.

Written by Mets, the third and final chapter, Chapter 6, focuses on Estonia and its suitability as a location for born global companies; in other

words, on innovative, globalising, hi-tech SMEs. The issue is particularly important because previous research has pointed to the significant contribution of born globals to job creation in Europe. Research commissioned by Eurofound (2012) estimated that about 20 per cent of young enterprises in Europe are born global. Not surprisingly, new member states of the EU are keen to get their share. Mets uses the concept of the entrepreneurial ecosystem which has implications for regional development. The chapter analyses three case study companies in some detail. Overall the chapter raises some important questions by linking the effects of increasing internationalisation on regional development.

Part III, the final part of the book, contains three chapters concerning entrepreneurial activity and regional development. The first of these, Chapter 7 by Chepurenko and colleagues, focuses on entrepreneurship in the Russian population. This chapter is concerned with the factors affecting different levels of early-stage entrepreneurial activity in different regions of Russia, based on survey evidence gathered in 2011. Regional variations in entrepreneurship are found in most countries because of a combination of demand- and supply-side influences. But in post-socialist economies there are additional factors related to the pace of economic reform. Russia as a country emphasised the importance of a spatial dimension to entrepreneurship policy.

The second chapter of this part, Chapter 8 co-authored by Venesaar and Küttim, deals with core-periphery contrasts in the development of entrepreneurial activity, which are illustrated with reference to Estonia. As mentioned above, these regional variations in entrepreneurial activity are a typical feature of economies at different levels of economic development. More specifically they reflect: (1) regional differences in business opportunities; (2) regional and demographic components; and (3) the institutional component, which emphasises attitudes towards self-employment and business ownership as well as more formal institutional factors such as regulation.

The third and final chapter in this part focuses on the capitalisation of new firms and explores the influence of entrepreneurial characteristics on businesses before and after start-up. Chapter 9 by Robson and colleagues is concerned with the effects of the initial capitalisation of new businesses and their survival and growth prospects. The relationship between the survival of new ventures and their initial capitalisation is often rationalised in terms of the effects of capitalisation on the time the entrepreneur has to learn how to run the business and to meet unexpected challenges. In contrast, undercapitalised firms lack this buffer and may be more quickly forced to close because of liquidity problems. The authors infer from this that there are regions where financial capital is relatively abundant and

entrepreneurs are better able to use this opportunity to learn as well as to innovate.

NOTE

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