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Small business, innovation, and entrepreneurship

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Abstract The purpose of this special issue is to examine small businesses, innovation, and entrepreneurship, and show that, although these three concepts have their own specific literature and can be dealt with independently, they are closely related. From Schumpeter to the present, a stream of literature unites the concept of entrepreneurship with its ability to make new combinations of factors and corresponding innovations in processes and products; similarly, in a broad stream of literature, the most characteristic dimension of entrepreneurship is closely linked to small businesses. Small and large companies have different advantages and drawbacks with innovation, but small businesses provide the most conducive environment for entrepreneurship and innovation that are not necessarily sustained by the know-how and resources characteristic of large-scale production, but require commitment and close cooperation between company members. In this introduction, we show how the three topics converge in four articles dealing with micro-start-ups and innovation, institutional determinants of entrepreneurship, and determining factors in entrepreneurs' individual characteristics.

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1 Introduction

The three main topics that guide this special issue, small business, innovation, and entrepreneurship, have relevant academic, social, and economic dimensions and their own literature in the fields of sociology, psychology, economics, and management. In addition to the specific literature on these topics in each field, many works also refer jointly to entrepreneurship and innovation, entrepreneurship and small businesses, or, like this special issue, they refer to entrepreneurship, innovation, and small businesses. It is also often the case that, when one particular research stream or study refers explicitly to only one of these topics, one of the other two, or both, underlie or are implicit in the object of study.

Relationships between entrepreneurship, innovation, and enterprises are present right from the start of the entrepreneurial literature in Schumpeter's (1934, 1950) work. According to Schumpeter (1934: 66–68), as entrepreneurs make new combinations of factors "and the new combinations appear discontinuously", innovation and economic development can be carried out by "the same people who control the productive or commercial process (in the enterprise)" or by "the new (innovator people)" that generally, in a new venture or start-up small enterprise, achieve new combinations or innovations.[1] Shane (2012: 17–18) implicitly includes innovation as an essential characteristic of entrepreneurship and claims that "[e]ntrepreneurship involves more than the (...) process of discovering opportunities for profit. It also involves coming up with a business idea about how to recombine resources to exploit those opportunities."

Furthermore, the research area of economic entrepreneurship (Shane and Venkataraman 2000: 218) has been established as "the study of sources of opportunities; the processes of discovery, evaluation, and exploitation of opportunities; and the set of individuals who discover, evaluate, and exploit them" (Shane and Venkataraman 2000: 218). These authors refer to entrepreneurial opportunities as "those situations in which new goods, services, raw materials, and organizing methods can be introduced and sold at greater than their cost of production" (Ibid.: 220); and situations that are formed by "objective forces in influencing the existence, identification, and exploitation of opportunities" (Shane 2012: 16). These objective forces correspond to the economic environment and institutional environment referred to below.

The second part of the definition, "the processes of discovery, evaluation, and exploitation of opportunities", involves the individual aspects (personality traits and psychological characteristics) of entrepreneurs that can explain their ability to discover opportunities and exploit them successfully (Baum and Bird 2010; Baron 2004; Nga and Shamuganathan 2010). Aspects corresponding to the corporate entrepreneur, like the exploitation of opportunity, must be organized by the corresponding combination of factors (Hayton 2005, 2006; Zotto and Gustafsson 2008) with reference to the enterprise. This second dimension of corporate entrepreneurship may also invert the relationship opportunity recognition–exploitation of the opportunity. Opportunity, in some relevant cases, can be created through the process by which new combinations of factors are created. Thus, the article on volition and career choices in this special issue helps us to understand how some people become entrepreneurs.

Finally, the third part of the definition emphasises the importance of the individual as the engine of entrepreneurial action: "the core idea that entrepreneurship is a process that depends on both opportunities and individuals" (Shane 2012: 18). This aspect, which is implicit in the first part of the definition, clearly distinguishes the field of entrepreneurship from that of strategic management, although the contributions of classical authors on strategic management like Andrews (1971) are useful for both fields.

There is, however, an institutional dimension to the issue of the opportunities that entrepreneurs must discover and make use of, which must be included. It is not only the economic environment that conditions the opportunities as Shane (2012) emphasizes. In addition to the economic environment, the existence of informal and formal institutional conditions (culture and legal framework) (North 1990, 2005) constitute a background which largely explains different economic agents' interpretation of the future, their objectives, and conduct.

In this, necessarily complementary, approach to entrepreneurship, one of its pillars is perfectly explicit and regulatory, that is, the law and the rules of the game (North 1990; Scott 2007). The second pillar refers to values and the rules consistent with those values, which are rooted in social, organizational, or individual needs and customs (Bruton et al. 2010; March and Olsen 1989; Scott 2007). And the third pillar, moving away from explicit knowledge (the cognitive pillar), corresponds to deeper beliefs and values which guide the conduct of any agent or entrepreneur without them being completely aware of their influence (Bandura 1986; Bruton et al. 2010; Carroll 1964; Scott 2007). Thus, the institutional dimension of entrepreneurship, addressed by two articles in this special issue, enables understanding of the conditions from which opportunity is discovered or created.

As regards the relationship between the approaches to entrepreneurship and innovation, although certain research proposals may need to separate these concepts into different fields, that separation limits the usefulness of both approaches for multiple aspects of management and the economy (Baum et al. 2001; Lassen et al. 2006). The link between entrepreneurship and innovation dominates the literature; to quote Shane (2012: 15), the concept of entrepreneurship incorporates "the Schumpeterian (...) notion that entrepreneurs also exploit those potentially profitable

[1] Paréntesis nuestros.

opportunities by creatively recombining resources", that is, by innovating; although innovation can be incremental or radical (Lassen et al. 2006; Robson et al. 2009), and is carried out in a complex context that includes "innovation, venturing and strategic renewal" (Zotto and Gustafsson 2008: 97).

As regards the entrepreneur who organizes the combination of factors and the process of productive transformation (corporate entrepreneurship), Covin and Slevin (1986, 1991) point out that the characteristics of this form of entrepreneurship are innovativeness, proactiveness, and risk-taking, which, in a broad sense, involve orientation towards the development of new products and services, technologies, administrative techniques, new forms of organizational design, and incentives and new strategies (Chell 2008; Covin and Slevin 1986, 1991; Lumpkin and Dess 1996; Miller 1983; Schafer 1990; Zotto and Gustafsson 2008).

Thus, not only does innovation appear as an inherent characteristic of entrepreneurship but innovation and entrepreneurship must go hand in hand, so that the multiple dimensions of the company's relationship with its environment (institutional development, resource allocation, and commercialization) enable innovation to develop (Woolley and Rottner 2008). The very concept of entrepreneurship, and the need for the entrepreneur to protect innovation in the company's general framework, make entrepreneurship and innovation necessarily converge in the world of economics and management. This need, in economic and social terms, is reflected in many business school programs (Mustar 2009; Smith and Woodworth 2012) and in some economic policies and models (Landau and Jorgenson 1986; Woolley and Rottner 2008).

Finally, as regards the relationships between small businesses and entrepreneurship and innovation, new combinations of factors (already an innovation in itself) often occur with the start-ups of new businesses thereby creating a strong association between small businesses (or small enterprises) and entrepreneurship, constituting one of the broadest fields of entrepreneurial activity (Blackburn and Kovalainen 2009). Of course, that does not prevent entrepreneurial orientation from extending to activities that exceed the field of small businesses (Shane 2012).

The union of entrepreneurship, new combinations of factors (innovation) and small businesses, is therefore important, but cannot always be interpreted as a superiority of the small enterprise for innovation. Schumpeter (1934) and Rogers (2004) consider that the small business has greater restrictions than a large company for innovation because it has more limited access to resources. Similarly, Chandler and Hikino (1997: 25) emphasize that large industrial enterprises "[have] not been simply scale-intensive (...). By committing to the intensive long-term investment in human and organizational resources as well as physical assets, these large enterprises can exploit the complementarity between large-scale investment in physical capital and the sustained capital formation in such intangible assets as human resources and technological knowledge," which enables these companies to "exploit the dramatic technological innovation (...) [of] what might be considered a Third Industrial Revolution." Finally, Lassen et al. (2006: 364), refer to *small entrepreneurs* who in large R & D departments seek and foster innovation.

However, the conditions in small enterprises for innovations that do not require size but need close cooperation and involvement from their members may be unique and not reproducible in large companies. Williamson (1985) emphasises this issue pointing out that it may be more suitable for a large enterprise to assume the transaction costs in its relationship with a small innovative company than proceed to take it over, as the atmosphere, cultural conditions, and shape of the organization would change with the takeover, probably destroying the effective capacity to innovate. And similarly, the innovation teams proposed by Nonaka and Takeuchi (1995) for large innovative enterprises are not always greater than the innovation dynamics that can be generated in a small firm whose members share the necessary knowledge and probably greater motivation and commitment.

Thus, small businesses entrepreneurship and innovation, considered together, have a significant position in the world of business, and consequently the management literature has tried to analyze their complex relationships, and many issues remain to be solved. For example, the article comparing innovative and non-innovative micro-start-ups demonstrates that innovation does not necessarily ensure a greater likelihood of survival.

Below ,we list and briefly comment on the articles presented in this special issue.

2 The articles

The articles for this issue of the *Small Business Economics Journal* were selected from papers delivered at a conference on *Innovation, Financing and Entrepreneurship* held at HEG (Geneva, Switzerland), in collaboration with IPAG Paris, in February 2012. The conference focused on the three tightly coupled concepts of innovation, finance, and entrepreneurship, and is the context in which this special issue on small businesses, innovation, and entrepreneurship has been produced.

In the first article "Born to be alive? The survival of innovative and non-innovative French micro-start-ups", entrepreneurial action is related to certain individual and social characteristics of the entrepreneur (age, sex, specific human capital, belonging to a minority group, professional experience, financial resources), with a positive effect of support networks on the start-up phase. The study reports that non-innovative companies are more successful or survive longer than innovative ones. Although this finding may appear counterfactual, it is explained by the significant presence in the sample of younger individuals, women, and people from minority groups, who all face a significantly higher default risk than other entrepreneurs.

The sample for the empirical study comprises 12,771 start-ups with fewer than 10 employees. Within the more general streams of entrepreneurship literature, this article forms part of the tradition that unites entrepreneurial action with opportunity discovery (Shane and Venkataraman 2000; Shane 2012) and opportunity creation (Hayton 2005, 2006; Helfat 2000; Zotto and Gustafsson 2008).

The second article, "National culture, entrepreneurship and economic development: different patterns across the European Union", considers that culture has a significant influence on entrepreneurship and economic development. Thus, countries with similar income levels exhibit persistent differences in their degrees of entrepreneurial activity (Pinillos and Reyes 2011; Van Stel et al. 2005). From this perspective, the article examines the specific role of national culture as a variable that helps explain levels of economic development and modifies the effect of entrepreneurship on income levels in the European Union.

The empirical analysis is carried out on a sample of 29 developing and 27 developed countries. Entrepreneurial and cultural variables are all significant in explaining over 60 % of the variance in GDP per capita. Secondly, focusing on the European Union, some common elements are found to conform a sort of "European culture": Autonomy and Egalitarianism clearly predominate over Embeddedness and Hierarchy, while Harmony tends to prevail over Mastery. Cluster analysis identifies four well-defined groups of countries within the European Union. Central and Northern European countries are closer to this European stereotypical culture, while English-speaking countries, Eastern Europe and the Mediterranean area each exhibit their own differentiating elements. These differences are also present in entrepreneurial activity.

Regarding the interaction of culture and entrepreneurship, one interpretation may be tentatively derived from this article: in high-income countries, a predominance of autonomy values tends to promote entrepreneurship (especially opportunity-led entrepreneurial activity), but this effect is stronger when it is combined with an emphasis on mastery values. In contrast, a predominance of harmony values may lead to more supportive social institutions and less necessity-driven entrepreneurship.

The third article, "National culture, entrepreneurship and economic development: different patterns across the European Union" examines the impact of institutions on entrepreneurial activity. In this vein, behaviors and entrepreneurship are determined by the set of formal and informal social norms and rules (Busenitz et al. 2000; North 1990, 2005; Scott 2007). These rules structure and organise the economic, social, and political interactions between individuals and social groups, with consequences for business activity and economic development (Aidis et al. 2008; Alvarez and Urbano 2011).

The article uses 2008 data from the Global Entrepreneurship Monitor (GEM) and the International Institute for Management and Development (IMD), considering a sample of 30 countries and 36,525 individuals. The main findings demonstrate, through logistic regression, that a favorable regulatory dimension (fewer procedures to start a business), a favorable normative dimension (e.g., higher media attention for new business) and a favorable cultural–cognitive dimension (better entrepreneurial skills, less fear of business failure, and better understanding of entrepreneurs) increase entrepreneurial activity. This study contributes to the theory by furthering application of the institutional approach in the analysis of entrepreneurship at country level; and on a practical level, it suggests that public policy and entrepreneurship programs should be designed according to the institutional specificities of the different countries.

Lastly, the article "Entrepreneurial intention and career choices: the role of volition", tackles the predictive factors that explain the emergence of an entrepreneurial project from a psychological perspective. This research shows that entrepreneurship is significantly linked to psychological characteristics and individual disposition towards business and thus provides a counterpoint to the previous two articles which regard cultural conditioning as decisive for explaining entrepreneurship.

According to psychology-based theoretical considerations and empirical studies, this article finds that family and institutions also have significant influence. However, as the article concludes, "If the entrepreneurial choice is, actually, an objective that is pursued by a person's will, it should pertain to personal factors rather than economic and environmental constraints." The article studies the psychological process that leads to an entrepreneurial career, based on the study of attitudes, interests, inclinations, intentions, opinions, perception of risks and rewards, motivation, values, and personal capacity or efficiency, all of which further understanding of young people's interest in entrepreneurship and show that volition has a key role in individual commitment to an ambitious career objective.

The theoretical proposals of this article are tested through a large sample of students (1,630 individuals) including those who have already decided upon a business project.

In the set of articles presented here, the reader can find relationships between small businesses, innovation, and entrepreneurship; the influence of social conditions (cultural, institutional) on entrepreneurship; and the way in which personal conditions (individual, psychological) further understanding of entrepreneurship.

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