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RESEARCH ARTICLE

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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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

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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 emphasizes 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, Ahlstrom and Li, 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, Gertsen and Riis, 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 opportunities by creatively recombining resources”, that is, by innovating; although innovation can be incremental or radical (Lassen et al., 2006; Robson, Haugh and Obeng, 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, involves 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; 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, 1012) 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) emphasizes 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.

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 furthers understanding of young people’s interest in entrepreneurship and shows 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 (1630 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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