Chapter 1

Introduction

1.1 *Introduction*

"Entrepreneurship was born in Europe (Fayolle *et al.*, 2005, p. 4)." In fact the concept of the entrepreneur first appeared in 1437 in a French dictionary (Landström, 1999). Yet, Groen *et al.* (2006) suggested that entrepreneurship has been so far very much an American concept. Nevertheless, entrepreneurship in Europe is gaining importance, as is the small business sector. According to Mugler (1998), the renaissance of the small business sector in Europe has been a spill-over of the sector's revival initiated in the United States.

The European Charter for Small Enterprises, adopted by the General Affairs Council, recognises that small firms are the backbone of the European economy. Reynolds (1997) noted that the expansion of markets has not been associated with an expanded role for larger firms; instead, smaller firms are filling niche roles (Malaise, 1988; Buckley, 1997). Fotopoulos and Spence (1998) suggested that small firms use survival strategies and overcome barriers to entry, and Kemp and Lutz (2006) found that micro-firms perceive lower barriers to entry than medium-sized and large businesses. In fact, society needs Small and Medium Enterprises (SMEs) to undertake functions that multinationals do not do because of the opportunity cost involved. It is often uneconomical for a large firm to produce a small run. This is where self-employed entrepreneurs can excel in niche markets.

The purpose of this book is to provide a brief overview of self-employment in selected countries (the first to use the euro as their currency), along with a brief description of the environments in which entrepreneurs operate. As discussed by Kaynak and Jallat, this "will necessitate consideration of the broader social, cultural and legal-political systems (2004, p. 5)." Brief historical overviews will also be provided, because, "Progress, far from consisting in change, depends on retentiveness. When change is absolute there remains no being to improve and no direction is set for possible improvement... Those who cannot remember the past are condemned to repeat it (Santayana, 1905, Volume 1, p. 284)."

Given the vastness of Europe and its diversity, focus will be only on the original 12 countries that adopted the euro[1] as their currency. It will be shown that the euro-zone is *not* a monolith market — but a union of diverse markets of different sizes and importance, *with different styles of entrepreneurship*. Savitt (1998) suggested understanding the differences before attempting to find similarities. As noted by Ulijn and Fayolle (2004), people from one euro-zone country tend to value self-employment over employment, while the opposite is true in another country of the euro-zone. Along the same lines, Obrecht (2005) argued that the cultural environment affects entrepreneurial capabilities.

Abandoning a national currency in favour of a regional one has many implications. The euro became a sure thing relatively recently. Javetski and Templeman wrote, "The certainty of German unification has already sidetracked Europe's plans to have a single market functioning by 1992, and it has buried an ambitious, French-backed scheme to create a new European currency. If there's a substitute money in Europe's future now, it's probably the Deutschemark (1990, p. 48)." Now that we have the euro, are countries becoming less different from one another? Is entrepreneurship becoming more similar across nations?

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[1] The plural of euro is the same as the singular.

At the macro-economic level, Europe is experiencing convergence; technology, for instance, is becoming increasingly similar in different countries. At the micro-level, however, Europeans from different regions are maintaining cultural uniqueness. As observed by Berlinski, "Unsurprisingly, it is difficult to cobble nation-states together into a grand transnational entity (2005, p. A-17)." Entrepreneurship is also maintaining regional characteristics, but co-operation, networking and clustering into industrial agglomerations (Baptista and Swann, 1998; Glassman and Voelzkow, 2001) is becoming very important across the euro-zone. This book will suggest that formerly independent entrepreneurs are increasingly collaborating for mutual benefit, creating symbiotic entrepreneurship.

1.2 *Definitions*

Cantillon (1755) defined the French word *entrepreneur* as any person taking the risk to work for oneself. The aristocrat industrialist, Jean Baptiste Say defined the entrepreneur as the agent who "unites all means of production and who finds in the value of the products… the re-establishment of the entire capital he employs, and the value of the wages, the interest, and the rent which he pays, as well as the profits belonging to himself (1816, pp. 28–29)." Fraser (1937) associated entrepreneurs with the management of a business unit, profit taking, business innovation and uncertainty bearing. Belshaw argued, "An entrepreneur is someone who takes the initiative in administering resources." He explained, "He is probably not an entrepreneur unless he does undertake ordinary management tasks (Belshaw, 1955, p. 147)." There are countless definitions of entrepreneurship, and the same is true of SMEs. In Australia, small firms have fewer than 20 employees, except small manufacturers which have up to 99. In Canada, a small service firm has up to 49 employees, while a small manufacturer may have up to 499. In Japan, a firm with up to 250 employees is deemed to be small. In the United States, a small business may have up to 500 employees.

Until 1996, the European Union defined an SME as fewer than 500 employees. In April 1996, the European Commission adopted the following[2] definitions:

- SMEs are independent firms with fewer than 250 employees and have either an annual turnover not exceeding ECU[3] 40 million, or a balance sheet total not exceeding ECU 27 million.
- The small enterprise has fewer than 50 employees and has either an annual turnover not exceeding ECU 7 million or an annual balance-sheet total not exceeding ECU 5 million and conforms to criterion of independence.
- Independent enterprises are those which are not owned as 25% or more of the capital or the voting rights by one enterprise, or jointly by several enterprises, falling outside the definition of an SME or a small enterprise, whichever may apply.

Among several later definitions, SMEs were defined as independent firms (i.e., other companies' share of ownership could not exceed 25%), with fewer than 250 employees, and annual sales not exceeding 20,000,000 euro. Since January 1, 2005, European Commission definitions have been as follows:

- Micro-enterprises are firms with up to nine employees and annual sales of less than 2,000,000 euro.
- Small businesses have between 11 and 50 employees inclusively, and sales of up to 10,000,000 euro.
- Medium-sized enterprises have over 50, and up to 250 employees, with sales not exceeding 50 million euro.

In this book, the word "entrepreneurship" refers to the economic undertaking of entrepreneurs. This is based on the classical definition of

[2]Source: European Commission Recommendation 96/280/EC.
[3]The European Currency Unit (ECU) was the predecessor of the euro.

the word, which can be traced to the German *unternehmung* (literally: undertaking) and to the French *entreprendre* (literally: between taking). The agents of entrepreneurship are entrepreneurs (from the French *entrepreneurs,* literally: between takers). The word "entrepreneur" will be used in the context of a self-employed founder or owner of a business entity, usually a small or medium firm and sometimes a large one. Given that Schumpeterian (1934) innovators are relatively few, this book accepts the notion that SMEs comprise the more common flagship of entrepreneurship — as described by Cantillon (1755) — in the broadest sense.

1.3 *Toward the Euro*

Europe, with more countries in fewer square kilometres than anywhere else in the world, has a long history of free trade agreements. When Nuremburg was a city-state in the Roman Empire, it set up free trade agreements with 70 other entities; although it lacked a good waterway, arable land and natural resources, its free trade agreements enabled it to become a cosmopolitan business centre.

Over the years, economic power shifted across Europe. Sombart noted, "One of the most important facts in the growth of modern economic life is the removal of the centre of economic activity from the nations of Southern Europe — the Italians, Spaniards, and Portuguese, with whom must be reckoned some South German lands — to those of the North-West — the Dutch, the French, the English and the North Germans (1913, p. 11)."

In 1834, several German states formed a union for free trade — *Zollverein*. Italy and San Marino formed a customs union in 1862. In 1921, Belgium, the Netherlands and Luxembourg entered the Benelux customs union. In 1951, Belgium, France, the Federal Republic of Germany, Italy, Luxembourg and the Netherlands signed the Treaty of Paris creating the European Coal and Steel Community. The 1957

Treaty of Rome came into effect on January 1, 1958, establishing the European Common Market (later the European Economic Community), uniting Belgium, France, the Federal Republic of Germany, Italy, Luxembourg and the Netherlands.

In 1959, the Stockholm convention established the European Free Trade Association (EFTA), allowing Austria, Iceland, Norway, Sweden and Switzerland to maintain different external tariffs while eliminating internal tariffs on industrial products originating within the free trade area. Finland joined EFTA in 1961.

In 1973, the European Economic Community welcomed the Kingdom of Denmark, the Republic of Ireland and the United Kingdom of Great Britain and Northern Ireland. Greece joined in 1981, followed by Portugal and Spain in 1986. In 1989, the Council of Ministers of the European Economic Community adopted the decision to make SMEs a priority. This included the creation of a favourable environment with limited regulation, the encouragement of new venture creation and the establishment of R&D priorities. In 1991, the Maastricht Treaty laid the foundation for an Economic and Monetary Union (EMU).

In 1993, the Single European Act created a European Union allowing free movement of goods, services, capital and labour. At the time there were 17 million privately-owned enterprises in the non-primary sector of the European Union, of which 93.3% were micro firms, 6.2% were small, 0.5% were medium, and 0.1% were large (Mulhern, 1995). Potts argued that the concept of a single European market was supported by, "to be accurate, big business more than small business (2000, p. 322)." In 1995, the Union grew with the entry of three former members of EFTA, namely Austria, Finland and Sweden.

On January 1, 2002, 12 of the 15 members of the European Union began using the euro. (Three kingdoms — Denmark, Sweden and the United Kingdom — opted not to adopt the euro at that time.) Fifty billion coins were struck and 14.5 billion notes were printed.

1.4 *Diversity in a United Europe*

Does enterprise develop the same way amongst all peoples? Farmer and Richman explained, "The sociological or cultural environment of a country has an impact on the ways in which industrial enterprises and their personnel carry out their functions (1965, p. 109)." They then discussed "the *dominant* human attitudes, values and beliefs in a given society or country and the way they tend to influence the motivation, behaviour and performance of individuals working in productive enterprises (Farmer and Richman, 1965, p. 109)." For example, "In the first half of 1976, the total days lost by strikes per 1,000 workers was… 177 in France, but the German rate was only 19 (Putman, 1977, pp. 158–159)."

Farmer and Richman elaborated, "Prevailing religious beliefs and cultural values, in conjunction with parental behaviour, child-rearing practices, and the formal system of education in a particular country, usually have a direct and very significant bearing on the dominant view toward work and achievement (1965, pp. 156–157)." Farmer and Richman also addressed the issue that, "Since there may be various subcultures in a particular country, research in this area can be very complex (1965, pp. 109–110)." Discussing subculture, Jennings reported about an interviewer who explained to him that, "The Bavarians shoot slower than the Prussians (1974, p. 413)."

Hofstede (1980) examined cultural differences, and based on research with INSEAD Executive Development students, Laurent concluded, "Deep seated managerial assumptions are strongly shaped by national cultures and appear quite insensitive to the more transient culture of organisations (1983, p. 75)." Huntington (1993; 1996) and more recently Marsh (2004) argued that globalisation has neither standardised societies, nor produced a homogeneous world culture. Neither will the euro.

Entrepreneurship exists around the world; yet, it is far from standardised. Entrepreneurship means different things to different people. In recent years, there has been increasing interest in comparing entrepreneurs from different cultures. Scheinberg and MacMillan (1988) found significant differences across cultures in motivations to launch a new business. Dana (1995a) concluded that entrepreneurship was not simply a function of opportunity recognition in isolation, but coloured by cultural perception of opportunity. As noted by Aldrich (1999), the environment constitutes the initial conditions facing the entrepreneur.

Of course, people from different ethnic backgrounds have been exposed to dissimilar cultural values, and this is reflected in their respective entrepreneurship models. Various cultural aspects, such as the social value ascribed to the entrepreneur, attitudes toward the risk of failure and the presence of exemplary entrepreneurial models are cultural factors that have an impact on the formation of the entrepreneurial calling (McGrath *et al.*, 1992; Wennekers and Thurik, 2001).

Also important is the role of the state. Spencer *et al.* (2005) described Finland as having a Social corporatist institutional structure with the state playing a facilitative role; in contrast, they described Germany as a country as having a State corporatist structure, in which "networks among organised social actors may equilibrate state centralism (2005, p. 326)." They grouped Belgium, France and Italy as having political and managerial leaders who "tend to cooperate rather than act as adversaries (Spencer *et al.*, 2005, p. 326)."

Entrepreneurship is therefore *not* homogeneous around the world, or within Europe, or even within the euro-zone. As Pascal (1701) explained, that which is truth on one side of the Pyrenees is not so on the other. His sister quoted his exact words, "Vérité en deçà des Pyrénées, erreur au-delà (Perier, 1842, p. 61)."

1.5 *Different Contexts for Enterprise*

Up to the late 1970s, government policies in Europe tended to encourage mergers of existing firms into larger units (Strinati, 1982). In 1974, for example, the state firm Aeroporti di Roma was formed, absorbing about 60 SMEs. Scase (1980) noted that the trend in Europe was to evolve away from small independent businesses, as governments believed instead that a measure to facilitate economic growth would be to encourage a close partnership between the existing large firms in the private sector and state agencies. More recently, the trend has been for the state to recognise the usefulness of entrepreneurs, and an environment fostering entrepreneurship.

As demonstrated by Rainnie and Scott (1986), entrepreneurship became increasingly recognised as a means of improving output and as discussed by Scase and Goffee (1987), the policy of some governments gradually shifted from discouraging to encouraging independent business. Entrepreneurship has been recognised as being in the national interest, making important contributions to economic expansion and job creation.

Nevertheless, while governments have raced to promote entrepreneurship and innovation, there has been a lack of consensus about the means to attain this objective (Dana, 1987). Among the environmental factors that powerfully condition the ease and scope of entrepreneurial activity, are government, laws, regulations and procedures (Staley and Morse, 1971). Furthermore, government policy reflects the attitude of legislators. One can identify two broad models to which government policies belong:

Model I, Regulation for Protection:
Rules are established to protect existing business — even if this hinders entrepreneurial behaviour. This is the model adopted by many countries such as France, where regulation has been instituted to protect firms, as well as consumers.

Model II, Protection from Regulation:
A policy of minimal intervention and minimal regulation allows entrepreneurs to dedicate more resources to their enterprises, protecting

them from the burden of excessive paperwork requirements and the constraints of heavy regulations.

The nature of intervention by a government (through regulations, paperwork requirements, subsidies, trade agreements, etc.) affects entrepreneurship and innovation. Peterson and Peterson (1981) showed that government paperwork requirements can be a burden on managerial time of owner-managers. In contrast, the state may foster entrepreneurship by creating an inviting environment for enterprise. The following 12 chapters shall provide brief overviews of entrepreneurship across the euro-zone.