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# Trends in European Research on Entrepreneurship at the Turn of the Century

Lorraine M. Uhlaner

**ABSTRACT.** This article serves as an introduction to the special issue on Entrepreneurship Research in Europe, a selection of papers from the XIVth RENT conference held in Prague, the Czech Republic, November 23–24, 2000. It provides an overview of the articles and also discusses some of the themes that bind them together: Networking and the diffusion of innovations and family business. In addition, the paper includes a short section highlighting advances in the Italian entrepreneurship climate as evidenced by data provided by several of the papers in this issue carried out by Italian researchers on Italian SMEs.

## 1. Introduction

This special issue of *Small Business Economics* brings together outstanding papers submitted to the Research in Entrepreneurship and Small Business (RENT) XIV Annual Workshop, held in Prague, in the Czech Republic in November, 2000. The papers for this issue were invited from among the 66 papers given at the conference and further selected using a blind review process. Referees judged papers according to their originality, robustness of methodology and their contribution to the existing body of knowledge. The resulting seven articles cover intriguing themes in entrepreneurship and small business management, from a variety of perspectives and methodologies. Traditionally, European entrepreneurship research

is believed to lag behind that of the United States. This is no longer the case, as this second in the series of special issues based on the RENT conferences should demonstrate. (See *Small Business Economics* 16(4) for the special issue on RENT XIII). Section two of this article provides a short summary of each of the seven articles included in this special issue. Section three elaborates upon how two themes are woven into several of the articles – family business and diffusion of knowledge through networking.

In the late twentieth century, entrepreneurship re-emerged as a key agenda item of economic policy makers across Europe, both for specific nations as well as for the European Union as a whole (see OECD, 1998; European Commission, 1999; EZ, 1999). Commiserate with this attention, expectations also rose regarding its potential as a source of job creation and economic growth (Thurik, 1996). This had not always been the case. For instance, in the early and mid twentieth century – in fact until the early 1970's – a focus on entrepreneurship was absent from the European economic policy agenda. The exploitation of economies of scale and scope was thought to be at the heart of modern economies (Teece, 1993). Audretsch and Thurik (2001) characterize this period as one where stability, continuity and homogeneity were the cornerstones and thus label it the “managed economy”. Small businesses were considered to be a vanishing breed.

The late twentieth century witnessed massive downsizing and restructuring of many large firms as well as the decline of many centrally-led economies built on certainty and the virtues of scale. By the 1980s evidence mounted to demonstrate that this move away from large firms toward small, predominantly young firms was a sea

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change, not just a temporary aberration of the 1970's. Audretsch and Thurik (2001) label this new economic period, based less on the traditional inputs of natural resources, labor and capital, and more on the input of knowledge and ideas, as the "entrepreneurial economy". Paradoxically, the increased degree of uncertainty creates opportunities for small and young firms, and hence leads to higher rates of entrepreneurship. Further study shows that this change does not take place in all developed economies at the same time or to the same degree (Audretsch et al., 2002). Hence comparative research may explain these variations (Reynolds et al., 2000; Wennekers et al., 2002). Though none of the papers in this special issue are comparative in focus, in the strict sense, they do provide a glimpse into the diffusion of innovations once thought primarily to be the purview of the American entrepreneur. Thus, as evidenced by the research topics in this issue, university spin-offs, networking, portfolio entrepreneurship, venture capital, and the IPO are rapidly diffusing as economic innovations across Western Europe. Italy is a particularly interesting case. By coincidence, four of the seven papers included in this special issue are written by Italian researchers and based on Italian small companies. Taken together, these papers provide an interesting window into the modern Italian economic environment. Section 4 summarizes some of these insights together with additional background about Italy, the world's sixth largest economy, behind the U.S., Japan, Germany, Great Britain, and France. Finally, Section 5 provides a short conclusion.

## 2. Overview and summaries of the articles included in this special issue

Seven papers are included in this special issue. This section summarizes some of the key topics and findings they represent.

Several of the papers provide uniqueness to their research approaches based on their ability to bring together ideas from divergent disciplines. For instance, Corso, Martini, Paolucci and Pellegrini link information and workflow issues from organization and management fields with that of the technology and new product development literatures. Capaldo, Iandoli, Raffa and Zollo integrate technology and marketing issues,

showing not only that both are important but also that a dynamic link may exist between technology and marketing innovation that affects the performance and eventual survival of the entire enterprise. Finally, Carter and Ram move the reader's comprehension of portfolio entrepreneurship forward by bringing together ideas from economic sociology, cultural anthropology and agricultural economics.

The papers included in this special issue purposely include a varied mix of qualitative and quantitative methodological approaches. Corso, Martini, Paolucci and Pellegrini derive their conclusions from a cluster analysis of a random sample of 127 Italian SMEs and Grandi and Grimaldi include regression analyses of a non-random but geographically representative sample of 40 Italian academic spin-offs. Ravasi and Marchisio combine qualitative and quantitative approaches using the result of a qualitative analysis based on seven case studies to develop the framework for an empirical study of more than fifty Initial Public Offerings (IPOs). Capaldo, Iandoli, Raff and Zolla demonstrate a novel methodology for compiling data with an illustrative set of three cases. Elfring and Hulsink also use the case approach to illustrate propositions related to networking. Carter and Ram review and integrate literature from several disciplines to gain new insights about portfolio management.

The purpose of Grandi and Grimaldi's paper, "Exploring the networking characteristics of new venture founding teams: A study of Italian academic Spin-offs", is to identify those characteristics explaining variation in networking among academic spin-offs. The paper also provides a thorough review of the networking literature, including that of the relationship between networking and entrepreneurial success. Based on an empirical study of 40 young academic spin-offs located primarily in Northern Italy, Grandi and Grimaldi conclude that networking patterns are influenced by the composition of the founding team. They further conclude that the networking behavior of the founding team is influenced by the quality (and networking activity) of its research group of origin. Grandi and Grimaldi point out the seeming paradox from their results: Whereas new companies are encouraged to set up a diversified team, functionally speaking, this same "com-

pleteness” may mistakenly lead the founders to believe that they can survive successfully in a self-contained manner without making adequate use of external contacts.

Capaldo, Iandoli, Raffa and Zollo’s paper, “The evaluation of innovation capabilities in small software firms: a methodological approach”, presents a “fuzzy multi-attribute decision-making approach,” a method for assessing and measuring the specific resources managed by small software firms to foster their marketing and technological innovation capabilities. Capaldo, Iandoli, Raffa and Zollo present an application of the technique to three cases, identifying three distinct patterns. In all three cases, the firms were founded by technical entrepreneurs and originate from a product idea developed for a specific market. Also, in these three cases, the acquisition and updating of initial know-how takes place through some form of external networking – either relationships with large firms or by means of close relationships with technical groups or research centers. The patterns of the cases deviate in the post-start-up period. Due to resource limitations, all three companies have difficulty simultaneously sustaining both marketing and technical innovation capabilities. However, they vary in allocation of resources to marketing and technical innovation over time, with varying performance results. In the first case, (*technology-oriented behavior*), the company chooses to invest long-term in its technology to the neglect of marketing innovations, eventually resulting in a permanent sales decline. In the second case, (*market-oriented behavior*) just the opposite strategy is taken. The company invests heavily and is successful in marketing its products for a time, but fails to invest in new technology. As innovation drops off, its performance also suffers. In the final case (*oscillating behavior*), the company manages to solve the resource scarcity dilemma by alternating its investments between the two capabilities – technological and marketing – over time. As a result, it eventually outperforms the other two companies in the long run.

Pirnay, Surlemont, and Nlemvo’s paper, “Toward a typology of university spin-offs”, tightens the definition and operationalization of the university spin-off (USO) as a concept. Their basic premise is that the USO needs to be treated as a heterogeneous class of concepts rather than as

a homogeneous phenomenon. After providing a rather extensive review of the literature to support this view and its research implications, Pirnay, Surlemont and Nlemvo propose a typology that can be used in further research and practice. The proposed typology is based on two key discriminatory factors (1) the status of individuals involved in the new business venturing process (researchers vs. students) and (2) the nature of knowledge transferred from the university to the new venture (codified vs. tacit). Furthermore, universities geared toward nurturing USOs of different types may require different types of university mission statements (enhanced vs. traditional), and a different policy focus with respect to the USOs themselves (technology vs. individual oriented). Targeting different USOs may also require a different nature of intervention (customized vs. standardized) and different selectivity and control systems (high vs. weak). Though the paper does not provide new empirical findings, the extensiveness of the literature review and the proposed typology are likely to provide new research directions for those interested in the topic of spinoffs.

Carter and Ram’s paper, “The role of portfolio ownership approaches in the intra-company growth process,” provides the reader with an excellent background on the relatively under-researched topic of “portfolio entrepreneurship” – entrepreneurship based on the ownership of multiple companies. Their paper provides a provocative research agenda drawn from literature from both within and outside the small business literature. Carter and Ram make the argument that disproportionate attention has been paid within the field of entrepreneurship to within-firm sources of growth, when in fact, many entrepreneurs and “entrepreneurial” households achieve growth through multiple business initiatives. They rightfully point out the distortions in understanding that may arise by focusing on the company rather than the individual entrepreneur (and/or the family) as the unit of analysis. In part of their proposed research agenda, Carter and Ram point out some of the process issues that need to be better understood about portfolio entrepreneurship including the motivations for multiple business ownership, the mechanisms used to bring it about, and the role of the family.

Ravasi and Marchisio's paper, "Going public and the enrichment of a supportive network: Some evidence from Italian initial public offerings," makes a unique contribution to the IPO literature by demonstrating, empirically, the importance of nonfinancial considerations in the decision-making process. In particular, a combination of case studies and results from a survey of 57 Italian initial public offerings reveals that going public improves the "reputational" and social capital of the company, providing benefits that exceed the immediate financial gain of capital. The paper is useful not only for those involved with research on IPOs, *per se*, but also for those seeking to expand their perspectives on the topic of networking, more generally.

Corso, Martini, Paolucci, and Pellegrini's paper, "Technological and organizational tools for knowledge management: In search of configurations" provides a provocative bridge between the research literature in organization theory, new product development and information and communication technology. Based on a survey of a random sample of 127 Italian SME's, a cluster analysis reveals three distinct strategies for knowledge management (KM) in the product innovation process, the "technical", "relational", and the "advanced" approach. In the first group of firms, labeled the KM<sub>technical</sub> cluster, companies tend to transfer knowledge internally using advanced communication tools including computer-based tools such as two- and three-dimensional computer aided design (2D CAD and 3D CAD), and computer-aided engineering (CAE). In the second cluster, labeled KM<sub>relational</sub>, by contrast, knowledge management is characterized by higher interaction with actors along the supply chain (especially with customers) and with the lowest diffusion of ICT tools. In the third cluster, KM<sub>advanced</sub>, representing about 40% of the firms, the authors discover a high degree of diffusion of both the organizational and technological tools. These firms combine the tools used in the other two clusters, and in addition, show the highest incidence of use of computer aided tools, project teams, and databases for design solutions, thus warranting the terms, "advanced." Although Corso, Martini, Paolucci and Pellegrini do not provide empirical support for the relationship between these types and SME performance in this paper, their cluster analysis

represents significant progress toward development of a useful operationalization of ICT variables for SME research.

Finally, Elfring and Hulsink's paper, "Networks in Entrepreneurship: The case of high-technology firms," derives a set of propositions about the relationship between strong and weak network ties and various entrepreneurial processes in new venture development, including the discovery of opportunities, securing resources and obtaining legitimacy. The paper is exploratory in nature, presenting cases of three Dutch high technology companies. The proposed model and cases provide some compelling directions for future research in network analysis.

### 3. Major themes of this issue

Networking, especially as a tool to diffuse and share knowledge, is an overarching theme that is woven into all the papers of this issue. Secondarily, though only addressed in two papers, this section also elaborates upon the way in which the family business variable is included in two of the papers.

#### 3.1. *Networking and innovation diffusion as a theme*

The theme of networking, i.e. relationships with those outside the firm, binds together all the papers within this issue. Networking especially with larger public and private companies, can substantially lower the transaction costs associated with the development and adoption of practices within the firm (De Kok and Uhlaner, 2001). Sometimes this networking is fostered by conscious initiatives supported by government agencies or universities. Two of the papers, by Grandi and Grimaldi and by Pirnay, Surlemont, and Nlemvo, examine aspects of networking in producing spinoffs. Grandi and Grimaldi suggest that networking is "contagious," i.e., more likely to be found in SMEs spun off from research groups that are also characterized by extensive networking. They conclude that networking may be fostered out of necessity – companies with less complete teams, and thus perhaps less likely to believe they "know it all," are more likely to seek out external sources. Pirnay, Surlemont, and



Nlemvo propose that the nature of the relationship between the external agent (in this case, the university) and the spinoff should differ depending upon the type of spinoff involved. For instance, support for tacit, service-provider types of activities may be very different than spinoffs of highly codified and technological applications. Networking is also the central theme in Elfring and Hulsink's paper. In this paper, they propose that in some circumstances, it is important to have not only strong ties within one's industry and the research and development community but also weak ties with a broader range of organizations that might influence regulations affecting its work. As a result of a lack of weak ties, in one case illustration, moral concerns from animal liberation groups and activities were clearly underestimated, eventually leading to a ban on its cloning activities.

Network formation is also an important theme in the paper by Ravasio and Marchisio. They find that listed firms enjoy an enrichment of their social capital as a result of going public. The increased visibility provides them with an expanded support network improving its chances to access valuable resources (financial and otherwise). In fact, they find in their empirical study that companies rank improvements in relations and reputation with various external stakeholders as highly as financial reasons as factors in the decision to go public.

Finally, networks are mentioned as a theme in the papers by Carter and Ram and by Corso, Martini, Paolucci, and Pellegrini. Carter and Ram find that both business and social networks can be important in expanding and managing portfolio companies. They also propose that future research on portfolio ownership investigate how different networks – professional, business, familial and affinal – impact portfolio entrepreneurship. Finally, Corso and his colleagues include external networking (such as intensity of technical collaboration with other firms, and group relationships with R&D centers and other software firms) as aspects of the degree of technical innovation capabilities.

### 3.2. Family business

Until recently much of the research in family business has run parallel but somewhat indepen-

dently of the entrepreneurship literature, primarily applied as a sampling parameter rather than as a measured independent variable. However, recent research by De Kok, Uhlaner, and Thurik (2002) demonstrate its usefulness in this latter regard, as a key predictor of the formalization of human resource management practices, second only to size in its predictive value.

Along these same lines two of the papers in the special issue also explore the use of family business as an independent variable. Ravasi and Marchisio identify family issues as a nonfinancial critical factor in the decision by some Italian companies to go public. In particular, for some family-owned firms, the motivation to go public is based on the desire to facilitate the succession of leadership and/or to foster more professional management. Carter and Ram identify family as a motive in some instances for portfolio entrepreneurship. Multiple companies provide a way to incorporate different family members while reducing intracompany conflict. It is also seen by some families as a means to gain more responsibility their members and by other families as a way to piece together sufficient income to support the family from various micro businesses.

### 4. The changing Italian entrepreneurial environment

Data from four of the papers in this special issue coincidentally draw from company samples in Italy. Clearly they provide an interesting window on the modern Italian economy.

Much has been written about the Italian economy. It is a story of contrasts. On the one hand, it is the world's sixth largest economy with a population of 58 million people (*The Economist*, 2001). It boasts some of the most sophisticated technology in Europe. In making machine tools, it defers only to the U.S., Japan and Germany, and engineering graduates from Turin and Milan are considered world-class. On the other hand, within the European Union in 2001, it had an unemployment rate second only to that of Spain. It is often represented as a nation contrasting large, state supported businesses and small, low-technology family firms (*The Economist*, 2001). Italy is a bit of an anomaly. In spite of the size of the Italian economy and its large small business

representation, the Italian economy still lags behind those of other European countries. Unlike other developed countries, its rise in number of business owners does not necessarily favor economic growth. It may actually be in disequilibrium from too much self-employment (Caree et al., 2002). Existing comparative research points to a few explanations for Italy's economic weakness, including geographic factors, a negative regulatory environment, and shortages of financial, technological and human resources.

Some have pointed to Italy's historically low investment in research and development relative to other OECD countries. They amount to only half of that in Germany, the U.S. and Japan over a long period (Klomp and Pronk, 1998, p. 167) though recent figures show some improvements (European Commission, 2000). Italy is known for the great diversity across three distinct regions: the industrial heartland in the Northwest, the "Third Italy" area in the northeast and center, rich in dynamic small firms; and the backward *Mezzogiorno* in the south (Bodo et al., 1993). A recent study reports that 92% of research and development expenditures made by Italian companies in 1998 were concentrated in Northern Italy (CREA, 2001). In the south, there is also a high level of self-employment but combined with a low level of the GDP per capita (Caree et al., 2002). A notable feature of the organization of Italian small and medium-sized firm production is its high geographical concentration in small areas or industrial districts (Piore and Sabel, 1994). This contrast of north and south (with the center, somewhere in between) is highlighted in Grandi and Grimaldi's paper. Eighty-seven percent of the academic spinoffs they were able to identify for their study are located in the north of Italy. Admittedly their sample was nonrandom, but according to their paper, geographically representative of where such activity is likely to be located.

Other cross-comparative research highlights the negative effects of Italy's regulatory environment on the level of entrepreneurship. Though the sample is based on only six countries, exploratory findings by Busenitz, Gómez and Spencer (2000) suggest that Italy's more negative regulatory climate is associated with one indicator of entrepreneurial climate: a lower percentage of newly listed publicly traded companies, relative to all

listed companies. A study by Fonseca, Lopez-Garcia and Pissarides (2001) also points to the dampening effects of the regulatory burden on Italy's economic environment. They measure start-up costs as the number of administrative procedures and amount of time required to set up a new company. Based on a comparative analysis of eighteen OECD economies, their findings suggest that Italy's third-highest start-up costs may be linked to its lower than average influx of employment into the self-employed sector and more importantly, overall, lower employment relative to the other countries in the study.

On the other hand, some recent research points to positive aspects of Italy's entrepreneurial environment. For instance, Busenitz, Gómez and Spencer (2000) also find that Italy ranks number two behind the United States in its "normative dimension", i.e. the degree to which a country's residents admire entrepreneurial activity and value creative and innovative thinking. This factor predicts the growth of high technology entrepreneurship in their small sample of six countries.

Other research on Italy points to changes in the capital markets. In particular, the venture capital market in Italy has expanded rapidly in the last few years. Banks are the primary investors of venture capital though private individuals are also major providers (EVCA, 1998, 1999; Janssen, 2000). With respect to the public capital market, the article by Ravisio and Marchisio points to a growing trend in IPOs due to the Tremonti Law that introduced substantial tax breaks for new listings. New sections of the Italian Stock Exchange especially dedicated to small, fast growing companies, such as the *Nuovo Mercato*, have also facilitated the access of a high number of young entrepreneurial ventures to the stock market. The random sample drawn from Northern and Central Italy, by Corso, Martini, Paolucci, and Pellegrini, reinforces the image that a substantial pool (40%) of small and medium sized Italian firms use sophisticated, technological and organizational tools to manage knowledge transfer, again contrasting the image by some that Italy is "low-tech." The article by Capaldo, Iandoli, Raffa and Zollo also hints at the growth in high-technology companies, with their focus on small software firms.

In summary, in spite of historical trends that

show Italy's economy lagging in some respects behind those of other OECD countries, the articles about Italian companies included in this issue provide ample evidence of adoption and diffusion of business innovations within Italy. These innovations include for instance the reliance on networking, adoption of high-technology solutions to information management, university spin-offs and a financial market supporting IPOs. Taken together, these findings suggest that many of the post-modern innovations that have been adopted in other countries to spur entrepreneurship are taking hold in Italy as well and may have reverberating economic affects in the long term.

## 5. Conclusions and summary

The entrepreneurship research studies included in this issue illustrate the vibrance and contribution of European entrepreneurship research. Each of these papers contributes to a fundamental research topic within the field of small business and entrepreneurship – whether it is portfolio entrepreneurship, academic spin-offs, networking, or information management for the small firm. But some of the papers also provide an empirical insight into current trends within the European Union. In particular, represented in this issue are university research efforts and/or information about SMEs in Great Britain, the Netherlands, Belgium and Italy.

Networking is a popular theme that cuts across all of the articles in some manner. Family business also emerges as an independent variable in some of the papers. The last section of this paper assembles some of the insights about the Italian entrepreneurial environment in particular, derived from these papers and the larger literature. In spite of its status as the world's sixth largest national economy, Italy and Italian entrepreneurship is sometimes poorly understood and often ignored in the English-language publications. The papers included here make contributions both in their basic disciplines as well as a window into the changing nature of SMEs and SME support in Italy.

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