

# ASPECTS REGARDING THE CONTRIBUTION OF INNOVATIONS TO THE DEVELOPMENT OF ENTREPRENEURSHIP IN THE EUROPEAN UNION

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## **Abstract:**

*The aim of the paper is to deepen the theoretical foundation on entrepreneurship and innovation, as well as to develop practical recommendations on the development of entrepreneurship through innovations. We aimed to identify and argue the role of innovation in entrepreneurship development, underlining the role of innovation as a growth factor and as an element of businesses and SMEs development.*

*In the paper are presented comparative analyzes, findings, advantages and disadvantages of the ways of development and financing of entrepreneurship in the European Union, which should be taken into account for the future policies in this field starting from the regional levels and continuing at the country level. At European Union level, many measures and policies have been adopted to support R&D and innovation, some of which have already been implemented or are being prepared.*

**Key words:** *entrepreneurship, innovation, research and development, entrepreneurial business, competitiveness, European Union*

**JEL Classification :** O30, O20, L26

## **1. Conceptual delimitation of innovation, entrepreneurship and entrepreneurial business**

Innovation and entrepreneurship are considered to be the main driver of economic development, and the innovation process is the key factor for economic growth. Currently, the importance of innovation both at micro and macro level is strengthened by the economic crisis and international competition. Ensuring sustainable growth can only be achieved through continuous innovation processes. Entrepreneurs become the key players that turn ideas into new business with new products or services for new markets. Business creation is an effective tool for promoting value-creation in technologies and research, based on creativity. In the literature on inventions and innovations, as forms of manifestation of creativity, we mention: discovery, invention and innovation.

In economic literature the term "innovation" is approached by several authors from different perspectives. According to the Romanian Explanatory Dictionary "innovation is novelty, change, transformation; solving a technical or organizational problem with the aim of improving (productivity) work, technical improvement or rationalization of applied solutions".

Depending on the subject of the research, innovation has been treated differently by many foreign researchers. B. Twist, B. Santo and E. Mansfield treated innovation as a process: "... the global process of technological and commercial creativity, the transfer of a new idea or a new concept to the final stage of a new product, process or activity services accepted by the market " (Mansfield E, 1995).

From a technical and technological point of view, innovation is presented in F.Nicson's work and in standards of the Oslo Manual. Nicson believes that "innovation is a combination of technical, production and trade events that lead to the emergence of new processes and equipment on the market" (OECD, 2005). In the Oslo Manual, innovation is "the implementation of a new or significantly improved product (good or service) or process, a

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new marketing method or a new method of practical business organization, workplace organization or external relations" (Baloiu L., Frăsineanu I., Frăsineanu C., 2001).

Another definition was founded in the Frascati Manual of the OECD, where innovation is defined as "the ultimate outcome of the innovation activity represented by all the scientific, technological, organizational, financial, and commercial actions that involve investing in new knowledge designed to achieve a new or improved product " (OCDE, 2015).

In our opinion, it is necessary to highlight the following *invention-innovative innovative process* relationship and the description of a distinction between these concepts:

Invention represents a breakthrough made for the first time, constituting a breakthrough in a certain field (science, culture, economy, etc.). Creative resolution of a technical or production issue that presents novelty or progress in relation to the known state of the art in the world. Technical solution or achievement in a field of knowledge, presenting novelty and progress to the state of the art so far.

Innovative process - the global process of technological and commercial creativity, the transfer of a new idea or a new concept to the final stage of a new product, process or service accepted by the market (Baloiu L., Frăsineanu I., Frăsineanu C., 2001).

Innovation - the result, the finality of the innovation process, aimed at introducing the invention into social practice (Frăsineanu I, 2004). This is not only a technological success, but also an economic, industrial, commercial, social and cultural one. So innovation is a process of transforming inventions or discoveries that present novelty and progress in a field into new products or services applicable to social practice.

Innovation in this context can be defined as a product, new process or new or improved method, which has a practical applicability and is the result of a creative process of transformation of ideas into concrete things.

Peter Drucker mentioned that "innovation is the specific instrument of entrepreneurship, the means by which it exploits change as an opportunity for a different business or for a new service. It is the act that provides resources with a new capacity to create wealth. Innovation creates a resource, used by man to create economic value" (Gartner W.-B, 1989, p.30). Instead, in Schumpeter's view, creating an economic value or, in other words, a new product, would involve combining existing products and forces to produce something else or create new combinations. At the same time, he mentioned that "economic agents, who have as a basic function the realization of the new combinations and which are their basic element, can be called entrepreneurs (Schumpeter, J.A 1982). An entrepreneur can only be called the one who achieves a "new combination" and "characterized by initiative, authority, foresight ability and others" (Schumpeter, J.A 1982), while Peter Drucker defined the entrepreneur as "the person seeking change, respond to change, and use it as an opportunity " (Drucker P.F 2002, p.28). So, entrepreneurs should see the change as a norm and always aim at them, regardless of the risks involved. Drucker believes that the strengths of successful entrepreneurs are knowledge-based innovations, as the main source of enterprise innovations would be the human resource, and outside the enterprise could be needs, opportunities, demographic criteria, and so forth.

At present, the concept of entrepreneurship is much broader and involves a specific way of thinking and behavior, based on the entrepreneurial spirit - the quality of the business personality that manifests itself through energy, the finding of solution and invention. In its normative acts, the Council of Europe defines entrepreneurship as "the creative capacity of an individual, independently or within an organization, to identify an opportunity and follow it, in order to produce new value or economic success" (European Commission, 2017).

At the level of the European Union, "entrepreneurship" is treated as an economic phenomenon, which manifests itself in different forms, producing various results that do not necessarily refer to the creation of financial wealth. Entrepreneurship is an essential vector of

economic growth and job creation: it creates new businesses and jobs, opens new markets and stimulates new skills and capabilities. Entrepreneurship stimulates the competitiveness and innovative spirit of the economies and is essential to meeting the objectives of several European sectoral policies. Marketing new ideas increases productivity and creates prosperity (European Commission, 2013).

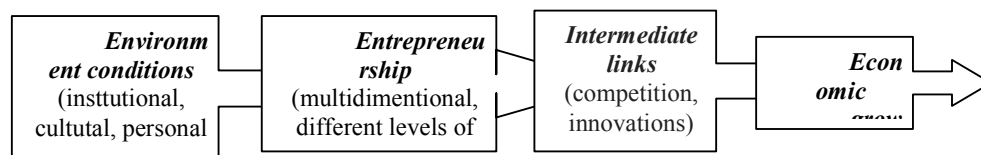
According to the OECD - Eurostat Entrepreneurship Indicators Program, entrepreneurship is defined from a commercial perspective and takes into account three components: entrepreneurs (individuals, business owners) who are continually seeking to generate value by creating or developing an economic activity by identifying and exploiting new products, processes or markets), entrepreneurial activity (in undertaking measures to create or develop economic activity, in order to identify and exploit new products, processes or markets) and entrepreneurship, which is an associated phenomenon with entrepreneurial activity (OECD, 2011). Aspectele acestor componente:

- The concept of entrepreneurship and entrepreneurship does not refer only to small or individual enterprises. Creating value by identifying and exploiting new products, processes, markets is done through the entrepreneurial process, regardless of the size of the enterprises.
- Entrepreneurship is very closely related to the idea that entrepreneurial businesses have certain peculiarities that are fundamentally different from other types of businesses: it is clear that they concern novelty either by creating or identifying new processes, new products or new markets.
- State intervention in entrepreneurial activity can be direct or indirect, financial or non-financial; however, the goal will remain the same: promoting and developing entrepreneurship.

In a classic approach, "entrepreneurial activity is self-employed activity, conducted at its own risk and aimed at systematically obtaining profits, as a result of the use of goods, the sale of goods, the execution of works or the provision of services by the persons officially registered therein quality in the manner established by law.

## 2. The relationship between innovation and entrepreneurial development

Entrepreneurship and innovation are closely interlinked, the innovation being an important element in the entrepreneurial process leading to economic growth (Figure 1).



*Fig.1. The relation between entrepreneurial process and economic growth*

*Source: Adapted after Galindo M., Guzman J., Ribeiro D., 2009*

In order to successfully carry out the entrepreneurial activity, there must be some mandatory environmental conditions (personnel, culture, institutional). The environment is to a large extent understood as a composition of economic, social, political, legal and cultural factors. They determine the character and dynamics of entrepreneurship. It should be noted that entrepreneurship is designed and developed entirely by staff (individuals or teams). Every business depends on the competence and creativity of the staff. Another compulsory element is the culture of entrepreneurship. The culture of entrepreneurship is rising from the general culture of the nation and is an integral part of it. Entrepreneurship creates its own culture through employees, working policies and how to interact with society. Here we can mention

that entrepreneurship is adapting to the realities that arise from politically determined institutional systems. If these systems / structures are built incorrectly, then entrepreneurship, instead of contributing to economic growth, could be centered on unproductive and destructive actions. It can therefore be added that these negative actions in some institutional systems will largely depend on the formed culture of entrepreneurship and, at the same time, those institutional systems or structures will have an influence on their character and development (Galindo M., Guzman J., Ribeiro D. 2009).

Because entrepreneurship is multidimensional and can be analyzed at different levels, through intermediary links that are given by innovation and competitiveness, its development can lead to economic growth. Thus, entrepreneurship seeks to create new opportunities and profit, and these opportunities can emerge through innovation.

As a result of the analysis of the definitions of entrepreneurship, presented both by foreign and domestic authors, of the legislation in force, we can define entrepreneurship as an innovative process of achieving a number of interdependent activities in order to initiate, operate and develop a business with assuming all the related risks.

One of the first economists to associate entrepreneurship with innovative activity was Schumpeter. He was concerned about studying the factors that contribute to economic development (Schumpeter, 1982). According to the influence factors of creation, three types of innovative entrepreneurship can be distinguished:

- introducing productive innovations is the process of renewing the company's growth potential, which leads to increased profit, prestige, job creation, etc.
- technological innovations are the process of improving production potential, which is geared towards increasing labor productivity and saving resources, resulting in increased profit volumes, improving security technology, efficient use of internal information resources.
- social innovations reflect the planned process of improving the social sphere.

The American authors Michael Porter and Peter Drucker, to describe small business, often use the term entrepreneurial business (or entrepreneurial business) and small business, which are two different concepts. The main feature of the entrepreneurial business is its innovative character. The essential difference between these types of organizations is how they address innovation, even if they produce the same products or provide the same services. But there are some overlapping of concepts as the entrepreneurial business starts as a small enterprise.

P. Drucker mentioned that "at the base of every big business there was a small one" (Drucker P.F, 2002, p.16). Many entrepreneurs prefer to remain in the initial stage, to operate on the market with a secure and stable profit. However, entrepreneurial businesses do not stop here, they are flexible at change, looking for new development opportunities through processes, innovative products or seizing new markets, while the innovative business from the start is founded to create innovations.

Any innovative activity can be considered an entrepreneurial business and is based on:

- looking for new ideas (from a new product to a new structure) and evaluating them;
- finding the necessary resources;
- creating and managing an enterprise;
- getting income and personal satisfaction from the results.

Not every business is innovative, just the one that allows revenue to be earned as a result of creating the production process, using and distributing innovative products. Technical and scientific progress and enterprise-level innovation enable it to develop and create new jobs. In most developed economies, SMEs are seen as a backbone of the economy. Conceptually, small and medium-sized enterprises can be defined in the same way as any other type of enterprise, that is, the unit engaged in the production, distribution and sale of

products and services where the factors of production are combined to produce products and services (Roşca-Sadurschi L., 2013).

As a result of the analysis of the concepts of entrepreneurial business, innovative business and SMEs, we conclude that the basis for innovation lies in both the creation factor and the development element.

### **3. Promoting entrepreneurial activity through innovations in the European Union**

A characteristic feature of developed countries is an innovative development that relies on the targeted process of seeking, preparing and implementing innovations that will improve the efficiency of social production. The efficiency of innovation activity is driven by innovative infrastructure. Therefore, innovative infrastructure is a core component of the innovation economy and national innovation potential. At the same time, it is the main instrument and mechanism of an innovative economy capable of increasing the country's economy to a high level of development. Innovative infrastructure must include all elements of the innovation process (education - research - production - consumption) and must possess the following properties:

- Spread across regions that will enable you to address the functional challenges of the whole innovation cycle: from creating innovation offer, marketing research, and feasibility study to introducing and marketing innovations.
- To be universal and flexible, contributing to the implementation of innovations in various fields and to adapt to the rapid changes in the development of science and technology as well as the market environment.
- Informational, financial, staffing of all the elements of the innovation process.
- Constructiveness, which ensures optimal end result.
- Flexibility, which ensures the adaptation of innovative infrastructure to market requirements.

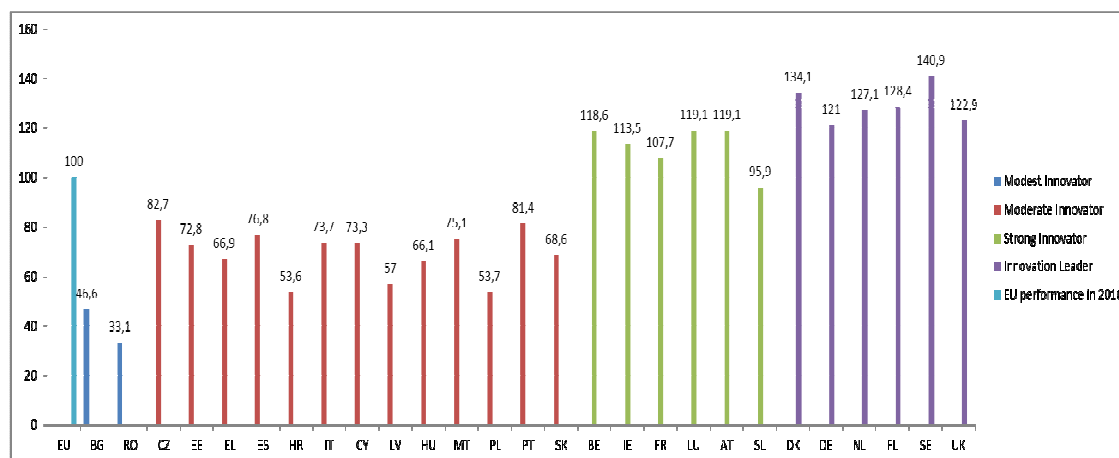
At European Union level, many measures and policies have been adopted to support R & D and innovation, some of which have already been implemented or are being prepared. The variety of these measures reflects the diversity of conditions as well as cultural preferences and priorities in EU countries.

The objective of the European Union to become "the most competitive and dynamic economy in the world" is achievable by a number of policies adopted at national, regional and even local level set in Lisbon and reaffirmed by the Europe 2020 strategy for smart growth , sustainable and inclusive ". In order to achieve these objectives, the French State, based on the proposal of the European Commission, launched in 2007 an experimental project "Regional Innovation Strategy", setting out the strategic objectives for each region, depending on its competitive priorities and advantages. This strategy requires a common methodology for all regions. The "Regional Innovation Strategy" is based on three objectives: a strategic approach, based on a diagnosis of the strengths and weaknesses of the territory, the desire to maintain a wider perspective of innovation in all its forms and, finally, a constant improvement in the coordination of national, local and European policies for innovation (European Commission, 2013)

The results of this experience are positive and worthwhile. Following the implementation of this strategy, it turned out that the vast majority of enterprises, especially SMEs, to become more innovative need: specialized consultations, highly qualified human resources, financing instruments, but also the development of state-owned mechanisms support and support for innovation. The preventive evaluation of the results of the strategy highlighted yet another major problem - the lack of collaboration between the participants in the innovation process (incubators, technology transfer organizations, technical platforms and others). Thus, in order to meet the need for better coordination among actors in the system,

several regions have opted to promote a "business" approach or the establishment of "key functions" of support and support structures for innovation. The "objective and means contracts" link has been established to strengthen the role of regional innovation agencies (eg Innovergne, ARITT in the Center region, Seinari in Haute-Normandie, CARINNA Champagne-Ardenne), in some cases a reconciliation works with regional development agencies.

The European Innovation Scoreboard provides a comparative analysis of innovation performance in EU countries, other European countries, and regional neighbours. It assesses relative strengths and weaknesses of national innovation systems and helps countries identify areas they need to address. The 2017 edition of the Scoreboard reveals that EU innovation performance continues to increase, especially due to improvements in human resources, the innovation-friendly environment, own-resource investments, and attractive research systems. Sweden remains the EU innovation leader, followed by Denmark, Finland, the Netherlands, the UK, and Germany. Lithuania, Malta, the UK, the Netherlands, and Austria are the fastest growing innovators (European Innovation Scoreboard Report (EIS) 2017).



*Fig.2. Performance of EU's member states in 2016 relative to EU performance in 2016, Source: European Innovation Scoreboard 2017 Database*

Industry accounts for 80% of Europe's exports. Some 65% of private sector research and development (R&D) investment comes from manufacturing.

Therefore, industrial modernisation in Europe must be broad-reaching and include:

- the successful commercialisation of product and service innovations
- the industrial exploitation of innovative manufacturing technologies
- innovative business models

Studies show that those companies who prioritise innovation are also those who experience the highest increase in turnover (Innobarometer, 2016):

Some 79% of companies that introduced at least one innovation since 2011 experienced an increase of their turnover by more than 25% by 2014.

Small and medium-sized enterprises (SMEs) are a particular target for innovation policy. The smaller the company is, the more it faces constraints to innovation or to the commercialisation of its innovations.

Some 63% of companies with between 1 and 9 employees declared having introduced at least one innovation since 2011, compared to 85% of companies with 500 employees or more.

Some 71% of companies with between 1 and 9 employees encountered difficulties commercialising their innovations due to a lack of financial resources, compared to 48% of companies with 500 employees or more.

Concerning the financing of innovation, there is clearly a lack of tools to support the crucial phases of initiating and developing innovative projects. In line with the strategy, the following measures have been taken: support for seed or start-up seed funds, implementation of financial engineering instruments, guarantees, innovation-oriented co-investments, support from EU funds (ERDF) and national funding partners (deposit funds, banks), dynamic business networks and business angels.

Increasing the number and success of innovative projects also requires additional funding. We still need business leaders, students and researchers with an innovation initiative - ready to engage in an innovative approach. This is the reason for the component aimed at strengthening the demand for innovation companies or their innovation capacity, which occupies an important place in the "Regional Innovation Strategy" and in the Action Plans. Thus, in order to increase the number of innovative enterprises, concrete measures are envisaged not only in order to organize a business R&D function, but also to disseminate the innovation culture (through education and training) and innovation management capacity in SMEs -hate (European Innovation Scoreboard 2017)

The availability of financial resources—equity and debt—for small and medium enterprises represents an important condition for their creation, development, and survival. In the light of the latest global financial crisis, the lack of access to finance has been often cited as one the most significant barriers to start a new venture in many EU countries (Anton S.G., Bostan I, 2017). Regarding the access of enterprises to private financing, Europe is much behind the United States in terms of venture capital. Initial venture capital funds in the EU represent less than half of the US level and are significant only in Norway, Denmark, Portugal, Finland, Belgium and France. Only the United Kingdom, Sweden and Switzerland are distinguished in terms of venture capital investment in the expansion phase. In the absence of sufficient prospects for obtaining high return on investment, interest and demand for R&D or innovation at national level (European Commission, 2017).

#### **4. Conclusions and proposes**

Although in the literature the innovation was treated differently: as a process, a means of technically and technologically changing, we conclude that innovation is a process of transforming inventions or discoveries that present novelty and progress in a certain field , in new products or services applicable in social practice. So this finality is called - innovation. In this context, innovation has been defined as a product, new process or improved method, which has a practical applicability and is the result of a process of transformation of ideas into concrete things.

Their applicability is found, first of all, in entrepreneurship. Thus, entrepreneurship is defined as a process of achieving a range of interdependent activities in order to initiate, promote and develop a business based on innovation and that includes innovative elements, assuming all the specific risks.

One of the aims of this paper was to present the notion of innovation in a new context, not just as the main feature of entrepreneurial business, for example, as P.F. Drucker, but also as a major element of entrepreneurship, necessary for its development. It is important to make a distinction between the entrepreneur and the entrepreneurial activity. Entrepreneurial activity always involves the existence of the entrepreneur, and it can exist without entrepreneurial activity, because people, working in an enterprise, can manifest entrepreneurial spirit without being owners or shareholders.

Innovations are a way of progressing the least risky enterprises, because any innovation is followed by some positive effects. At the same time, innovation is a source of survival and competitiveness. By introducing business innovations, conceptual, structural, but also procedural changes are made, an assertion demonstrated practically by several states. The experience of many countries demonstrates the contribution of innovation to entrepreneurship development through supportive policies and actions to promote innovation in entrepreneurial activities. During the study, many comparative analyzes, findings, advantages and disadvantages of the ways of developing and financing entrepreneurship were presented, which should be taken into account for future policies in this area, starting at regional levels and continuing at the country level.

The EU is slowly moving towards achieving the 3% R&D target, but there is a gap that deepens between the EU and other countries, particularly because of lower R&D investment. Investing in research and innovation is an essential engine for growth and innovative ideas. This is why increased R&D investment is one of the five priorities of the Europe 2020 strategy.

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