

# Chapter 10

## Innovation and Entrepreneurship During Economic Crises

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### ABSTRACT

*The main goals of this chapter are to present an overview of the relevance of innovation and entrepreneurship in modern economies and analyze the importance of these two concepts in modern economies during economic and financial crises, as a relevant way to perform economies to prevent and to overcome crises, in an evolutionary perspective. The understanding of different frameworks of innovation, with a particular emphasis on the effects of innovation and entrepreneurship supported by governmental incentives, is studied through an integrated framework of innovation to overcome economic crises in long business cycles over time. The present chapter bases its analysis on a wide literature review and analysis of case studies that will show the importance of innovation and entrepreneurship during crises and to overcoming crises.*

### INTRODUCTION

With globalization, knowledge, faster information systems and communications, the concepts of innovation and entrepreneurship acquired critical and central importance in contemporary economies. They perform key drivers for the countries' economic growth, for the growth and success of firms, and also, in general, for the wealth of nations and for the improvement in consumers' living standards. Innovation is strictly related with entrepreneurship and strongly supported by research and development (R&D), being key concepts for firms and nations to produce innovations and compete for a better future (Tellis et al, 2009).

The Schumpeterian theory (Schumpeter, 1928, 1942) and the modern theories of economic growth (like for example, Aghion and Howitt, 1992; Grossman and Helpman, 1991a, 1991b; Romer, 1986, 1990) are

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based on the relevance of innovation and entrepreneurship, as endogenous factors, for economic growth and to increase the per capita income in modern economies. The long waves of innovations postulated by Schumpeter (1939, 1942), as closely related to the succession of stages of the economic cycles and also as direct determinants of the occurrence of these. Which implies that once created in one economy the conditions for the occurrence and development of innovation and entrepreneurship, will decrease the impact of the adverse shocks on business cycles, as well as the probability of the occurrence of crises, in the same economic conditions, and to the time duration of the effects.

Entrepreneurship and the entrepreneurs, as first postulated by the Schumpeterian approach, perform a central role as innovators in the development and implementation of innovation acting like a catalyzer and contributing to facilitating the reallocation of resources (Acs & Storey, 2004) to support the economic changes (Gries & Naudé, 2010) with the purpose of the best possible adaptation.

The Global Competitiveness Report states Innovation as one of the fourteen pillars of the competitiveness and states that entrepreneurial spirit and innovation are the building blocks for sustained growth and competitiveness of countries (Annual Competitiveness Report 2005; Global Competitiveness Report, 2018).

The crises that occurred in the last century, and particularly the recent crisis of 2007, reinforce, according to Applegate and Harreld (2009) that financial and economic crises provide a sobering reminder of what happens when innovation fails to drive productive economic growth. This issue finds the words of the former President of European Commission, Durão-Barroso (2009), who said that “*financial and economic crisis makes creativity and innovation in general and social innovation in particular even more important to foster sustainable growth, secure jobs and boost competitiveness*”.

The main propose of this chapter is to analyze the importance of innovation and entrepreneurship during crises and to overcome it in modern economies, according to an evolutionary perspective. The understanding of theoretical models of innovation and its relation with entrepreneurship are analyzed, with a particular emphasis on the effects of innovation and the governmental incentives to innovate and to invigorate the entrepreneurship. These are relevant aspects to overcoming economic crises, supported by empirical evidence, through an integrated framework of innovation occurred in business cycles over time. However, a significant part of literature under these topics have been developed to understanding the relevance of innovation during crises, the studies about innovation and the relevance of entrepreneurship, based on the innovative entrepreneurs' contribution during and to overcoming crises, are scarce.

The methodology applied in the present chapter is a systematic literature review, developed through a wide range of literature review and case studies' analyses that will perform the importance of innovation and entrepreneurship during crises and to overcome different kinds of crises. Despite the increasingly strong evidence about the importance of innovation as a central force to overcome crises, the systematic literature review targeting a general overview about empirical studies and approaches, evidencing the existence of fewer studies about innovation and entrepreneurship to overcoming crises over the time. In this sense, one hopes this study contributes to a better scientific knowledge and understanding of the relationship between the two concepts under analysis and economic and financial crises.

The present chapter is structured in five parts. After this introduction, which states the relevance and describes the topics under study, the second section presents the main concepts applied in this chapter, and the different frameworks to explain how innovation, related to entrepreneurship, drives the economy over different perspectives. The following section describes, in an evolutionary approach, the crises through time-based in some case studies and presents empirical evidence about innovation and

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