

# Chapter 1

## Value Creation, Innovation, and Entrepreneurship: Feedback Effects

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### ABSTRACT

*The literature has traditionally focused on the relationship between innovation and entrepreneurial activity, adopting mainly two perspectives when addressing entrepreneurship: empirical studies focusing on the behaviour of companies, and studies that consider entrepreneurship as a factor promoting the achievement of economic policy objectives. Following Schumpeter, innovation is a key source of value creation, generating growth in companies and the economy as a whole. But it is also important to remember the feedback effects generated in this process. This chapter analyses the relationship among three variables: entrepreneurship, innovation, and value creation, as well as the subsequent feedback effects. The theoretical aspects are considered and an empirical analysis is developed for the case of some European countries.*

### INTRODUCTION

The last crisis suffered by the economies has meant that, among other issues, the analysis and determination of those factors and variables that exert a positive effect on economic growth and that stimulate business activity would be prioritized. In this sense, policies makers could design measures to enhance such factors and variables having also positive effects on other economic policy objectives, such as the creation of higher employment, and finally greater social welfare. Entrepreneurship has been highlighted as a factor that would have a positive effect in both areas.

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For this reason, economic literature has focused on the role of entrepreneurs in the economy, considering entrepreneurs as generators of a country's economic growth and, therefore, social welfare. The main reason is that entrepreneurs show an adequate capacity to generate products, and more specifically, to use productive resources in order to introduce innovations. Therefore, there are many empirical and theoretical analysis that views entrepreneurs also as generators of wealth and employment (Alpkan, Bulut, Gundy, Ulusoy, & Kilic, 2010; Andersen, 2011; Chilton & Bloodgood, 2010). Consequently, countries in which the effects of the recession are more severe, and show relevant unemployment rates introduce measures to boost entrepreneurial activity in their economic policies (Acs, Audretsch, Braunerhjelm, & Carlsson, 2004; Acs, Audretsch, Braunerhjelm, & Carlson, 2005; Acs, Audretsch, Braunerhjelm, & Carlsson, 2012; Acs & Szerb, 2007; Audretsch, Bonte, & Keilbach, 2008; Audretsch & Keilbach, 2004a, 2004b; Hamilton, 2007; Noseleit, 2013).

With regard to specialized literature, the role of Entrepreneurship has been analyzed from two points, mainly in view of the empirical works focused on company behavior (Audretsch & Keilbach, 2004, Bierwerth, Schwens, Isidor, & Kabst, 2015; Ndubisi & Iftikhar, 2012 and Zahra, Jennings & Kuratko, 1999). Secondly, those who consider Entrepreneurship as one of the factors that inactively economic policy objectives, mainly economic growth in a direct way, and employment and social welfare indirectly (for example, Holcombe, 1998, Audretsch, 2005, Audretsch, Grilo, & Thurik, 2007, Alpkan, Bulut, Gundy, Ulusoy & Kilic, Acs, Audretsch, Braunerhjelm, & Carlsson, 2011, Braunerhjelm & Henrekson, 2013, Galindo & Méndez, 2014, Holcombe, 2007, Thornton, Ribeiro-Soriano, & Urbano, 2011, Castaño, Méndez & Galindo, 2015, 2016).

In both groups of studies, it is considered that entrepreneurial activity would enhance growth innovation and value creation (Marchesnay & Julien, 1990, Vivarelli & Pianta, 2000, Sarkees & Hulland, 2009, Galindo Martin, Ribeiro & Méndez Picazo, 2012, Nambisan, 2017; Galindo, Castaño & Méndez, 2019), and the positive impact on innovation and value creation it would have a positive effect on shareholders, customers and workers. For these reasons it is possible to state that innovation, value creation and Entrepreneurship act together not only to stimulate business activity but also to achieve different economic objectives such as economic growth and the society welfare.

A large body of the literature has focused on the relationship between entrepreneurship and each of these three factors individually, without considering the potential interrelations between them. The three essential elements of entrepreneurship considered by the specialised literature, that is, autonomy, innovativeness and opportunities allow that entrepreneurship will achieve the corresponding value creation, understood as the actions executed to increase the value of the goods and services created by the company. The higher the degree of value creation, the more effective is entrepreneurship assumed to have been in its activities. Thus, a considerable number of works have focused on the relationship between these two factors. On the other hand, the importance of this process, not only for the evolution of companies themselves but also for the economy as a whole, makes it important to examine the factors that potentially have an impact on enhancing value creation (Lepak, Smith & Taylor, 2007).

It is also important to consider the effects of entrepreneurship and value creation on society in general. One way to contemplate these effects is through the improvement in economic growth, since higher growth could improve income distribution, increase employment and finally society welfare is improved.

Regarding entrepreneurship there is a wide literature that shows the relationship between this variable and economic growth (Acs, Audretsch, Braunerhjelm, & Carlson, 2004, 2005, 2011; Acs & Szerb, 2007; Audretsch, Bonte, & Keilbach, 2008; Audretsch & Keilbach, 2004a, 2004b, 2008; Audretsch, Keilbach, & Lehmann, 2006; Belso Martinez, 2005; Braunerhjelm & Henrekson, 2013; Galindo & Méndez, 2014;

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