

# Chapter 3

## Innovation, Value Creation, and Entrepreneurship by Opportunity: An Analysis of European Countries

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### ABSTRACT

*Technological progress is one of the main generators of increases in the production economy, involving the introduction of new products which, in turn, allows companies that carry out innovative actions to survive in the market. According to Schumpeter, innovation is an important source of value creation, improving growth in companies and economy. Thus, entrepreneurs introducing innovations in the market to take advantage of new business opportunities increase value creation, understood as the actions implemented to increase the value of goods and services created by enterprises. Likewise, the exploitation of these new opportunities that arises thanks to technological change are also largely conditioned by entrepreneurs' human capital, availability of financial resources, investment in research and development activities, expectations, and efficient business regulations.*

### INTRODUCTION

Innovation has been considered beneficial for society because it improves growth potential, solves problems and meets needs in society, and enhances consumer satisfaction as it increases the supply of products and services (Comin, 2017). Innovation is the key driver of material well-being, a variable which has been included in diverse ways in economic growth models to explain differences in growth rates across countries. Solow (1956) showed that different levels of technology can generate significant differences in income per head between countries. Subsequently, Romer (1986, 1990) stated that technological progress is not simply the result of external (exogenous) advances in technology as advocated in the Solow

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Growth Model, but is created by specific market activities, since the introduction and development of novel ideas gives rise to profitable technologies. Romer (1990) analysed the production of technology and the conditions for this to occur in markets, using not only capital and output as explanatory factors but also the role of financial institutions and economic policy.

As well as factors of economic growth, models have also incorporated the role played by entrepreneurs in generating economic expansion. Baumol considers the role of the innovative entrepreneur working adamantly with his company to transform inventions into economically viable products through the constant discovery and application of new and more efficient ways of doing things and introducing new and better products, thus generating positive effects on economic growth (Baumol, 1993). Therefore, entrepreneurship is very closely related to innovation because it frequently involves the creation of something new or in a new way: new combinations, new productions methods, new ventures, new markets and new wealth (Brush et al. 2003). Thus, entrepreneurs exploit business opportunities, introducing in this process innovations that allow their economic activity to expand, facilitating in turn the entry into new markets and encouraging competitiveness. In short, they make full use of productive resources and generate wealth and employment (Aghion et al. 2009, Black and Strahan 2002, Chilton and Bloodgood 2010, Castaño, et al. 2016a).

According to Klapper and Richmond (2011) and Djankov et al. (2002), start-up enterprises enhance general productivity and economic growth (Erken, et al. 2018). Aghion (2017) states that economic growth is generated by innovations arising from business investments. In the same line, a number of studies have shown that newly created companies contribute much more to job creation than more mature companies (Ayyagari et al. 2011; Haltiwanger et al. 2010; Acs, et al. 2016; Fotopoulos and Storey, 2019).

In view of these positive effects of entrepreneurship on economic growth and employment, there is an increasing tendency among policy makers to incentivize entrepreneurial activity and consolidate that which already exists. The European Commission considers that small and medium-sized enterprises (SMEs) and entrepreneurship are essential to ensure economic growth, innovation, job creation and social integration in the European Union (EU). SMEs are the backbone of the European economy, accounting for 99% of companies in the EU. In the last five years, they have provided 85% of new jobs and two thirds of the total employment in the EU private sector (European Commission, 2013, 2019).

Furthermore, in 2003, the EU expanded its operational concept of innovation, resulting in the third edition of the Oslo Manual in 2005. Since then, the EU has favoured a broader concept of innovation than the merely technological aspect, typically including four types of innovations: product, process, organisational and marketing. In addition, it is considered that creating value involves creating economic value and the agents for this creation are enterprises (OECD, 2005). According to the European Commission (2014), firms that prioritize innovation present the highest increases in turnover. Around 79% of European companies that have implemented at least one innovation since 2011 increased their turnover by more than 25% in 2014.

The aim of this study is to analyse the relationships between entrepreneurship, innovation and value creation, focusing on specific factors that affect innovation and entrepreneurship, such as human capital, R&D investment, perception of opportunities, access to credit, and regulations and bureaucracy. The second section of this study presents a brief review of the literature on the relationships and factors affecting entrepreneurship and innovation, and their impact on value creation. In the third section, we conduct a partial least squares (PLS) estimation on the 24 countries belonging to the EU. In the final section, we present our conclusions.

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