

Chapter 1

Contextualising Entrepreneurial Activity: A Paradigm Shift in European Countries

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ABSTRACT

Given the heterogeneity and plasticity of the concept of entrepreneurship, it is crucial to change the paradigm that has prevailed in some European countries driven by necessity entrepreneurship. The proposed model can be used in some European countries to ensure that the entrepreneurial seed establishes sustainable roots rather than moving unexpectedly away from development. European countries with a similar or higher level of necessity-driven entrepreneurship to Portugal could take advantage of the proposed shift in the entrepreneurial paradigm. This implies countries making changes to policies related to the role of entrepreneurship in their sustainable development, potentially accelerated by EU's 7-year budget and COVID-19 recovery package to minimise the fallout of the COVID-19 pandemic on the economy.

INTRODUCTION

Akerlof and Kranton (2000) argue that individual decisions are often influenced by the behaviour and opinions of others, the demonstration of their identity and by the practical examples they provide. In recent decades, the media has highlighted the benefits of entrepreneurship and this has helped foster the entrepreneurial spirit (Hang & van Weezel, 2007). It is generally accepted in the framework of economic theoretical orthodoxy that the media plays a positive role in developing values of individual entrepreneurship (Golding, 1974).

On the other hand, regional specificities may also have a determinant and natural role in the development of entrepreneurial activities (Reynolds, Storey, & Westhead, 1994). Regional idiosyncrasies could

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obviously attract entrepreneurial activities; that is, high levels of entrepreneurship in a region stimulate further entrepreneurial initiatives (Minniti, 2005). Institutions are also of great importance to the development of entrepreneurship (Baumol, 2002; North, 2005).

Moreover, networking fosters participation in individual entrepreneurship (Klyver, Hindle, & Schøtt, 2007) and cultural values influence entrepreneurial intentions (Liñán & Chen, 2009). Studies have also shown that financial systems are relevant factors (King & Levine, 1993). Overall, it has been argued that entrepreneurship matters for economic growth at both the regional and national levels (Audretsch, Keilbach, & Lehmann, 2006; Baumol & Strom, 2007) and that entrepreneurship is a well-accepted concept that is positively viewed by contemporary society.

However, some studies have suggested breaking down entrepreneurship to test the link between entrepreneurship and economic growth as doubts about this connection have emerged. In this vein, using cross-sectional data on four types of entrepreneurship in the 37 countries participating in GEM 2002, Wong, Ho, and Autio (2005) confirmed that only high growth potential entrepreneurship was found to have a significant impact on economic growth. Furthermore, Acs (2006) uses the GEM data to show that whereas necessity entrepreneurship has no effect on economic development, opportunity entrepreneurship has a positive and significant effect. Adding to these conclusions, entrepreneurship's role in the economy depends on the different stage of economic development in a country (Stel, Thurik, & Carree, 2005).

In short, the effect of entrepreneurship on economic growth is not clear. Above all, it depends on both the typology of entrepreneurship and the level of economic development. Given the gap in the literature, this paper seeks to shed more light on this issue from a conceptual point of view by drawing two development models in which entrepreneurship plays a different role.

We take Portugal as a reference because it is the only country in the last GEM Report (2016/2017¹) with a Necessity-driven level (% of Total Early-Stage Entrepreneurial Activity) that is equal to the median of European countries (20.8%) and the nearest to their average (20.9%). Based on this criteria, Portugal is the European reference as it may move between the proposed conceptual models. However, other European countries with a similar (or higher) Necessity-driven level to Portugal can also be challenged to adopt the second proposed model, which is related to endogenous growth theory (Barro, 1990; Lucas, 1988; Nelson & Phelps, 1966; Romer, 1986) that nowadays may be fostered by the (investment) recovery plan for Europe presented by the European Commission on 27 May 2020.

An in-depth literature review is important not only to outline hypotheses (Dunne, 2011) but also to preview future scenarios (Amer, Daim, & Jetter, 2013); secondary data can add to this by addressing developmental questions (Greenhoot & Dowsett, 2012) to refine hypotheses (Castle, 2003) or to develop new research designs (Smith, 2008). Drawing on the literature review and secondary data, the referred methods allow us to depict some development models driven by necessity or opportunity entrepreneurship.

The following sections go beyond the state of the art of entrepreneurship and complete the literature review with secondary data to support the conceptual models presented in the section prior to the conclusion. This contribution helps raise the awareness of European policy makers, particularly in countries with a high level of necessity entrepreneurship, of the benefits that opportunity entrepreneurship brings to endogenous growth in their sustainable development model.

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