

Chapter 15

The Divergence of Entrepreneurial Landscapes in the European Union

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ABSTRACT

Understanding the importance of innovation and entrepreneurship to economic growth and stability, the European Union has implemented policies and programs to create a more uniform context for cross-border business activities within the EU. While initial efforts led to a more unified European region, they did not lead to a more uniform one. Over the past five years, dramatic changes in Europe resulting from the financial crisis, the Eurosceptic movement, and the Syrian refugee crisis have incited nations to create their own national innovation and entrepreneurship efforts. This chapter explores the results of those diverging national programs on entrepreneurial outcomes. Specifically, the research explores national landscapes created as a result of differing endowments, regulatory regimes, tax systems, and venture funding levels. Results indicate that differences in these factors create significantly different entrepreneurial outcomes as measured by patent applications and new business registrations.

INTRODUCTION

It is widely accepted that successful innovation and entrepreneurship provide a potentially sustainable strategy for national economic development. To that end, there has been considerable research conducted to identify and understand the factors that differentiate nations on their ability to foster innovation and entrepreneurship (Kogut, 1991; Nelson, 1993; Porter, 2000; Porter and Stern, 2004). Scholars continue to explore constructs that could influence the national innovation landscape, including: political frameworks (Lenway & Murtha, 1994; Spencer, Murtha & Lenway, 2005), economic frameworks (Bosma, 2013), and level and quality of regulation (Kaufmann et. al. 2008; Puia & Minnis, 2007). International business

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scholars have added to this body of knowledge by exploring links between culture, cultural diversity and innovation and entrepreneurship at the nation level (Puia and Ofori-Dankwa, 2013; Shane, 1992).

Intuitively one would expect e-entrepreneurship to be borderless; this has proven to not be the case. E-entrepreneurs still face the issues of cultural differences, liability of foreignness, and complicated tax collection and remittance procedures (Gomez-Herrera et. al. 2014). An entirely new form of e-business, the ibusiness firm attempts to create value through user co-creation of content. Brouthers et. al (2016) theorize ibusiness firms suffer liability from foreignness greater than e-business firms due to the cultural challenges of coordinating cross border user networks. Convergence in European policies and practices favor e-business whereas divergence constrains e-business growth.

There are several common threads that emerge from this voluminous literature: a nation's contextual landscape influences innovative and entrepreneurial capacity; national competition is intensely dynamic and market economies of scale matter. With these elements in mind, EU leaders have been attempting to design and implement contextual elements that would position member countries for smart, sustainable, and inclusive economic growth in the context of European stability (Stabryła-Chudzio 2016). By minimizing trade barriers, reducing transaction costs and exchange rate risk through the use of a common currency, increasing cross-border flow of capital and more recently the flow of labor, the EU has attempted to create a contextual playing-field for member states that would provide advantages relative to non-member countries. During the past decade, the EU has focused policy decisions and resources specifically toward building an entrepreneurial knowledge economy through programs such as highly funded inter European educational exchange (Union, 2014).

Concurrent with the European Union's march toward a uniform policy framework has been the growth of a Eurosceptic movement (Peterson, 2016). While Eurosceptics were always present, the need to fund the costs of recovery from the Greek financial crisis, the rise of new nationalistic movements, the Syrian migrant crisis, and more recently Brexit have strained the European project to its limits.

This paper uses empirical data to explore the ways in which entrepreneurial policy and outcomes are diverging from a common European framework and shows unique national approaches to building an entrepreneurial knowledge economy. The paper contributes to the body of literature by identifying the factors that most greatly influence innovation and entrepreneurial growth. Further, this research shows how areas of convergence and divergence between European nations are shaping the entrepreneurial landscape more in the vein of national interests than supranational regional objectives.

This chapter has four specific goals: (1) Provide the conceptual background necessary to understand the current status of entrepreneurship development; (2) Identify the key actionable factors that appear to influence the growth of entrepreneurial economies; (3) Use empirical data to show areas of convergence and divergence in EU member approaches to fostering innovation and entrepreneurship; and (4) Provide recommendations for researchers, policy makers, and e-entrepreneurs operating in this arena.

BACKGROUND

The idea and making of a unified Europe has been a long and dynamic process. In the 1990s, new states in Central and Eastern Europe began the transition to market economies. These countries faced special challenges in redeveloping their economies because their endowments were underutilized or even diminished under both communism and the following transition. (Ganev & Venilin, 2007; Kayak & Dana, 2013). After political and economic upheaval to democratic governments and free markets, these

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