

Modernity of Entrepreneurship in Sustainable Development: SMEs innovativeness in Lithuania

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Abstract

Purpose – Different economic development in the European Union (EU) countries, especially evaluating knowledge-based economy (KBE), conditions migration of knowledge workers. Usually for that reason the less developed countries are suffering. So the inducement of innovation processes, good conditions of entrepreneurship are important factors, capable strongly influence accumulation of intellect instead of its lost. KBE is based on knowledge generation and utilisation, innovation, technology transfer, and, of course, entrepreneurial activity (Krisciunas, Rinkevicius, 2002). These components help to successfully guarantee sustainable economic development. The actuality of entrepreneurship in KBE reveals **the scientific problem** to show the interplay between economic sustainability and modernity of entrepreneurship, influencing migration flows. **The aim of research** is to reveal why entrepreneurship is so important in sustainable economic development, what characteristics and features it has.

Design/methodology/approach – Theoretical research and analysis of scientific articles and statistical data on small and medium-sized enterprises (SMEs) in the EU are used in this study.

Findings – The development of entrepreneurship research was revealed; the features of modernity of entrepreneurship in economic sustainability as sociability, competitiveness, progressiveness, knowledge generation and utilization, innovativeness, dynamism were disclosed. The result of the interplay of modernity of entrepreneurship and migration flows was detected and it is that the entrepreneurship stops migration flows from native countries, creating job places and generating income. Lithuanian SMEs innovativeness was shortly analysed and evaluated. In the country they are less innovative than large enterprises, but the results show about the average in the EU.

Research limitations/implications – Theoretical conceptions and relevant indicators crystallised in the article would allow to expand the research in the future and include purposive and broader empirical analysis.

Originality/value – Research revealed that the valuation of entrepreneurship seeing form Schumpeter's research works is changing and developing. It is important to embody these new conceptions in the EU countries essential documents, related with economic development. New conception of modern responsible entrepreneurship in sustainable economic development should be used in practical activity of knowledge-based SMEs, embedding development and penetration of KBE economy and sustainable economic development.

Keywords - Entrepreneurship, Modernity of Entrepreneurship, Responsible Entrepreneurship, small and medium-sized enterprise (SME), Social responsibility, Knowledge, Knowledge-based economy (KBE), Economic sustainability.

Article Type - Research paper.

Introduction

Different economic development in the EU countries, especially evaluating knowledge-based economy (KBE), conditions migration of knowledge workers. Usually for that reason the less

developed countries are suffering. So the inducement of innovation processes, good conditions of entrepreneurship are important factors, capable strongly influence accumulation of intellect instead of its lost.

The field of sustainable development can be conceptually broken into four constituent parts: environmental sustainability, economic sustainability, social sustainability and political sustainability (Wikipedia – the Free Encyclopedia online, en.wikipedia.org). The actuality of this article is an economic sustainability, which seeking to reach in KBE. KBE is based on knowledge generation and utilisation, innovation, technology transfer, and, of course, entrepreneurial activity (Krisciunas, Rinkevicius, 2002). These components help to successfully guarantee sustainable economic development. The actuality of entrepreneurship in KBE reveals **the scientific problem** to show the interplay between economic sustainability and modernity of entrepreneurship, influencing migration flows. **The aim of research** is to reveal why entrepreneurship is so important in sustainable economic development, what characteristics and features it has. **The tasks** of this article is to disclose the evolution of entrepreneurship's concept, to foresee the main features of modernity of entrepreneurship and interplay between entrepreneurial activity and migration flows, also shortly comparatively evaluate SMEs innovativeness in Lithuania, as SMEs is a guarantee of effective economical development. **The object of research** is modernity of entrepreneurship in the field of sustainable economic development.

Evolution of entrepreneurship's concept

Discussions of the evolution process of entrepreneurship's concept are often started from Schumpeter's works. The object of the earliest research was the impacts and results of entrepreneurship. Attention was paid to efficiency of production; entrepreneur was interpreted like somebody who embodies the engine of effective production process. Schumpeter in his works clear criticizes the concept of *Homo economicus* and asks for an altered methodology to substantiate the entrepreneur. Unfortunately, Schumpeter did not develop such methodology and did not describe it in terms. But he was the first who gave the guidance for the further investigations of entrepreneurial behavior (Schumpeter, 1942, 1998; Grebel Th., 2004).

Later, after 1960s the researchers (Weber made the sociological researchers of entrepreneurs in society earlier, in the beginning of twentieth century (Weber, 1997)) were more concentrated on psychological and sociological approach to entrepreneurs and entrepreneurship (McClelland (1961), Shapero (1975), Vesper (1980), Coleman (1994)). In that time entrepreneur as a person was researched. The personal characteristics needed to entrepreneur were defined. Also in this period of research evolution the rudiments of responsibility in business, also in entrepreneurial activity, may be found. Recently the researchers concentrated their attention to analysis of entrepreneurial management process (Timmons, 1990; Drucker, 1992). And now the latest research works are disclosing new features of entrepreneurship in KBE (see Figure 1).

KBE is highly entrepreneurial. Schumpeterian entrepreneur, who actualizes new combinations, first has to understand the functioning of new technologies. According Grebel (2004), without knowledge diffusing trough society, no economic change would happen. Without knowledge about new inventions and new technology, no entrepreneurs would arise out of society. Knowledge is necessary to activate, to initiate entrepreneurial behavior. KBE in the 1990s highlights the role of knowledge in economy as well as delivering a unique example for an entrepreneurial economy. SMEs focusing on traditional competitive factors such as productivity, price and local market share have reduced the number of employees and tried to make larger investments in technology in the hope that they will enhance their productivity and become more competitive (Al-Hawamdeh, 2003). Many of these organizations are capitalizing on current technologies to expand their services on a global scale with operations stretching across geographic regions.

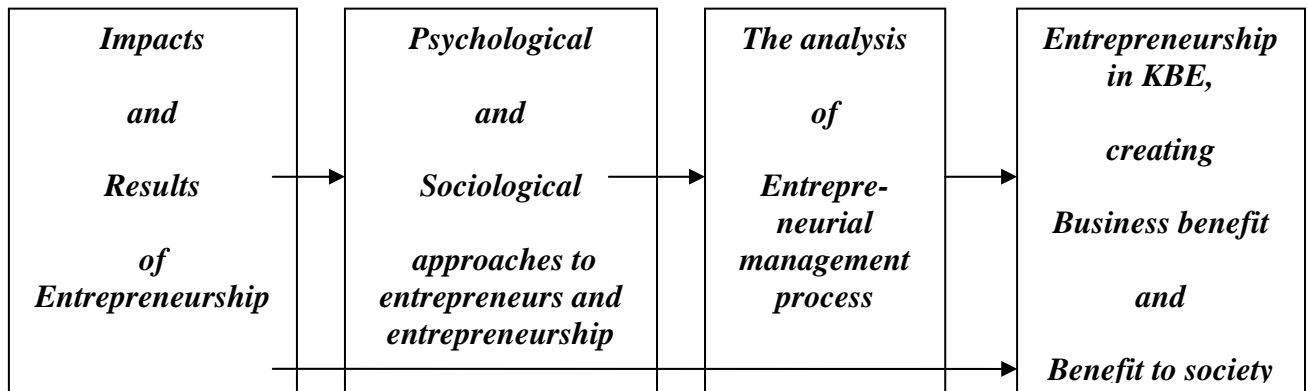


Figure 1. The tendencies in entrepreneurship's understanding.

The appearance and development of KBE has changed approaches to traditional entrepreneurship also. The necessity of partnership between business and society is essential today. Entrepreneurship is one of the most important parts of KBE. Today society wants to see “healthy” entrepreneurial business, which joining economic, technological, environmental factors is or must be responsible to society (Responsible entrepreneurship, 2003).

Modernity of entrepreneurship has such main features as *sociability (social responsibility), competitiveness, progressiveness, knowledge generation and utilization, innovativeness, dynamism* and seeks for business benefits creating *social value (responsible entrepreneurship)*.

Social responsibility

Social responsibility is consciously created economic, political, legal, and moral relationships between organization and society, its various structural forms; readiness to response for behavior and actions; ability to fulfill duty and to take society sanctions with appropriate conditions of fairness or guilt (Pruskus, 2003). Pruskus (2003) distinguishes arguments “for” and “against” social responsibility of business. Arguments “for” are: favorable for business long-time perspectives, changing hopes and needs of society, resources for solving social problems, moral obligation to act socially and responsibly. Arguments “against” are: denial of profit gaining principle, social participation expenditures, inadequate accountability to society, lack of practice solving social problems. Social responsibility of the organization enforce the representatives of business be responsible for their activity and made decisions. Society wants business to be socially responsible, and many business organizations schedule social aims in their activity. Social responsibility consists of philanthropic, ethical, moral and economical responsibility. Three dimensions now determine social responsibility in business: social obligation, social reaction, and social responsiveness. Social obligation, at first, means that the primary task and obligation of enterprise is producing goods or services. Social reaction's dimension means that society can demand more than to produce. An organisation must be responsible for making decisions of social, global and ecologic problems. Social psychological approach places entrepreneurship within the wider social environment (Carson, 1995). Today business relations are matched with principles of humanism (Vasiljeviene, 2006). The task of organizations is creating conditions for responsible behavior and motivation to work with high quality. Business ethics appears to be necessary under the conditions of free market

and intensive competition (Business ethics: from theory to practice: Vasiljeviene, 2002). It takes place in business practice when companies from an entire system of management ethics to achieve success. Corporations themselves introduce values into organizational activity – value management, operationalisation of ethical goals and socially responsible behavior. In SMEs social responsibility may be implemented more simply because of size, flexibility of management, but a lot depends on entrepreneur and his values of behavior.

Competitiveness and progressiveness

Competitiveness of entrepreneurial enterprises is very important factor today and it is directly connected with sustainable development (Competitive advantage in SMEs, 2003). Entrepreneurship in itself strengthens competitiveness. The regulations of sustainable development are the straight way to rule an entrepreneurial business in an appropriate way to competitiveness and success, and to progress of overall activity. As work markets become globalised, heightened competition poses significant new challenges for firms. It has become increasingly important for firms to develop management systems that have the capability to react quickly to change and that promote innovation (Knowledge, learning and routines. Knowledge and learning, 2003, p.569).

Knowledge generation and utilization; innovativeness

Entrepreneurial activity in KBE primary is based on knowledge and technology transfer to entrepreneurial SMEs. Today SMEs are eager to make research by themselves, creating innovations, new technologies, and new knowledge. Knowledge creation and innovation is accordingly seen as something that must become all pervasive throughout the firm, at all levels and in all departments and sections (Hudson, 1999). The aim is to build a “seamless innovation process”, bringing together everyone in the firm involved in product development, from those who had the initial idea to those who finally took it to the market place. Innovation and knowledge creation are seen as interactive processes, which are shaped by a varied repertoire of institutional routines and social conventions. Potential innovators can become interested in a particular issue that develops into an innovation for several reasons. And one of those reasons is self-motivated, entrepreneurial behavior (Entrepreneurship: Kanter, 2000). Freel (2003) distinguishes four main areas, limiting innovations in SMEs. They are: finance, management, work force, and information. Knowledge management in enterprises requires an infrastructure capable of supporting the creation and maintenance of knowledge repositories, and an environment that enables the cultivation and facilitation of knowledge sharing and organizational learning. Organizations that succeed in knowledge management are likely to view knowledge as an asset and to develop organizational norms and values which support the creation, retention, and sharing of knowledge. Due to the complexity associated with knowledge sharing, a culture of learning and knowledge sharing needs to be instilled and cultivated within the organization. Made research identified six key factors that could influence people’s willingness to share knowledge (Al-Hawamdeh S., 2003): knowledge sharing and business strategy, the role of human networking, the role of leaders and managers, fit with the overall culture, knowledge sharing and daily work, institutionalizing learning disciplines. Management and leadership are further crucial components in creating a knowledge-sharing culture. The strong influence that the leadership has on the rest of the organization is one of the determining factors. Managers and leaders, together with the knowledge professionals, can help to lead by example and enhance communication and interaction in all levels in the organization.

Dynamism

Dynamism of entrepreneurship is connected with agility, variability, and efficiency of entrepreneurial enterprises transferring and using new knowledge. These organizational features are modern, and very actual in KBE. Dynamism of modern entrepreneurial enterprises is essential in fast developing economic conditions. Dynamism of business may be described as such category as business mobility, which is business potency to change, to renew, to change the forms and spheres, to develop and to be more effective (Gronskas, 1993). Competitiveness, economic risk, entrepreneurial activity, profit, and time factor may be divided as essential business mobility

factors. SMEs have dynamic impact on economics, especially in regional context (Business history: Livesay, 2005). SMEs consist 4/5 of all enterprises and create about a half of all workplaces.

Responsible entrepreneurship

Responsible business is considered as a new strategy for organization's sustainable development. In EU documents the term "Responsible entrepreneurship" devotes voluntary business strategies to achieve sustainable development and is fully in line with the EU definition of corporate social responsibility CSR. The CSR is a concept whereby companies integrate social and environmental concerns in their business operations and their interaction with stakeholders on a voluntary basis (Communication from the Commission concerning "Corporate social responsibility: A business contribution to sustainable development", 2002). According Castka, Balzarova, Bamber, Sharp (2003) the CSR agenda suffers from a clear definition and seems to be loosely defined umbrella embracing a vast array of concepts traditionally framed as environmental concerns, public relations, corporate philanthropy, human resource management and community. The recent trends in organizational development show that companies that cannot demonstrate accountability to their stakeholders face the risk of losing markets (Liakas, Vasiljevas, 2006). Such tendencies and organization's orientations towards more responsible performance are determined by both economic benefits and social well-being. Such an approach not only humanizes business relations, but also makes them more functional and optional and this makes companies more profitable and competitive. Responsible entrepreneurship in KBE emphasizes all features of social responsibility, but the main idea of such business is using innovation, new technologies, knowledge to create business benefit and benefit for society (Krisciunas, Greblikaite, 2006, b, c). Responsible entrepreneurship can be valued by four criteria groups (Responsible Entrepreneurship, 2003): clear link between business benefits and benefits to society; strategic approach; communication, dynamic process. Main views to benefits of responsible entrepreneurship are views from marketplace, workplace, community, and environment. *The result of modern entrepreneurial enterprises is competitive activity with benefit to society.*

Interplay between modernity of entrepreneurship and migration flows

Entrepreneurial activity creates new job places and self-employment possibilities, of course, higher income possibilities. Citizens involved in SMEs activity have no need and true wish to leave their native country and migrate seeking better living. Business possibilities get duties in one country and successful development of activity makes less desire leave home, country and migrate wanting to find "better place" for living. It is very important that government policies especially in the new EU countries should be directed creating favorable economic and political environment to entrepreneurial enterprises' creation (Krisciunas, Greblikaite, 2006, a). It is necessary for SMEs striving to be innovative to be competitive trying to sustain and grow. The one of the biggest problems connected with entrepreneurship and migration may be named knowledge workers' migration. The highest competence workers leave their native countries mainly for better salaries and often for better self-expression conditions in more developed countries, for example, better working conditions in universities. So the countries lose their citizens and possible entrepreneurs. Making conditions for citizens to come back to their native country is the biggest task for governments in such countries as, for example, Lithuania. The main preconditions for intellectual entrepreneurial business start-up may be distinguished into two main groups: top-down and bottom-up (Krisciunas, Greblikaite, 2006, a). Favorable government policy, knowledge-based innovation policy, critical mass of innovative intellectual business companies, entrepreneurial and high skills qualities of human resources and their development, fast development of relevant for intellectual business start-up services can be distinguished as the main top-down preconditions for intellectual business. An intellectual business enterprise works as a system, so the bottom-up preconditions are valued in three levels of enterprise activity: individual, company, and corporation. Supporting personal qualities, solving problems at company's level, for example, implementing flexible

management style, may resolve some problems not only of entrepreneurial business, but also of migration flows from less to more developed countries.

Comparative look to SMEs innovativeness in Lithuania

SMEs innovativeness can be outlined with such factors as innovation implementation, patents, investments to innovation and etc. SMEs are the backbone of the EU's non-financial business economy as they represented 99.8 % of all EU-25 enterprises in 2003 employing about two thirds of the workforce and generating more than half (57.3%) of its value added. In Lithuania, micro enterprises consisted 77.4 %, small – 18.2 %, and medium – 3.8 % of all enterprises in 2003. The highest results of SMEs are in Italy, they consist 99.9 % of all enterprises. According to Eurobarometer survey held within the European Economic Area and the United States in April 2004, a relatively high proportion of EU-25 citizens declared a preference for being an employee: with 50 % aspiring to be employees compared with 45 % who would prefer to be self-employed (5 % „do not know“). This contrasted with the US, where Americans were much more inclined to have a preference for being self-employed (61 %). Among those EU-25 citizens that declared a preference for ideally being self-employment, the main reason given was that self-employment was perceived as providing independence and self-fulfillment. Other reasons were interesting tasks, as well as the possibility of creating their own working environment. The second most often given reason was the prospect of a better income (23 %).

There were only 2 registered applications of patents in Lithuania in 2001 (the latest statistics of Eurostat). As for comparison, Poland had 3, Latvia – 8, EU-15 – 161.

The most common indicator for innovation activity is the share of innovative enterprises in the economy (see Figure 2). The percentage in Lithuania varies from 21 to 64 according to enterprise size. The higher results are in large enterprises than in SMEs. Estonia had the highest share of innovating enterprises among the new Member States in 2004 (36 %), followed by Czech Republic at 30 % and Lithuania at 28 %. EU-15 had the ratio of 44 % in 2004. The highest share of SMEs with innovative activity showed in industry sector, but large enterprises are more innovative than small ones.

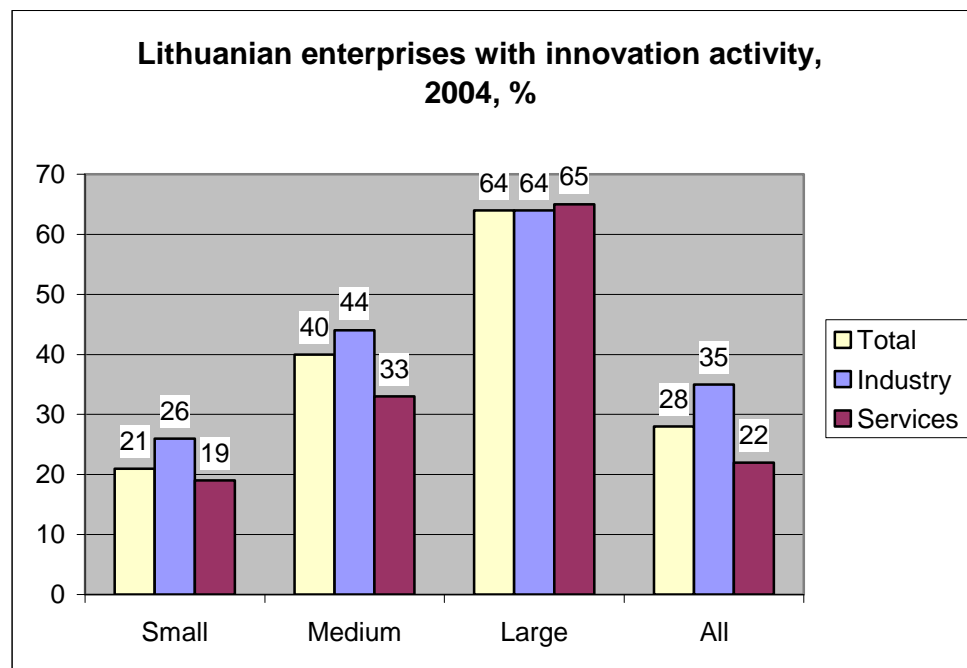


Figure 2. Source: Eurostat: Innovation activity in the new Member States and Candidate Countries, 2004.

Co-operation in innovation activity is considered important in the Member States and candidate countries in 2004. In Lithuania 38 % of industrial SMEs and 57 % of service SMEs reported that they had co-operated with other partners in their innovation activity (Eurostat, 2004).

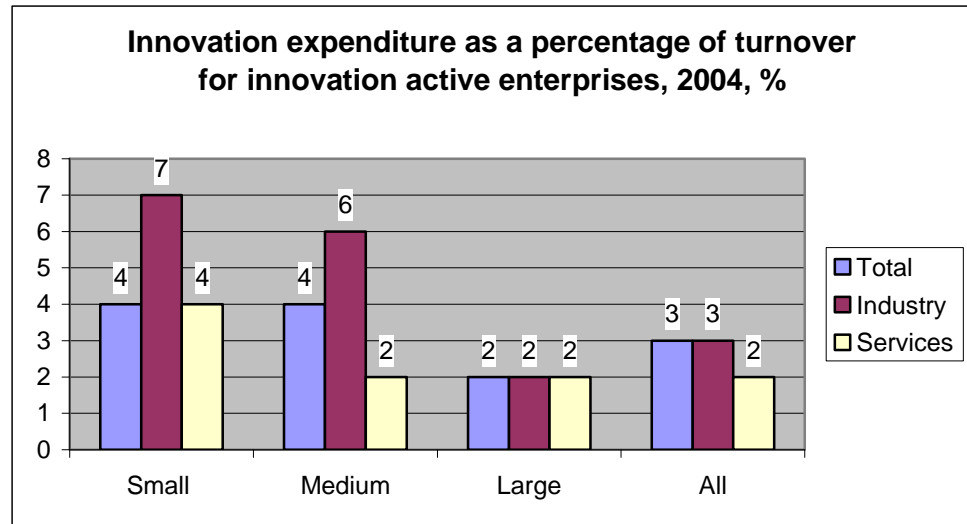


Figure 3. Source: Eurostat: Innovation activity in the new Member States and Candidate Countries, 2004.

Lithuanian SMEs in 2004 had 6.5 % of innovation expenditure as a percentage of turnover in industry sector and 3 % of innovation expenditure in services sector as a percentage of turnover (see Figure 3). Such differences existed in most of analysed countries of EU in 2004 (Eurostat, 2004). The analysed data allow foresee that Lithuania is not strong enough in economic development of modern SMEs and that conditions rather big rates of migration flows from Lithuania (2003 – 1.4 %, and in 2005 and 2006 the rates are growing).

Conclusions

1. New features of entrepreneurship are developing near the existing entrepreneurship's characteristics. Modernity of entrepreneurship has such main features as sociability (social responsibility), competitiveness, progressiveness, knowledge generation and utilization, innovativeness, dynamism and seeks for business benefits creating social value (responsible entrepreneurship).
2. Social responsibility of the organization enforce the representatives of business be responsible for their activity and made decisions. Now social responsibility is understood as benefit for the firm and for society.
3. Competitiveness and progressiveness as features of modernity of entrepreneurship are straightly connected with sustainable development dimensions' implementation in entrepreneurial enterprises.
4. SMEs in KBE are eager to make research by themselves, creating innovation, new technologies, and utilize new knowledge. Innovativeness of SMEs is especially bounded by lack of finance, management difficulties, work force problems, and lack of information.
5. Dynamism of entrepreneurial enterprises is essential in fast developing economic conditions for creating and using new knowledge. Dynamism of modern entrepreneurial enterprises is essential in fast developing economic conditions.

6. Modern entrepreneurship should slow down migration flows. Citizens involved in entrepreneurial SMEs activity have less true wish to leave their native country and migrate seeking better living conditions in abroad countries. The role of governments is to make programmes of pulling back the knowledge workers to their native countries and making favorable conditions for entrepreneurial business start-up.
7. Although EU citizens as well as Lithuanians are not very interested to be self-employed, but the number of SMEs is high. In Lithuania SMEs consisted 99.4 % of all enterprises in 2003.
8. In Lithuania SMEs are less innovative than large enterprises. Lithuanian SMEs with innovative activity and the results showing innovative actions are in the middle of the EU countries; sometimes the ratios are above the average. Migration flows are rather high also.

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