

# The Principles of Entrepreneurship and Innovation in Local SME's

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## Abstract

This research paper seeks to clarify the importance and at the same time the multidimensional role that the business process can play, as well as the implementation of innovative approaches to the survival of small and medium-sized enterprises. The present study is devoted to two case studies derived from the small-medium business spectra of the Paphos area in Cyprus; a Cypriotdelights company and a wine production company. The methodology of the research was qualitative method with the use of interviews and observations. The results showed that in both organizations the entrepreneurs showed valuable skills, related to the field of entrepreneurship and innovation, a fact that help the organizations themselves to survive and also increase their profits.

## Keywords

SME's, Entrepreneurship, Innovation, Survival

## I. Introduction

Nowadays, special emphasis is given to youth entrepreneurship and innovation, which is considered as an essential way out of the difficulty of unemployment that young graduates usually face. This problem unfortunately seems to be international. An example of this problem is the case of the Cypriot business environment. Therefore, this issue needs an in depth study, mainly at the local level, or even better at the level of the organization itself that is facing difficulties or even survival problems. This effort seems to be necessary, as it will be able to trigger the movement of the local market and consequently to address the unemployment that mainly plagues the young graduates.

## II. Literature Review

In this section the authors refer to the definitions of the terms entrepreneurship and innovation respectively, the types of entrepreneurship and the business process and the forms and types of innovation.

Entrepreneurship is particularly important not only for the entrepreneurs themselves, but also for the economy of a country in general. The aim of entrepreneurship is twofold. It promotes not only the stimulation of innovation and competitiveness of each country, but also the development of new jobs. However, entrepreneurship is a very well discussed issue with a multidimensional, almost mythical concept.

Despite the fact that there are several definitions of entrepreneurship in the international literature [3, 5, 8], the authors refer first to a historical review of the term. Entrepreneurship, as a term, has been the subject of debate since ancient times in all societies, but an internationally accepted definition has not yet been drafted. Thus, this article will propose its own definition of the term.

Making a historical review, we found that the use of the term "entrepreneurship" dates back to ancient Greece. Specifically, Xenophon in his research "Economically", believed that the increase in production is due to the constructive increase of production factors rather than their available quality. He

proposed the increase of revenues by cities, which must behave as entrepreneurs [9]. Similarly, the ancient Greek Plato studied the entrepreneurship, though in caution. He proposed the controlled accumulation of money, aiming at meeting basic human needs and supporting the common ownership and equality of citizens, while the state played a controlling role regarding transactions and wealth [1] Opposing to Plato, Aristotle embraces the view that personal interest and wealth prevail come first, while clever business ideas lead to profit.

The aforementioned, remarkable views of the ancient Greek writers seem to strongly reflect the views of the Roman writers. It has been proven, therefore, that Roman writers did not contribute significantly to the explanation of the meaning of the term entrepreneurship, nevertheless they indirectly directed entrepreneurship and the economy in general with the legal system that they established [13].

Examining the historical evolution of the term entrepreneurship, we move on to Christian theology, which initially examined critically all the kinds of business activities that could have moral consequences. Nevertheless, Christian theology progressively recognized and accepted the contribution of entrepreneurship to the development of society itself.

During the 18th century, entrepreneurship had a purely economic connotation and was related to the threat posed by the purchase of raw materials and products; at fixed prices and their sale at indefinite prices. The truth is that this concept expanded over the following centuries, when it included the management of productive factors. Thus, around the beginning of the 20th century, entrepreneurship was conceptually enriched with the dimension of innovation [7].

According to a more modern opinion, entrepreneurship is a way of thinking and a way of life at the same time. It is the driving force that pushes people to change, to design new roads and to promote innovative developments [11].

In view of the above, one could therefore define entrepreneurship as the "cleverness / intelligence one has, so as to be able to cope with market changes, to innovate, to be able to manage change and to invent new values, products and services".

However, studying in depth the dimensions of the concept of entrepreneurship, we found that there are two types of entrepreneurship: Intrapreneurship, which grows from the members of an existing organization and entrepreneurship that seeks to form a new business (start-up). In the latter case, we sometimes refer to opportunity entrepreneurship (identification and exploitation of a specific opportunity) and sometimes to necessity entrepreneurship (mandatory choice of entrepreneurship as a means of livelihood) [15].

In addition, we believe that it would be necessary to note the view that the entrepreneur in order to start the business process must firstly have an innovative business idea. He/she will use this opportunity to start up his/her business. Then he/she has to research and gather all the possible data related to this activity and prepare the creation of the organization. A very important factor is

to ensure all the necessary resources that the organization needs for its operation. Finally, the entrepreneur should have the power to leave part or all of his/her organization if such conditions exist. Moreover, proceeding in depth to the analysis of the concept, we find that the business process, according to Bandis (2012), consists of the following stages:

- Recognition of a business idea and evaluation of opportunities
- Creating the right business plan
- Finding and obtaining necessary resources
- Creating the business
- Spread of the business
- Exit from business

The view of Bandis (2012) is remarkable, as it has the ability to offer the basic guidelines regarding the steps that a company could follow in order to give immediate priority to its amalgamation. In addition to clarifying the term entrepreneurship, we consider it equally necessary for the subsequent progress of this research to refer to the term innovation. The term entrepreneurship is therefore directly related to the clarification of the term “innovation”, a process that could be described as a necessary condition for the existence of entrepreneurship.

Innovation, then, is defined as a process by which entrepreneurs transform a new idea into an idea that is commercially viable. It is the formation and use of a new technology and knowledge that results in the design and development of a new product or service, which finds a positive response in the market. In essence, innovation in organizations is usually associated with new products or services, but may also be associated with new processes [14].

This term is very important for the survival of a company, so it must be constantly in the mind of every entrepreneur if he wants to prosper and constantly strengthen his organization. The statements of Freeman, [6] are not accidental, after all who stated that “not to innovate means to die” [4].

An organization can promote and implement two essential forms of innovation, based on the sector in which it operates. These forms are: product / service innovation and process innovation. On the one hand, product or service innovation is essentially refers to new or upgraded products and services. Process innovation, on the other hand, concerns new or improved processes of the organization, related to changes in its organizational structure. It is significant, however, that in addition to the above, the [10] distinguishes two other types of innovation: Marketing innovation and organizational innovation. Marketing innovation is defined as the application of a new marketing method that involves significant changes in product design or packaging, placement, promotion or pricing [10]. On the other hand, the term organizational innovation refers to the adoption of a new organizational method to the company’s business practices, workplace, organization or external relations [14].

### III. Methodology

In the present study, there were two key research questions focusing on the role that an entrepreneurship and innovation plan can play in overcoming any crisis and save a business. These questions were as follows:

1. How can entrepreneurship and innovation help the small and medium-sized enterprises to survive after a period of economic crisis?
2. In which ways can small and medium-sized enterprises innovate?

In answering the research questions of the research, the authors chose to use qualitative methodology and more specifically the use of the case study. The present study examines, firstly, the case of a small and medium-sized Cypriot delight production company in Paphos and secondly, the case of a small and medium-sized wine production company in Paphos. The case study focuses on questions such as “How?”, “Who?”, “Why?” and “What?”.

In the present case study additional research tools were used, such as observation, interview and diaries. In short, case study allows the researcher to examine a subject by conducting holistic research based on real-life facts [18].

Nevertheless, some researchers question the use of the case study because it studies individual facts [2]. In addition, it is characterized by a lack of accuracy and methodology and often causes confusion between case study research and case study teaching [14]. Furthermore, there may be difficulty in conducting the case study, as participants may not agree to take part in such a participatory study [12].

Despite the weaknesses involved in applying the case study, we believe that it can be valuable in answering the research questions mentioned above, as it may reveal some hidden aspects of the subject. We hope that this effort will bring to light the particular problems faced by the two small and medium-sized enterprises under investigation and therefore give the opportunity, at a later stage, to solve the problems identified during the research at their organization. We consider each organization to be a different and special case, which leads us to the conclusion that it needs individualized study and specific strategies to solve the problems that it faces. We believe that such an effort can be made by adopting the theories of the case study.

In the case of the present study, it is pointed out that before conducting the case study, an in-depth study on entrepreneurship and innovation as well as on new information technologies has been carried out in the first stage. It is also worth noting that the researchers were for a long time at the premises of the two organizations in which the case study was conducted, mainly aiming to observe all the processes related to the operation of the companies. In particular, they kept notes in a diary and conducted observations and interviews with the directors of both organizations.

### IV. Results and Discussion

The analysis of the qualitative data collected by the observations and interviews gave remarkable results. With the completion of this research, the results gave evidence that in both organizations the entrepreneurs showed valuable skills, related to the field of entrepreneurship and innovation. Most importantly, they showed diligence and tolerance in the difficulties caused by the economic crisis in Cyprus. Secondly, the aforementioned companies demonstrated visionary and realistic programming skills, which helped them to maintain their competitive advantage. Thirdly, adaptability and broadmindedness to change under existing conditions was a point to which both organizations gave importance. Fourthly, they were motivated by the distinction in their field, as well as the further development of their business. Finally, they used such methodology in order to deal with or

reduce the risk within controlled probabilities.

It would be an omission, however, not to mention the fact that in both companies, entrepreneurs tried to come up with new innovative ideas. More specifically, every entrepreneur utilized the knowledge he has, as well as every opportunity in order to maximise their profit in the competitive market. Eventually, the entrepreneur of each company acted as an innovator.

In addition, efforts were made to find solutions at the various stages of their production. The use of innovative machines helped the creation of new products. Furthermore, both organizations adopted ready-made inventions which were developed in various research and development departments of other companies.

In conclusion, the results of this research argue that in both organizations the followings were observed: review of their production process, exploitation of an invention or a technical possibility in general, revolution in the production of a new product, improvement of the production of an older product with new methods and introduction of quality management and control systems (eg ISO).

As shown in the diagram below, the innovation was based on:

1. the strategy of integrating new methods of production and organization of the organization,
2. the strategy of searching and integrating into new markets and
3. the strategy of creating new or improving existing goods.

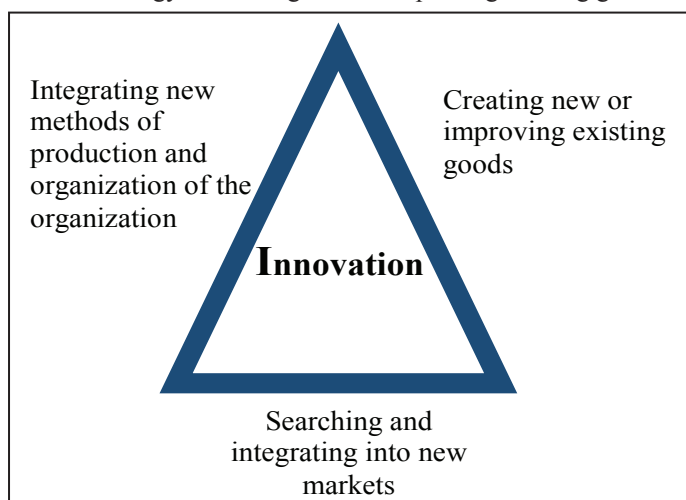


Fig. 1:

## V. Conclusion and Recommendations

Concluding the research process, we have found that the effort described above has led to the achievement of its objectives, since it seems that the two surveyed small and medium enterprises have managed to survive and maximise their profits by adopting entrepreneurship and innovation.

Of course, in this effort, we found that the contribution of the Cypriot government was also essential, which admittedly has taken some steps in the right directions with the main concern being the Cultivation of the Business Ecosystem in Cyprus.

However, we strongly emphasise that the process of improving the business environment and at the same time increasing productivity and innovation must be a continuous process, taking into account the fact that technology is developing rapidly every day. Therefore, the policy of the Ministry regarding the strengthening of the triptych of cooperation between the public sector, companies, academia

and the research community finds us in complete agreement.

However, we could not ignore the fact that innovation activities in Cyprus are still in the early stage. It is also worth noting that there is no Business Innovation Centre in Cyprus, equivalent to the 150 such centres that exist in the EU. In addition, there is no material infrastructure such as, for example, building innovation complexes. Therefore, it is necessary to create a Centre for Business Innovation, a Technology Park, as well as to encourage the participation of both businesses and universities in the development of entrepreneurship and innovation.

In addition, it is necessary to promote the creation of University Companies (spin-off), which will aim to operate as incubators and applied research centres of universities. In addition, access to a financing plan should be enhanced by setting up a support and information office, which will assist the public in both finding institutional investors (venture capital) and accessing alternative sources of funding, as well as optimizing the framework for EU co-financing.

At the same time, we believe that the creation of a crowd-funding platform will go a long way in promoting innovation. Finally, finding complementary sponsorships from the Research Promotion Foundation (RRF) could play an important role in developing and promoting innovation.

In summary, we believe that it is necessary to create an integrated national system for monitoring and evaluating the economy, and the business ecosystem of Cyprus. Internationally recognized standards and benchmarks such as the GEM (Global Entrepreneurship Monitor) and GEDI (Global Entrepreneurship and Development Index) must be utilized. In addition, it is commanding to create such a strategy that promotes and utilizes new Information and Communication Technologies (ICT). More specifically, efforts should be made to reduce the administrative burden (e-Government / Digitization), create an e-Business Platform, eliminate bureaucracy by upgrading IT systems and create computerized systems, for example, for financing and securing applications. It is also necessary to use a competitive tax framework for the purpose of electronic payment of contributions and the signing of agreements to avoid double taxation.

Finally, we hope that this research will provide some basic guidelines to underline the role of new information and communication technologies in the effort to find ways to strengthen the business process and implement innovative solutions with increased chances of success for small and medium enterprises.

Of course, there is always room for improvement and further research. In the case of a new research on a similar subject, we would propose to create a survey, which would identify specific applications or programs which can be adopted in small and medium-sized enterprises. Based on these programs, the small and medium sized businesses could be strengthened by using specific IT science applications, which are always designed and used based on individual needs of each business.

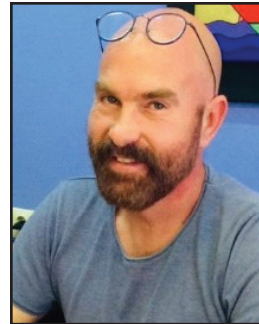
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