



ΠΑΝΕΠΙΣΤΗΜΙΟ ΠΕΛΟΠΟΝΝΗΣΟΥ
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PhD Thesis

**Entrepreneurship and Competitiveness through the lens of the Institutional
Analysis: The Case of Cyprus**

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ΠΕΡΙΛΗΨΗ

Η παρούσα διατριβή εξετάζει την επιχειρηματικότητα και την ανταγωνιστικότητα υπό το πρίσμα της θεσμικής ανάλυσης. Η εφαρμογή γίνεται πάνω στις μικρομεσαίες και οικογενειακές επιχειρήσεις με πεδίο εφαρμογής την περίπτωση της Κύπρου. Η διατριβή απαντά σε τρία ερευνητικά ερωτήματα και σε τρεις υποθέσεις. Συγκεκριμένα τα ερωτήματα είναι τα εξής: Πώς οι θεσμοί και γενικότερα οι θεσμικές διεργασίες επηρεάζουν την επιχειρηματικότητα σε επίπεδο μικρομεσαίων επιχειρήσεων και κατ' επέκταση την ανταγωνιστικότητα των χωρών, ποιος ο ρόλος της νεανικής επιχειρηματικότητας και σε ποιο βαθμό οι μικρομεσαίες επιχειρήσεις ανταποκρίνονται σε καινοτομικές εφαρμογές και δραστηριότητες. Οι υποθέσεις είναι οι εξής: Η ποιότητα των θεσμών επηρεάζει την ανάπτυξη της επιχειρηματικότητας και κατ' επέκταση την ανταγωνιστική θέση μιας χώρας, οι μικρομεσαίες επιχειρήσεις επηρεάζονται από την ποιότητα των θεσμών και η θεσμική ανεπάρκεια οδηγεί σε καινοτομική κόπωση. Η μεθοδολογία που ακολουθείται είναι πολυεπίπεδη και χρησιμοποιούνται τόσο ποιοτικές όσο και ποσοτικές προσεγγίσεις.

ABSTRACT

This thesis focuses on three key questions and three assumptions, which tackle entrepreneurship and competitiveness through the pillars of young entrepreneurship and innovation in SMEs, always under the lens of the institutional approach. More specifically, the research questions of this study are the following: How do institutions and, in general, institutional processes, affect entrepreneurship on the SME level and, hence, competitiveness on the country level, how can the analysis of young entrepreneurship promote our understanding of the overall web of entrepreneurship from an institutional point of view and to what degree do SMEs respond to innovative applications and activities. Moreover, the study takes on the following three research assumptions: The quality of institutions affects the development of entrepreneurship and, hence, a country's competitive position, Small and medium-sized enterprises are affected by the quality of institutions and Institutional inefficiency leads to innovation fatigue. The methodology is based on specific data collection techniques that will answer the questions and assumptions of this study by using both qualitative and quantitative approaches.

CERTIFICATE OF RESEARCH

This is to certify that, except where specific assistance and reference is made, the work within this doctorate is the result of investigations and research by the candidate. Neither this thesis, nor any part of it, has been presented or is being currently submitted for any other degree at any other university.

Sunday, April 14, 2019

Signature

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GLOSSARY

SMEs	Small and medium-sized enterprises
GEM	Global Entrepreneurship Monitor
GEDI	Global Entrepreneurship Index of the Global Entrepreneurship and Development Institute
STEM	Science, Technology, Engineering and Mathematics
GII	Global Innovation Index
GCI	Global Competitiveness Index
ESAA	State's supreme advisory body
OSAC	Overseas Security Advisory Council
EMU	Economic and Monetary Union
ECB	European Central Bank
CYSTAT	Statistical Service of Cyprus
PRCM	PRCM approach
PESTEL	PESTEL approach
CEDEFOP	European Centre for the Development of Vocational Training

Chapter 1

Introduction

1.1. Introductory Note: Purposes, central questions, and assumptions of this study

Entrepreneurship and, by extension, its interrelated fields, constitute, in my opinion, a subject that is both topical and timeless, since institutions and the various institutional processes have always been affecting the development of countries and, consequently, people. People are, after all, the most essential cell of the entrepreneurial process. Everything revolves around people, their actions and their decisions. For this reason, as we will also see below, entrepreneurship and competitiveness are examined, in this study, under the lens of the institutional perspective, precisely because we want to place people at the epicentre of our analysis.

Especially today, during a period of institutional rearrangement and change, entrepreneurship becomes the focus of interest. In some cases, these rearrangements give rise to inequalities, and in some other cases they create prosperity, as well as other forms of growth, e.g. of an aggregate nature, growth of certain market sectors, market shifts etc. That said, the purpose of this study, as explained below in the research questions section, is to capture these changes in entrepreneurship, as well as the way that institutions [after discussing the conceptual framework regarding institutions and, by extension, the applicable/methodological framework elaborated in Chapter 4] play their own, formal or informal, role in these processes.

Institutional processes on one hand, and the various governmental or regulatory decisions on the other, have been now and again influencing a country's economic and, by extension, social framework. Entrepreneurship, being a critical activity for economic and social development, has always been affected by these processes.

This thesis focuses on the case of Cyprus, as an island country with particular institutional, political, and economic characteristics¹, which are discussed in detail in the following chapter. Using the Turkish invasion of 1974 as a starting point and as a key feature of the island's modern history, we identify certain interesting institutional characteristics as regards entrepreneurial development. Moreover, our focus is on family businesses, as well as small and medium-sized enterprises (SMEs), since it is our key position that these entities comprise the backbone of the economy and, consequently, provide the basis for enhancing national competitiveness. Of course, the scope of application to other cases is analysed in detail in the last chapter of this discussion.

This thesis focuses on three key questions and three assumptions, which tackle entrepreneurship and competitiveness through the pillars of young entrepreneurship and innovation in SMEs, always under the lens of the institutional approach.

¹ See: Hanappi, Katsikides and Scholz-Wäckerle (2017).

More specifically, the research **questions** of this study are the following:

Q1: How do institutions and, in general, institutional processes, affect entrepreneurship on the SME level and, hence, competitiveness on the country level?

Q2: How can the analysis of young entrepreneurship promote our understanding of the overall web of entrepreneurship from an institutional point of view?

Q3: To what degree do SMEs respond to innovative applications and activities?

Moreover, the study takes on the following three research **assumptions**:

A1: The quality of institutions affects the development of entrepreneurship and, hence, a country's competitive position.

A2: Small and medium-sized enterprises are affected by the quality of institutions.

A3: Institutional inefficiency leads to innovation fatigue.

The above research questions and assumptions are answered in this study through a comprehensive and interesting methodological framework, which was built with the sole purpose of tackling the subject of entrepreneurship from its institutional perspective, and is described in detail in Chapter 4. Analysis is carried out in Chapters 5 and 6.

1.2. Analytical framework: Institutionalism, entrepreneurship, and innovation

Entrepreneurship is very important, not only for the entrepreneurs themselves, but for a country's economy in general. It essentially helps boost innovation and competitiveness in every country, and facilitates the creation of new jobs and new opportunities, especially for young people. It is not, after all, a coincidence that a large part of this thesis deals with the subject of young entrepreneurship, precisely because entrepreneurship is also of concern for young people, who are embarking on the process of creating their own business idea. As an introduction, though, let's start from the concept of entrepreneurship.

As it is well known, international literature contains many definitions of entrepreneurship that have stood the test of time (Knight 1921; Drucker 1970; Bolton and Thompson 2000; Onuoha 2007) and will be extensively discussed in the literature review. We could say that entrepreneurship is the living cell of the economy. Entrepreneurship, as a term, has been the subject of discussion in all societies since antiquity, and, indeed, from many perspectives, albeit an internationally accepted definition has yet to be determined. This is exactly what is happening with the concept of marketing. Precisely because these are dynamic and changing –as a result of exogenous factors– terms, they are in constant need of renewal and new explanatory approaches.

Going back, we can see that the use of the term is dated from ancient times. More specifically, Xenophon, in his work "Oeconomicus" argues that production growth is not due availability of the factors of production, but to their constructive increase. This view can also be found in modern economics. Moreover, Xenophon suggests that cities should increase their incomes, acting as entrepreneurs (Korres, 2015). This view can also be

compared with today's public finances and the management of resources by the general and local governments.

It is worth noting that Plato also dealt with the issue of entrepreneurship, taking a cautious view towards, and proposing the regulated accumulation of, money, which aims at covering elementary human needs, and arguing in favour of the community of goods and equality among citizens, with the state acting as the overseer of transactions and wealth (Antypas, Anagnostou, and Batsolaki, 2012). Taking a contrary view to Plato, Aristotle embraces the idea that individual interest and wealth take precedence, while smart business ideas lead to profit (Aristotle, *Politics*, A2, 10-13). It is interesting to see that "smart ideas" in business are not only a concern of our modern era, but has been a concern since ancient times. This means a lot of things. First of all, it indicates the existence of market competition in ancient times, as well as the entrepreneurs' need to differentiate from the competition in order to be viable.

Apparently, the aforementioned remarkable opinions of ancient Greek writers are reflected strongly in the opinions of Roman writers as well. Therefore, although Roman writers did not make a major contribution to explaining the meaning of the word, they indirectly steered entrepreneurship and, in general, the economy through the legal system² they established (Antypas, Anagnostou, and Batsolaki, 2012). Therefore, we could say that issues pertaining to the legal regulation of business have been a human concern since ancient times.

Our review of the historical evolution of the term entrepreneurship over time also brings us to Christian theology, which initially took a critical stance towards all kinds of entrepreneurial action that could have consequences of a moral nature. That said, Christian theology gradually recognised the contribution of entrepreneurship to the development of society, since churches have long been undertaking business activities in various sectors.

In the 18th century, entrepreneurship had a purely economic hue, and was related to the risk inherent in the purchase of raw materials, commodities, etc. in fixed prices and their sale in uncertain prices. As a matter of fact, this concept was broadened in the course of the following centuries, when it included the management of the factors of production. Thus, in early 20th century, entrepreneurship was conceptually enriched with the dimension of innovation. This is precisely the reason why the concept of innovation is thoroughly discussed in this thesis.

Based on its historical evolution across societies, we could say the entrepreneurship is a way of thinking and, at the same time, a way of living. It is the force that drives people to change, to open new vistas, and precipitate developments that precede their time, irrespective of result.

Therefore, taking the above into account, one could define entrepreneurship as "the versatility/intelligence required for being able to cope with changes in the market, innovate,

² See: Bitros and Karayiannis (2008); Ricketts (2006); Abrutyn (2015); Witty (2017).

manage change, and invent new values.” All these issues are extensively analysed and discussed in this thesis. For example, the subject of “intelligence” and whether it helps to develop a business, as well as whether it is a major factor for an enterprise’s success – or the subject of the entrepreneurs’ versatility and whether they are able to handle and resolve difficult situations, or whether they are inventive, i.e. able to innovate. All these are thoroughly analysed in Chapter 5.

That said, by looking deep into the dimensions of the concept of entrepreneurship we can see that there are two types of entrepreneurship: intrapreneurship, which is driven by the members of an existing organisation and aims at its growth and development; and start-up entrepreneurship. In the latter case, we either refer to opportunity-driven entrepreneurship (identification and exploitation of a specific opportunity), i.e. whether the gaps in the market allow the creation of a new enterprise in a specific sector, or to necessity-driven entrepreneurship, i.e. having no other option apart from choosing entrepreneurship as a means for making a living and developing a long-term plan of business sustainability (Petrakis, 2004). The primary focus of this thesis is start-up entrepreneurship and the effect of institutional processes on such ventures.

Moreover, we believe that it would be necessary to point out that, in order to set the entrepreneurial process in motion, the entrepreneur must, first of all, have a business idea that will trigger the creation of a business venture. The original idea is the driver of any subsequent planning. It will be the motivation for starting one’s business activity. After all, it should be pointed out here that, because of the emphasis placed on the original idea, this thesis mostly focuses on the initial stages of an enterprise’s creation. This is, after all, the reason why the institutional factor enters the discussion: Precisely because, by conducting an institutional analysis, we can also determine, from an institutional point of view, the ease or difficulty of setting up and maintaining a business.

Then, the entrepreneur must study and gather all the data pertaining to this activity, and get ready to set up their own organisation. A key prerequisite is to secure all the resources required for the operation of this organisation. Finally, the entrepreneur should possess the strength required for quitting part, or the whole, of their organisation, if dictated by circumstances.

Delving deeper into the analysis of this concept, however, we establish, as we will also see further in this study, that the entrepreneurial process comprises the following stages:

1. Identifying a business idea and assessing opportunities;
2. Drawing the appropriate business plan;
3. Finding and acquiring the necessary resources;
4. Setting up the business;
5. Expanding the business;
6. Exiting the business activity.

In essence, these stages represent the basic guidelines regarding the steps that an enterprise could follow, having its consolidation as its top priority.

Apart from defining entrepreneurship as a term, we believe that it is equally necessary for the further course of this research, to refer to the term “innovation.” Thus, entrepreneurship is directly linked to the definition of the term “innovation”, which could be considered to be a necessary condition for the existence of entrepreneurship.

Thus, innovation is defined as a process by means of which entrepreneurs transform a new idea into a commercially exploitable one. It is the formation and use of new technology and knowledge, which results into the development of a new product or service that elicits a positive response from the market. In the context of organisations, innovation is, in effect, usually related to new products or services, albeit it can also be linked to new processes (Tomala and Seneccal, 2004).

This concept is extremely important for the survival of an enterprise, and this is why it should be a permanent concern of every entrepreneur, assuming, of course, that they wish for their organisation’s uninterrupted prosperity and growth.

An organisation can promote and realise two essential types of innovation, depending on the sector it is operating in. These types are: product/service innovation, and process innovation. This research elaborates on these types, as well as other types of innovation, which are discussed in Chapter 6.

For example, the Oslo Manual (2005)³ recognized two further types of innovation, apart from those mentioned above: marketing innovation and organisational innovation. Marketing innovation is defined as “the implementation of a new marketing method involving significant changes in product design or packaging, product placement, product promotion or pricing” (Oslo Manual, 2005a or b: 49). On the other hand, the term organisational innovation refers to “the implementation of a new organizational method in the firm’s business practices, workplace organisation or external relations” (Oslo Manual, 2005, p. 51).

That said, the concept of institutionalism has prevailed in the various economic and business debates of the past few decades, albeit this trend is of a dual interest: The concept of competitiveness prevails is, on one hand, a topic of economic analysis and, on the other hand, an element that is affected by institutional processes. Both entrepreneurship and competitiveness are dynamic and multifaceted concepts, which will of increasing concern for the local, national, and international business forums. What is really important is to establish a discussion that will facilitate the reform of our growth model, based on anthropocentric policies.

³ See: Guidelines for Collecting, Reporting and Using Data on Innovation, 4th Edition.

1.3. Measuring entrepreneurship and its related concepts - Indicators

One of the issues that must be tackled in advance is the how to measure entrepreneurship. It is important to provide a basic outline of the most important measures of entrepreneurship. As a matter of fact, one of the main research objectives of this thesis is to work out –through data collection and analysis– certain variables for measuring entrepreneurship.

A well-known measure is the Global Entrepreneurship Monitor (GEM), which, in effect, comprises many variables that link entrepreneurship to economic growth. Data collection includes interviews with international market representatives, from a sample of more than 200,000 questionnaires per annum. The interest of this indicator lies in the fact that it does not concentrate only on purely economic data, but also touches upon institutional variables, for example cultural and social norms. Moreover, special emphasis is placed on the subject of young entrepreneurship. It also classifies entrepreneurs into various categories, for example early-stage entrepreneurs, established entrepreneurs, and potential entrepreneurs, providing an outline of the features of each category.

Here are some interesting examples regarding the GEM index for the period 2017-2018: In terms of entrepreneurial education at school stage, Cyprus is ranked 34th among 54 countries, below Israel, the United Arab Emirates, France and so forth. Greece is ranked 40th. Entrepreneurial education is of particular interest here, since it helps young people learn about entrepreneurship and its practical applications. This thesis also discusses various issues that are related to this subject, and are mainly covered by the questionnaire on young entrepreneurship.

The GEM survey also deals with young entrepreneurship, one of the key axes of this thesis. More specifically, the GEM survey classifies young entrepreneurship under “early-stage entrepreneurial activity” and concludes, that “entrepreneurs aged 25-34 and 35-44 are the most active entrepreneurs across all 3 development phases.” An interesting fact, however, is that the Latin America and Caribbean region shows the highest young entrepreneurship rate, at 16.5%, followed by North America with 14%. Europe exhibits the lowest rates.

The GEM survey connects entrepreneurship training programmes with the incentives given, and, by extension, with each country’s rates regarding the business activity of young people. Moreover, the GEM survey divides training programmes into primary education, secondary education, lifelong learning, as well as higher education programmes. More specifically, the GEM report 2017-2018 says that educational institutions, irrespective of level, should develop and encourage entrepreneurship programmes as early as the elementary school stage, creating programmes and internships that involve students in entrepreneurial activities. The GEM indicator also takes into account the background of the instructors/teachers, the curriculum of the programmes, the duration of the training programmes, the provision of training materials through digital platforms etc.

Therefore, it is obvious that training programmes are considered to be very important as regards –mainly– young entrepreneurship, and, accordingly, that the development of young

entrepreneurship is considered to be very important for the development of a region and, by extension, a country.

The GEM survey also tackles a multitude of other issues, such as the motivation for early-stage entrepreneurial activity, classifying Cyprus among the countries where motivation is linked with innovation. This category also includes, for example, Italy, Greece, Taiwan, Australia, Israel, Korea, and the United States.

Another measure of international entrepreneurship is the Global Entrepreneurship Index of the Global Entrepreneurship and Development Institute (GEDI). This index essentially examines 14 pillars of entrepreneurship, and more specifically:

1. **Opportunity start-up:** Is the population of a country capable of identifying and understanding the opportunities that exist in the entrepreneurship ecosystem and start a business?
2. **Start-up skills:** Does the population of a country have the necessary skills that will help them plan and create a new business?
3. **Risk acceptance:** This pillar examines, on one hand, whether people are willing to take the risk of starting a new business and, on the other hand, whether the market environment (financial and institutional) is helpful or not, i.e. if it adds risk or otherwise.
4. **Networking:** This pillar examines whether entrepreneurs know each other, whether there are partnerships and synergies that benefit the business, and how –i.e. according to what criteria– do entrepreneurs create their own network.
5. **Cultural support:** This is a purely institutional variable. The question here is whether corruption makes it difficult to start a new business and, in general, how does the country view entrepreneurship.
6. **Opportunity start-up:** Refers to whether entrepreneurs are motivated by opportunities to create.
7. **Technology absorption:** Technology is a crucial factor of entrepreneurship. After all, as we will discuss below, it is directly related to innovation. In this case, the index examines whether a country's technology sector is capable of supporting businesses on various levels.
8. **Human capital:** This pillar examines the training and specialisation of human resources.
9. **Competition:** In this case, competition is mainly viewed from a marketing perspective. More specifically, the index answers the question of whether entrepreneurs create unique products and services in order to be able to compete.
10. **Product innovation:** This pillar is linked with the previous one, as well as with pillar 7, regarding technology. Innovation is what makes a product unique. In this case, the question is whether the country is able to develop new products and integrate new technology.

11. **Process innovation:** This pillar involves two parameters: first, whether businesses use new technologies in their processes and, second, whether they are able to access high quality human capital in STEM fields.
12. **High growth:** In this case, the index answers the following question: Do business intend to grow and have the strategic capacity to achieve this growth? Therefore, in this instance the index connects the growth of a business with the strategic planning capacity it possesses.
13. **Internationalisation:** This pillar examines whether businesses contemplate entering, and actually wish to enter, global markets and whether the environment of the country is conducive to that, especially as regards the production of new ideas.
14. **Risk capital:** The last pillar of the Global Entrepreneurship Index tries to answer the question of whether capital is available from both individual and institutional investors.

That said, it is very interesting to observe that, instead of overlooking the institutional factor, both the above indicators place great emphasis on it, in order to approach the issue of entrepreneurship. Another, even more interesting, fact is that these indicators and, more specifically, the variables that compose them, can help us specify the meaning of the term “institutional factor”: for example, the issue of corruption, or the education and training of human resources, or the analysis of the wider market ecosystem from the cultural and social perspective. All these issues contribute to the institutional analysis of entrepreneurship.

As evident in the above indicators, innovation is central to entrepreneurship. Apart from the above measures of entrepreneurship, another interesting measure is the Global Innovation Index (GII), which exclusively deals with innovation. Its main feature is the its emphasis on energy innovations, such as innovation at the energy generation, energy transmission and distribution, energy consumption, and energy storage stages. On the other hand, it doesn’t fail to deal with institutions, since, according to the GII, institutions provide the framework for attracting new investment. More specifically, the GII index comprises 7 key pillars:

1. **Institutions:** The index emphasises on the regulatory framework for businesses and how this regulatory framework is reflected on the quality of services and the public sector. The index considers institutions to be important, since the business environment is essentially shaped by them,
2. **Human capital and research:** As stated above, the level and standard of entrepreneurship-related education is a major issue, which seems to be directly related to innovation as well. This index also includes research as a key element for the development of innovation.
3. **Infrastructure:** This pillar comprises three sub-categories: first, information and communication technologies, second, general infrastructure, and, third, ecological sustainability.

4. **Market sophistication:** This pillar analyses the overall market and environment, and whether it can support investment and help businesses compete in global markets and develop innovative business activities. Special emphasis is placed on whether the market protects minority investors from unfair competition.
5. **Business sophistication:** In contrast with the previous pillar, which deals with market sophistication, the fifth pillar deals with sophistication from the perspective of the enterprise. More specifically, it analyses the extent of the enterprises' ability to develop new innovative activities, products and services.
6. **Knowledge and technology outputs:** The enterprises' knowledge output is a key innovation-related sub-pillar, such as the creation of patents. Technology also plays a major role in this index, as in the previous pillars discussed above.
7. **Creative outputs:** Creativity is also related to the innovation of an enterprise. This is a subject that is not often encountered in the entrepreneurship studies. In this case, the GII index focuses on three sub-pillars: First, it examines intangible assets, such as trademarks, and business and organisational models. Second, it deals with creative goods and services, and third, with the use of smart applications, new technologies, and social networks.

Obviously, we should not overlook the concept of competitiveness, since it is directly related to entrepreneurship, and as such it is approached in this study. The above measures of entrepreneurship demonstrate that competition issues are, indeed, taken into consideration. For that matter, we wouldn't be able to approach the concept of entrepreneurship in a comprehensive manner without an analysis of competitiveness. Masourakis (2013), referring to the case of Greece, argues that the concept of national competitiveness is, after many years, at the forefront of economic developments, because Greece has been shut out of the markets since 2012 and is "amidst an effort to implement a programme for the readjustment of the economy" (p. 48). The same may be argued in the case of other countries, such as Cyprus.

The most standard measure of national competitiveness on the international level is the Global Competitiveness Index (GCI) of the World Economic Forum. According to the GCI report for the period 2017-2018, Cyprus is ranked in the 64th place (score: 4.30), while it is interesting to point out that in the previous report the country was ranked in the 83rd place. Greece is ranked 87th. The number one country in terms of competitiveness is Switzerland, followed by the United States, Singapore, the Netherlands, Germany, and Hong Kong. The country that ranked last in the report was Yemen.

What is really interesting, though, is the methodology employed by the GCI for measuring and comparing competitiveness across countries. Obviously, innovation is once again an important parameter, since it is used by the CGI as a key pillar. The competitiveness index is different from the previous ones, in the sense that it is more focused on growth- and development-related issues, for example unemployment, labour productivity, and household incomes, albeit without overlooking the institutional dimension. It also tackles

the issues pertaining to intergenerational equity and sustainability, for example, adjusted net savings, dependency ratios, public debt, and the carbon intensity of GDP.

The following graph illustrates the variables employed by the Global Competitiveness Index. It is evident that the institutional dimension is also present in the field of competitiveness. In fact, if we study the analysis of this index, we will see that it distinguishes between public and private institutions.

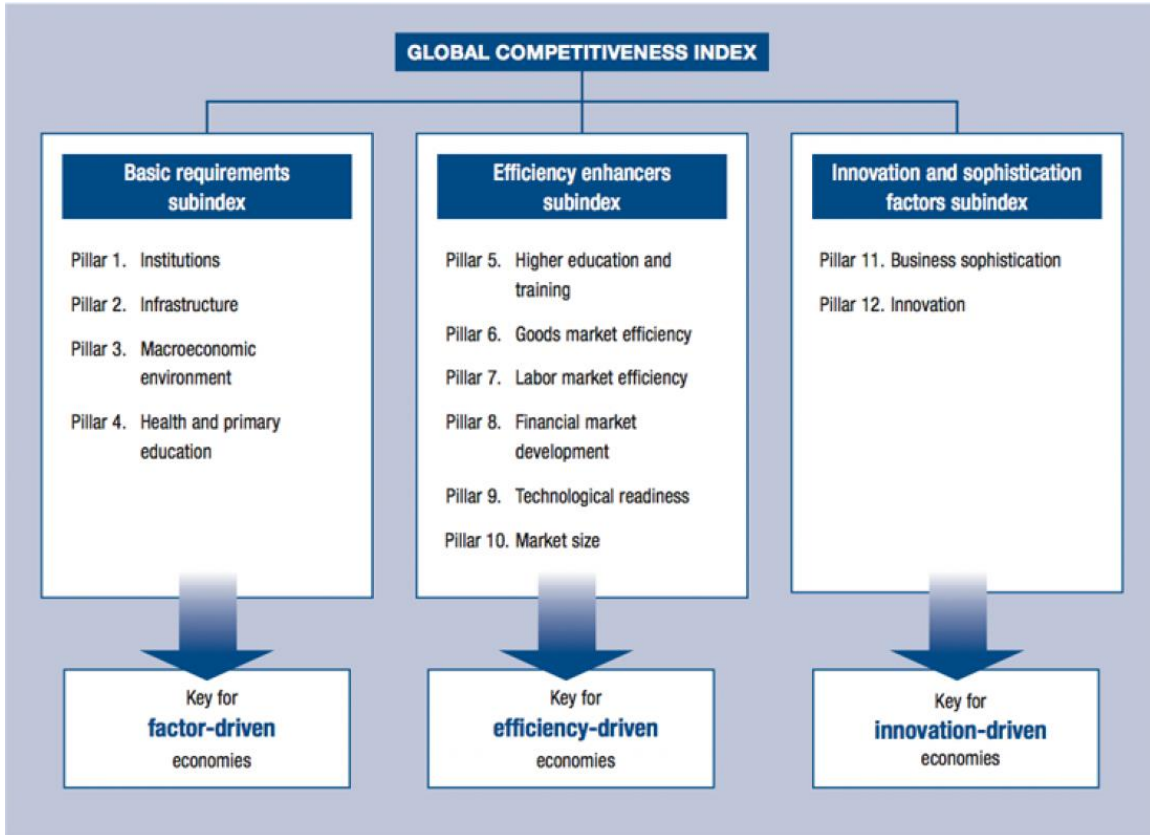


Figure 1.1 The Global Competitiveness Index framework.

Source: World Economic Forum

This index also covers innovation, which is actually related to technological capacity. That said, this index examines the technological variable separately; more specifically, it tries to ascertain whether technologies are adopted by individuals and businesses.

As in the case of the other measures mentioned above, the CGI also covers the subject of education, emphasising on on-the-job training, i.e. lifelong learning programmes aimed at improving the human resources of a specific sector.

As shown in the above graph, the GCI index also employs other variables for assessing competitiveness, such as the macroeconomic environment, infrastructure, the health variable, labour market efficiency, and financial market development.

In the case of Cyprus, we can see some peculiar competitiveness features, which enrich the further discussion in this study, such as, for example, the decline of the primary sector, which had been one of the key pillars of the Cypriot economy's competitiveness, as well as the transition to tourism and the moderate growth of the service sector, issues that are discussed in one of the following chapters, and were also mentioned above. Moreover, given these peculiar features of the national competitiveness of Cyprus, the issue of innovation in –mainly– small and medium-sized enterprises is approached in this study as one of the key ingredients of entrepreneurship.

According to the 2003 report of the National Council on Competitiveness and Development (ESAA), competitiveness refers to the ability to maintain and improve the living standards of a country's citizens –upgrading the business environment, enhancing employment and real cohesion, protecting and upgrading the environment, and continuously improving productivity– under globalisation conditions. Based on this approach of the ESAA, competitiveness does not concern only businesses, but also the economy and the citizen's everyday life. It is rather interesting that the discussion of competitiveness also includes the protection, as well as the sustainable development, of the natural environment.

The 2005 report is of particular interest, as the Council points out the following, as regards the case of Greece: “The overall conclusion of the Report is that, despite any positive developments in individual sectors of the Greek economy, for example exports, unemployment, and growth, in 2005 greater effort is required in order to cope with the chronic problems that have been accumulated, such as the government budget deficits, the public debt etc.” (ESAA, 2005).

The concept of national competitiveness is also discussed in a study titled “International competitiveness: Greece's position and proposals for a new growth course” by Galanos, Sklias, and Roukanas (2012), as well as in similar studies (Sklias and Roukanas, 2012; Rounakas and Galanos, 2012; Sklias and Tsampra, 2013), which are discussed in Chapter 3.

In addition, as far as national competitiveness is concerned, one of the key parameters is the level of knowledge and the procedures employed for utilising knowledge in various sectors. Snieška and Drakšaitė (2007) argue that the Knowledge Economy may facilitate the qualitative upgrading of the economy, create new business standards and models, and, by extension, improve national competitiveness. After all, as we will see in the following chapters, and as noted above, during the presentation of the various indicators, knowledge is directly related to both entrepreneurship and innovation.

Similar issues will be elaborated on and discussed in this study and, more specifically, in Chapter 3, such as the coupling of innovation and entrepreneurship, which is a key issue as regards the development of SMEs and, hence, a key issue as regards the development and modernisation of national competitiveness (Vliamos et al., 2009), along with more practical issues, pertaining to the implementation of innovation in the entrepreneurial chain (Valvi et. al., 2018).

For example, the technology sector creates novel opportunities for improving national competitiveness and many countries are investing in this direction, as is the case, for example, with Japan and other Asian economies after 1945 (Mowery & Oxley, 1995).

1.4. Originality parameters of this thesis

As also stated above, the originality of this research lies, first of all, in the fact that, by analysing the case under review, i.e. the case of Cyprus, we effectively highlight the role of the institutions along two parameters: First, the parameter of SMEs and, in general, entrepreneurship; and second,, the role of institutions as perceived by young people, i.e. from the perspective of young entrepreneurship, through the way the young people themselves perceive of the institutional factor, and how the institutional factor assists them in, or impedes them from, developing their own business activity. These data were obtained through the relevant questionnaires and focus group discussions. This is precisely where innovation is brought in the discussion as an integral part of entrepreneurship. This, of course, is the general axis of the originality of this study, and this is why the six originality axes are presented below in a more detailed and straightforward manner.

Originality also focuses on the case study selected for this research, i.e. the case of Cyprus. The peculiar and special characteristics of Cyprus and the Cypriot economy, in general, add originality to this research in their own right. These characteristics are, after all, extensively discussed on the institutional level, in one of the following chapters. For example, some of the issues that are discussed include the characteristics of the Cypriot economy or the political situation that emerged –mainly– from the Turkish invasion of 1974, the role of tourism and services, and the transition from the primary sector.

It should be noted here that the previous research efforts failed to highlight, in an adequate, detailed, and multifaceted manner, the role of institutions as regards SMEs and, in general, small and medium-sized, family, and young entrepreneurship. Therefore, originality also lies in this fact, i.e. that there are not similar studies or surveys about the Cypriot reality. Such an analysis can identify certain weaknesses of the Cypriot economy as regards the subject of small and medium-sized enterprises and entrepreneurship at large – since SMEs constitute the backbone of the Cypriot economy– or the institutional arrangements for setting up a new innovative business. At this point it is important to point out that Chapter 5, which includes the presentation of the analysis of small and medium-sized enterprises emphasising on young entrepreneurship, will also include a separate analysis on various business types and sectors, for example, tourist enterprises or primary sector enterprises; this is not done through the questionnaires, albeit through the data extracted from the focus group discussions. As also shown in our analysis, young people express their views on both entrepreneurship at large, and as regards specific sectors of entrepreneurship, such as tourism. Therefore, it will be also very interesting to see the distribution of institutional policies among various market sector, having, nonetheless, small (i.e. family) or medium-sized enterprises as the common denominator.

The analysis of the weaknesses will lead us to a comprehensive institutional framework, which will provide us with a useful tool for defining the small and medium-sized competitiveness of the Cypriot economy. There is also another important element, which refers to the productive base of the economy of Cyprus. A discussion and analysis of the productive base of the Cypriot economy is an original element in its own right, since there are no comprehensive surveys –at least to date– that, by employing comparative analysis, examine the productive base of the national economy of Cyprus, also given the fact that we have gone through various important historical phases, which obviously affected the country’s economy. At the end of Chapter 2, there is an extensive discussion of the characteristics of the Cypriot economy and the various periods that left their mark on it, leading to the current situation.

Moreover, the institutional analysis of innovation is a separate research subject of particular interest, since it is linked with entrepreneurship, and this is explained in the following section.

In conclusion, we can identify the following six parameters of originality:

- A.** The role of the effect of institutions on Cypriot SMEs is a subject without a particularly wide discipline and, as a result, this research helps promote the discussion in an emerging field of institutional economics.
- B.** The economic crisis is approached from the perspective of institutional analysis and is linked, through this research, with: first, the sustainability of the country’s SMEs and, second, the quality of institutions and the way they are perceived, primarily from the point of view of young people, a subject that also has no precedent in research.
- C.** Parameter B creates, on its own, two key indicators for the institutional analysis of the economy: the first indicator –with all the variables extracted from the research– that concerns the, positive or negative, effect of institutions on SMEs; and the second indicator, which concerns the people’s, in particular the young people’s, perception of institutions. These two indicators, which are extracted from the following research, and which measure competitiveness, provide an alternative view of the way entrepreneurship is approached. What is interesting is that the three final chapters of this study represent an effort to model the research data, thus providing comprehensive application tools. The fact that innovation is approached and analysed under the lens of institutional analysis, is a novel element.
- D.** What is really interesting, however, is the implementation of all the above in a specific case study, i.e. that of Cyprus, which, as stated above and as analysed further on, has its own characteristics, thus adding originality to the research. Moreover, the attempt to compare Cyprus with other countries with the same, or similar, characteristics, such as Malta, enables us to develop a discussion on further future applications.

- E.** This study is an effort to conduct an in-depth analysis of the socioeconomic situation by employing the institutional approach, and, more specifically, it examines and analyses the institutional structures and how they affect various issues pertaining to the economy and, in particular, entrepreneurship.
- F.** Finally, the discussion and institutional application in the case of SMEs, leads to a new instrumental approach, which can be used by enterprises in order to improve various policies related to the sustainability, innovation, and development of a business.

1.5. The connection between entrepreneurship, young entrepreneurship, and innovation under the lens of institutional analysis

At this point we should explain the connection between entrepreneurship and, in particular, young entrepreneurship, and innovation. Entrepreneurship is a general concept which, after having been explained, will lead us to young entrepreneurship and innovation. Innovation, both as a concept and as a field of practical implementation, is directly related with entrepreneurship – especially today, when the discussion about startup enterprises becomes even more heated and urgent. I believe that it would be an omission to talk about entrepreneurship without making any reference to the subject of innovation.

Innovation is an integral part of entrepreneurship, since it determines to a great extent the sustainability of an enterprise, its differentiation in the competitive environment, and its placement in the market. Therefore, it is approached and analysed in this research as part and parcel of entrepreneurship. Here, innovation is broken down into two levels: first, the level of young entrepreneurship, i.e. the way young people perceive of innovation, whether they enjoy institutional support and to what extent, and, in addition, whether they have the instrumental capacity to develop innovation. Second, innovation is analysed on the SME level.

On the other hand, young entrepreneurship is a particularly interesting sub-sector of entrepreneurship. Today, most discussions about start-up enterprises revolve around young people, and this is why there are a series of policies and incentives designed to encourage young entrepreneurship. The analyses conducted further in this study through the focus group method clearly show that young people have strong opinions on entrepreneurship and are very concerned about the business environment, as regards the encouragement it offers them to get involved and create. Various parameters are, of course, examined, such as the political, social and cultural environment, as well as the young people's own educational background, and whether it provides them with the knowledge required for using the appropriate tools, and so forth.

The methods employed were designed to capture and analyse the above issues as exhaustively and as clearly as possible.

1.6. Methodology

Our methodology will be based on specific data collection techniques that will answer the questions and assumptions of this study. We will use both qualitative and quantitative data. Therefore, this study represents an effort to amalgamate qualitative and quantitative approaches.

More specifically, the four methods employed in this study are questionnaires, personal interviews, telephone interviews, and focus groups. This is a multilevel research, and for this reason data collection must be as secure as possible. This is, after all, why we are using so many methods in order to corroborate the quality and validity of the collected data. As far as methods are concerned, a pilot analysis is also carried out, especially in the questionnaires, for reasons that are explained in detail in Chapter 4. Validity is also secured through the use of statistical tools (excel, SPSS-ANOVA test, and econometric approach).

The final stage of the research involves a methodological discussion on how the data collected and analysed could be recorded as variables, followed by an effort to build a model for future application, wherever possible, of course. This effort is made, for example, as regards the subject of innovation as an integral part of entrepreneurship. Chapter 4 also includes a discussion on the limitations of the methodology, the evaluation of the methodology through pilot tests, as well as the methods for recording and analysing the data.

The methodology on which this research is based is described in detail in Chapter 4, which also includes a discussion on the design of each individual method, the logic of the design always in the context of institutional analysis, as well as how to fit research questions and assumptions to the methodology, in order to answer them as best as possible.

1.6.1. The young people's opinion of institutions – perceptions analysis

One of the basic principles of this study is that we cannot discuss about the effect of institutions on entrepreneurship and, above all, on young entrepreneurship, without primarily taking into account the young people themselves. Let alone when it mostly concerns human development, i.e. those indicators that have a direct effect on the quality of the citizens' everyday life. In other words, those related to the levels of human happiness. That said, there are also indicators that estimate the citizens' happiness on the basis of social and economic criteria, which are analysed in detail in Chapter 3.

Therefore, the view of the citizens' themselves regarding the operation and quality of institutions will provide us with significant –mostly qualitative– information and data, which will subsequently be connected and analysed in the context of the overall economic development of the case examined in this study, i.e. the case of Cyprus. It is very interesting, for example, to examine whether citizens have a clear understanding of the operating framework of institutions and institutional processes, or if they understand which these institutions are, which ones are formal and which are informal, and what the extent of their influence on various issues is. And, in general, how do institutions affect, positive or negatively, the everyday life of citizens. The way this analysis is conducted as far as

data collection is concerned, is discussed in detail in the methodology chapter, in the context of the construction of the telephone interview questionnaire, as well as of the design of the focus groups.

In contrast, in the case of the second study axis, which concerns the role of institutions in SMEs, the use of questionnaires means that, in essence, we also have to deal with perceptions. This case only differs inasmuch these perceptions concern the views of the executives or owners of the enterprises about the effect of institutions on SMEs.

In conclusion, a large part of this research is based, from a methodological point of view, on the collection of the respondents' perceptions, which is facilitated by the methods selected for this purpose; this is analysed in detail in Chapter 4.

1.7. Structure of this study

This study comprises the following seven chapters, which are briefly described in terms of their content:

CHAPTER 1: INTRODUCTION: This chapter provides an explanation of the research questions, as well as the research assumptions of this study. One of the main features of this chapter is the discussion about originality, i.e. what constitutes a real contribution to scientific debate, as well as a preliminary discussion about the basis of the theoretical background of the following chapters. In other words, this is an initial theoretical introduction. For example, an introductory discussion is made about institutionalism and its relation with development and entrepreneurship. There is also an initial presentation of the methodology followed in this research. Finally, there is a detailed presentation of the structure of the research.

CHAPTER 2: THEORETICAL BACKGROUND Chapter 2 contains a discussion and analysis of the main theories and theoretical approaches of the institutional perspective of entrepreneurship. The discussion begins with institutional economics and ends with the various Institutional Schools. After all, no reference to the institutional analysis of entrepreneurship could ignore the institutional schools, the debate about which is particularly interesting. This chapter also contains a discussion on the subject of Institutional Voids,⁴ a theoretical approach that concerns the effect of institutional voids on entrepreneurship and emphasises on countries with low entrepreneurship indices and weak social cohesion. Apart from the above, though, this chapter contains an extensive conceptual approach and interpretation of the concepts pertaining to the scope of this research.

CHAPTER 3: LITERATURE REVIEW: This chapter is a detailed presentation and discussion of contributions to scientific debate. The discussion is enriched by selected studies and papers, together with an analysis of the various indices pertaining to the subject

⁴ The implementation of the Institutional Voids approach is discussed in detail in Chapter 4, on methodology. That said, the theoretical background of this approach can be found in Chapter 2. Part of this discussion is also conducted in Chapter 7.

of the research (entrepreneurship and innovation indices). Moreover, this chapter discusses various cases of countries that have similar, or differentiated, characteristics to those of Cyprus, for example the case of Malta, which is examined as part of this research, and a comparative analysis is conducted. One of the very interesting features of this chapter is the discussion about the application of various indicators, such as entrepreneurship, innovation, competitiveness, and development indicators. The chapter also includes a conceptual approach and discussion of various issues of interest to this research.

CHAPTER 4: METHODOLOGY: Chapter 4 is particularly interesting, since it describes in detail the methodology on which this research is based, as regards both the collection, and analysis, of the data. One of the distinctive features of this chapter is the discussion about the mixture of qualitative and quantitative data, in the context of institutional analysis. The chapter explains in detail the methods used in the research, the logic surrounding their design, as well as various other tools employed for the purposes of research, for example, the PESTEL approach, or the way the institutional voids approach is implemented in practice. This chapter also makes reference to the limitations of the methodology, as well as the implications that may arise in the future.

CHAPTER 5: DATA ANALYSIS 1 (Young entrepreneurship): The analysis and presentation of the data are divided between two chapters, Chapters 5 and 6. Chapter 5 contains an analysis of data pertaining to the research on the effect of institutional arrangements on businesses, emphasising on young entrepreneurship. In effect, this is an analysis of the questionnaire on young entrepreneurship, with the use of statistical analysis. There is also an analysis of both data pertaining to the same subject and collected through the personal interviews method, and data collected through the focus groups. In other words, both this and the following chapter contain a mix of qualitative and quantitative methods, a procedure that is thoroughly discussed in the methodology chapter, as mentioned above.

CHAPTER 6: DATA ANALYSIS 2 (Innovation): Chapter 6 tackles the subject of innovation and contains a detailed analysis –with the use of econometric methods– of the questionnaire regarding innovation in small and medium-sized enterprises. At the same time, though, it also contains an analysis of the qualitative data pertaining to the subject, and obtained both through the telephone interviews and through the focus groups.

CHAPTER 7: DISCUSSION: The final chapter of the research is particularly interesting, since it contains the actual discussion about the conclusions of the research and the verification of the questions and assumptions, and ends with a modelling exercise – employing econometric means specifically designed for the subject of innovation– that may also be used for implementation in future studies.

The following chapter is a theoretical introduction to the various theories and approaches, mainly under the lens of institutional development, the theoretical schools of institutional economics, and the theoretical background of entrepreneurship, and also includes an analysis of relevant concepts, such as innovation. Of particular interest in the following

chapter is the discussion about the theory on institutional voids –and its connection with this research–, as well as other theories of institutional economics.

Chapter 2

Theory

2.1. Entrepreneurship and competitiveness under the prism of the institutional approach: a theoretical analysis

Inequalities, being an integral part of all countries and their societies, result from weak institutions that –formally or informally– underlie government systems and determine those policies that have a real effect on the people’s everyday life. This chapter is an effort to examine the role of those institutions that affect the quality of our everyday life, but also give rise to –mostly economic and consequently social– inequalities among countries, even among regions, as discussed below. That said, its main subject is the conceptual-theoretical context of institutional analysis. What are institutions? What is the contribution of institutional economics? What are the main schools of thought and what are the views of their representatives? And, finally, in what way is institutional analysis linked with people, on one hand, and entrepreneurship, on the other? This chapter will deal with all these questions.

The link between people and entrepreneurship⁵ is the main axis around which this research revolves, and the entire approach and its consequent analyses are based on this relationship. This is, after all, the basic philosophy of institutional economics, as we will also see below. In other words, every interpretation of the economy and the various economic and development indices, should always take into account the human factor. Entrepreneurship, as we will see in this study, being an economic and, by extension, social process, is not possible without the human factor, without the incentives that motivate people to think in entrepreneurial terms and, above all, to do business, while it is also not possible without healthy societies⁶, which will support the entire institutional spectrum of entrepreneurship, placing people at the very core of this concept. For that matter, family businesses and small and medium-sized enterprises are prime examples of placing people at the epicentre of an enterprise. This is exactly what the institutional approach and analysis does: It explores the subjects of entrepreneurship and competitiveness from the perspective of the human factor. It is precisely for this reason that, as we will also see in subsequent chapters, the methodology employed here places people and their perceptions at the core of this study.

In order to start talking about institutions, and in particular those institutions that directly affect the operation of the state, we should look back at the analysis of the political

⁵ See: Wiklund, Graham, Foo, et al. (2017).

⁶ See: Motomura (2013).

institutions of ancient Athens, in the 5th and 4th centuries B.C., since their influence was such that they actually laid the foundations for the modern era's democratic states and societies. "Athenesium Respublica"⁷, one of the key surviving sources for such an analysis, describes the political system of ancient Athens, thus explaining the structure of, not only the political system, but society at large. In fact, the analysis of this treatise clearly shows that both the system of government and its organisation were totally dependent on the mode of administration and institutional organisation. The example of the institutions of ancient Athens is a very typical case in point.

Everything depends on institutions. But how can we define an institution? Is entrepreneurship, for example, an institution that interacts with other institutions? This is a philosophical question, which is, to a certain extent, explored in this study.

2.2. The conceptual approach of institutional economics

When discussing the role of institutions in the economic and social structure and process, the starting point of analysis is the concept of institutions, which is the main focus of our analysis here, in the theory chapter, as regards entrepreneurship and competitiveness.

This is maybe one of the most interesting issues, not only of our modern era, but since antiquity, as mentioned in the previous section. Institutions have always been playing a significant role in the formation of economies and, in general, societies. Of course, as analysed and as shown through the various applications presented in other parts of this study, given that the concept of institutions is multifaceted and complex, the examination of its characteristics requires an analytical framework focusing on our main research question. The argument of Waddock and McIntosh (2017) is important, and provides a starting point, for this research: that is, not only the key features of the market, which, in essence, is the production and distribution of wealth, but also the sound and sustainable operation of the free market, must be based on a sound institutional system.

The term "institution" is a very broad one, and in the past few years has been used –in an economic context, and by the news media– to denote the European institutions involved in the economic processes and mechanisms for the provision of financial assistance to, and the supervision of, countries (the so-called "Troika"). This is not, however, the actual meaning of the term. It is simply mentioned here because it has been extensively discussed and presented in the news media, in the context of the economic crisis. We could say that the term refers to both the economic and social levels, as well as the family, educational, political, and religious level, and denotes those behaviours that lead to a final outcome. In other words, it directly or indirectly affects the quality of the people's everyday life in its various manifestations. More often than not, for example, the institutional role of the Church is at the epicentre of the debates on how it affects social trends. Especially in societies such as those of Greece and Cyprus, where the Church has also played a political role, influencing the modern history of these countries. Therefore, institution is not a

⁷ See: Università di Pavia (1983).

unidimensional concept. It is so complex that the researcher is, from the very beginning, called to set the framework in which any study of institutions will be conducted⁸.

But, how do institutions affect the people's everyday life and to what extent? And, more specifically, how is the economy influenced by institutions and what is the effect of this influence on human happiness? In order to answer such questions, we must, first and foremost, explain the concept of institutions and, by extension, the concept of institutional economics, while, at the same time, we must clarify the relationship between institutions, on one hand, and the economy and society, as well as the overall system of governance, on the other. The most important thing, however, is the way institutions are linked with the people's everyday life and the degree of their quality of life. Is there a connection between institutions and human happiness and, if yes, to what extent? Frey and Stutzer (2002), in the research on human happiness in the United States, in connection with the financial factor, as well as the role played by institutions, reached the following four basic conclusions:

Human happiness is directly related to the people's financial condition and this has – positive or negative– consequences on sociability. Entrepreneurship, for example, is both a financial and social matter. Involvement with it requires sociable and financially sound individuals.

Institutions play a major role in the entire process, and such a formulation fits very well with the central question of our research, since the institutional procedures lie at the very core of economic and social realignment and change.

Time is a very important factor, since all situations, economic and social, are constantly changing over time. After all, one of the main objectives of the research by Frey and Stutzer (2002) is the correlation between these components, and their reference to cultural change. More specifically, the authors point out that: “It is also interesting to know how happiness has changed over time. [...] Are economists right when they take it as matter of course that the strong increase in per capita real income over the past decades (and centuries) has made people happier?” (p. 8).

Each country is different in terms of how happy its citizens are, on the basis of its institutional framework. For example, if a country suffers from a democratic shortfall, this will have a negative impact on the quality of its citizens' everyday life. This is what the authors have to say about that: “Institutions fundamentally shape how a society is organized” (p. 15).

The above argument of the authors, i.e. that “Institutions fundamentally shape how a society is organized” presents us with a very clear picture of the role played by institutions within a society. In essence, institutions reflect a society's “character”. They demonstrate how change –social, cultural, economic, political, or other– occurs, along with human perceptions, behaviours, group actions, and so forth. Therefore, institutions are not an

⁸ See: Papazoglou (2017).

abstract idea, but are a measurable concept, which can impart significant information about the way societies operate.

Connecting the conceptual discussion with the above research on the human happiness index is instrumental to the study of the effect of institutions, because it is precisely through this approach that we can reach important conclusions over a wide range. First of all, this index combines two areas, which are directly related to the main research questions of this study: first, it uses the people's income level and, second, by using the income level, i.e. the people's financial condition, it reaches into the social dimension. The degree of human happiness depends on the people's financial situation and the quality of their everyday life. Indeed, Frey and Stutzer (2002) points out that "Many happiness research findings add new knowledge to what have now become standard views. One is the consistently strong influence of non-financial variables on self-reported satisfaction with life. This does not mean that economic factors, such as employment, income or price stability, are unimportant, but they suggest that the recent interest in issues such as social capital, loyalty, civic virtue or intrinsic motivation, is well taken. The findings also enrich our knowledge on discrimination concerning gender, ethnicity, race and age" (p. 403).

Besides, as we will see in the analysis chapters, the quality and performance of institutions, as well as the daily reality of people, are reflected on business thought and, in general, on business practices and entrepreneurship as a whole.

Based on the above, I would like to focus mainly on the concept of social capital, which specifically denotes the important role of the institutional process as regards the quality of the citizen's everyday life, given that, by extension, the quality of social capital affects human happiness. As "social capital" we can define those socio-economic elements that are surrounded by a strong value system and can lead a society to prosperity, provided that the conditions for sound and sustainable growth are actually met. Therefore, based on this logic, social capital –i.e. a country's structured value system– is directly linked to institutions. Of course, the subject of social capital is not that simple. This concept comprises a multitude of variables. For example, according to Putnam (1993) the citizen's involvement in voluntary organisations and, in general, all kinds of voluntary contribution, through the extension of interpersonal trust among citizens and the people's perceptions of their availability to help their fellow humans, are a key ingredient of a healthy and sustainable society.

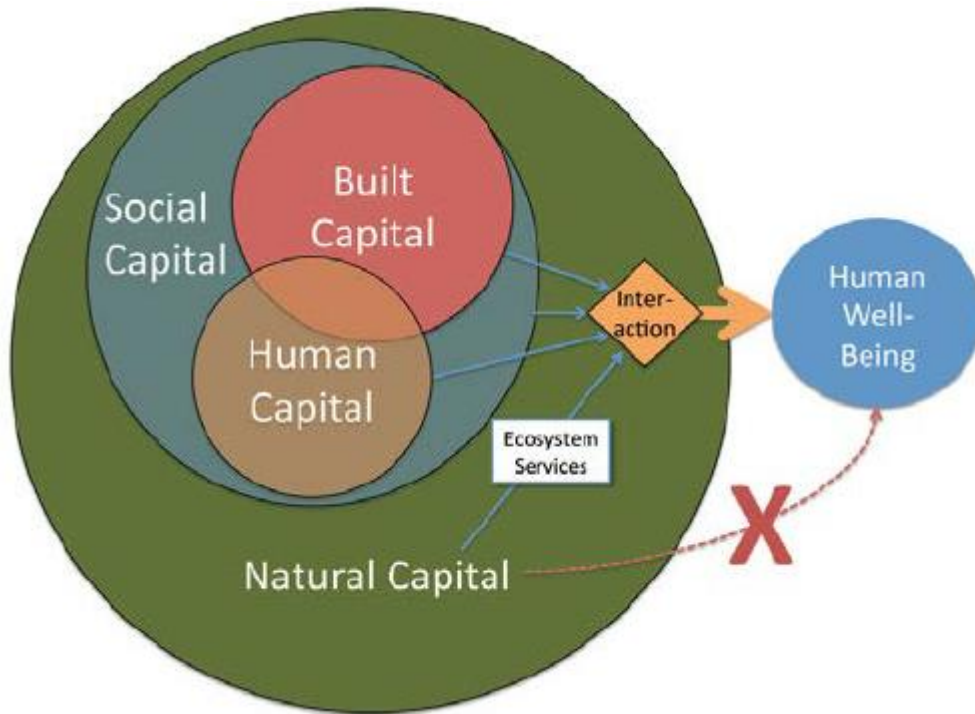


Figure 2.1 This figure shows the relationship between social capital and some other key parameters, such as the built capital and the human capital, as well as the role of exogenous factors, such as the ecosystem, and finally how those affect human well-being

(source: Costanza et al., 2014).

Therefore, this reference to factors and variables pertaining to happiness and, in general, to the quality of everyday life, helps us conduct a more comprehensive discussion of the conceptual framework of institutions, under the lens of society. For example, Costanza’s (2014) reference to “built capital” actually indicates the institutional framework that is defined by people themselves, since the term “built capital” denotes any pre-existing institutional design or planning, constructed by a human agent in order to cover certain needs of society or the polity, in general. Of equal importance is the reference to “natural capital”, which in essence denotes the natural resources, while in a subsequent section I approach the subject of environmental institutions. There is also the reference to “human capital”, which denotes human resources and their skills. From this perspective, and exploring the various manifestations of the concept of institutions, we can, as researchers, offer a more comprehensive definition, or provide more detailed conceptual approaches of this subject, covering the entire conceptual spectrum.

The literature review of the following chapter, makes special mention to various indicators, for example the World Happiness Report, and we will discuss the importance of such an indicator in connection with institutional quality and institutional change. In this chapter, the findings of Frey and Stutzer (2002) are cited for purely conceptual purposes. That is, to define the conceptual framework, the importance and operation of institutions and, by extension, the institutional processes, from the societal perspective.

On the other hand, an interesting question that is answered by means of this study is why are institutions so important for the market? Aren't, for example, free market conditions enough? A first critical response to this issue is that the key features of the free market are not enough, and a sound institutional framework, which will secure the procedures, is also required.

Dobbin (2010), referring to the institutional process, argues that economic practices stem from social processes, where "social networks" on one hand, and "power resources" on the other, create an institutional dynamic that leads towards a certain direction. When referring to "power resources" the author essentially refers to the power of influence exercised by various centres of authority. This study provides various illustrations of the role of power resources and how these, accordingly, influence the given institutional arrangements. In reference to this issue, Hadjis (2012) argues that the role of institutions—a subject that was raised by the institutional economist Coase (1960) in his Nobel prize-winning article—is important and crucial, because institutions are instrumental to the appropriate mobilisation and redistribution of resources, reducing, at the same time, the cost of transactions and "containing" every other obstacle.

Of particular interest is the conceptual approach by Turner (1997), who, in reference to institutions, points to a complex of positions and roles, which affect the various social structures. More specifically, the author points out that: "A complex of positions, roles, norms and values lodged in particular types of social structures and organising relatively stable patterns of human activity with respect to fundamental problems in producing life-sustaining resources, in reproducing individuals, and in sustaining viable societal structures within a given environment" (p. 6). This is one of the subjects discussed in the analysis chapters of this study, especially as regards young entrepreneurship, and how the various societal attitudes and perceptions affect the thinking and business activity of young people.

Harre (1980) focuses his conceptual approach on the role played by persons that hold key positions in decision-making procedures and the way an institutional behaviour is manifested, an issue that was also alluded to above, in reference to the "power of influence." The author argues that: "An institution was defined as an interlocking double-structure of persons-as-role-holders or office-bearers and the like, and of social practices involving both expressive and practical aims and outcomes" (p. 98). Besides, it is important to clarify the role played by gatekeepers in key positions, in order to reach a better understanding of any institutional process. An institution is not self-defined, but is laid down by persons that pursue some type of direct or indirect policy, pertaining to various fields and having specific objectives. At this point, I would like to elaborate a little on the role of the gatekeeper, since the various institutional functions are actually regulated by human behaviour. Gatekeepers have always played a key role in all societies. In essence, these are the people who, owing to their social or professional status, are able to influence certain situations and procedures. They can mainly be found in politics and in pre-election periods (wherever the traditional model of public relations in politics still applies), when they try to steer groups of people towards a specific direction. They usually act on the basis

of a strategy. Something similar applies to other institutional levels. Depending on the position they occupy, they can influence the procedures. This is the case, for example, on the technocratic parliamentary level, where various scientific associates assist deputies in the preparation of draft laws. This is a form of institutional influence. The gatekeeper analysis helps us better understand, from a practical point of view, the conceptual approach of institutions, and more specifically, institutional arrangements. Besides, as mentioned above, other authors, such as Turner (1997) also give emphasis to institution as a process that is produced and sustained by human activities.

In extension to the above, we could view the operation and influence of institutions as a social activity, to the extent that it is determined by human activities. Giddens (1976) stresses the solidity conveyed by institutions to a society. More specifically, he argues that institutions are, by definition, the more enduring features of social life. The conceptual approach of institutions is also very interesting from a sociological perspective, since, as Giddens argues, institutions offer stability to society. Of course, this is a subjective assumption, since stability depends on the quality and characteristics of the institution. By extension, it is interesting to examine the effect of social institutions on the economy and vice versa. This is why institutions are deemed to be a multi-level concept, since the outcomes of an institutional process can affect a series of other factors. The term “process” denotes precisely this feature, as mentioned above.

That said, institutions cannot replace the “hard” cores of a society. This assessment in effect refutes the dynamics of institutions within a society. As Giddens points out, social institutions need to be distinguished from more complex and complete social entities, such as societies or cultures, of which any given institution is typically a constitutive element. For example, a society is more complex than an institution. This happens, according to Giddens, because, in contrast to an institution, a society, in the traditional sense, is to a certain extent self-sufficient in terms of human resources. On the basis of this rationale, institutions are no more than integral parts of a society, and by their very nature –i.e. their features and operation– are affected by social and cultural traits. The social and cultural framework is not constructed by institutions – quite the contrary.

Placing the concept of institutions on the basis of economic analysis, and based on the above conceptual approaches, I believe that we must initially consider five propositions, which could consequently assist us in this study:

1. Any institutional analysis should be based on indicators that interpret the causality of a situation, i.e. the relationship between cause and effect. I believe that this is the main feature of institutional economics, in other words to examine and analyse the causality between two conditions (cause and effect), as well as whether a situation is a result of another, pre-existing one. For example, when our subject is unemployment, we should seek its causes, for example, the institutional shortcomings or erroneous policies that give rise to the phenomenon of unemployment. Therefore, causality is an important proposition.

2. We should, from the very beginning, take into account the fact that institutional analysis is not unidimensional and one-sided. Therefore, it must be viewed as a process the elements of which affect each other. After all, institutions are usually viewed as processes by the various conceptual approaches, and as such they comprise various interdependent and interrelated stages.

3. An interdisciplinary approach is needed. As discussed above, an institution may have social, political, cultural, as well as economic effects. Therefore, no analysis should ignore the various levels of cause and effect. Besides, the cause of a situation may belong to a different level than the one mainly examined by a researcher.

4. One of the most important issues in institutional analysis is the methodology followed by a researcher. This methodology should be structured and coherent. Further down in this study, we also refer to Hodgson's (1998) distinction between "specific" and "general", which is analysed on the basis of methodology.

5. In conclusion, and placing the discussion in the context of institutional economics, it is useful to take into account the timeless argument made by Hamilton (1919): "The proper subject matter of economic theory is institutions [...]. Economic theory is concerned with matters of process [...]. Economic theory must be based upon an acceptable theory of human behavior" (p. 314).

By means of the above argument, Hamilton (1919) stresses the important role played by human behaviours in the various institutional processes, making special mention to the case of economics. He believes that any analysis of economic theory should be accompanied by an acceptable theoretical framework regarding human behaviour. This rationale also suggests the complexity of the institutional relationships and processes that affect and shape the economy, as well as its various aspects, such as entrepreneurship. For example, the term "behavioural economics" denotes human behaviour and, in particular, the psychological aspects of behaviour that may influence an economic situation. Mullainathan and Thaler (2000) refer to the "Homo Economicus", a being defined by three fundamental traits: rationality, willpower, and selfishness. These three traits can give us a picture of the motives of those who introduce or design institutions. That is to say, institutions established on the basis of a rationale; institutions created because of the willingness of some gatekeepers to achieve a specific purpose; and, finally, institutions influenced by selfish motives, either financial or power-based, or both, thus representing a risk for society. Therefore, on one hand we can take a positive view, namely that institutions may be the outcome of a rational process designed for a beneficial purpose, while, on the other hand, we can also see the opposite. In other words, if the motives are not sound, the institution will either malfunction or will be harmful for another group or society at large. Returning to the fifth proposition that cites Hamilton, the author (1919) also refers to "matters of

process.” The subject of process has also been discussed above, as part of other definitions. However, this reference to “matters” denotes a complex, and not linear, process: an institutional process is affected by a multitude of factors, for example, social, political, cultural, psychological, and financial. What’s important is that none of these factors is isolated. If, for example, we want to examine the financial behaviour of an organisation, we must also examine the psychological motivation of employees to perform better at work, as well as any other incentives that, according to the researcher, affect the financial behaviour of a business.

Moreover, Hodgson (1998) says that: “The institutionalist approach moves from general ideas concerning human agency, institutions, and the evolutionary nature of economic processes to specific ideas and theories, related to specific economic institutions or types of economy. Accordingly, there are multiple levels, and types, of analysis. Nevertheless, the different levels must be linked together. A crucial point here is that the concepts of habit and of an institution [...] help to provide the link between the specific and the general” (p. 168). By means of this argument, Hodgson (1998) actually contributes to the debate about a major problem, which is related with institutionalism, and in the case of this study, with institutional economics. The problem of the link between the specific and the general is primarily methodological. If the general theoretical framework that will help provide an answer to the research question is not clear, then no study of institutional economics can be methodologically functional. Another interesting element of Hodgson’s (1998) approach is his reference to “habits.” This element may also imply a conceptual approach of institutions, since we can maintain that –in many cases at least– an institution may be the outcome of a “custom”⁹, i.e. a habit that has been repeated over time, until it became established within a group or, in general, society; for example, a cultural institution that has been preserved over time. The same can be observed on the economic level. In other words, in economic policy, practices that are preserved over time, precisely because they have established some sort of “habit.”

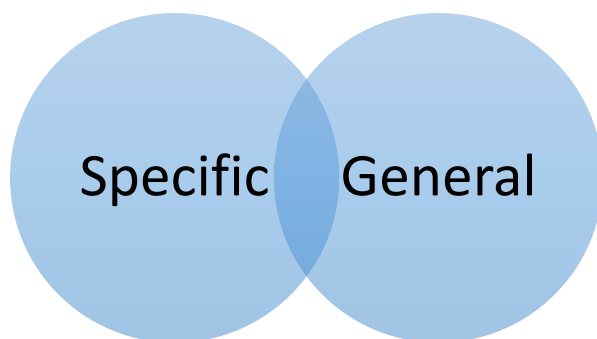


Figure 2.2 “The link between the specific and the general”

(Hodgson (1998): The problem of the link between the specific and the general is primarily methodological. If the general theoretical framework that will help provide an answer to the research question is not clear, then no study of institutional economics can be methodologically functional.

⁹ A concept that is used in Law.

Source: own elaboration.

In conclusion, for the purposes of this study and in order to provide the best possible answer to its central research question, i.e. how do institutions and, in general, institutional arrangements affect entrepreneurship on the small and medium-sized enterprise level, I will come up with the following definition of institutions: An institution, being combinations of factors and facts, is the establishment –either for a specific time or on the basis of a custom– of certain practices designed to produce a certain outcome. In other words, it is a process that is based on a causal relation between two situations (cause and effect) and aims at something, i.e. a final outcome. An institution may be social, economic, and so forth, albeit can never be independent, since the causes may stem from various fields and factors. Therefore, any study should take into account these parameters. In our case, the study of entrepreneurship under the prism of institutional analysis must take into account various social and cultural –apart from the economic– factors, in order to cover the subject in its entirety.

On the basis of the central research questions of this study, the above definition can significantly help the effort to approach the subject of the institutional analysis of entrepreneurship and its relevant fields and explore it in the context of various institutional systems. The institutional system under review in this study is that of Cyprus, while references are also made to other cases, such as those of Greece and Malta. Apart from that, and on the basis of the above definition, after explaining the characteristics of the institutional systems, we need to link them to the result, in other words we need to analyse the causal relationship. Finally, this definition helps us, from the very beginning, to understand the analysis as a process with various parameters that potentially affect, others to a lesser and others to a greater extent, any institutional process, either on the economic or the social level.

2.3. Global inequalities, growth rates, and competitiveness

Inequality is not any more a phenomenon that concerns some distant country, nor is a phenomenon that concerns some other far-out reality or even some distant –in geographical terms– region. It is close enough to lie on the other side of a fence, a barricade or even a natural border. A dual economy may exist right beside us, in a neighbouring nation, or even in our own country. That said, what are the causes of inequality? Given that natural factors, such as natural wealth, the geographical position of a nation, or its culture are the same, what can be so dissimilar as to lead to differentiation and inequality? What are the factors that give rise to dual economies? The answer probably lies in an in-depth institutional analysis. That is to say, in the way different institutional systems influence diverse economic and social processes. I am framing the issue in this manner, as required by the central research question of this study.

Acemoglu and Robinson (2013), describe the precise nature of global inequality and, more specifically, that of “neighbouring” inequality, namely the type of inequality that stems from the existence of a “fence”, using examples that illustrate this phenomenon.

The starting point of the authors' analysis is the "twin" US city of Nogales, which is cut in half by a fence. In geographical terms, north Nogales, Arizona, is located in Santa Cruz County, in the US, while south Nogales is part of the Mexican state of Sonora. Nogales USA has an average household income of \$30,000 a year, the majority of the adults are high school graduates, the population has a high life expectancy, there is an adequate level of electricity, telephone, sewage, and transportation services, and there is a feeling of safety. The citizens there feel that the government, despite its inefficiency and occasional corruption, is their agent and their vote can replace the mayor, the congresspersons and senators, even the President of the US.

On the other side of the fence, however, in Nogales, Mexico, the average household income is barely above \$5,000, and this is considered high for that country. Most adults do not have a high-school degree, many teenagers are not in school, mothers worry about the high rates of infant mortality, the public authorities provide insufficient services, and the roads are in a poor condition. Law and order are out of the question. Crime is high. Entrepreneurship faces huge bureaucratic obstacles. In order to obtain any kind of permission one needs to grease the palms of people in key positions. Voters come to daily contact with the corruption and ineptitude of their politicians, who act with impunity, since there are no independent institutions given that, until 2000 this city, just like the rest of Mexico, was under the corrupt control of the Institutional Revolutionary Party (Acemoglu and Robinson, 2013).

The crime situation in Mexican Nogales, and its difference from the other US states, is illustrated by the report of the US Bureau of Diplomatic Security (OSAC), which states that: "The general crime rate in Nogales is above the U.S. national average [...] The Sinaloa cartel has infiltrated many levels of society in Nogales. Drug cartel-related homicides and violence has occurred throughout the Nogales consular district (Caborca, Altar, Agua Prieta, Sonoyta) but not at the same level as in Nogales. Non-drug cartel related street crime (armed robberies, assaults, burglaries) continue at high rates and show a slight increase from 2014" (OSAC, 2016).

Another interesting example is the case of Cyprus, which is not separated by a fence, like Nogales, but by a barricade (the political situation does not warrant the use of the term "border"), dividing the island in two parts: The north, which is the part of the island under Turkish-Cypriot administration –as a result of the Turkish invasion– and the south, which is the seat of the Greek-Cypriot administration and the legitimate government that represents the entire island in the European Union. A very characteristic feature of this divide is the point where one, walking down the pedestrian way of the –well-known in Cyprus– Ledras street, crosses into the –occupied by Turkish troops– Turkish-Cypriot part of Nicosia. A few metres' walk and the differences become immediately apparent. Not so much the cultural differences, which inevitably exist, but mainly the differences in the living standards of people, in the way shopkeepers and traders haggle, in the ubiquity of cheap substitutes and knock-offs, in the shortages plaguing the marketplaces that clearly indicate that time stood still back in 1974.

Leandros (2012) argues that global poverty is the outcome of institutions exercising antisocial policies, which, in effect, lead countries into recession, thus causing unemployment to grow.

The dual nature of the economy has already concerned many theorists. An early analysis, by Boeke (1953), was based on colonial economic growth and, in particular, contrasted the duality of western agriculture with the traditional agricultural sector, given that the primary sector was one of the key features of colonial economies. Furnivall (1944, 1948) also referred to the socioeconomic dimension, characterising colonies as a “plural society”, which accordingly affects economic segmentation¹⁰. Furnivall’s approach inspired many anthropologists, for example Smith (1965) and Rubin (1960), who focused their interest on the case of the British West Indies.

Another typical case of a colony is Cyprus, which has drawn substantial administrative, economic, and social influences from Britain. Britain’s institutional influence on the island is evident on many levels. Apart from constitutional reform, it is of huge sociological interest to focus on the colonial period, as well as on the subsequent formation of various habits. For example, there are significant influences on the language. Following colonial rule, English was established as the second (unofficial) language of the island. Another feature is tourist arrivals from Britain, since the ex-colonist country is, even today, the primary source of incoming tourism in Cyprus. Moreover, the use of left-hand traffic, the structure of the public service, the education system, and so forth, illustrate the effect of colonialism on Cyprus.

Therefore, the duality of the economy is not always interpreted in the same manner, or at least it does not fall under the same topic of discussion. For example, as indicated by the above examples, the duality approach may interpret the comparative divergence among different sectors of the economy in markets with diverse features, as well as in nations and regions characterised by peculiar institutional and regulatory regimes. Acemoglu and Robinson (2013), make extensive reference to the concept of a dual economy, citing the example of South Africa: “In South Africa the dual economy was not an inevitable outcome of the process of development. It was created by the state. In South Africa there was to be no seamless movement of poor people from the backward to the modern sector as the economy developed. On the contrary, the success of the modern sector relied on the existence of the backward sector, which enabled white employers to make huge profits by paying very low wages to black unskilled workers” (p. 310). Accordingly, dual economies are, in fact, created and informed by the corresponding economic culture of a nation or a region, which, in turn, stems from the institutional features that society itself is built on. In the case of South Africa, for example, racial approaches gave rise to such social inequalities, that the creation of the dual economy was the outcome of those institutional and social inequalities.

¹⁰ Also see: Furnivall, J. S. 1945.

Analysing the cases of these, as well as other African countries, e.g. Nigeria and Zimbabwe (see the map below), we can see the extent to which political and social institutions influence the economy, the living standards and, hence, the everyday life of people, which is, after all, the object of this research.

A key issue that emerges from this discussion –and will be dealt with more extensively in this paper– is the relationship between politics and the economy. In other words, the extent to which political interventionism affects a country’s economy. In the above examples from various nations we can see that political interventionism plays a decisive role. This interventionism is either manifest in the regulatory and legal framework (i.e. institutionally recognised intervention) or assumes the form of non-institutionalised intervention, as, for example, in the case of racial discrimination or the creation of ghettos that marginalise certain areas and groups of people. Therefore, interventionism –in its wider politicised (and social) sense– may be exercised and implemented in many ways, thus affecting the economic structures of a region. Each case, of course, is different. Every type of interventionism has its own unique features. For example, in the case of South Africa, interventionism has racist and racial elements, while in the case of occupied Cyprus interventionism is a result of the peculiar political situation.

Fairbrother et.al. (2011), referring to political intervention on the economy and, more specifically, to “government interventionism”, point out that neoclassical theory tends to governments and government intervention in the economy as insufficient. Governments are necessary in order to provide certain basic public goods that ensure the smooth operation of the free market. In contrast, the liberal school of thought treats politics and the economy as two different fields, which should not interfere with each other. Cohen (2009) argues that liberals tend to see politics and the economy as two discrete and independent fields of activity. According to this author, most liberals believe that governments should not interfere with economic dealings and that their role should be limited to the creation of an open environment, where individuals and private businesses will be able to freely express their economic preferences.

Fairbrother et.al. (2011), further specify the discussion on political interventionism by using the concept of “government interventionism”, i.e. the type of interventionism that is legitimised. The imposition of taxes, for example, on certain categories of workers and, in general, citizens, constitutes a case of government, in other words legally and normatively institutionalised, interventionism. On the other hand, the absence of an institutionalised framework that protects citizens or –for example– types of professions is a non-institutionalised interventionist practice. Moreover, the absence of strict and preventive penalties for certain offenses is also a form of non-institutionalised interventionism.

The liquidity crisis in Venezuela constitutes a typical and interesting recent example, since political interventionism is intense enough to cause the collapse of the country’s democratic institutions and its reversion into a deep economic and humanitarian crisis. The tactics employed by the Maduro government in regard to political prisoners in order to prevent its fall from power, as well as the suspension of the referendum for removing Maduro from

power, are telling indeed. Institutional collapse plunged Venezuela into a liquidity crisis and caused rampant inflation, creating long queues outside banks and in front of ATMs.

Venezuela's institutional inadequacy is also captured in the report prepared by Freedom House, the US human rights watchdog, which also covers many other countries. More specifically, the 2016 report states the following in regard to Venezuela: "The December elections took place in a context of deep economic crisis. Shortages of basic goods, massive devaluation of the Venezuelan currency, and unchecked inflation were widely considered to be the main causes for social protests that took place throughout the year" (Freedom House Index, 2016). The report also refers to the use of force against political prisoners: "The most prominent criminal case against an opposition figure in 2015 was that of Leopoldo López, who had been held in a military prison since February 2014 for supposedly instigating violence during that year's protests" (Freedom House Index, 2016).

In cases such as those of Venezuela, or certain African countries where the absence of democratic procedures is obvious, one could –rightfully– maintain that inequality is a natural and logical consequence. In other words, that the absence of sound institutions and procedures leads to social inequality, which, in turn, leads to economic stagnation. By linking this argument with the subject of entrepreneurship, we can claim that the insufficiency of democratic institutions inhibits business activity.

2.4. Setting the boundaries of the theoretical field

The study of the theoretical context of institutions leads to a key question, which also stems from the role institutions themselves have been playing in the various economic activities of nations. It is, therefore, reasonable to ask to what extent has the institutional composition and structure of nations been responsible for their current failure. As, for example, in the case of Greece, which features prominently in this study, or the case of the Cypriot economy, with its aforementioned peculiarities. In order to tackle this theoretical question one should, first, go back in history and analyse the way the institutional framework was composed and completed through the various schools of thought and, second, explain the specific characteristics of each case –that the scholar wishes to investigate– and how these characteristics interact with the institutional framework. Because, as stated above, the institutional framework is shaped and influenced by the corresponding economic culture of a nation, as well as vice versa; in other words, the economic culture quite often, if not always, stems from a nation's institutional characteristics and peculiarities.

Sklias and Maris (2013) also point to the political dimension of the economic crisis, focusing on the case of the Greek economic crisis¹¹. The authors maintain that the Greek system of governance, as built during the 1980s led to the phenomenon of "institutional undevelopment", which eventually led to a failed governance model with the resulting impact of the economy and development (that is, non-development). The authors directly connect Greece's contemporary economic crisis with this institutional crisis. Therefore, we could argue that national competitiveness is linked with political and other institutions,

¹¹ See: Papazoglou (2013); Athanasouli (2012).

since it is the outcome of national policies that define its scope and the industries in which it is concentrated. In other words, as stated above, “economic culture” is the result of a country’s institutional policy. Or, when referring to the “national economy”, we are actually talking about the characteristics lent by policy to a nation’s economy.

The term “institutional undevelopment” that is used by the Sklias and Maris (2013), is a very apt description of this institutional weakness –or, institutional failure, if you prefer– which eventually leads to a failed system of governance, with detrimental effect on growth. Indeed, by focusing on the case of the Greek economic crisis, the authors (2013) identify certain myths pertaining to the country’s political and institutional processes. More specifically, they emphasise on the following myths: “Failed macroeconomic policies are the sole root cause of the Greek crisis. Political Stability, policy continuity and sustainability have prevailed in Greece and maintained by the Greek political leadership. A strategic vision for the country’s development is being shared among the ruling parties. The Greek people’s attitude and perceptions employ the top level shared vision and thus promote and practice competent economic and political development, averting interweaving and corruption” (p. 147). For example, the same paper (2013) shows that government effectiveness in Greece is limited, since, according to the Sustainable Governance Indicators for the year 2011, the country is the worst performer in terms of institutional quality.

On the other hand, the refugee crisis had a direct effect on Greece, mostly because of the country’s geographical position, as well as the lax policy regime regarding this issue. More specifically, according to Freedom House: “Separately, the arrival of hundreds of thousands of migrants and refugees fleeing war and political instability in the Middle East, Africa, and elsewhere strained the Greek state’s ability to accommodate such a large population, leading to a human rights crisis. Since the construction of a fence along a key section of the Evros River, Greece’s natural border with Turkey, in 2012, most refugees have entered Greece by boat from Turkey to nearby Greek islands: Lesbos, Chios, Kos, and Samos. In 2015 alone, more than 850,000 migrants made the perilous crossing to Greece, most of them attempting to make their way to other EU countries” (Freedom House Index, 2016).

Leandros (2012), referring to the concept of economic development, maintains that it is the outcome of international and historical reshuffling. More specifically, he stresses that: “The concept of economic development started to preoccupy a portion of the economics profession since the 1950s, mainly because of the emergence of a series of new states in Asia, Africa, and the Caribbean, the economic structures and problems of which were quite different from those of the countries at the centre of capitalism.¹² Development economics emerged, to a great extent, as a means for economic thought to capture the new social and political conditions created by the fall of colonialism after World War II” (p. 133). Besides, as discussed above, colonialism played its own role in the subsequent economic progress and, in general, development of colonial lands, given that, in various industries, for

¹² Or “capitalist countries of the industrial centre.”

example in exports, the central authority pursued a single economic policy across its dominions. On the other hand, every war leaves its own economic residues behind. In essence, the countries' economic history has been influenced by the impact of wars, which in turn affect other economic structures, for example trade. Mokyr (2003) refers to the economic impact of war in *The Oxford Encyclopaedia of Economic History*. More specifically, he refers to its impact on inflation, as the most consistent short-term economic effect of war is the upward pressure on prices. The author (2003) also states that war destroys certain market sectors, such as industry, leading to the substantial reduction of the economy's output.

That said, special reference has to be made to the relationship between war and institutions. The social fabric is weakened as a result of unstable conditions, or circumstances of major institutional and social change, which interact with economic and developmental changes. Heydemann (2000), examines the social structures and changes in militarised regions, such as the Middle East, and argues that: "Among those interested in explaining trajectories of state and social formation in the Middle East, the more common response to the prominence of early modern Europe in research on war and the state has been to take seriously the vast differences separating it from the contemporary developing world and to look elsewhere, typically inward, for explanations of state institutional formation, the construction of national markets, and the organization of state-society relations" (p. 4). According to Heydemann's view, internal armed conflicts, of the type prevalent in the Middle East, are the outcome of internal institutional structures, such as the institutional make-up of the state, as well as the relationships between state and society. When these relationships are not sound and sustainable, they lead to instability and, in many cases, to unpredictable events and consequences. It has to be stressed, of course, that each case has its own distinctive features. For example, the distinction made by Heydemann (2000) between the Middle East and the contemporary developing world aims precisely at specifying institutional and social differences and how they tend to affect a state of war that they will either create –in the sense that institutional and social conditions are the root causes of war– or sustain and expand.

Reference to war and institutions is made precisely in order to better specify how such events can lead to the institutional restructuring of a state, as well as the other way round. In other words, how institutional inadequacy and instability can trigger uncertainty and peril. Even the preservation of a pervasive feeling, for example the continuous political conflict between two countries, may constitute a factor of economic and developmental instability. To wit, this reference may help us establish a better understanding of the various –direct or indirect– relationships and interactions that emerge among the institutional, social, and economic/developmental systems.

On the other hand, of course, there are those countries that benefit from armed conflict, a typical example being the predominance of the US as a result of World War I, or how armed conflict and instability in certain regions create migrant flows and reshape existing policies (Cohen, 2009).

Sklias and Roukanas (2007) deal with precisely this issue of the interaction between (mostly political) institutions and development in the aftermath of a war crisis and, more specifically, they examine the case of Kosovo following the armed conflict there, using specific indicators in their analysis: foreign direct investment (FDI), income and distribution of income, level of business development, imports and exports. The authors argue that: “Likewise, Kosovo is a politically unstable environment which is very much related to the undefined political status of the province. The transition authorities of the UN, acting in parallel with the elected local administration authorities and the government structures, create a complex political environment, in which competences are very often confused and contradictory. The national interests, being represented by the government bodies, are usually opposed to the will of the international authorities and the donor community, as well as the minorities’ representative bodies, thus resulting in political confusion and a complex decision making process with a lot of delays and uncertainties, which is not welcome to potential investors” (p. 275). The authors’ analysis (2007) shows how political factors (see the PESTEL approach) directly affect, and interact with, growth and growth-related fields, such as entrepreneurship and national competitiveness. Armed conflict situations, for example, obviously play a decisive role.

Based on the above discussion, we may arrive at four principles, as regards the wider institutional school and philosophy in economics: First, economy, as a wider concept, is directly related with state institutions, i.e. politics and the consequences of political practice and decision-making, with the legal and regulatory framework, as well as the political traditions, i.e. the political culture of each country. If, for example, political tradition is characterised by interventionism (see the relevant examples presented above), then this will have a major effect on the economy and, by extension, on development. Second, economic institutions, for example, the banking sector, play a major role – the example of Cyprus is indicative of how a banking institution crisis, in conjunction with erroneous political decisions, can affect a country’s economy. Third, the economy is influenced by organised social behaviours, such as the organised bodies for the protection of worker rights (e.g. unions), as well as other social behaviours, for example the role played by non-government organisations and their influence on government procedures and decisions, the role of political parties as social groups, and the pursuit of policy on various levels, such as the local government level etc. Fourth, the private sector plays an equally decisive role, through the decisions that are taken on the enterprise level and can affect economic behaviour on various other areas, for example policy or other areas of public interest, or issues pertaining to the protection of private individuals from state monopolies or small family businesses and SMEs from large corporations.

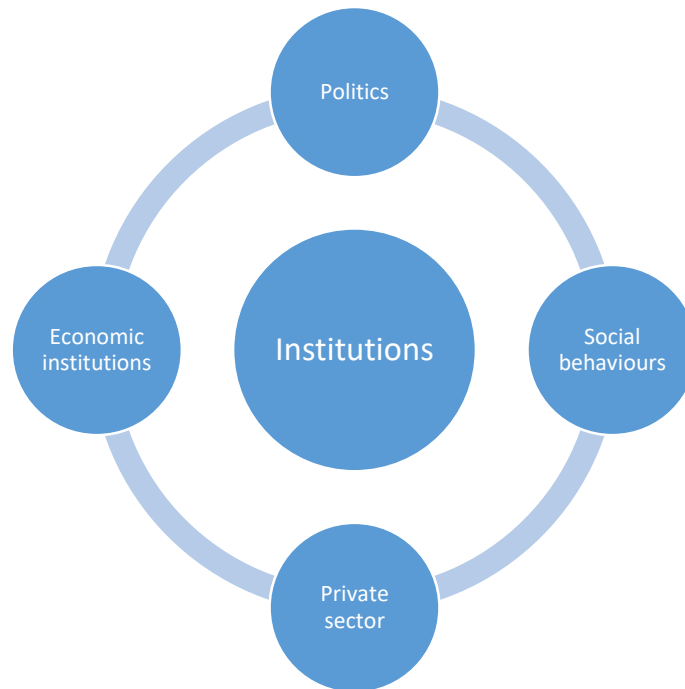


Figure 2.3 The four basic institutional pillars.

Source: own elaboration.

These four pillars are, of course, much more complex, as each includes many dimensions and subjects. One of these subjects, on the political decision level, is that of fiscal policy. According to Theodoropoulos (2010) “Fiscal policy has always been the main instrument for realising objectives and functions that emanate from the state’s modern role” (p. 97).

This discussion is further enriched with the addition of the institutional voids theory. One of the issues tackled in this study is whether the various institutional obstacles or voids that may exist obstruct entrepreneurship and, in particular, whether they act as deterrents to doing business. At the same time, it is interesting to see whether dealing with these institutional voids can help, and stimulate, entrepreneurship and the economy at large. This question is not easy to answer, but the questionnaires may provide some more clear views. “Combating corruption is an important example of how entrepreneurial solutions can tackle systemic institutional inadequacies. Corruption is one of the main issues faced by emerging economies” (HarvardX seminar, 2017). This proposition connects the aforementioned theoretical field with the core of the issue and the central question of the research, which is: How do different institutional systems affect economic and social processes and, hence, how institutions can act as crisis prediction and prevention mechanisms. The example of corruption, and the way it is applied in individual topics of this study, is related to the institutional voids theory.

2.5. A discussion of the characteristics of Cypriot economy and entrepreneurship

At this point, and given that Cyprus is the case study of this research, we should analyse the characteristics of the Cypriot economy, and discuss its peculiarities and how historical circumstances occasionally changed it and affected various sectors of entrepreneurship. That said, when examining subjects such as the economic and developmental features of certain countries, it is very important to distinguish between different time periods, since each one has its own characteristics. Therefore, it is important to make it clear from the very beginning what are the periods that are examined and discussed in this study. Thus, the discussion on the characteristics of the Cypriot economy and entrepreneurship that is carried out in this section, concerns the colonial period, the post-independence period, the period of the Turkish invasion and its immediate aftermath, and the period up to this date. Therefore, in essence, the discussion covers all –historical– stages and how they affected the economy. Of equal importance is also the connection between the economy and entrepreneurship.

The key feature of the Cypriot economy, particularly in recent years, is that it is primarily based on the services sector; this was not previously the case, since the primary sector, mostly dominated by agriculture, was the main pillar of the country's economy. The changes subsequently brought on by the internationalisation of commerce affected both the primary sector and manufacturing. This changed the nature of small family business, as well as small and medium-sized enterprises, leading to the emergence of new types of commercial enterprises, such as small-scale apparel industries. These features, along with others, such as tourism, as well as the various historical phases and changes that the Cypriot economy underwent before reaching its current status, which is primarily characterised by the internationalised economic crisis, are analysed and discussed in the following paragraphs.

Since the day Cyprus won its independence from the British colonial rule, its economy changed radically, achieving unprecedented progress. That said, however, it should be stressed that the British colonial rule led to the introduction, or creation, of new institutional arrangements and procedures, such as the adoption of the Common Law as the basis of the Cypriot legal framework. Prior to independence, the economy was solely based on the primary sector and, more specifically, on agriculture, animal production, mining, and quarrying. Primary products were used in the domestic market, but a large portion was exported to Great Britain, in exchange for industrial products. Great Britain was a major trading partner, and this continued to apply in the post-independence era in regard to the country's tourism, with the arrival of British tourists on the island. Demand for industrial products was satisfied only through imports, given that industry and, in particular, heavy industry never took root in Cyprus.

Tourism infrastructure was almost inexistent, as it counted only a few beds, mostly in mountainous areas, at the same time when tourist demand for sun and sea started to soar: This was the ideal “package” and marketing mix that Cyprus needed at that given time. As a country, Cyprus had whatever it took for creating an enduring economy with very strong

foundations. That said, it lacked infrastructure in terms of airports, ports, dams and a decent road network, capable of supporting fast economic growth. In the past few years, of course, there had been lots of development in this field, albeit the global economic crisis had an adverse effect on any growth, despite the fact that tourism remained the key pillar of the Cypriot economy.

As argued by Karamanou and Mitsis (2003) in study of conducted by the University of Cyprus, as part of the Economy Policy Essays project: “[...] from being an economically underdeveloped country, based on the agricultural sector, Cyprus became a developed service-based economy” (p. 6). They also point out that: “The most serious problem faced by anyone trying to create a macroeconomic model for an economy such as that of Cyprus, is the absence of adequate statistics for estimating reliable economic relations. This is due to the fact that the Cypriot economy is not only a relatively ‘new’, but is also a ‘fluid’ economy, with a tumultuous history, which is reflected on its statistics and does not allow the reliable estimate of the economic parameters that represent it” (p. 7). These references by Karamanou and Mitsi (2003) capture in a few words the overall image of the Cypriot economy, which is distinguished by two main features, i.e. that it is a “new” economy and, at the same time, a “fluid” economy. It is “new”, because it evolved through the conditions of its modern and more recent history, which characterised the development of Cyprus in various fields; and, consequently, it is “fluid” because, despite being endowed with an ideal mix of resources (e.g. tourism, as stated above), the foundations of the Cypriot economy were not institutionally sound from the outset. This was the result of the ever-changing political situation in the country, but also of the great blow dealt to the Cypriot economy by the Turkish invasion of 1974, which is discussed below. Based on these two facts, we can see that, in all those years, the Cypriot economy had been trying to find its own character and build its own profile, in order to be able to be competitive and sustainable. The tourist industry offers a way towards this direction, but is not enough to set the economy on solid foundations.

The period following the early post-independence years was marked by fast economic growth. This growth was mainly due to the expansion of manufacturing, tourism, agriculture, and construction, i.e. real estate in general. Expansion in manufacturing was based on an import-substitution strategy, which gave new impetus to the economy and small enterprises. This strategy had been tested after the end of World War II by countries in South America, Asia, and Africa. It aimed at substituting locally produced products for imports, without, however, affecting exports. This led to the substantial improvement of the country’s productive base. The tools comprised a mix of quantitative tariffs and foreign exchange constraints, the ultimate aim of which was the provision of incentives and the creation of the necessary infrastructure for the domestic industry. The government provided assistance in its own way. It helped with tariff refunds, tax-free imports of raw materials and intermediate goods, work incentives, vocational training and education, and many other ways.

At this point, it would be interesting to focus a little bit more on the case of construction, and in general, the real estate sector. Apart from tourism, a second major pillar of the Cypriot

economy is real estate, which is constantly taking on various forms, either because of the economic crisis, or as a result of regulatory-legislative change. For example, the provision of visas to the nationals of certain countries, for example China, for purchasing properties with values exceeding a specified threshold, was a government policy designed to provide a fresh impetus to the real estate market, following the great slump caused by the economic crisis. It is important to stress here that, as a result of the economic crisis, many properties remained unsold, causing a depression in the real estate industry, which supported a large portion of the Cypriot economy.

The industrialisation of the island was not possible without the necessary infrastructures, as pointed out above. Thus, emphasis was placed on the upgrading of ports, airports, roads, and telecommunications, on the construction of dams, as well as on the expansion of the electricity supply network to more parts of the island. Thanks to these efforts, Cyprus managed to increase its gross fixed capital formation from 17.6% of GDP in 1960 to 28.6% of GDP in 1973. As a result, the economy grew at very fast rates, the confidence of the people was restored, and emigration was reduced, despite the political turmoil that has been a permanent feature of the island's modern history. (It should be noted here that, as in the case of other countries, emigration flows from Cyprus were large, owing to political uncertainty and turmoil.)

The construction sector benefited the most, since all this need for infrastructure resulted in investments in infrastructure projects, in housing units, and in office and store rentals, naturally leading to increased demand for tourist accommodation. For example, Famagusta and Kyrenia were the cities showing the greatest construction growth during that period. Major investments were also realised in agriculture during a 13-year period from 1960 to 1973, when agricultural output almost doubled. This growth was directly related to industrial progress, as well as the establishment of proper vocational education and training systems. The rise of productivity in agriculture thanks to improved tools and machinery made it possible to release manpower that could be directed to manufacturing, tourism, and construction. It can be argued that people, in other words the enterprises' manpower, were not any more acting as amateurs, but instead professionalism had an obvious impact on various segments of the market, such as agriculture, construction, and tourism.

It should be noted here that agriculture was the main economic activity of the island. Its contribution was even larger, taking into account that a significant portion of exported manufactures were of agricultural origin. These, for example, included wines, juices, as well as other products that were not related to agriculture, such as apparel and footwear, the main exports of Cypriot SMEs to other countries, for example in the Middle East. After all, it is no coincidence that this period was marked by the growth of many family businesses and SMEs involved in apparel manufacturing, as well as that major overseas companies, such as companies from Great Britain and the Middle East, preferred the products of the Cypriot market.

A key decision of the government was to adopt the policy pursued by the British colonial rule in regard to education. Successive Cypriot governments not only supported access to

education, but ensured that, apart from primary education, middle and high school attendance was also made mandatory and free-of-charge. The government also emphasised on technical education as an alternative to general high-school education. This was evident in its efforts to establish vocational training institutes. These efforts resulted in the creation of a higher technological institute and a hotel and catering arts institute.

The rapid growth of the Cypriot economy was prematurely stopped. The Turkish invasion of Cyprus in 1974 was a disaster. The invasion led to the division of Cyprus, as 36.2% of the island's territory came under Turkish military occupation. Almost 200,000 Greek-Cypriots were forcibly expelled from their lands and properties. The territories under military occupation were considered to be the most productive. Moreover, the invasion led to the loss of the airport of Nicosia, the only modern airport according to contemporary standards, as well as the port of Famagusta. The loss of the airport led to the complete breakdown of the airline connection of Cyprus with other overseas countries. The port that was used for the transshipment of most products came under foreign occupation. Unemployment soared to 17% and, as a result, thousands of people became dependent on the state.

The loss of territory was a huge blow for the agricultural, as well as the industrial sector. More than half of the most productive agricultural land had been lost, along with the largest part of animal production. The industrial sector suffered an unbelievable blow, as the largest part of the mines and quarries were located in the occupied territories. Almost all tourist infrastructure and famous archaeological monuments were also located in the occupied part of the island.

All this led to the reduction of foreign and domestic demand, as there were neither any exports nor tourist demand, while owing to the loss in terms of raw materials, as well as the drop in incomes, basic need was almost exclusively covered from overseas sources.

Apart from the political turmoil it faced, the government also had to take the appropriate measures for reinvigorating the economy. It did so by mobilising all the available resources it could muster. The invasion had caused the reduction of the workforce, owing to the transfer of Turkish Cypriot workers to the occupied north part of the island, as well as the sharp increase of Greek-Cypriot emigration abroad. The emigration of Greek Cypriots to countries such as Greece, Bulgaria, and the Arab countries, helped the economy, since emigrants were the only significant source of foreign exchange. The government promoted high-added-value industries, such as apparel and footwear manufacturing, as well as the creation of many infrastructure projects. The private sector was given generous tax incentives for hiring unemployed persons.

This reactivation effort was based on expansionary fiscal policy that consisted of large expenditures for the realisation of major projects, such as new roads, school complexes, new airports, new provincial hospitals, as well as the upgrading of the existing ports in Limassol and Larnaca, and the creation of new industrial areas. A large help came from the construction of new refugee camps, designed to house those who had been forced to abandon

their homes and properties. In addition, it was decided to provide loans for the support and recovery of the agricultural sector, apart from existing and approved projects and amounts.

A remarkable barometer was the creation of a series of laws providing for income reduction in line with the reduced output, to ensure the more fair distribution of wages among the various social classes. The government also launched an effort to reinvigorate the private sector. It took measures designed to support the provision of loans by banks to individuals. Moreover, the government guaranteed loans extended to individuals involved in priority sectors.

All these efforts to reconstruct the economy bore fruit. It can be said that the growth of the private sector was rapid and impressive. In 1977, profitable employment registered a significant increase, and conditions of full employment were achieved, forcing many international organisations to talk about an “economic miracle”. The economy received a great boost from the sudden increase in demand for industrial product exports, especially by Arab countries. The main exports were apparel and footwear, fruit products, and cement.

As the economy started to recover, the population gradually shifted its interest towards the secondary and tertiary sectors. More specifically, from 1977 onwards, commerce, restaurants, and hotels started to shape the future course of the economy in their own way. The government’s focus shifted towards services that could not only be consumed domestically, but also overseas. In the 1980s, economic policy was diversified, by taking into consideration tourist demand. Cypriot tourism started to grow very fast, becoming the main and most beneficial driver of the island’s economy.

Of paramount importance for Cyprus’ affairs was its entry in the European Union. The island reaped many benefits. It became part of a market without borders, which covered all aspects of Cyprus’ trade, services, and employment. A safe climate of stability was established, which, with the adoption of the euro, also brought monetary stability, thus creating the necessary conditions for long-term planning both in production, and in investments. There was cooperation in various sectors, such a technology, research, development, and training, through the community funds that were formed. This led to the technological upgrade and modernisation of the strategic growth model, which was imperative for Cyprus.

In recent years, the Cypriot economy is dominated by significant diversification and is more strongly oriented towards the service sector. The gradual reduction of the primary sector’s contribution to the country’s GDP, naturally led to the pursuit of a new policy, which gave more emphasis on the development of trade and financial services, the modernisation of the construction and real estate sectors, as well as on shipping. The tertiary sector started to grow rapidly, as the state had invested in it during the 1990s, to a lesser degree, albeit with very positive results.

The successful reinvigoration of the economy led to significant improvements in overall prosperity, and in education. The portion of educated individuals obviously increased, having doubled in terms of persons over 20 years who have attended tertiary education, as compared, of course, with previous decades.

The achievements of all those years as regards the economy of Cyprus are in stark contrast with the challenges it may have to face. In the past decade, economic growth has shown many ups and downs. This is reflected on Cyprus' dependence on tourism. The island's efficiency in this sector depends on political stability at home or even stability in neighbouring countries.

Between 2000 and 2009, the growth of the Cypriot economy exceeded average growth rate of the euro zone. Cyprus adopted the euro as its national currency in early 2008. This, however, required the adoption of a disciplined consolidation programme in the preceding years. The result of this programme was to check the deterioration of the fiscal deficit, which amounted to 6.6% in 2003, turning it into a 3.5% surplus in 2007. Moreover, real GDP rose by 5.1% and inflation fell to 2.4%.

Compared with its European partners, Cyprus took long to be affected by the global economic crisis. The economy started to slow down in 2009, with the fiscal deficit reaching 6.1% of GDP, thus violating the criteria set by the EU, which prohibited any fiscal deficit in excess of 3% of GDP. This increase was mostly due to government spending, which grew during a period when government revenues were significantly reduced. Another lingering problem is the non-sustainability of the pension system. As a result of above, Cyprus was placed under the Excessive Deficit Procedure, and credit rating agencies embarked on a cycle of continuous downgrades of its economy. The fiscal crisis in Greece played a critical part in these downgrades, owing to the interdependence between the two countries' banking systems.

The fiscal policy pursued in 2008, with the economy rapidly growing and bank lending on the rise as a result of low interest rates, led to a significant increase of inflationary pressures, causing the further deterioration of the economy's already low competitiveness. This is one of the long-standing problems faced by Cyprus, as annual pay rises were disproportionately high in comparison to the low productivity of the workforce, while inflationary pressures were more intense in comparison with the euro zone.

It is now obvious that there is need for structural changes. The growth model that is being used has exhausted all its economic growth potential. The comprehensive revision of the existing model is now considered to be imperative for ensuring economic growth in the long, as well as in the medium, term. The principal aim is to increase productivity. Cyprus will have to seek solutions to the problems caused by the serious deterioration of its competitiveness.

The Cypriot economy is not famous for its trade – quite the opposite, as in this sector it shows a huge deficit. In past years, the trade deficit stood at approximately 20% of GDP, while in the past decade it averaged at 30%. The gradual reduction of exports as a percentage of GDP began in the late 1980s, and is continued till this date, in conjunction with relatively high demand for imports. This led to the further increase of the trade deficit in recent years. The negative repercussions of the Turkish invasion on the trade balance were mitigated by the growth of exports during the post-invasion decade.

Over time, the imports of goods in Cyprus have been much higher than exports, and we can see that they are continuously increasing. The absence of a strong industry means that Cyprus depends on other countries for its supply with industrial products. This was facilitated by trade liberalisation, while the abolition of tariffs on imported EU products also played an important role, along with the gradual drop in the competitiveness of domestic industrial products and the shift of resources towards the tertiary sector, with particular emphasis on tourism, finance, and other services, thus leading to the reduction of Cypriot goods exports.

In recent years, the exports of goods from Cyprus tend to decrease. In 1960, the exports of goods stood at approximately 20% of GDP, but year after year they have been decreasing. This demonstrates Cyprus' inability to penetrate foreign markets, and we can see that even domestic products have been replaced by imports. The weakness of exports is due to the fact that the growth of the Cypriot economy was based on a protected market and that its exports penetrated only a few, specific markets. The United Kingdom, has always been a market for Cyprus in terms of both goods and services (i.e. tourism), owing to the preferential treatment enjoyed by Cypriot products, as a result of many factors, such as the role of the Cypriot community in the UK and colonial rule which –given the presence of British bases on the island till this date– created a culture of preferential trade. This is also the reason for the heated debate about Brexit and its effect on the Cypriot economy. The increased importance attached by Cyprus to services exports is considered to be one of the most important decisions ever made, and is viewed by many as “Historic”. The economy's focus on these sectors is correct, as they help the services balance show a large surplus. This surplus offsets, to a great extent, the deficits of the trade balance.

Service exports categories:

- i) Transportation of goods and people;
- ii) Travel services – tourist revenues;
- iii) Financial, accounting, and legal services.

–The above account for almost 90% of the total exports of goods and services.

A country's competitiveness may be defined as its success in exporting goods to international markets. Measurable indices of competitiveness include labour cost and the exchange rate, which both affect the cost of exports. Other measurable indices are unit labour costs, the real exchange rate, and the market share of exports.

Unit labour cost is the money paid to each employee in comparison with their productivity. In the 1990s, this index stood at European Union levels. According to a new survey conducted in 2010, the index had exceeded that of the previous survey, as well as the EU average. This was a result of significant and widespread pay rises. This, however, is offset by the fact that Cyprus does not depend on the exports of goods, but mostly on the exports of services. Obviously, this index does not capture the actual situation, since services are not included in unit labour costs as a measurable input.

A country's trade with other countries determine the adjustment in the prices of its exports, on the basis of their demand. Adjustment for prices is made through the consumer price index and unit costs. Moreover, as mentioned above, the market share of exports in Cyprus has been decreasing in recent years. This leads to the conclusion that the country's competitiveness has deteriorated as regards both goods, and services.

Economic and monetary policy in the EMU is the culmination of the process of European integration, with the creation of a single currency for EU member states. Following their accession, member states retain their independence in areas such as economic policy, fiscal policy, as well as macroeconomic and structural change. The monetary union makes full use of the benefits of a large single market. The single currency could eliminate exchange rate fluctuations and competitive devaluations, and could also help reduce transaction costs and facilitate the integration of financial markets, and the moral unification of European nations.

Responsibility for the common monetary policy was assigned to an independent supranational organisation, the European Central Bank (ECB). The ECB is also responsible for evaluating the member states' preparedness to adopt the euro. In order to determine when it was the right time for a member state to shift from any other currency to the euro, certain criteria were established, to which member states were called to comply with, prior to their full accession, with the aim of ensuring the smooth operation of the EMU. What the EU did, in effect, was to determine an economic policy framework, including the fiscal framework, and to coordinate all other states through multilateral supervision, peer pressure and mutual support, thus leading to fiscal discipline.

The appropriate monetary and foreign exchange policy of a country is selected on the basis of the challenges it faces and the characteristics of its economy. Until its entry in the euro zone, Cyprus was pursuing a fixed exchange rate policy. The Cypriot economy was marked by its pronounced trading nature, the existence of wage indexation, and the existence of statutory fixed interest rates, and, in the more distant past, by capital controls. The ultimate goal was to maintain price stability by maintaining fixed exchange rates.

Finally, according to the Strategic Framework for Fiscal Policy for the period 2016-2018, the economy of Cyprus faces the following risks: The most important risk lies in the fact that the Cypriot economy is exposed to, and is affected by, external threats, for example uncertainty regarding the prospects of tourism, as well as the upheaval in the banking sector. According to the government's strategic plan, if these two sectors can be stabilised and become predictable –especially tourism– they can become the key for the economic recovery of Cyprus.

Chapter 3

Literature Review

3.1. Institutions, competitiveness, and growth

Competitiveness is a direct subject of this study, it is of concern to both its research questions and research assumptions, and since competitiveness is an element of the economy that is affected by institutional arrangements, it needs to be discussed at this point. Our main assumption here is that, as discussed in another chapter, competitiveness is inextricably linked with entrepreneurship. More specifically, entrepreneurship is the “vehicle” for creating competitiveness. In fact, the smarter and more sustainable entrepreneurship is, the most sustainable competitiveness becomes. In other words, the characteristics of entrepreneurship determine the characteristics of competitiveness, no matter whether we are referring to a country’s overall competitiveness in relation to other nations, or to the competitiveness of individual firms within a country (Vogel, 1987).

Moreover, as we will see below, many indices that are related to the effect of institutions on entrepreneurship, are also derived from the element of competitiveness. A good example is provided by the argument by Saratsis, Kotios and Galanos (2012), who maintain that competitiveness and, by extension, the competitiveness of regions in the case of Greece, is not the same everywhere, albeit is differentiated owing to the institutional framework that regulates a country’s growth. Therefore, competitiveness is a key element of entrepreneurship, since it affects, to a great extent, business practices (Hirtle, 1991).

So, let’s start from a common assumption: Entrepreneurship (along with other elements, such as innovation) “and competitiveness are the main vectors of social-economic progress of every country” (Coculescu, 2008).

According to Porter et al. (2008), prosperity (which is added to the quality of life of the citizens of a country or a region) “is determined by the productivity of an economy, which is measured by the value of goods and services produced per unit of the nation’s human, capital, and natural resources. Productivity depends both on the value of a nation’s products and services, measured by the prices they can command in open markets, and the efficiency with which these products can be produced” (p. 44). As the authors point out, “Productivity supports high wages, a strong currency, and attractive returns to capital—and with them a high standard of living Competitiveness, then, is measured by productivity.” Important categories of productivity drivers include the role of institutions, openness to trade and investment, geographic location, and the quality of the business environment and etc. That

said, productivity is also directly related to growth. After all, there can be no sound growth without productivity in the various sectors of the economy. Drawing from the case of Greece, Kotios et al. (2015) identify five factors that affect growth and, hence, the economy: a) fiscal, b) internal devaluation, c) financial, d) psychological, and e) socio-political. Based on these five factors suggested by the authors (2015), we can argue that a country's growth depends on two drivers: first, the economic environment and, second, the institutional environment. These, of course, are two general axes, which will have to be contextually specified in order to be able to be measured and estimated and, thus, lead the researcher to solid conclusions. This is, essentially, what the above authors suggest (2015). The socio-political environment is also important and falls under the overall institutional framework. This is why many studies give emphasis on prosperity, precisely because the overall social and political environment has an impact on these issues and, in particular, on the issue of entrepreneurship and, by extension, to all relevant issues, such as competitiveness.

“Competitiveness has become a central preoccupation of both advanced and developing countries, in an increasingly open and integrated world economy” (Porter, 2008, p. 23). The challenge, however, for an economy is to turn its competitiveness into economic benefits through entrepreneurship. For example, Webster and Ivanov (2014) address this specific issue, using the tourist industry as an example. On the other hand, we should not forget that the main aim of competitiveness strategy is to help countries realize or build comparative advantage.

According to Sala-i-Martin et al. (2009), “[t]he concept of competitiveness, thus, involves static and dynamic components. Although the productivity of a country determines its ability to sustain a high level of income, it is also one of the central determinants of its return on investment, which is one of the key factors explaining an economy's growth potential” (p. 4).

The Global Competitiveness Report of the World Economic Forum represents the most comprehensive study of the international competitiveness of individual countries. The details of the ranking and descriptions of the competitiveness landscape, of individual economies are presented in The Global Competitiveness Report, an annual publication designed to provide a “platform for dialogue between government, business and civil society about the actions required to improve economic prosperity.” The current year report covers 144 countries, which together represent 98.3% of world GDP (GCI, 2017; GCI, 2018).

The GCI report is meant to provide an overview of the competitiveness status of each country or group of countries, thus enabling decision-makers to reduce country analysis costs. It is neither an indicator of growth nor a tool for growth-related prediction or forecasting. Its purpose is to summarise current market conditions at a given time, in a specified country. It

is also a tool that can be used for comparative analysis across countries. The Global Competitiveness Index, in calculating competitiveness, combines 114 indicators under 12 pillars.

The following pillars are used for the methodological categorisation of the GCI:

1. Institutions
2. Infrastructures
3. Macroeconomic environment
4. Health and primary education
5. Higher education and training
6. Goods market efficiency
7. Labour market efficiency
8. Financial market development
9. Technological readiness
10. Market size
11. Business sophistication
12. Innovation

Many of the above pillars of the GCI will become key elements of our research further on. For example, innovation and technological readiness, as well as other elements, will be extensively used in this study. Another measurable factor, which is related to competitiveness and growth, is unemployment, a subject that is addressed in various parts of this study (Papadimitriou and Smagadi, 2012; Papadimitriou and Smagadi, 2012).

In essence, CGI reports help classify countries into three market categories: factor driven, efficiency driven and innovation driven markets. More specifically, the GCI:

A. Factor driven: Takes into account various factors, irrespective of whether they represent inherent features of the market, or are exogenous or occasional market factors.

B. Efficiency driven: Takes into account the efficiency of various factors, provided, of course that they are positive, as well as the efficiency of various political and institutional processes.

C. Innovation driven: Takes into account the degree of innovation and the effectiveness of innovative activities in various markets.

We can also see, however, that the most important pillar of this index, is the institutional factor, given that it is cited first. This is also indicative of the widespread perception and

assumption that institutions influence the overall business and competitive field. The institutional factor is also highlighted by other indicators, such as the European Regional Competitiveness Index (Annoni and Kozovska, 2010). So, we can see how important the institutional factor is, and how much it influences entrepreneurship and competitiveness.

This classification is useful in decision management (Lall, 2001). The results of the 12 pillars are not independent, albeit tend to reinforce each other, and weaknesses in one area often have a negative effect in others. “For example, a strong innovation capacity (pillar 12) will be very difficult to achieve without a healthy, well-educated and trained workforce (pillars 4 and 5) that is adept at absorbing new technologies (pillar 9), and without sufficient financing (pillar 8) for R&D or an efficient goods market that makes it possible to take new innovations to market (pillar 6). Although the pillars are aggregated into a single index, measures are reported for the 12 pillars separately because such details provide a sense of the specific areas in which a particular country needs to improve.”¹³

Indices may help policy makers to evaluate the shortcomings of their economies, while they can also help investors to allocate resources between countries, researchers to analyse important issues in comparative terms, international institutions to judge economic performance, and domestic industries to measure themselves against competitors (Porter et al., 2007).

Any competitiveness index should start with a measure of national competitiveness performance, confined to activities involving competition with other countries. That said, the key question in regard to the various indices is simply, “what exactly does each index measure?” For example, what types of enterprise is it based on? Does it take into account the issue of family businesses (Carney et al., 2017)? Therefore, these issues should be clarified prior to focusing an index, whether it pertains to competitiveness, entrepreneurship or some other concept.

3.2. The issue of entrepreneurship

Competitiveness and entrepreneurship are two related and mutually complementing concepts¹⁴. This is what Tirupati (2008) suggests, namely that entrepreneurship, and its pertinent concepts, such as innovation and technological innovation, actually enhance competitiveness, either in the case of an individual business or in the case of the national economy as a whole. This is, after all, why, as we have seen above, the various indices that

¹³ See: <http://reports.weforum.org/global-competitiveness-report-2014-2015/methodology/> [accessed on April 15, 2019]

¹⁴ See: Poufinas, Galanos and Papadimitriou. (2018).

measure competitiveness take into account the key entrepreneurship-related components and the like.

Meredith, Nelson and Neck (1982) have argued that an entrepreneur is a person capable of identifying and assessing business opportunities, gathering and utilising the necessary resources, and, finally, taking the necessary actions to ensure the success of their ventures. At the same time, though, they should be prepared to face failure, since many entrepreneurs succeeded through the experience of multiple failures.¹⁵ As we will see in the following analysis chapters, experience is a key factor of entrepreneurship.

Schumpeter (1991) argues that entrepreneurs create new combinations of resources, in the sense that they create new goods or new qualities of goods through new production methods, they create new markets, they discover new sources of supply, and they have an effect by changing the organisation or structure of an industry or the economy. It should be made clear, though, that entrepreneurs are not merely “investors” in, or “owners” of, a business, or even its “managers”. Schumpeter (2017) is one of the theorists who, from early on, connected entrepreneurship with innovation.

Entrepreneurship is not a one-sided issue. On the contrary, it is a highly complex and complicated issue, since it is affected and informed by a multitude of factors. Gartner (1990) uses his research, especially the surveys conducted through questionnaires, to obtain the respondents’ perceptions of what entrepreneurship and being an entrepreneur means. His research emphasises on the features and abilities an entrepreneur has, according to the survey respondents. In order to gain a deep understanding of the concept of entrepreneurship, but, primarily, to understand the practical issues pertaining to it, we will make an effort to describe the pillars that characterise and affect it:

- **Institutional framework:** Entrepreneurship is affected by the policies pursued by states and governments, as well as the policies that pertain to the local and regional environment. Issues such as bureaucracy, the enterprises’ capability to access data and financing sources, the regulatory framework, as well as the social and cultural framework, also fall under the institutional approach of entrepreneurship.
- **Economic framework:** The economic framework is inextricably linked with the institutional framework. In other words, the economic environment of a country, the sustainability of the banking system, the procedures regarding state aid, and the financial incentives, for example on the young and female entrepreneurship levels, are issues that fall under the economic framework approach,
- **Competition:** The features of the market obviously affect the development of entrepreneurship. In other words, how easy it is for a new enterprise to enter the

¹⁵ See also: Wyckham, R.G., Meredith, L.N. and Bushe, G.R., 1987; Carraher, S., 2014.

market and whether, in the context of competition, this enterprise can cope and be a going concern.

- **Innovation:** One of the most important entrepreneurship-related issues is innovation, which is examined in greater detail further on. Innovation is also related to the institutional framework, since this is what actually determines whether enterprises, irrespective of the stage they are in, e.g. start-ups, will be given the incentives required for differentiating themselves through innovation.
- **Characteristics and capabilities of the entrepreneur:** The entrepreneur is the key player as regards the development of entrepreneurship. This aspect is extensively discussed in chapter 5, emphasising on the field of young entrepreneurship.

Timmons and Spinelli (1994) focus on two key elements of entrepreneurship: creativity and leadership, while also considering innovation to a key component of entrepreneurship. After all, creativity is –as a concept– quite often identified with innovation. According to the relevant model presented below, entrepreneurship is, first of all, based on the business plan, and building a proper business plan depends on the resources of the business, the opportunities arising either within the business or in the market at large, as well as on the team, i.e. the ability of the human resources to stand up to the challenges. The model does not overlook exogenous factors, i.e. the institutional environment that affects the entrepreneurial process.

Timmons Model of the Entrepreneurial Process

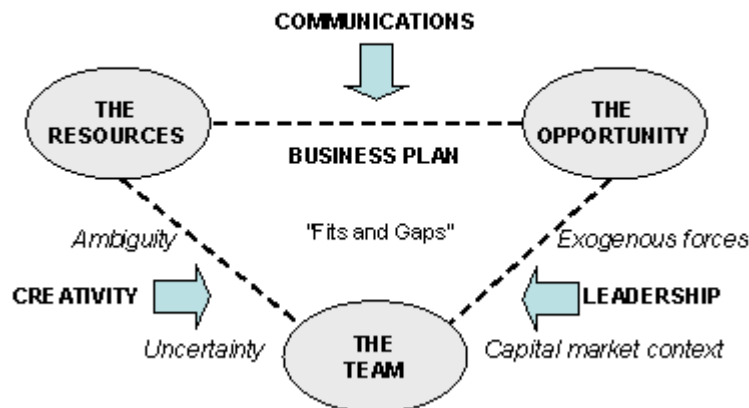


Figure 3.1 The entrepreneurial process and its key pillars.

Source: Timmons and Spinelli (1994).

Based on the above, we can say that entrepreneurship is a process that comprises various stages. The most important thing, however, is that this process is also affected by many factors. Referring to those factors, Vliamos and Tzeremes (2012) argue that business activity depends, to a great extent, on the personal attributes, which –as suggested by the authors–

are acquired through experience and education (internal factors), but are affected by the wider environment (external factors). The authors (2012) also refer to the characteristics of these personal attributes, such as the decisiveness of an entrepreneur, their educational and professional training level, their experience and persuasiveness, as well as their ability to control and implement the enterprise's strategic plan. They also emphasise on the people's motives for doing business. More specifically, they suggest that: "Although researchers have analyzed and criticized much of the existing empirical research on the role of human motivation in entrepreneurship, we believe that the development of an entrepreneurship theory requires consideration of the motivations of people making entrepreneurial decisions" (p. 259). This position of the authors is very important, since it effectively breaks new ground in the research on entrepreneurship and focuses the institutional discussion on the existing structures, and on whether these structures can motivate the interested parties to do business, and support their business venture.

Our research, after all, addresses these issues and proceeds to an in-depth analysis of the qualitative parameters regarding both the motives and the capabilities of young people who consider doing business. The variables employed in this research, as explained in the chapter on the design of methodology, are helpful for precisely this purpose, i.e. to analyse the motives for, as well as the deterrents to, planning, developing and maintaining a business.

Vliamos (2016) emphasises, through his research, on the issue of opportunities as a key element of entrepreneurship, since these opportunities provide the starting point for the process of discovery and creativity. According to the author (2016), this process of discovering and creating new opportunities on one hand "gives birth" to new ideas, but on the other hand will bring the entrepreneur back to earth, if no new innovative ideas are forthcoming. The author also makes this remarkable argument: "Investigations on opportunities creation led some researchers to postulate that entrepreneurs seem to use a cause-effect process, whereby, through their knowledge or expertise, they make choices based on a set of alternatives and estimates of the consequences which lead to particular actions" (p. 2). Adding to the above discussion on the entrepreneurs' capabilities to manage a business project, this argument is about their competences and skills, as well as their knowledge of the sector they are operating in. Therefore, in order to be able to manage entrepreneurship, a person should possess the necessary background. For example, in order to identify any existing opportunities for creating promising business solutions, one should be aware of their object and their competitive environment, and possess the skills required for identifying, managing, as well as "building on" these opportunities.

When referring to the entrepreneurial process we should not overlook the technological factor, one of the most essential aspects of entrepreneurship. New and digital technologies have given fresh impetus to entrepreneurship, thus giving rise to new opportunities and opening new channels of business communication. The digital economy, for example, has radically changed the business environment, through new and innovative financing applications and the introduction of digital currencies and bonds. For instance, e-banking philosophy is constantly changing, through the emergence of new applications and new

customer service platforms. Banking transactions will not anymore be processed through intermediaries –i.e. the banks– but will be directly processed by the customers themselves. Digital technologies have also affected other sectors, such as tourism, commerce and, in general, the provision of services. Extensive reference to technological entrepreneurship is made by Phan and Foo (2004), who use the example of emerging regions and emerging economies.

As suggested above, institutions play a key role in entrepreneurship. The quality of institutions, their effective operation, the extent of bureaucracy, and the incentives offered by the state and, in general, all the institutional mechanisms that, directly or indirectly, affect the growth of entrepreneurship play a major role. This is why international literature places particular emphasis on the relationship between entrepreneurship and institutions. Henrekson (2006) refers, for example, to the effect of institutions on innovation,¹⁶ claiming that, insofar as the institutional framework offers incentives and protects the patents of small innovators, it may encourage entrepreneurship, for instance at the start-up stage. On the other hand, Hwang and Powell (2005) argue that the quality of institutions is determined by two parameters. Their durability and their fixity, in other words how stable and “real” institutions and, hence, institutional arrangements are, in order to be able, in real terms, to support various structures and, in particular, entrepreneurship. After all, the problem usually faced by countries such as Greece and Cyprus, i.e. countries with a good institutional framework, which conforms to the directives of the European Union, lies in its problematic implementation and instability, which gives rise to red tape that frustrates business initiatives, especially on the start-up, family business, and SME levels.

Therefore, the institutional element can be detected in various fields of entrepreneurship, and not merely in a certain stage of the process. Institutions may affect the idea and the process of entrepreneurship from the initial stage of producing the idea, and even up to key parts of the process, such as financing, the sustainability of the business idea in the context of a competitive market, the encouragement for the design and production of innovation, and so forth. As argued by Bosma et al. (2018) various institutional bodies have a decisive effect on the nature of entrepreneurship. This study, as discussed in the analysis chapters, emphasises on the people’s perceptions of institutions and their effect on various stages of entrepreneurship.

Bosma et al. (2018), point out that by using, as part of their research, variables designed to analyse the institutional effect on entrepreneurship, they reach the conclusion that the regulatory dimension is the most evident one, since this parameter can be approached and analysed using the size of government intervention as a proxy. Government intervention, being the basic institutional pillar of the process, is also its most crucial element. Of course, we have to distinguish between the formal and the informal part of the process. As a matter of fact, it is easier to analyse the formal part, namely regulatory intervention in terms of the

¹⁶ See also: Douhan, R. and Henrekson, M., 2010; Henrekson, M. and Sanandaji, T., 2011; Estrin, S., Korosteleva, J. and Mickiewicz, T., 2013.

legal framework and statutory procedures. That said, government intervention also has an informal part, such as partisan patronage and bureaucracy, practices that hinder the enhancement of the institutional background and framework, and are obviously difficult to measure and analyse as variables.

In their study of the effect of institutions on the ICT (information and communications technology) sector, Fritsch and Engelhardt (2010) argue that entrepreneurship in this sector is affected by both formal and informal institutions and institutional arrangements. They particularly emphasise on informal institutions, claiming that they effectively constitute a web of interacting elements and behaviours, which lead to certain informal outcomes. According to the authors, these interacting elements and behaviours are also part of the institutions. The interesting thing, though, lies in their –reasonable– view that informal, for the most part, institutions have their own different “character” and their own characteristics, depending on the sector of entrepreneurship. For example, tourism has its own characteristics, since formal and informal institutions are mostly affected external factors, such as terrorism, weather conditions etc., which obviously affect tourist mobility, the seasonality of the tourism product etc. Therefore, each sector has its own characteristics and institutions affect, and are applicable in, each business sector in a different way.

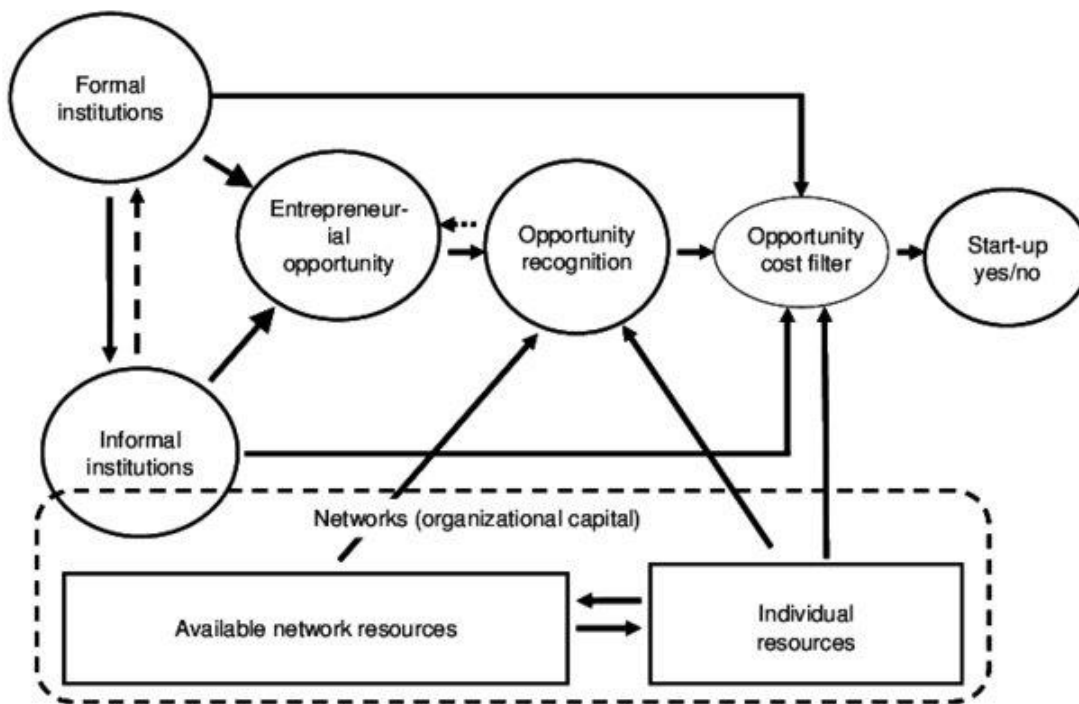


Figure 3.2 Formal and informal institutions and the way they affect entrepreneurship and, in particular, entrepreneurial opportunity.

Source: Fritsch and Engelhardt (2010).

Fritsch and Engelhardt (2010) also extend their reasoning towards “entrepreneurial opportunity”, in the sense that the institutional framework is one of the elements that will induce someone to do business. More specifically, the authors argue that: “The opportunity costs of entrepreneurship are affected by: (a) formal institutions, such as unemployment benefits or the tax system, as well as informal institutions, such as the social prestige of self-employment or family history; and (b) individual resources as well as by resources available in the network” (p.7).

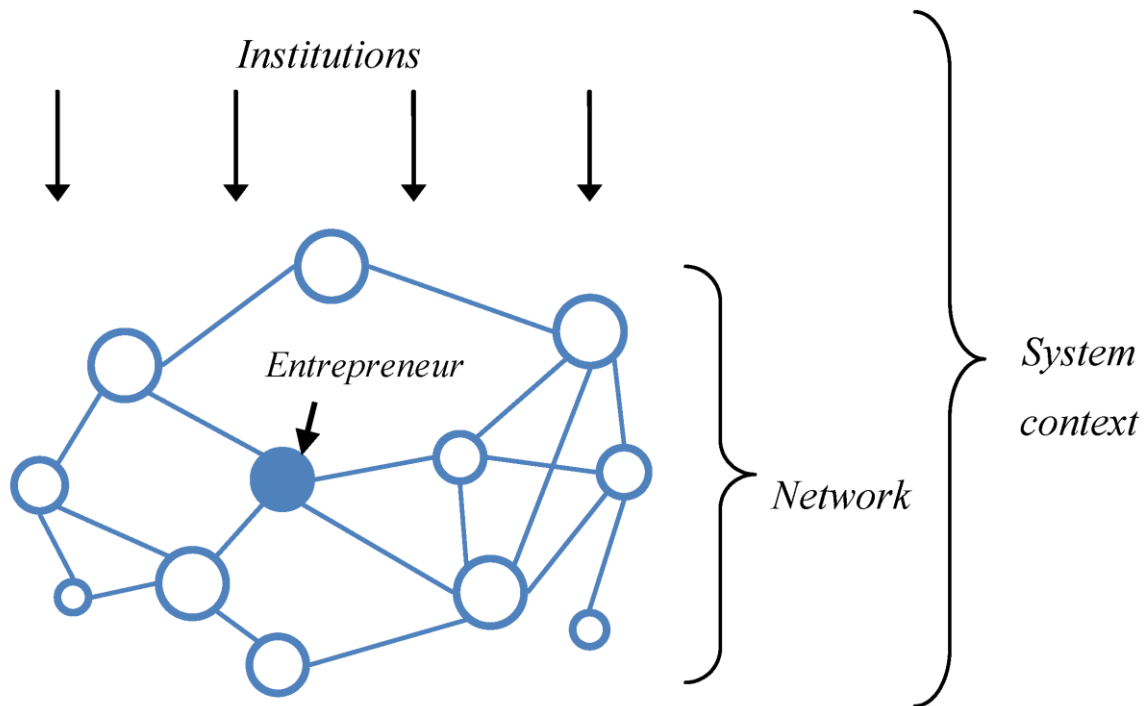


Figure 3.3 The effect of the overall institutional framework on the entrepreneur.

Source: Klein Woolthuis, R.J., 2010.

Based on the above analysis and discussion, we can argue that entrepreneurship has four main pillars, the most important being institutions, which affect the entire entrepreneurial process on the formal, or the informal, level. Apart from the institutional framework, motives also play an important role, albeit are influenced by the institutional framework, as we will conclude from the analysis in chapter 5. Entrepreneurship also means implementation. In other words, it is not only about the design of the business strategy, but also its implementation in practice. Finally, the overall business outcome is the factor that ultimately measures entrepreneurial effectiveness.

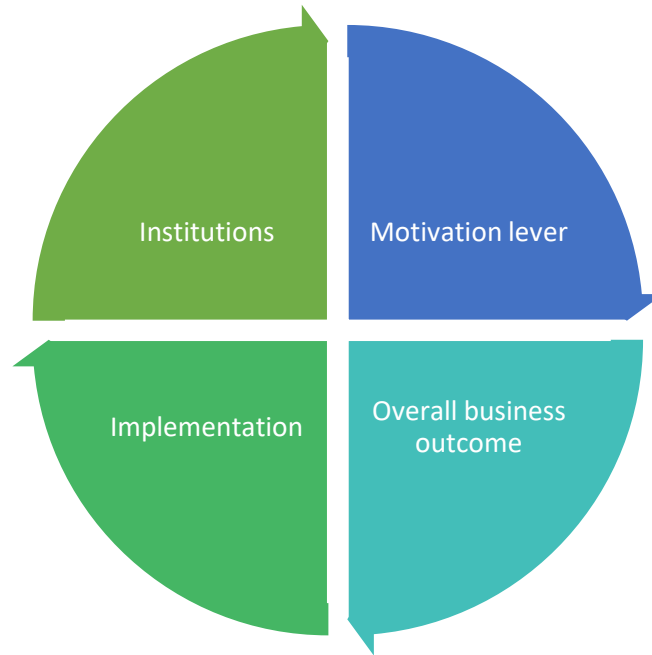


Figure 3.4 Four main pillars of entrepreneurship.

Source: own elaboration.

Since we already referred to types of entrepreneurship per sector and to the way institutional arrangements “react” differently in each sector based on its characteristics, some indicative types of entrepreneurship are presented below. It should be mentioned here, of course, that there are many conceptual approaches of entrepreneurship, while there are also various interesting types of entrepreneurship, many of which are analysed and discussed in the following paragraphs.

An interesting type of entrepreneurship is social entrepreneurship. The European Commission has, since 2011, established the Social Business Initiative. The key feature of social businesses is that their main purpose is primarily social. In essence, it is an extension of what we call “social responsibility” in business and marketing. Fayolle and Matlay (2010) argue that the emergence of social entrepreneurship is an outcome of the economic crisis. More specifically, they maintain that the economic crisis and its worldwide impact created the need to turn society into a main pillar of the economy. Based on this, we may argue that entrepreneurship is not only an economic, but also a social phenomenon, since its outcomes affect social structures, such as the joblessness, employment, mobility, motivation and encouragement of young people. Fowler (2000) argues that social entrepreneurship is the creation of viable socio-economic structures, relations, institutions, organisations, and practices that yield and sustain social benefits.

Moreover, when entrepreneurship is related to a business activity or process of an enterprise’s worker, it is called “Intrapreneurship” (Bosma, Wennekers and Amorós, 2012).

Another type of entrepreneurship is green entrepreneurship. As discussed in the theory chapter, green economy gets more and more to the epicentre of institutional, economic, and business debates. Melay and Kraus (2012), looking into the subject of green entrepreneurship, maintain that the businesses that implement this type of entrepreneurship are distinguished by a high rate of viability. Farinelli et al. (2011) introduce the concept of “green innovation” and point out that: “...an increasing number of highly profitable businesses from the developing world are turning eco-consciousness in a competitive advantage, demonstrating that they can be just as green as their Western rivals” (p. 44).¹⁷

The market of Cyprus is of particular interest as regards green entrepreneurship, since many businesses shift their attention towards this direction, not only in tourism, but in general. In particular, many start-ups choose this path. It would be interesting to present here some case studies regarding green entrepreneurship in Cyprus. An interesting case is that of mountainous Cyprus, which offers many examples of green tourist entrepreneurship, mostly family tourist businesses, such as small accommodations, or farms offering a selection of activities. After all, tourism is a heavy user of green business practices and ideas.

Another term that is often used in this study is the “entrepreneurial process.” According to Shane and Venkataraman (2000), an entrepreneurial process involves many stages, such as the identification and evaluation of objective opportunities, the establishment of goals to exploit identified opportunities, as well as analysis of alternative means to fulfil goals and constrains that stem from environmental conditions.¹⁸

In short, based on the literature that is presented here, and is available in general, we can argue that entrepreneurship is a component of the institutional and economic system, as well as of economic growth, for the following reasons:

1. The motives for the development of business ventures mainly stem from institutional agents, public and private, as well as from the institutional arrangements themselves. The degree of access of each stakeholder to sources of entrepreneurship, either in regard to financing, or to the acquisition of knowledge and vocational training, is determined by the quality and effectiveness of institutions and, specifically, of the existing institutional processes.
2. Sustainable entrepreneurship leads to the creation of new jobs and, therefore, enhances the local economy and improves the quality of life.
3. It leads to innovation, and this helps businesses compete, through their diversification, in fiercely competitive markets and environments. At the same time, it improves the terms of competitiveness. It would be interesting, for instance, to

¹⁷ See also: Robinson, S. and Stubberud, H.A., 2015.

¹⁸ See also: Venkataraman, S. and Sarasvathy, S., 2001; Webb, J.W., Kistruck, G.M., Ireland, R.D. and Ketchen Jr, D.J., 2010; Huarng, K.H. and Hui-Kuang Yu, T., 2011.

examine, as part of a future study, whether the increase of innovation leads to the enhancement of competitiveness.

In conclusion, we can say that entrepreneurship is the outcome of both economic and institutional processes. To achieve sound entrepreneurship, i.e. sustainable entrepreneurship that is accessible from the bottom-up (from small family businesses to larger ones), we need a sustainable institutional framework that will provide incentives to safeguard and enhance any procedures required for its development, of course within an effective regulatory and legal framework.

Having defined the terms entrepreneurship and entrepreneur, it would be helpful to delve a little in the concept of creativity, which is also an important feature of entrepreneurship and entrepreneurs. This is the why this element is also examined in chapter 5. Creativity is a major entrepreneurial resource, capable of providing a business with a comparative advantage.

In essence, creativity refers to the entrepreneur's desire to create something new, something related to the birth of new ideas. Creativity means something new, something that constitutes an innovation. Thus, the management of creativity is the key to understanding entrepreneurship, since it is directly affected by the basic structures, the culture, the socioeconomic conditions, and the characteristics of the entrepreneurs themselves.

According to Webster (1990), creativity is the ability to make something new, make something exist and last. Moreover, it is inextricably linked with the idea of change. The issue of creativity in entrepreneurship is also addressed by Lee et al. (2004) who argue that creativity and social diversity are conducive to the development of entrepreneurship.¹⁹

3.3. The issue of young entrepreneurship

There is a rich and interesting literature on the subject of young entrepreneurship and start-up enterprises. Schoof (2006) addresses the issue of barriers and incentives to the creation of businesses by young people. More specifically, the author examines the following:

- Social/Cultural attitude towards youth entrepreneurship;
- Entrepreneurship education;
- Access to finance/start-up financing;
- Administrative and regulatory framework; and
- Business assistance and support.

¹⁹ There is a large and interesting literature on the issue of creativity as a key element of entrepreneurship. For example, see also: Ward, T.B., 2004; Fillis, I. and Rentschler, R., 2010; Nyström, H., 1993; another interesting study, which surveys student opinions regarding creativity in entrepreneurship –which is also done in our research– is the following: Berglund, H. and Wennberg, K., 2006.

In his analysis, Schoof effectively focuses on two pillars of barriers and incentives: first, he emphasises on institutional barriers, as well as incentives, such as social and cultural factors, but also the wider administrative and regulatory framework, for example, bureaucracy on one hand, and the support provided by the state for the creation of business by young people on the other; and second, he emphasises on in-house capacity, i.e. on whether young people possess the necessary background for creating and supporting their own business, for example, their level of business training and knowledge. Sobel and King (2008) are interested in the role played by educational systems in regard to entrepreneurial education²⁰. Access to knowledge and information significantly enhances all types of young entrepreneurship activity.

The survey by Llisterri et al. (2006) approaches the subject of young entrepreneurship by using Latin America as a case study. According to this survey, entrepreneurship seems to be less common among young people than in the adult population, and only a minority of youths is engaged in it. This result is considered “not unexpected” by the survey, since most young people are either still in school, or employed in their first jobs in order to gain working experience in their fields of interest. A common characteristic is that many young people are working in sectors that have nothing to do with their studies, a fact that is not conducive to their future entrepreneurial activity. Of course, the overall institutional framework has a role to play in this.

Geldhof et al. (2014) maintain that one of the issues of concern for young people is the fierce and unfair competition, which needs to be regulated not only on the national, but on a much higher level. For example, European Union instruments play a very important role in enhancing and encouraging young entrepreneurship. Karanassios et al. (2006) examine the role played by the various institutional agencies of the European Union, for example the Organisation for Economic Cooperation and Development (OECD), as well as the role of educational systems, focusing on higher education in Greece.

Finally, Van Stel et al. (2007), based on the findings of their study, which examines the regulatory framework in relation to entrepreneurship in the case of 39 countries, conclude that young people, mainly owing to their enthusiasm, manage to overcome any existing institutional obstacles to setting up a business²¹. The authors also examine how the banking sector is extending credit to young people in order to help them set up their own business and, based on their findings, they argue that in poor countries the lending rate is lower, precisely because it is necessary to give rise to new entrepreneurial activities.

After all, as we will see further on, one of the concerns of young people who contemplate doing business, is the financial factor, which, more often than not, acts as a deterrent.

²⁰ See also: Bruhn and Zia. (2011).

²¹ See also: Klyver, Hindle and Meyer. (2008); Freytag and Thurik. (2007).

3.4. Implementing innovation in businesses, with emphasis on SMEs: The practical and institutional approach

One of the key tools of entrepreneurship is innovation. By means of innovation entrepreneurs create new economic resources and wealth, as they discover or utilise elements that were previously left unexploited, without having anything to offer or, to make matters worse, were even considered to be obstacles to growth. One of the main positions of this study is that, in order to be examined on the entrepreneurship –and, above all, on the SME– level, innovation should be first examined on the implementation level. First of all, let’s have a look at some conceptual approaches. In his analysis of the term, Schumpeter (2005) refers to two types of innovation. First, he refers to “radical innovation,” which effectively denotes a brand new idea, which did not pre-exist in any form. This idea may refer to a product, a service, or a procedure. The second type identified by the author is “incremental” or “ordinary innovation,” namely the type of innovation that is based on previous innovations and, in essence, represents its evolution.

Tsaklagkanos (2018) argued in a conference that innovation is a term which is interwoven, and directly, albeit not necessarily, linked with technology. In the past, innovation was very rarely encountered within the sphere of technology, albeit today, owing to the development of business information technologies, technology is almost intertwined with innovation.

Innovation means a new idea, a new mode of implementation, a new method, a new way of expressing things. According to Tsaklagkanos (2018), innovation is directly linked with the increase in productivity as an expression of output, namely the product per unit of resource and factor of production consumed or per hour of work, which essentially measures the quantity of output per quantity of input. We should also stress the huge importance of innovation in enhancing efficiency and effectiveness, as well as increasing profitability, i.e. the return on investment capital, which is affected by inflation, namely the change in the prices of goods and services.

Therefore, we see that innovation, at least on the basis of the above arguments, is a primarily economic term, in other words it “acts” in the context of the rules of the market. We could argue here that innovation is an inevitable outcome of the intense competition prevailing in today’s markets and the firms’ need to differentiate their goods and services. Innovation is not strictly confined to products, albeit, as discussed in this study, it can be present everywhere in the horizontal activity of a business.

According to Drucker (1985; 1985; 1998), systematic innovation begins with the analysis of opportunities. The author identifies seven sources of innovative opportunities. He classifies them to those originating within the enterprise or the sector, and those pertaining to changes outside the enterprise or the sector. More specifically:

1. The unexpected
2. Process need
3. Industry and market structure change
4. Demographics
5. New knowledge
6. Changes in perception
7. Importance of innovation for the business

Unexpected success offers the greatest opportunities for successful and less risky innovation. However, unexpected success is often overlooked and managers fail to use it as they should, to the benefit of the enterprise. In order to understand this, we will use an example, provided by Drucker in his book “Innovation and Entrepreneurship” (2014). Drucker says that, sometime in the past, the Manager of Macy’s, New York’s largest department store, told him that they didn’t know how to stop the growth of household appliance sales. Precisely because this unexpected success gave rise to a situation that the business did not know how to handle or control.

Indeed, in order to demonstrate the importance of innovation for a country’s economy and competitiveness, Drucker (2014) stressed that: “Management is the new technology (rather than any specific new science or invention) that is making the American economy into an entrepreneurial economy. It is also about to make America into an entrepreneurial society” (p. 17). The interconnection between innovation and the management process is evident here.

Baregheh et al. (2009) provide the conceptual definition of innovation through what they describe as a “multi-stage process,” since it comprises six complex attributes. The “stage” attribute, i.e. the stage the innovation is actually in (e.g. creation stage, generation stage, implementation stage etc.), and the “social” attribute, which refers to both the characteristics of the enterprise or organisation and those of its customers, and to the employees and social systems. The “means” attribute refers to the necessary resources (e.g. technical, creative, financial) that need to be in place for innovation. “Aim” is also a major attribute. In other words, what is the purpose of innovation for an enterprise? For example, success, competition, or differentiation? Another attribute is the “type” of innovation, i.e. where it is implemented: a product, a service, a process, or a technical application. Finally, there is the attribute concerning the “nature” of the innovation, namely whether it constitutes something

new, improves existing structures or totally changes the philosophy of the object of its application (p. 1333).

An interesting approach to innovation is that of Gassman (2006) who uses the term “open innovation”, in order to show that, owing to globalisation and technological progress, everyone has access to innovative ideas and applications that they can utilise, improve, and develop or use as a prototype for producing new ideas. For example, once a patent has been registered it is available to the public. After all, there are plenty of legal issues arising as regards patent protection, since an original innovation is effectively subject to modification by anyone. Nowadays this is much easier, as a result of new technologies and “smart” applications.

An early attempt to model innovation was that by Kline and Rosenberg (1986), who describe innovation as a linear process including the potential market, the invention and development of the analytical plan, detailed design and control, re-design and production, and distribution and sale in the market. Despite being one of the first models of innovation, it actually takes into account the basic stages of an entrepreneurial chain. According to Lindgardt et al. (2009), what really matters in business model innovation is the value proposition. In other words, what the new item is that will generate value for the consumer.

According to Valvi et al. (2018) “entrepreneurship and innovation is the concept of human effort and purpose, a socio-economic phenomenon that is inherent in human nature, as it simultaneously constitutes social and political mechanisms for positive change and growth, provided that they are balanced and guided by exclusive, regulatory, and incentive-offering systems” (p. 19). This approach demonstrates the institutional dimension of innovation and how institutions can facilitate its development, especially through the provision of incentives. This argument is also made by Edquist (1997), who maintains that an innovation system comprises economic, social, and political factors that affect, positively or negatively, the diffusion and use of innovations. The institutional dimension is also illustrated by Cimoli (1998), who emphasises on the differing institutions that govern countries. Therefore, the quality of the institutions informs the corresponding national innovation system (Saxenian, 1994).

Another interesting perspective of the institutional approach to innovation concerns the role played by regions, either within a country, or as wider geographical areas, and how they enhance innovative capability on the local level (Camagni, 1991). For example, if a specific region possesses certain knowledge on a subject, and this knowledge can contribute to the production and diffusion of innovation, then the surrounding regions could also benefit from it. This can occur on both the formal and informal levels, through partnerships, and the exchange of knowledge, human resources, and know-how. After all, as mentioned in the

introduction, knowledge and training are key pillars of innovation, as well as entrepreneurship at large, and this is why various measures emphasise on them.

On the other hand, apart from the institutional perspective of innovation, there is also the issue of entrepreneurial activity, namely how the enterprise itself perceives of, and implements and manages, innovation. As regards this process, Valvi et al. (2018) assert that business model innovation depends on the operational design of the enterprise itself. More specifically, the authors review the relevant literature and identify ten variables of the enterprise's operational design in regard to innovation: First, the existence of a value-added proposition, namely that the enterprise is clearly aware of the intended orientation of its innovation and how this is going to generate added value for the end user. Second, the ability to communicate the value proposition to both existing, as well as future customers. Third, the ability to explain the value proposition to both existing, as well as future customers. In other words, the enterprise must not only be able to communicate, i.e. to promote this value proposition, but it must also be able to explain it to its customers. Fourth, the selection of key associates, as well as the way this selection is made, plays a role in the diffusion of innovation. Fifth, the basic resources available to the enterprise determine the diffusion, management, as well as sustainability of innovation. Sixth, basic processes play a major role. Seventh, the development of organisational value determines the extent of the diffusion and management of innovation. The development of organisational value concerns all procedures implemented by the enterprise, as well as all available –economic and other– resources and the selection of associates. Eighth, market segmentation results from added value and, in general, the innovative activity of the enterprise. Ninth, the analysis of the cost of implementing and managing innovation is a major factor; and tenth, in conjunction with costs, the sources of income and whether this income stems from added value is a further key factor that can help analyse the sustainability of innovation for an enterprise.

The Institute for Innovation and Improvement presents the Innovation Life Cycle model, according to which innovation comprises three main stages: a) the design stage; b) the usability testing stage; and c) the agility stage. In between, the model features interesting items, for example, brainstorming as a key means for the production of new ideas, observation and research, and feedback.

Innovation Life Cycle



Figure 3.5 Innovation Life Cycle.

Source: Institute for Innovation and Improvement.

It should be mentioned here that the design, implementation, and management of innovation vary from sector to sector. For example, the implementation of innovation in education is different from that in primary production, manufacturing, or tourism. Moreover, one could say that the design and implementation of innovation depends on whether we are referring to product, service, or process innovation. Referring to innovation in the service sector, Barras (1986) argues that technology helps provide innovative solutions to the services rendered by an enterprise. As regards technologies, Utterback (1994) maintains that they can create multiple opportunities for enterprises, to help them break free from the confines of conservatism and get differentiated through innovative solutions and applications²².

For example, D'Antoni (2006) examines the education sector and, more specifically, the innovation implemented by the first virtual university in Malaysia, which offers exclusively e-learning courses. Of course, nowadays e-learning does not represent an innovation—at least as an idea—, but it was an innovation at the time when this university was founded.

²² See also: Bogoviz, et.al. (2017).

There are also many innovative applications in the case of tourism. For example, the use of new technologies, booking platforms, and social networks, may constitute fields of innovative communication with customers (Siakalli et al., 2017). Even in individual sectors such as the wine industry, new technologies can offer new innovative solutions as regards wine tasting (Masouras et al., 2018). Novelli et al. (2006), examining innovation in the tourist industry of the United Kingdom, assert that the implementation of innovation on a multitude of procedures related to quality and customer satisfaction can create new opportunities in the tourism and hotel industry. For example, they suggest the “healthy lifestyle tourism regeneration process,” which comprises health-based activities and organic produce, thus catering to a substantial customer segment of people who seek satisfaction in ecotourism.

The subject of technological innovation is also addressed by Valvi et al. (2018), who specifically refer to “open innovation platforms.” The authors argue that open platforms may support various sectors, such as education and tourism, as discussed above in the section about the case studies, and thanks to the interactivity they can offer, they may create a new innovative “relationship” with the user. It is generally acknowledged, of course, that technology offers plenty of potential for innovative activities and it is not a coincidence at all that, statistically speaking, most start-ups belong to new technology sectors, such as smart mobile applications.

The above discussion helps us define entrepreneurial innovation, not through a one-dimensional interpretation or approach, but through a multi-level approach. First of all, we should point out that innovation is not just about a new product or a new service. It is about many things and many processes. Let’s begin with the simplest fact: There can be no innovation without marketing. For marketing is necessary from the original idea stage. Moreover, innovation is not just about products, but is also about services, as well as the processes implemented within enterprises. These, however, will be more extensively discussed in one of the following chapters, which analyses the data on innovation in small and medium-sized enterprises in Cyprus.

Thus, based on the above discussion, we can maintain that innovation is a complex process, which differs from sector to sector. That said, the most important conclusion is that innovation depends on one hand on the institutional framework and, on the other hand, on the enterprise itself. In other words, producing and supporting an innovative solution depends on both internal and external factors. These factors will be examined through the analysis carried out in the following chapters. For example, we will analyse how young people perceive of innovation, or whether they are capable of designing and implementing innovative business models. Also, as mentioned above, we will also analyse innovation on

the small and medium-sized enterprise level, covering a wide range of innovation sectors and phases.

To return, however, to the connection between institutions and innovation, there is an interesting theory about closed and open innovation, which is referred to by Chesbrough (2003).²³ According to the closed innovation hypothesis, an enterprise produces, develops, promotes, and trades in its own ideas. Either because an enterprise is governed by a philosophy of self-sufficiency, or because the institutional framework does not, to a great extent, allow the movement of business ideas and does not let small –for the most part– enterprises, i.e. family businesses, to “open up”, in other words to become extrovert and gain access to knowledge and know-how, irrespective of whether this knowledge originates from larger enterprises-models or organisations, or other sources. This means that any ideas remain within the confines of the enterprise. They are not developed and, most importantly, they are not economically evolved. We could say that this is “low” innovation, i.e. poor innovation, which would –potentially– have more opportunities to grow in case it left the narrow confines of the enterprise.

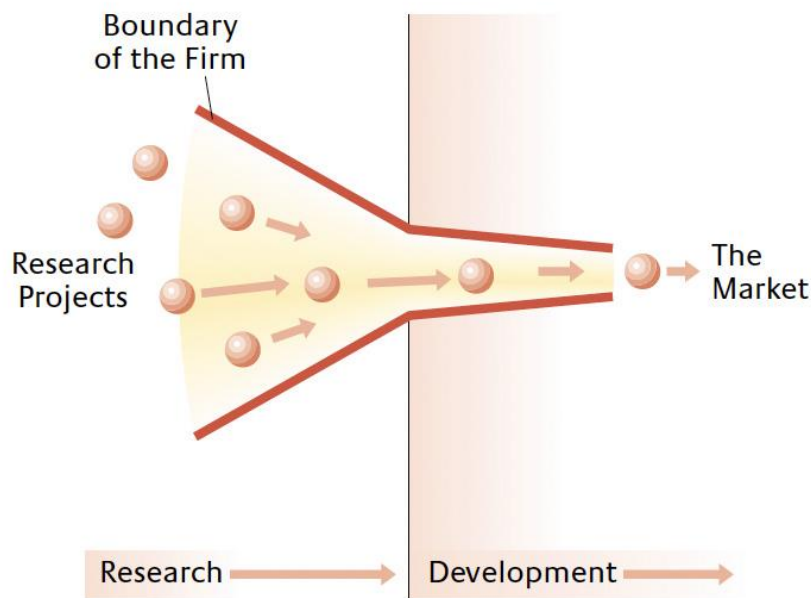


Figure 3.6 The model of closed-introvert innovation.

Source: Chesbrough (2003).

²³ See also: Laursen, K. and Salter, A., 2006; Chesbrough, H., Vanhaverbeke, W. and West, J. eds., 2006; West, J., Salter, A., Vanhaverbeke, W. and Chesbrough, H., 2014; Gassmann, O., Enkel, E. and Chesbrough, H., 2010.

On the contrary, the antipode of this model is open innovation, according to which the enterprise is open, in other words the enterprise is extrovert and able to draw ideas and information from, existing or new, markets. This strategy helps the company grow and design, produce, and promote innovative solutions more easily. This strategy also helps the enterprise on the competitive level, since, as we will see in the next section on the theory of “blue” and “red” oceans, new business opportunities are created and emerge when the enterprise is extrovert.

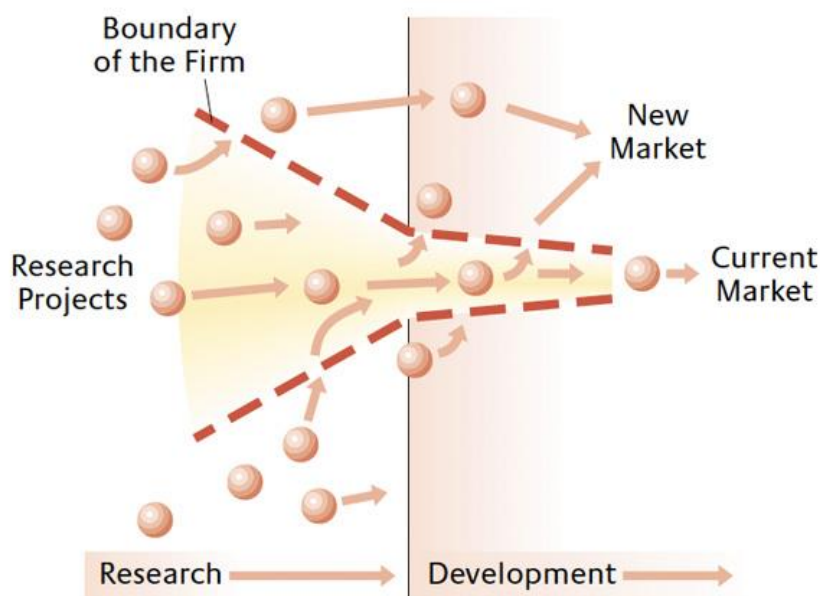


Figure 3.7 The model of open-extrovert innovation.

Source: Chesbrough (2003).

This discussion is not irrelevant to the institutional framework, since this framework determines, to a great extent, whether the enterprises are introvert or extrovert, and therefore determines their effect on innovation. Typical examples include the regulatory-legislative framework, or the existence of organisations that help enterprises (especially SMEs and family businesses) to open up to the market, such as the Chambers of Commerce and Industry, as well as private entrepreneurship organisations, such as business development associations and agencies. Moreover, knowledge is, once again, a key factor. That is to say, how much information about new ideas and their implementation is diffused in the market, and what kind of knowledge do enterprises possess, in order to be extrovert enough to benefit from it? On the other hand, it is important to see what types of incentives enterprises are

actually given in order to contemplate being involved in the process of innovation. These are key issues that must be discussed, especially in the context of the institutional approach of innovation, as well as entrepreneurship in general.

Innovation should be understood by all not only as a technological, but also a social and economic instrument. The creation of resources through innovation cannot, of course, grow out of theory, but we know enough to be able to say when, where, and how should one systematically seek innovative opportunities, and how they should assess their potential of success or failure. We know enough to develop –albeit, for the time being, only along general lines– the practice of innovation.

That said, innovation is not viewed only from the perspective of the enterprises. In the past few years, the analysis of innovation becomes increasingly anthropocentric in nature. After all, the final recipient of innovation is the user, in other words the person who uses an innovative product or service. The concept of user innovation is on the forefront of scientific debate like never before, and refers to the type of innovation that is discovered by users themselves, as they use a product in their own way (which serves their own needs) that, subsequently, is further developed by the enterprises, which gives the product a new innovative form or use. In essence, this is reverse innovation, which stems from the users and not the enterprise.

Morris et al. (2000) point out that, quite often, users innovate by modifying a certain product. This issue is also addressed by Franke and Piller (2004), who examine the behaviour of consumers-users regarding specific products and how they are used for meeting their needs. The reason why we are referring here to user innovation is to make it clear that innovation is a multifaceted concept of entrepreneurship, which involves many players and in the context of which, apart from the enterprise and the institutional framework, a major role is also played by the users, i.e. consumers, themselves.

3.5. The red and blue oceans strategy: Entrepreneurship and innovation under the prism of competition

In order to further discuss the subject of innovation in the context of competitiveness, it would be useful to have a look at the red and blue oceans strategy, a timeless approach, which illustrates the importance of differentiation from the highly competitive market environment.

This strategy very nicely illustrates the necessity of differentiating products and services by means of new ideas, i.e. by means of innovation. The strategy distinguishes between two situations, i.e. between that of harmful competition and an inflexible market and a market that offers opportunities, by paralleling these situations to “red” and “blue” oceans. As we

will see further on, innovation is an integral part of competition. The key to finding an innovative solution, which is also practicable, lies precisely in an enterprise's ability to break away from the narrow limits of high competition and exploit any opportunity presented by a void in the market (Markides, 1997).

Red oceans are those areas in which high competition is squeezed in, where business initiatives are limited by the actions of others, and where products and services run the risk of becoming identical. In essence, red oceans are “enemies” of the differentiation of products and services, especially in case the competition is so intense that it does not leave enterprises much room for corrective action.

Red ocean strategies are based on competition and aim at merely surpassing competitors without any differentiation (Bain, 1956). Their main concern is to increase the profitability stemming from Porter's five forces, which are extensively analysed in the next section. There are certain opportunities in cases where competitors have not exploited the so-called “strategic gaps”, which are used in “white” spaces, i.e. blue oceans.

Red Ocean Strategy Focus on current customers	Blue Ocean Strategy Focus on noncustomers
• Compete in existing markets	• Create uncontested markets to serve
• Beat the competition	• Make the competition irrelevant
• Exploit existing demand	• Create and capture new demand
• Make the value-cost trade-off	• Break the value-cost trade-off
• Align the whole system of a firm's activities with its strategic choice of differentiation OR low cost	• Align the whole system of a firm's activities in pursuit of differentiation AND low cost

Table 3.1 While red oceans constrain enterprises to compete in the narrow confines of the market, blue oceans help enterprises identify and exploit new opportunities.

Source: Corporate Strategy Institute.

In contrast, a blue ocean strategy considers the limits of the market and the structure of the industry to be flexible. According to Chan Kim and Mauborgne (2014), a blue ocean is the market that is created through the identification of a market segment that has not been approached by competitors.

In essence, blue oceans represent unexploited opportunities in the indirect competitive environment, which are focused on innovative ideas, diversity, and challenge, and are unpredictable.

Blue oceans have always co-existed with red ones. Given that the market is constantly changing, the fact that enterprises focus exclusively on red oceans means that the possibility of creating an innovative market segment, i.e. blue oceans, is limited, and thus blue oceans represent open spaces in the market, which offer opportunities for growth and larger profits, since they concern new sectors, offer a sense of depth, and leave room for growth.

3.6. Porter's five forces and their correlation with innovation

Since competitiveness is a key research subject of this study, and since competitiveness is a key element of entrepreneurship, it would be an omission not to refer to Porter's five forces and therefore link this theory with the above discussion and, in particular, with the issue of innovation. The market environment determines the trends of competition. This is an essential starting assumption for analysing the theoretical background. This is one of the key features of this study, namely the analysis of the various elements that comprise the environment of the national markets, as well as markets with diversified features.

We argued above that one of the main reasons for an enterprise to innovate is the pursuit of a differentiation strategy. The need to diversify stems from the high competition that characterises today's markets, as well as certain occasional market phenomena, such as economic crises. Competition is one of the elements that affect entrepreneurship. Porter's five forces essentially provide the enterprise with a "toolbox", on which it can superimpose its data –the market data– in order to decide on its competitive strategy. This is what Porter (1979) has to say about these five forces: "Knowledge of these underlying sources of competitive pressure provides the groundwork for a strategic agenda of action" (p.138).

Porter, in fact, helped market analysis evolve, since previous analyses used to focus on direct competition in industry, thus overlooking certain other key determinants of profitability and the creation of competitive advantage, and for this reason he created the five forces model. As we will see in the analysis chapters, i.e. chapters 5 and 6, competition is a key element of entrepreneurship and innovation, which is extensively dealt with in this study.²⁴

On the technical side, the five forces help the managers of an enterprise determine how attractive it is in terms of the intensity of the competition in the particular industry it belongs to. By means of Porter's five forces model we can predict the profitability of an enterprise, as well as how it will be made to generate profits. The five forces that comprise this model are the threat of new entrants, the bargaining power of customers, the bargaining power of suppliers, the threat of substitutes, and competitive rivalry. All together, these forces help the enterprise plan the actions through which it will generate increased profits. We will now present an in-depth analysis of the five forces, in order to clarify how they are used by enterprises.

²⁴ See also:

3.6.1. The threat of new entrants

The threat of new entrants in the market is defined as the strain imposed on incumbent enterprises when new ones enter a certain industry. The advent of the newcomers usually brings new production capacity, increased competition, reduced attractiveness of the market, reduced profitability for incumbents, and a desire to capture as larger market shares as possible. This threat is affected by the barriers to entry in a market. For example, if an industry is marked by high barriers to entry, newcomers will find it more difficult to enter this market, as compared to one with lower barriers to entry. This way, incumbents somehow protect their market share.

Some of the barriers to entry an enterprise may face include:

Economies of scale and experience:

One of the ways enterprises can be more competitive is to minimise the cost of the inputs required in each stage, by increasing the volume of production. This is an obstacle that has to be taken seriously into account by new entrants, since it will be much more difficult for them to achieve a volume of production similar to that of incumbents, in order to establish a level playing field.

Product differentiation:

Differentiation reduces the threat of new entrants by boosting customer loyalty. It is defined as the enterprise's ability to offer unique product characteristics – even if these are fictitious. To do that, an enterprise will have to invest in advertising and in the creation of a brand name, which is very difficult for any new entrant that has not yet been able to secure a position in the market.

Access to distribution channels:

This barrier to entry refers to the agreements corporate suppliers may sign with corporate consumers, in order to prevent the entry of new companies in a sector. On the other hand, new entrants may get around this obstacle, by directly selling their products to competitors.

Quite often, the government and the law protect the incumbents' royalties by establishing patent protection provisions, which prohibit new entrants from copying the incumbents' products for a time period of almost ten years. This even applies in the case of oil producers, as a special permit is needed for the extraction of oil.

3.6.2. Bargaining power of buyers

The second force is the bargaining power of buyers. The second, and most powerful, factor of the entrepreneurial chain is also the actual driver of the economic unit, since today's circumstances force enterprises to conform to the customers' commands, in contrast to the recent past, when consumers ran behind anything companies had to offer (Kefis and Papazachariou, 2009).

Customers are, obviously, critical for the survival of any business, as they play an important and extremely indispensable role, given that a company would not be able to offer its services without them.

The term "buyers" denotes the persons who obtain the product from the producer-enterprise, i.e. are considered to be the direct customers of the organisation, and may not necessarily be the end users. A company's customers have the power to demand reduced prices, better quality, and improved service, while they can pit one enterprise against another, leading to a marked drop in profitability.

More specifically, the power of customers depends on the following factors:

First, the size of the buyer: The larger and more important (for the company) a buyer is, the greater its bargaining power will be. Staples account for a large part of the consumers' purchases and, therefore, the power of the latter may increase, along with the possibility that they may do their shopping elsewhere. For example, if milk is cheaper in store A than in store B, then the consumers will turn to the store that sells milk at the lowest price. As a result, store B reduces the price of the product, because it has suffered a drop in both its customer base and its profitability.

The next factor is the threat of customer competition. Usually, buyers are considered to be powerful if they possess the appropriate facilities for fulfilling their supply requirements. During the negotiations with suppliers, buyers may threaten to do the suppliers' job themselves. This is called backward vertical integration and emerges when suppliers are not offering satisfactory prices or quality. For example, glass manufacturers lost part of their power when certain producers of large windows decided to produce the glass on their own.

A fourth factor is cost information. The enterprises' products are oftentimes undifferentiated. This means that buyers are certain that they can find alternative sources of supply at different price levels. Therefore, the increase in the number alternative sources means that customers have the option to buy the product they are looking for from another enterprise of the sector.

Given that buyers have perfect information about terms of sale and current market prices, they can, at any time, pick the company that is a better match to their own wishes and beliefs. In conclusion, when the customers of an enterprise are aware of its costs, then they exert huge pressures in order to influence prices.

A final factor is the sensitivity of buyers to changes in the characteristics of a product. Today's customers-consumers are to a great effect influenced by current trends, as well as by the development of a product's features; if, for example, a company changes some of the features of its product, this will have some impact on the behaviour of its customers. A case in point is NOKIA, which failed to modernise its information systems within the required time frame, and as a result its customers turned to products that were satisfying their needs, which were produced by competitors such as Samsung and Apple. So, we can also see here that buyers have the power to influence the terms of the market.

3.6.3 The bargaining power of suppliers

The third force is the bargaining power of suppliers. Suppliers are the persons/businesses that supply enterprises with whatever is necessary for their operation, such as raw materials, equipment, machinery, workforce etc. Suppliers have the power to influence the company through changes in quality and price. The power in the hands of suppliers is enormous when the product they offer is critical for the sector. In other words, if the customer-companies do not procure this specific good, they will not be able to proceed to the next production stage, and thus their profitability will be seriously affected and their viability will be jeopardised. Moreover, the suppliers' bargaining power is also increased when they offer their product cheaper than the customer-company can produce it on its own. The same happens when suppliers are concentrated. The fewer and stronger suppliers are, the more powerful they become, since they can control the quality and price of the product (which the customer-companies will procure), without having to confront the other supplier-companies. In addition, if the product of each supplier-company is slightly differentiated to those of other suppliers, then its power is increased. Another factor is the cost that would occur should the customer-company decided to switch suppliers. If this cost is high, the customer will obviously prefer its current supplier. For example, it is very difficult for an enterprise to switch from its current supplier of raw materials to a new entrant in the industry.

3.6.4 The threat of substitutes

The fourth force is the threat of substitutes. "Substitutes reduce demand for a specific 'category' of products, as customers switch to alternative solutions" (Johnson G., Scholes K. et al., 2011). Two or more products can be considered to be substitutes when one can replace the other for a specific use. The substitute may even meet the same needs, wishes, and

demands of the consumer, since it may have similar features or even better prices. The above give rise to competition, which manifests itself at a great scale, as the companies that offer similar or identical products to their customers are led to confrontation with other companies. In fact, more often than not competition is always present on various levels. Since customers have different budgets, needs, wishes, and demands. The new products that can replace existing ones represent a threat to the incumbents. For example, NOKIA once enjoyed strong profits and revenues owing to its robust sales; along the way, though, its revenues gradually started to fall, because it failed to catch up with the competition, and thus other companies, such as Samsung and Apple, were able to introduce their own substitutes. At this point there are some factors that influence the customer's decision.

One of these factors is the existence of "close" substitutes. When the product is of lesser quality the customer easily switches to the substitute. This is commonplace especially in high technology industries. A typical example is YouTube. Its advent sent record companies to a downward spiral. This state-of-the-art information system enables users to have access to a wide range of activities, such as video streaming, exchange of views, and entertainment in general. A second, and more important, factor is the price effect. Consumers will, indeed, turn to good quality, but the price of the substitute is more important. This makes the companies themselves set an upper limit to product prices, in order to provide customers with an advantage. Therefore, consumers place great emphasis to price, since, if they find a substitute that is cheaper than the existing product, they will prefer it. The final factor is the consumers' propensity to substitutes. If there are "strong indications" that customers have switched to substitutes, this is dangerous for the company. In other words, reduced demand leads to reduced profits. This, however, forces the company to make changes, which are costly.

3.6.5. Rivalry between incumbents

Let's have a look, now, at the power of competitive rivalry, wherein the incumbents, which sell identical or very similar products and, at the same time, focus on the same consumer base, face the need to create a competitive advantage. In other words, they have to incorporate some unique attributes in their product or increase its value, in order to differentiate it from the products of the competition. One of the strategies an enterprise can pursue in order to gain ground is to reduce the price of its products. Especially nowadays, when economic instability and upheaval prevail, consumers are lured by low prices, especially when these prices pertain to the same product. A second strategy is to improve product quality. If the company decides to improve the quality of its product, albeit without changing (increasing, that is) its price, it will attract more customers. A third strategy is to increase the efficiency of customer service. This way companies add value to their product, since they indirectly meet certain customer needs. Improved service makes customers feel satisfied and

subconsciously relate the satisfaction from being properly served to the satisfaction offered by the product *per se*. Therefore, they indirectly attach value to the product; which means that its demand is increasing, thus providing the company with an edge over its competitors. When an industry is characterised by intense competition among incumbents, it is considered to be less attractive. This happens because creating competitive advantage in such an industry is extremely difficult. Even if the company manages to surpass the others, it will be very difficult for it to maintain its lead. Competition among incumbents is harsher when the share of the specific industry in the overall market remains unchanged. This is why incumbent enterprises fight tooth and claw to maintain or, in the best case, increase their share in the industry. The emergence of harsh competition may also be due to the fact that the product sold by the incumbents is identical and cannot be easily differentiated. Because of that, consumers do not care too much about where they will procure the product from (since it is the same with that of the competition). In this case, the only solution is to reduce prices. A third reason exists when it is very difficult for enterprises to exit the specific industry. In other words, it is more expedient for enterprises to remain in the industry, instead of leaving, even if they are showing reduced profits or even losses. The fourth reason has to do with the industry's growth rate. In other words, how fast, or slow an industry is actually growing. In case of strong and intense growth, the total number of enterprises in the sector will also increase, and thus there will be no intense competition. In the opposite case, though, i.e. when growth is slow, there will be a surge in competition, especially price competition, and this is why in this case companies show reduced profits. A typical example is the recession, which led to a contraction of construction-related activities. In this case, building materials suppliers tried to undertake as many projects as possible, even at a reduced profit.

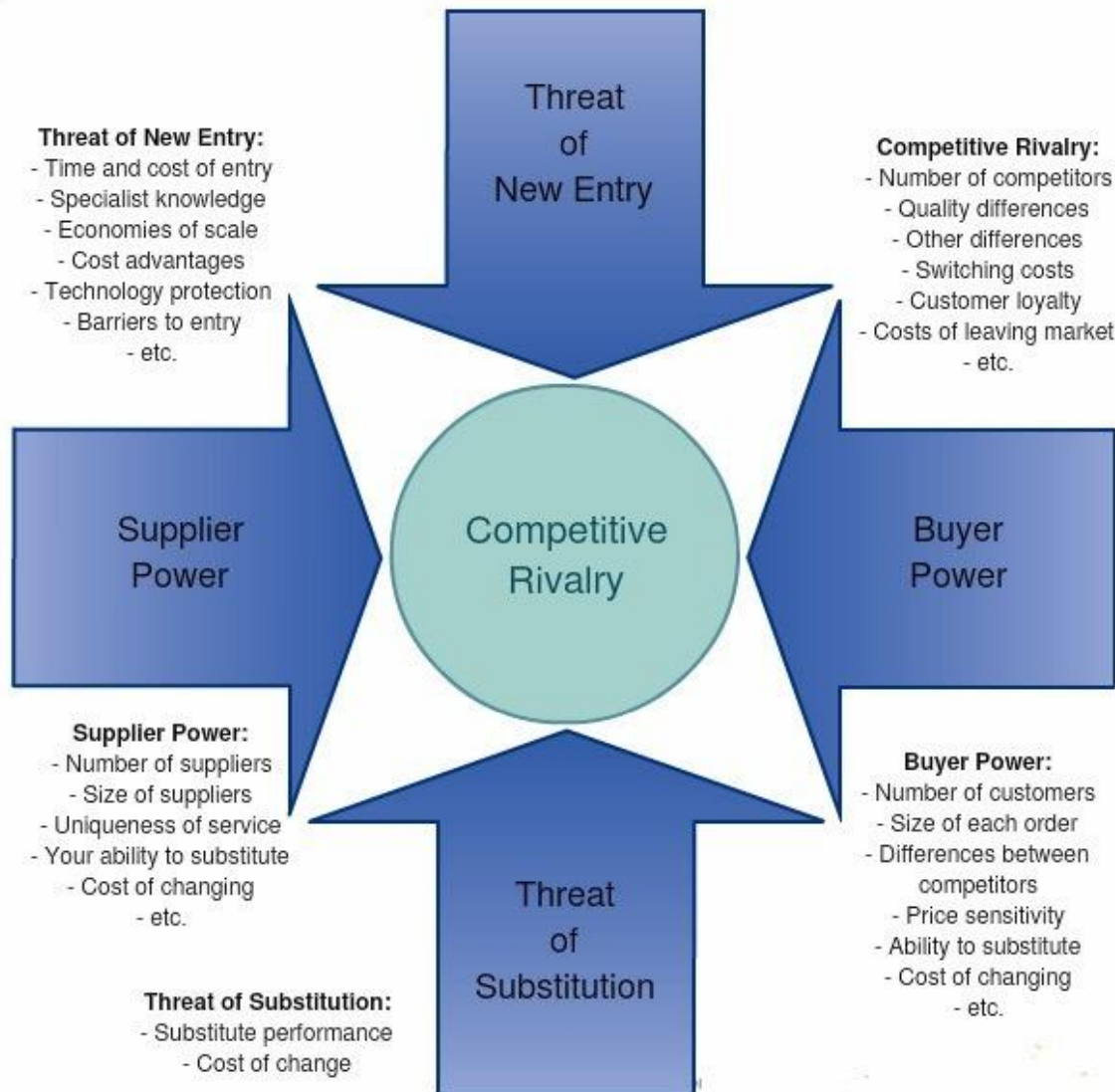


Figure 3.8 Porter's five forces and their most important components.

Source: lifhack.org

3.7. Institutional analysis through the PESTEL approach

The PESTEL approach will constitute a major part of this study, since certain of its parameters will be applied in the variables and indicators used in this paper. Anyway, this is a matter to be discussed in the next chapter, on methodology.

Experts on entrepreneurship and marketing can, by employing the PESTEL approach, analyse and monitor the long-term environmental factors that may affect a business. In essence, this is a primarily business framework, which is used to approach entrepreneurial

issues that are, nonetheless, related to a wider analytical framework and not strictly limited to the concept of the enterprise. It is, in other words, a business macro-approach of a hybrid nature, since it covers various aspects of the institutional framework in which an enterprise operates, such as the social and cultural aspect (Grassl, 2012).

The main drivers of change can be determined with the help of a wide scale of data, and, therefore, the resulting scenarios for an enterprise are the outcome of the definition of the key factors that are affected.

The changes predicted through this approach concern the political, economic, and technological conditions, as well as the legislation and the environment. What follows is a discussion of the parameters that constitute this approach:

A. Political factors:

The government sets certain restrictions and limits that a company must comply with, thus leading the company to understand the political factors and directly respond to legislation. The government's intervention in the operation of an enterprise depends on political factors. Through the political factors, many governments, by means of various legislations, impose rules designed to protect modern consumers and innovative business ideas from unfair competition. Moreover, each country controls, on the basis of political factors, export-import levels, as well as whether an organisation is capable of entering an existing market (constraints-barriers).

Some examples of political factors include political stability or instability in the markets; trade restrictions, which are a major issue as regards interstate relations; and any agreements affecting competitiveness, the overall legislation, labour law, working conditions and taxation policy.

B. Economic factors:

Economic factors provide us with a spherical view of an enterprise's financial condition. The environment in which an organisation operates is directly affected by the domestic economy, as well as the global market. Economic factors have a major impact on the decisions made by an enterprise in regard to its investment options. Therefore, the company's economic situation is directly linked to market supply and demand.

Some examples of economic factors include inflation, which has a direct impact on markets; a country's unemployment rate; the disposable income; the exchange rate; as well as lending rates and the banking system at large, which reflects the economic situation of a country.

C. Social factors:

The social factors of the PESTEL approach can also be called socio-cultural factors, since culture is an integral part of society and social institutions. More specifically, social factors are related to attitudes, beliefs, views, and opinions. Based on social factors, entrepreneurship and marketing experts obtain information about what makes customers buy a particular product. In a rapidly changing environment, the customers' beliefs and views are difficult to predict. The social context affects market trends.

Some examples of social factors include population changes, consumption patterns, changes in fashion –which create new market trends and preferences–, the consumers' educational level and, in general, their demographics (to which we referred above, as part of a discussion on innovation), and, finally, language and religion, and cultural factors in general.

D. Technological factors:

We have already seen that technology is an important part of entrepreneurship. More specifically, the technological factor is directly related to technological progress, innovation, change, and the discovery of new methods for reducing the cost of raw materials. The technological factor is also a major factor of the PESTEL approach.

Given that technological development is rapid, it affects product promotion and, in general, production. Moreover, the marketing and management of an enterprise are directly affected by technological factors. For example, there can be differentiation in the production methods, the distribution process, as well as the channels through which enterprises communicate with customers. A typical example is digital marketing and interactive communication platforms.

Examples of technological factors include the Internet; new software and improved devices; interactivity; technologies that enable the production of competitive products (as technology enables people to diversify and innovate); all technological developments in general; as well as technological legislation (also known as cyber law), an issue of increasing concern for experts since the full-growth of cyberspace now requires a comprehensive and effective legal and regulatory framework, designed to protect both users, and enterprises.

E. Environmental Factors

Environmental factors are related to natural resources, climatic conditions, and mineral wealth. Therefore, the reckless squandering of raw materials has an adverse effect on the global environment and, consequently, on enterprises. The same stands for environmental

pollution, which also affects business. Besides, current consumer behaviour also show signs of environmental trends, as modern consumers demand advanced recyclable products. We can also link the environmental factors of the PESTEL approach to the subject of green entrepreneurship, since a basic tenet of green entrepreneurship is respect towards the natural environment and its incorporation into business activities, and not the other way round.

Examples of environmental factors include the availability of natural resources, the measures for reducing sound pollution, recycling policies, energy consumption controls, and environmental legislation.

F. Legal factors:

There are certain laws and regulations that govern the way a company promotes its products. Each country has its own set of rules, to which every enterprise of this country must be subject to, and therefore needs to know what is legitimate and what not. However, companies which are also active abroad need to know the legislative framework of other countries as well.

Examples of legal factors include issues pertaining to consumer rights, commercial law, the regulatory framework on issues of health and safety, labour legislation and the relevant conventions, and tax legislation.



Figure 3.9 The PESTEL approach.

Therefore, in the context of the above discussion on the PESTEL approach, we can see that this is a primarily institutional approach, since its constituent parts pertain to the institutional framework, covering a wide range of institutions, and this is why it is employed in this study.

3.8. Institutions and Economic Policy

Sklias, Roukanas, and Maris (2012), taking on the issue of Greece's economic growth, make the following observation: "[...] economic indicators cannot, by their own right, provide an adequate analytical framework for understanding the deeper roots of the crisis in Greece" (p. 215). This observation is very important, since there are many other –internal or external– factors that affect a country's economy. Apart from that, though, and focusing on institutional arrangements and based on the discussion of the previous section, we may argue that no institutional framework of analysis, no matter how elaborate, can precisely capture an economic situation, irrespective of whether we have to do with an economic crisis, or we examine the level of competitiveness and entrepreneurship, or something of this kind. For, as mentioned in the previous section, institutional processes are so many and so complex that they touch upon many levels: political, economic, social, and cultural.

Sklias, Roukanas, and Maris (2012), focusing on the case of the Greek economic crisis, present various parameters that influenced it. For example, they consider corruption to be a catalytic parameter, which, in essence, is related to institutional inadequacy or, as the authors specifically point out, "in fact it has to do with the lack of a developed civil society in the country" (p. 234). The authors also refer to populism, an issue they correlate to mismanagement and irregularities in the public sector and, more specifically, mismanagement in various public services, as a result of which the Greek economy is persistently affected by the dependencies and chronic ills of a rotten political system. Reference to these two very important institutional issues, i.e. corruption and populism, provides us with two key indicators that can also indicate the degree of institutional quality. Especially in the case of the corruption index, which has been widely applied. In chapter 5 of this study, which discusses the young people's perceptions on young entrepreneurship, we examine these parameters and analyse how institutional issues are related to entrepreneurship.

For example, the Corruption Perceptions Index, which is prepared by Transparency International and is methodologically based on the perceptions of a country's citizens, provides us with a picture about the level of corruption worldwide. According to the 2017

index, Cyprus is at the 42nd place and Greece at the 59th. As a matter of fact, in terms of cronyism and enmeshed interests Greece ranks just below Saudi Arabia.²⁵

As pointed out above, the fundamental question is how corruption or populism, or other detrimental institutional or customary practices, affect the economy and, hence, entrepreneurship. This is exactly what Sklias, Roukanas, and Maris (2012) explain in their study: More specifically, they suggest that: “These phenomena, which can be observed over the course of the past 30 years, have had a major effect. Greeks pursued a completely erroneous and misleading model of political, economic, and institutional development, which directly and indirectly affected their political and economic options and preferences, as well as their way of thinking” (p. 224). In other words, the overall policy model, the institutional model, also affects economic thinking and, hence, economic behaviour.²⁶ This can also be said in the case of Cyprus, where partisan patronage steeped the country into a dire economic situation, which in 2013 led to a 40% haircut of all deposits above 100,000 euros held with Cypriot banks, and the merger of the Bank of Cyprus with Cyprus Popular Bank, as well as to more recent events, such as the closure of Cyprus Cooperative Bank and the acquisition of part of its operations (the “good bank”) by Hellenic Bank. As we will, after all, see in the analysis carried out in chapter 5, a weakened institutional framework gives rise to corresponding human perceptions of entrepreneurship. Of course, the case of the Cypriot economy is markedly different to that of Greece,²⁷ and these differences will be discussed below, on a comparative basis. That said, there are certain common characteristics, such as populism, mismanagement, corruption, political patronage, and, in general, the dependencies and chronic ills of the system.

Focusing on the case of Greece, Alogoskoufis (2009) talks about the economic consequences of populism, using the concept of “macroeconomic populism.” More specifically, he argues that: “Macroeconomic populism mainly manifested itself in public finances and incomes policy” (p. 89). Alogoskoufis (2009) classifies the causes of the Greek economy’s destabilisation in three categories: First, he refers to the management of public finances; second to the uneven relationship between salaries and prices and, in general, to the exchange rate policy that was pursued; and, third, to the prevalence of statism. Statism is closely related to both populism and corruption, since the relationship between political power and

²⁵ Corruption Perceptions Index, 2017: https://www.transparency.org/news/feature/corruption_perceptions_index_2017 [accessed: 15-12-2018].

²⁶ The economic and entrepreneurial structure of a country depends on many factors, for example ownership structure and, more specifically, ownership concentration. For example, the ownership structure of Greece and Cyprus reminds those of Spain, Italy, and Portugal (Lazarides et al., 2009).

²⁷ An interesting point about the analysis of business trends in periods of economic crisis is made by Maraveyas et al. (2015), who refer to the comparisons between rural and urban areas and the prospects of the former, which are subject to a change in the country’s productivity model and the opening to new markets.

socioeconomic structure may become non-sustainable and, eventually, catastrophic.²⁸ This is the thin line (for lack of a better term) of institutional dependence.

The influence of institutions is the object of this research. The various institutional arrangements affect all aspects of the economy and, more specifically, entrepreneurship and its related fields, such as competitiveness and innovation. We could argue that, in one or the other way, institutional dependence exists on various issues and levels. For example, there is negative institutional dependence between statism and public service, which results in bureaucracy. In chapter 5 we are discussing how bureaucracy affects entrepreneurship and, more specifically, young entrepreneurship.

As argued in the previous section, as well as elsewhere in this study, the implementation, or in general the operation, of any institutional process may be informal (i.e. customary or even occasional) or formal. Apart from that, though, the result also matters. In other words, whether the result of institutional dependence is positive or negative. Institutional dependence does not always have a negative connotation. This is determined by the outcome of any relation.

For example, in the sphere public administration and local government, an issue that is directly related to the economy is the degree and manner of the involvement of various power relationships with local proceedings. In other words, the way central authority influences local government. The importance of institutions on the regional and local levels, with emphasis on entrepreneurship, is highlighted by Sarafopoulos, Hazakis, and Ioannidis (2014), who study the various relationships developed between regional or central authorities and various local institutional arrangements in Greece. For example, they examine the relationship between regional government authorities and local professional chambers. According to the findings of their study, the “first move” advantage on various subjects, such as policy decisions, belongs to the regional government and then to professional chambers, despite the reforms made as part of “Kallikratis”.²⁹ We could say that this demonstrates the embedding of bureaucracy on various levels, which obstructs smooth decision-making in various bodies that are useful for the development of entrepreneurship.

²⁸ See also: Kotios, A. and Galanos, G., 2012; Kotios, A. and Roukanas, S., 2013; Herz, B. and Kotios, A., 2000; Molsberger, J. and Kotios, A., 1990; Kotios, A., Galanos, G. and Roukanas, S., 2012.

²⁹ The Kallikratis programme, or to be more precise, the “New Architecture of Local Government and Decentralized Administration – Kallikratis Programme”, is the name of Greek Law 3852/2010, which in 2011 led to the restructuring of Greece’s administrative division and redefined the boundaries of local government organisations, the methods for the election of the local bodies, and their powers and responsibilities. Source - full text: Hellenic Government Gazette (in Greek): http://web.archive.org/web/20100705024807/http://www.kedke.gr/uploads/N38522010_KALLIKRATIS_F EKA87_07062010.pdf [Accessed: 16-12-2018].



Figure 3.10 The new division, according to Kallikratis. Each colour corresponds to a region. The black line demarcates regional authorities (excluding Attica), the white line demarcates municipalities (excluding the urban districts of Athens and Thessalonica).

Source: Ministry of Interior, Decentralisation and Electronic Governance.

An interesting paper that was presented by Haggard and Moon at the American Political Science Association Convention in 1986, explores the institutional arrangements and their effects on the economy of East Asia and, in particular, South Korea, Taiwan, Hong Kong and Singapore, a region and a group of countries that, owing to the political situation, was of particular interest at the time. This interest, however, is still relevant today, because of the crisis with North Korea, a geopolitical crisis that stems from the institutional framework of this country's political system and affects its relations with other nations.

This paper by Haggard and Moon (1986) tackles two issues in particular: first, whether state intervention in the domestic markets of the aforementioned countries of East Asia had a positive effect on their economic growth; and, second, how the political situation and various key political factors affected the economy. That said, what is really interesting with this paper by Haggard and Moon (1986) is its reference to “institutional arrangements.” This reference highlights the role of institutional processes in the economy and the attention that has to be paid by countries in order to ensure the existence of a sound institutional framework. The United Nations Committee of Experts on Global Geospatial Information Management provides its own definition of “institutional arrangements”: “Institutional arrangements are the policies, systems, and processes that organizations use to legislate, plan and manage their activities efficiently and to effectively coordinate with others in order to fulfil their mandate” (2017).

3.9. The four groups of institutional barriers to entrepreneurial growth: PRCM

On the basis of the above discussion, we can define a theoretical and, by extension, methodological framework, which captures institutional barriers to competitiveness and entrepreneurship. As stated many times already, the term institutional barriers denote the obstacles that stem from the inability of officials or groups –formal or informal– to produce sustainable policy to the benefit of business activity. After all, as argued by Robinson (2006), the development of entrepreneurship is heavily dependent on other factors as well. More specifically, Robinson argues that:

- “1. People cannot recognize all opportunities;
 2. Information about opportunities determines who becomes an entrepreneur;
 3. The process depends on factors other than a person’s ability and willingness to take action”
- (p. 98).

Based on the above, the institutional effect is a catalyst for the development of entrepreneurship, since this process is influenced by various macro-barriers, which most of the time are institutional, as well as by micro-barriers, i.e. barriers that concern the enterprise itself. But even micro-barriers are most of the time affected by institutional arrangements and institutional obstacles, as we will see further on. As discussed in the final chapter, where the conclusions of this study are presented, the analysis of institutional barriers is related to the institutional voids theory, which we discussed in second 2 (on theory).

Such institutional obstacles may include the dysfunction of public services, which, for example, leads to the provision of citizens with inadequate information about various issues, or the poor management and diffusion of EU funding etc. In the previous section, we referred to mismanagement as one of the main causes of institutional underdevelopment. On the basis

of the above, we can distinguish among four main groups of institutional barriers, which obstruct the realisation of sound and sustainable business activity. In this study, these four groups are named after their acronym, PRCM; they are the following:

P= Political barriers

R= Resources (managing available resources)

C= Cognitive barriers

M= Motivations (barriers to motivation)

The key feature of this group is that the political barriers pillar is purely institutional, given that it is an external factor that does not depend on the enterprises, while the other three pillars are affected by a mix of both external and internal factors. For example, the resources pillar depends on both the availability of resources to the enterprise itself and its ability to manage them, and on the overall institutional framework and whether it enables the enterprise to have easy access to resources. The same applies to the other two pillars. For example, the knowledge or skill of an enterprise's human resources is, on one hand, an internal matter of the enterprise selecting those individuals who possess the required knowledge and constantly providing them with new tools and sources of learning through training, and on the other hand, is significantly affected by the education system, which is an institution. Motives are also an important pillar, as we will see later in the analysis and, more specifically, in chapter 5. When talking about motivations, on one hand we are referring to the various incentives for further development offered by enterprises to their personnel, and on the other hand we are referring to the incentives offered by the state to enterprises or individuals in order to do business. Therefore, in the former case we are referring to internal motivations, while in the latter case we are referring to external-institutional motivations.

The following graph presents the four groups of institutional barriers that affect entrepreneurial growth.

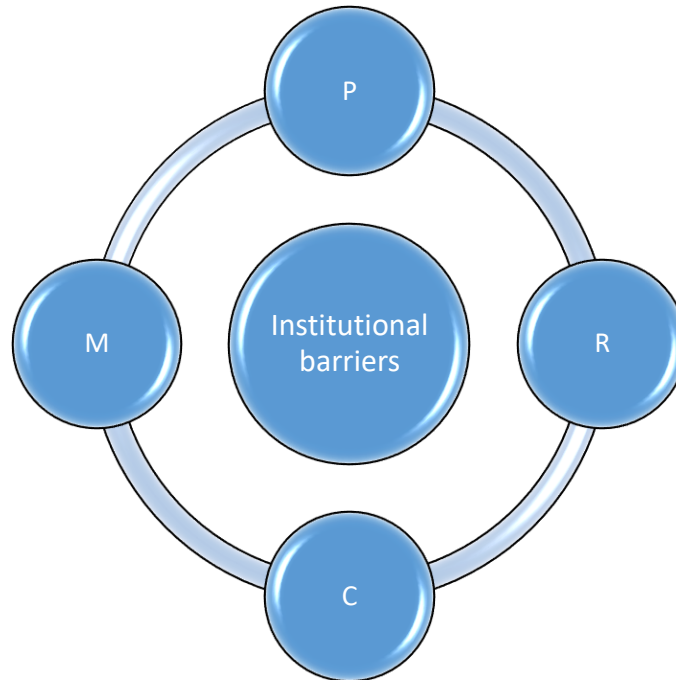


Figure 3.11 The four groups of institutional barriers to entrepreneurial growth.

Source: own elaboration.

More specifically, the pillars of our approach are the following:

A. Political barriers

In this case, political barriers are, in essence, the same element we encountered in the PESTEL approach. These are, in fact, those institutional barriers that pertain to political decisions, either formal, i.e. decisions made by governments or parliaments, or informal, for example customary political behaviours that obstruct any business reform by slowing procedures down. The impact of political institutions on the entrepreneurial sector is not felt immediately, albeit only in retrospect and after the occurrence of a specific problem that affects certain groups of people. Therefore, it is difficult for someone to notice it individually, let alone articulate it. Tsakatika (2004) has the following to say on this particular issue: “Many rational new institutionalists, reversing the perspective, believe that the creation of an institution can be explained in retrospect, as a deliberate and rational response of individuals to a specific collective action problem” (p. 141). Therefore, the difficulty primarily lies in detecting problematic institutional arrangements, the players that determine and design them, and, hence, the difficulties in resolving them, since no appropriate extra-political resolution mechanisms exist.

B. Barriers related to available resources

A company may face various problems because of a shortage of the necessary resources it needs to carry out its operations. This problem is resolved by finding adequate resources and training the workforce, provided that this is permitted by the financial condition of the enterprise and that the institutional framework enables an enterprise, especially a family business or an SME, to have access to resources.

C. Cognitive barriers

Our reference to cognitive barriers has three main dimensions: first, we are referring to the factors that inhibit the understanding of the causes that lead the enterprise to certain actions, which are aimed at change. The solution to the problem lies with the managers, who must understand the changes the enterprise has to implement in order to motivate its workers. Second, we are referring to the knowledge that people obtain via the education system. For example, what do young people currently learn about entrepreneurship at schools or in higher education? As we will see in our results, mainly in chapter 5, education plays a very important role. Third, we are referring to the knowledge the stakeholders possess, as well as their access to knowledge/information about programmes for enhancing and financing entrepreneurship. This issue is also examined and discussed in analysis chapters 5 and 6.

D. Motivation barriers

Shane et al. (2003) argue that, in order to come into being, entrepreneurship requires human motivation and willingness, and, therefore, human motivation is crucial. On the other hand, the institutional dimension of motivation also needs to be examined, i.e. whether the state offers incentives for doing business. As we will see further in our analysis, there are certain barriers that prevent employees from developing new business ideas, and thus boost their productivity and, consequently, their company's profitability. What is really needed is a policy designed to offer meaningful incentives for the development of entrepreneurship, irrespective of whether it concerns young people, i.e. young entrepreneurship, or female entrepreneurship or some other form of entrepreneurship. One of the main positions of our study is that the existence of a sustainable policy for the provision of incentives by the state can lead to the sound and sustainable growth of entrepreneurship and, indeed, to the development of new and "smart" forms of entrepreneurship, as well as the use of innovative solutions in business activities and processes.

In the next section, we discuss the role of institutions and social policy in entrepreneurship and how the people's personal situation, i.e. how happy they are in their everyday life, may affect their business options and decisions. This is interlinked with our previous comment on the argument by Shane et al. (2003), in other words that the growth of entrepreneurship

requires a personal factor, the “human motivation”, and this, in turn, requires the appropriate social conditions.

3.10. Institutions, Social Policy and Entrepreneurship

In the previous chapter we cited the study by Frey and Stutzer (2010), on the assessment of human happiness. This study focused on the case of the United States. This approach can help us understand the social dimension of institutions, and it is precisely on the happiness index that a researcher may focus in order to approach the institutional issue as a social issue, which is, nonetheless, interrelated with the economic dimension and, hence, with entrepreneurship. Or, for example, unemployment is a primarily social phenomenon, since its negative repercussions have, first and foremost, a social impact. After all, this is the central philosophy of this study, namely to correlate –through the use of various indicators– the economic with the social dimension, in order to reach useful and practicable conclusions about entrepreneurship. If we go back, for example, to our central research question, the reference to economic and social processes, as well as how these are affected by various institutional systems, becomes evident. Therefore, the connection of the two is both a theoretical, and practical, question that the school of institutional economics is called to answer. This is after all the philosophy of this approach.

A key position of our research, among other things, is that sustainable entrepreneurship is the outcome of a healthy society. Besides, a large part of chapter 5 deals with this issue, i.e. the social aspect and, in particular, how the social environment affects the young people’s perceptions of entrepreneurship.

Social well-being also determines whether entrepreneurship is sustainable and productive. Randolph et al. (2017) argue that the society and the institutions that govern it, are reflected on, and at the same time create, the entrepreneurial culture. For example, the family business institution thrives under conditions of social well-being and personal growth, as well as when a sound institutional framework, both formal and informal, exists.

Here is an interesting position: “Happiness is both social and personal.” This is how the World Happiness Report (2017; 2018) index approaches the subject of happiness; this index is of particular interest as an object of study from an institutional perspective, since it demonstrates and illustrates the relationship between economic processes and social parameters. In other words, this is an institutional index, which addresses the citizens’ quality of life, through the examination and analysis of economic conditions. It is exactly as many economists say: it doesn’t matter if economic indicators do well, what really matters are also for people to do well.

Therefore, the question of whether people are happy –and to be more specific, whether the citizens of a country are happy– is not so simple. Its answer requires the inclusion of many measurable factors in any research. Obviously, economic indicators are a key piece of information, which should be included in such studies. In order to reach social conclusions regarding the happiness of citizens, we must examine two fundamental issues: first, their financial condition in everyday life, namely how comfortably they live and what kind of access to goods they have; and second, we have to examine institutional quality, namely whether the institutions of a country have a positive or negative effect on the citizens’ everyday life. This dimension brings forth the role of institutional arrangements in the various economic and social manifestation of the citizens’ life.

The Organisation for Economic Co-operation and Development (OECD) uses the term “subjective well-being,” and defines it as follows: “Good mental states, including all of the various evaluations, positive and negative, that people make of their lives and the affective reactions of people to their experiences” (Exton, 2012). According to this interpretation, no society is doing well in absolute terms, albeit it is doing well in subjective terms, since there are many factors that shape the quality of the citizens’ everyday life. For example, the following OECD diagram presents various such factors, many of which are institutional, such as the health system, education, and environmental quality.

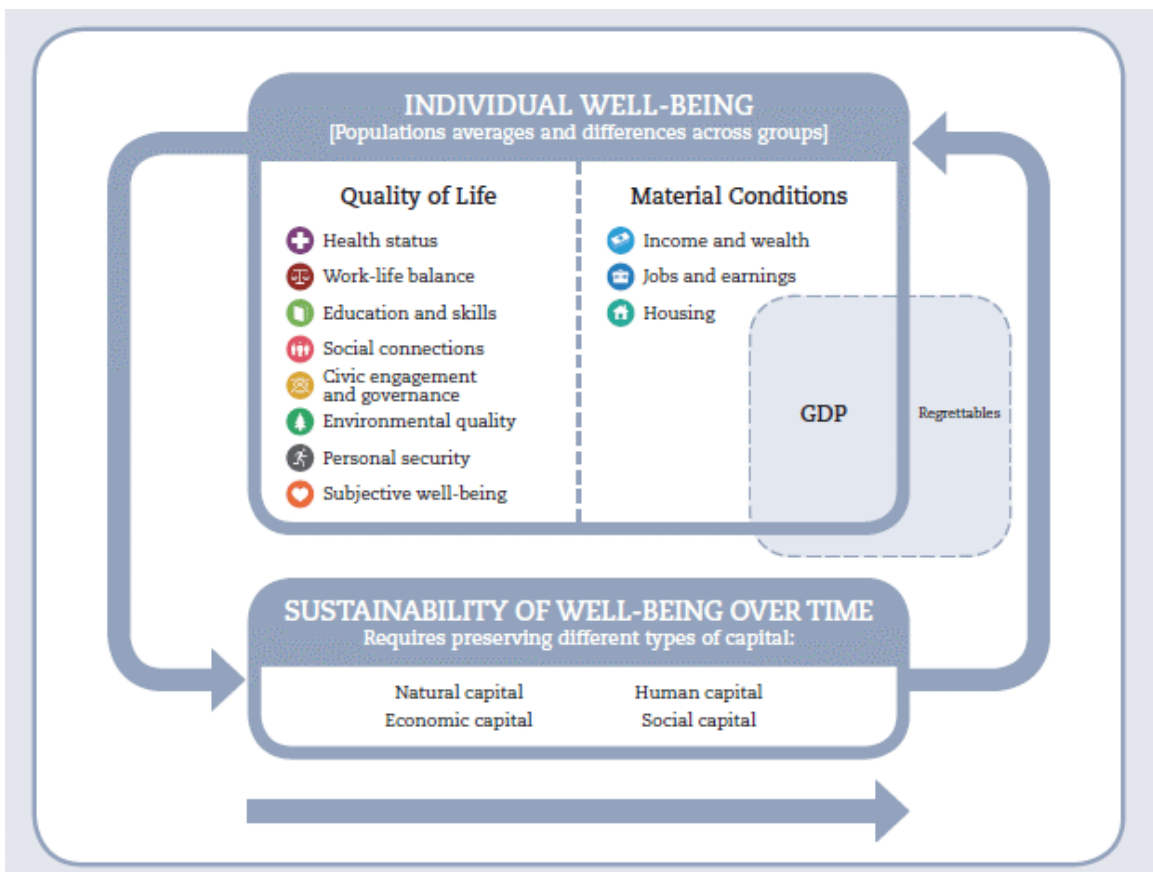


Figure 3.12 The factors and variables that measure the quality of the people's everyday life. Source: OECD well-being framework.

According to the OECD guidelines on measuring subjective well-being, the above definition of subjective well-being needs to comprise three elements in order to be measurable: 1. Life evaluation: a reflective assessment on a person's life or some specific aspect of it. 2. Affect: a person's feelings or emotional states, typically measured with reference to a particular point in time. 3. Eudaimonia: a sense of meaning and purpose in life, or good psychological functioning (National Research Council, 2014).

3.11. The cultural dimension

The discussion about cultural institutions and how they affect any procedures is of particular interest. A very interesting question that arises from institutional analysis is how cultural processes can affect entrepreneurship and, in general, the economy.

Bowles (2011) links the economy with the cultural product, which he divides into three parameters: values, tastes, and personalities. These three characteristics could define the type of the cultural product. We could say that this is the marketing mix of the cultural product. Du Gay and Pryke (2002) refer to the cultural economy, arguing that values and various social symbols determine, to a great extent, the way markets move and behave.

After all, the institutional aspect of the cultural factor was discussed above, as part of the PESTEL approach. In this study and, in particular, in chapter 5, we are also discussing the cultural factor and how it affects the development of entrepreneurship and, more specifically, young entrepreneurship.

3.12. The gap in, and this study's contribution to, the scientific debate

The above literature review highlights interesting issues which are delineated through this research and constitute the framework of the analysis performed in the following chapters. The correlation of institutions and entrepreneurship, as stated in the introduction, is more topical than ever, mostly because of the changes in the economy and society. From then on, there are many parallel issues of concern, for example the issue of innovation as an integral part of the entrepreneurial process.

The key issue, however, that is put to the table, and stems from the above literature review and discussion is that, despite the existence of an important theoretical background for analysing the correlations between institutions and entrepreneurship, in effect there is no –at least specific– modelling of the institutional variables that affect entrepreneurship and the

concepts related with it, such as innovation. In other words, there is no “proof” of the extent to which institutions and institutional arrangements affect entrepreneurship, whether it concerns young people, i.e. young entrepreneurship, or in its general sense.

Therefore, today and because of the economic crisis and as a result (or *vice versa*) of institutional inadequacy and decay, the issue of institutional entrepreneurship is put to the table. What we need is an in-depth analysis of the institutional, as well as other relevant factors that affect entrepreneurship. For example, what drives young people, or prevents them from, doing business, or what drives or prevents small and medium-sized enterprises from implementing innovative solutions.

In essence, the gap in scientific debate primarily concerns the documented codification of these factors. Obviously, filling in such a gap cannot be made in a generalised manner, and this is why we focus only on the subject of young entrepreneurship and innovation in small and medium-sized enterprises, as already explained in the introduction.

Chapter 4

Research Methodology: The methodological approach to the institutional analysis of entrepreneurship

4.1. The research approach to the study

In this chapter, the research methodology of the study will be presented. A number of issues related to the research approach will be analysed for the reader to become familiar with the stages followed within the study, as well as the ways primary and secondary data were obtained and how the research concluded to the analysis of the institutional framework, or, more precisely, how the institutional framework was used as a tool for analysing the subject under question. In particular, primary and secondary (desk) research and data collection and the overall context of qualitative and quantitative research will be discussed. Furthermore, the design of the research, sampling issues and evaluation of the methodology will be presented. The following section discusses the research approach to the study.

The methodological interest of this study focuses on the way entrepreneurship and innovation are approached under the lens of the institutional approach.

First of all, before starting to discuss the methodology, it is important to go back to the introduction to this study research and revisit the research questions on which the design of the methodology, which is described in detail in this chapter, will be based.

More specifically, the approach employed in this research pertains to, and examines, three key questions: First, the citizen's, and in particular the young people's, views of the role played by institutions in regard to entrepreneurship, with emphasis on young entrepreneurship, by examining several indicators, such as motivation and incentives etc. And, second, this research aims at examining the views of small and medium-sized Cypriot enterprises regarding the role of institutions in developing innovation and innovative activities. The third question, which is the main research question, is how the variables can be classified, in order to lay the groundwork for modelling the analysis of entrepreneurship and certain of its parameters, such as innovation, under the lens of the institutional approach. Remember, of course, that the research also gives answers to other, parallel, research assumptions, which were laid down in the introductory chapter.

This research follows a multilevel approach, in the sense that it applies four different methods for the collection of the primary –and, in certain instances, secondary– data required for the analysis. These four methods, namely: printed questionnaires, personal or telephone interviews, focus groups, and e-questionnaires, are thoroughly analysed in this chapter in terms of their design. As mentioned in detail later on, this research collects both quantitative and qualitative data, depending on the research questions and assumptions. Accordingly, the design of the methodology –as part of the various methods– employs both quantitative and qualitative analysis.

The statistical analysis and processing of the data is carried out through the use of the SPSS statistical software, as well as the EViews statistical package. The combined use of variables (which were determined through the personal interviews that preceded the questionnaires) and various indicators that are employed in the research and are discussed below, in conjunction with the clear feasibility of the research, provide it with a solid and coherent methodological basis. Of course, we should not overlook market features and various exogenous factors, since the subject of the research is the institutional framework for developing entrepreneurship. This is what Arrighi, Masson, and Weil (2015) have to say in regard to those factors: “It is well known that creativity involves not only originality but also feasibility, i.e. not only “good ideas” but also feasible ones. However, creative phases frequently result in conflict with the feasibility constraints of the industrial environment” (p. 1). The above argument (2015) is seriously into consideration in the design of the methodology. These constraints regarding the market environment have already been discussed above, but are also the subject of the analysis that follows. This methodology is designed in such a way as to take these features under account.

The main methodological challenge is, on one hand, to make data collection as practical and reliable as possible, in order to facilitate the analysis presented in the next two chapters, and, by extension, to add to the originality of the research, through the appropriate and careful design of this multilevel methodology. After all, one of the most important stages of a consistent research is its very methodology. A more phased and detailed analysis is presented below.

4.1.1. The research design

According to Blaxter, Hughes and Tight (1998) there is a big variety of different research approaches and perspectives of how the process of doing research is developed and implemented. That is referring to the fundamental and even difficult part of a business research project. That is, to plan the entire research process, from generating a first raw idea to implementing the primary research, to the final writing of the report. Robson (1993), argues that research design is the most crucial part of any research inquiry, but on the other hand, it is – most of the times - seriously neglected and significant issues are left behind without consideration (p. 38). The same author states that “design is concerned with turning research questions into projects” (p. 38). Taking from the author’s words, the research design is –undoubtedly- the development of a state-of-the-art skeleton of a study. Jankowicz (1995), defines the design of a research as “the deliberately arrangement of conditions for analysis and collection of data in a manner that aims to combine relevance to the research purpose with economy of procedure” (p. 153). He is going on to explain why the design of a research work is essential and also why different research approaches require different types of data collection and gathering. The same author also states that design is appropriate in order for the data to be:

- of a relevant nature to the study or to the argument (research questions or hypotheses);

- reliable and valid so that consist an adequate test for the study;
- accurate so that will establish causality, especially in situations where the research has to go beyond description to explain what is happening in the real world;
- capable to provide findings that could be generally applied to a range of situations and cases (p.153).

The following table presents the stages of the research process, which comprise research design, sampling, data collection, the recording and analysis of data and, finally, presentation, i.e. the final report, which provides the basis for the subsequent discussion of the research.

This methodological structure concerns both questionnaires, and focus groups and their analyses.

Research process of the study	Research design: Establishing the problem and conceptualisation
	Sampling: Selecting the units of study
	Data collection: Choosing methods of investigation for the data and information collection
	Data analysis: Methods of analysing and interpreting the data
	Report: Analysis and discussion

Table 4.1 The research process of the study.

Source: Own elaboration.

4.1.2. The research strategy

According to what has been already defined as research design, the research should employ all the necessary means for achieving its aim and objectives, on the basis of the its planned stages.

The general approach that is followed in a research study is commonly referred to as the research strategy (Robson, 1993). One of the main approaches for classifying research

strategies is the one that distinguishes between three main strategies: experiments, surveys and case studies (Robson, 1993).

Experiments are measuring the effects of manipulating one variable on another variable and typically include samples of individuals from known populations, measure a small number of variables, and usually involve hypothesis testing. Surveys refer to the collection of information in standardised form from groups of people and feature samples from known populations, as well as the collection of relatively small amounts of data in standardised form from each individual, and most of the times utilise questionnaires or structured interviews. Finally, case studies are utilised for the development of detailed knowledge regarding a single “case” or a small number of relevant “small cases”. Their features include the selection of a single case or a small number of related cases of a situation, individuals or group of people and the study of its context. In terms of data collection, case studies are usually employ observations and interviews (Robson, 1993, p.40).

4.2. Sampling

Sampling is defined by Jankowicz (1995) as the deliberate choice of a number of people, the sample, who are going to provide the research with the necessary data from which conclusions are to be drawn. Those conclusions will be valid for a larger group of people, the population, which is represented by the sample (p.155). In other words, it is impossible for any kind of research to gather data from everyone who falls under the specific category that is being researched (Denscombe, 1998). What we call, therefore, a sample is the selection of people from the whole population (Robson, 1993).

There are two ways to sample a population and that is probability and non-probability sampling (Denscombe, 1998; Punch, 1998; Jankowicz, 1995; Robson, 1993). The first involves the selection of people who are members of a specific population that the research wants to examine. In contrast, non-probability sampling includes the chance of each person of the population being included in the sample. Which of the two broad sample categories will be chosen depends on the needs and the orientation of the particular research inquiry. For the requirements of this study, the non-probability approach sample was selected, given the fact that the research’s population covers the entire spectrum of the society over the age of 18, and therefore it is possible for every person of that category to be included in the sample.

Non-probability sampling, is also more appropriate for small-scale surveys, as Robson (1993) argues. To enforce the previous statement, Jankowicz also discusses non-probability sampling, saying that it includes identifying and questioning the participants in terms of their roles, positions and background experience (p.155).

In the context of this research, separate sampling is conducted for each individual method. For example, different sample sizes are required for e-questionnaires and print questionnaires, while a different manner of qualitative sampling –and, in particular, the participants’ recruitment– is employed in the case of focus groups.

4.3. The type of research method

It is very important to select the correct research methods and techniques. To this end it is “quite usual for a single study to combine quantitative and qualitative methods and to use primary and secondary data” (Saunders et al, 1997). This is the case here, as there is much to be gained by combining primary and secondary data sources. Thus the approach to the research mainly consisted of the following:

4.3.1. Secondary and primary research

4.3.1.1. *Secondary Research*

Before presenting the list of secondary sources that were employed, it would be helpful to define secondary research. The majority of authors are dealing with what has been the most fundamental distinction in the field of research methods. This is the distinction between primary and secondary research. Secondary or “desk” research is the research that generates data that have been produced and structured by someone else (Preece, 1994). This includes any published information, such as books, journals and reports, as well as other forms of published material.

This is usually the easiest and least expensive, since secondary research utilises information that already exists somewhere. There are many sources, as can be seen by the diagram below:

Secondary research activity formed the literature review of business and economic sources, under the institutional analysis lens, also corroborating the analysis of the primary material. Secondary source material, which corroborates the research, has been obtained from sources such as the Statistical Service of Cyprus (CYSTAT), which provides key information about various indicators, such as those regarding young and female entrepreneurship, and unemployment. Moreover, secondary sources were obtained from other organisations, such as the University of Cyprus, which has published major studies on the economy, as well as publications from the Central Bank of Cyprus, the Ministry of Finance, and other sources.

It should be pointed out here, however, that secondary source data were also obtained from other countries (e.g. Greece), in order to be used for the purposes of comparative analysis.

4.3.1.2. *Primary Research*

As regards the collection primary data our methodology was based on “sampling”, which allows the researcher to reach conclusions about a population with a certain degree of accuracy.

Primary research includes the collection of data that are non-published or written in any form. Preece (1994) stresses that the “essence of a primary source of information is that it involves the researched direct experience and observation with the real world” (p. 80). According to Preece, primary data (field research) refers to the original data that has been

generated through primary data collection (experimentation, observation or questionnaires).

4.3.1.3. The quantitative and qualitative research approach

Quantitative and qualitative concepts constitute the core and the main approaches of research in general (Punch, 1998). Quantitative research is widely recognised as the approach that employs data in form of numbers whereas qualitative research refers to data that are not in the forms of numbers (Punch, 1998). The same author argues that quantitative research is more structured, compared with the qualitative approach, based on the fact that the first employs structured research questions, conceptual frameworks and designs. Preece (1994) recognises this basic distinction between those two approaches and relates qualitative approach with words and quantitative with numbers (p.177). It is his belief that the quantitative approach can be found in studies in which the data can be analysed in terms of numbers, while qualitative research is keener on describing people's attitudes, opinions and various situations without the use of data (p.60).

Both approaches are classified as valid and useful according to Blaxter, Hugh and Tight (1996), and in a variety of cases, it is not rare for a single investigation to make use of both. Although questionnaires are considered to be research tools of an enhanced quantitative nature, while interviews and observations are viewed as qualitative research tools, this is not always the case. Questionnaires may also include qualitative data (for example attitudes and opinions), whereas interviews can be structured and analysed in a quantitative approach (Blaxter, Hugh and Tight, 1996). Thus, there is no clear distinction between these two approaches, especially when referring to the design of the research tools and data analysis.

Qualitative research provides definitive scientific information regarding the opinions and behaviours of the subjects in the social group research study. Qualitative research is used to achieve a variety of objectives:

- Obtain helpful background information on a social group segment
- Identify attitudes, opinions, perceptions and behaviour shared by a target group
- Prioritise variables for further study
- Fully define problems
- Provide direction for the development of questionnaires

Personal interviews and focus groups are the most common qualitative research techniques.

Quantitative research creates statistically valid information. The quantitative research carried out was under the form of a questionnaire and it had as objective to test the validity of the theoretical background.

4.4. The design of the primary research tools

4.4.1. Questionnaires (fully structured interviews)

In-depth fully structured interviews, supported by a questionnaire, were selected as one of the main research tools of this study. The purpose of this questionnaire was to guide the researcher through the interviews and, hence, to facilitate the overall process. This approach was also vital for the fieldwork's smooth running, as the questionnaire helped the

researcher to keep a track of the procedure and extract only what was really the questions of the interview. The latter provided the fieldwork with appropriate timing of the interviews, as their duration was designed to vary from 10 to 15 minutes the maximum, excluding the questionnaire distributed to small and medium-sized enterprises, where response times were estimated at 25 minutes. This, in turn, would help to avoid the participants' tiredness and lack of co-operation. Prior to designing such a specialised questionnaire, one should establish an understanding of the respondents' peculiarities, and this has been taken into account in this research.

The final number of interview questions is 183 in the case of e-questionnaires and 50 in the case of the print questionnaire distributed to enterprises. The first set of questionnaire questions was aimed at building the respondents' profile. Analysing this profile is of particular interest to this research, since demographic data help us reach useful conclusions at the analysis stage.

In terms of piloting, this has been designed to take place before the primary data collection. It included 5 experimental interviews (pilot questionnaire) with a representative sample including one female aged between 18 and 30, one male between 31 and 40, one female aged between 41 and 50, and one male aged over 51. This covers, on a pilot basis, the entire demographic spectrum – at least, in terms of age. Above all, we wanted to address any problems with understanding the questionnaire. It should be pointed out, of course, that in the case of the questionnaire regarding young entrepreneurship, the sample focuses on the corresponding ages. During the piloting process, the weak points of the questionnaire were found and replaced, to ensure its appropriate flow. Moreover, there were some minor changes in the wording of the questions. Piloting the interviews and the supporting questionnaire, enabled the research to identify its weak points and improve them, as well as to justify the focus of the primary data collection.

4.4.2. Telephone interviews

Telephone interviews were also conducted whenever deemed necessary and helpful for the collection of further data for corroborating the results. They were not, however, conducted through “cold calls.” Telephone interviews were targeted at either respondents who answered the innovation questionnaire and were asked to provide clarifying/supplementary answers, or at persons holding key positions in enterprises. The same, that is, that applies in the case of personal interviews, a method that is discussed below, albeit without any face-to-face interaction. The same also applies to email interviews, where no telephone interaction is possible.

4.4.3. Focus groups: The qualitative corroboration of the primary data of the research

The use of focus groups is critical and meaningful to this research, since this qualitative method focuses on the issues of young entrepreneurship, under the lens of institutional analysis.

Actually, this method attempts to corroborate the findings of the interviews and the questionnaires, by emphasising on a more in-depth analysis of the institutional issues arising through the research questions. So, it should be stressed at this point that the focus

groups conducted as part of this research aimed exactly at analysing perceptions, i.e. at exactly what telephone/personal/email interviews did, the only difference being that the focus groups method focuses on discussion and, therefore, represents an attempt to achieve an in-depth approach and analysis. After all, the two most important and strong advantages-characteristics of focus groups are interactivity and discussion. Interactivity among the participants may yield important information and this –being the product of a discussion– is precisely, what makes the difference from telephone interviews. These characteristics explain by themselves why this method was selected, since, as mentioned above, this is a qualitative method, aimed at corroborating and enriching the data obtained through the interviews. Specifically, it aimed at drawing more, and more in-depth, personal opinions and perceptions of young people in regard to young entrepreneurship-related institutions.

In other words, the application of this qualitative method in this institution-related research is mainly aimed at collecting rich and detailed qualitative data on the perceptions, understandings, as well as suggestions of the participants regarding the quality of institutions and their effect on the economic and social processes of entrepreneurship. This way, focus groups will help explain the institutional effect and the institutional processes, and will contribute to the production of new theoretical propositions.

In the fifth chapter, which analyses the findings regarding young entrepreneurship in the context of institutions, the data drawn by means of this method are catalytic, since they actually corroborate the questionnaire data, and the most important fact is that this method “endeavours” to draw the data that mainly pertain to the institutional context of the analysis.

This qualitative method has many demanding technical elements, which were taken into account at the methodology design stage and will be explained here in detail.

The first and most crucial element is the selection and number of focus group participants, as well as the number of sessions conducted. As regards the participants’ profile, their ages ranged from 18 to 40 years. In essence, this method employed the same classification with the previous ones (e.g. questionnaires), despite the fact that these two methods respond to different research questions of the study. The selection of the participants was carried out by a team of researchers who provided assistance with the technical aspects of the process. The recruitment of the participants was carried out on the basis of several criteria, apart from age. As regards sessions, there were four one-hour sessions with six participants each. According to the general rules of focus groups, a sufficient number of participants per session, which facilitates the moderation of the discussions, is from six to eight, and this was applied in this research, with the main aim of ensuring productive discussion in those groups.

Individual issues were also taken into account. For example, the issue of the audio-visual recording of the session, without which there could be no subsequent analysis of the results. Therefore, a member of the moderators’ team was appointed as the person responsible for the audio-visual equipment. The issue of the focus groups’ venue is also important, and was a major concern of the methodology design process, since the venue is crucial for the

quality of the discussion. One of the features that were taken into account was the venue's friendly environment and accessibility. The selected venue was a specially modified room at the Neapolis University, fitted with audio-visual and interactive equipment.

Another issue is the selection, as well as preparation, of the moderator and assistant moderator. The moderator plays the most important role in coordinating a focus group discussion. The main features of a competent moderator are the following:

- Being able to make analytical and in-depth questions;
- Being creative;
- Being a good organiser, and capable of organising one's material;
- Being capable of interactively moderating a discussion;
- Being knowledgeable about the subject of the discussion, and having studied and understood it;
- Being communicative.

The selection of both the moderator and the assistant moderator was based on the above features.

The final step in designing this method was the proper preparation of the moderators on the subject of the discussion. This probably was the most difficult stage of the procedure, given that it required selecting the proper questions and discussion points, which would yield the desired results. Actually, the discussion points of the sessions were decided on the basis of the questionnaire used for telephone interviews. Either way, the subject and the purpose of both focus groups and telephone interviews were the same, i.e. to obtain data on the citizens' perceptions regarding institutions.

The discussion was structured as follows: The first stage of a discussion is the introductory stage. This stage includes an acquaintance with the participants, and a brief introduction by the moderator about the purpose and the rules of the discussion (although the participants had been informed in advance about the subject of the discussion). The second stage of the discussion consisted of warm-up questions, i.e. simpler questions, aimed at motivating and encouraging participants to take part in the discussion. The third stage was that of in-depth investigation, where the actual research discussion takes place, followed by the closing stage, when the moderator tries to obtain any data left behind or omitted because of insufficient time. The end of the sessions signals the beginning of the recording and codification of the discussions and, finally, the analysis of the data.

As regards the specific content of the discussions, these were focused on the young people's views regarding entrepreneurship in Cyprus. As explained in the fifth chapter, the discussions yielded very interesting information.

4.4.4. Personal interviews

The personal interview method was also used for the purposes of this research. More specifically, this method is used in order to corroborate the questionnaire distributed to enterprises and various business associations, such as the Cyprus Chamber of Commerce and Industry mentioned above, i.e. the questionnaire regarding business innovation.

Therefore, the respondents are holders of key positions in enterprises or organisations that are directly related to business, organisational, and institutional processes.

Actually, this is an in-depth approach and a more analytical data collection procedure, which follows up to the distribution of the questionnaires. The selection of the respondents is carried out on the basis of specific criteria, which are presented in the following table:

Respondent selection criteria for the personal interview method:
<ul style="list-style-type: none">- Position and capacity in the company or organisation;- Relation and roles with institutional processes;- Knowledge about the institutional processes that affect the enterprise or organisation;- Experience in their profession and, in general, in the business environment;- Willingness to provide satisfactory responses.

Table 4.2 Classification of the criteria for the selection of personal interview respondents.

Source: own elaboration.

The criteria help make the targeting of respondents as effective as possible, without wasting valuable time and, most importantly, help obtain as reliable and useful data as possible. The respondents were approached either over the phone, in order to arrange a meeting, or via a formal letter, in which we explained the objectives of the research. As expected, a small percentage of the potential respondents failed to provide an adequate reply.

4.4.5. Case studies

This research makes reference to other case studies, which help us make comparisons during the subsequent discussion. These case studies either concern the case of Cyprus, or the Greek case or the cases of other countries. In essence, these are secondary data, which corroborate the research. Such researches/studies were drawn from various databases, including the official websites of statistical agencies, as well as databases of various Universities. Case studies have been used both in the literature review, and in the analyses of the primary results.

4.5. The P.E.S.T.E.L. framework and its application in institutional research: The methodological approach

The PESTEL framework provides an inclusive list of external impact on the success or failure of a country's or business strategy. As discussed in a previous chapter, PESTEL stands for Political, Economic, Social, Technological, Environmental and Legal factors that affect a strategy, and sets some ground rules. The PESTEL theoretical approach was extensively discussed in the previous chapter, in the context of various theoretical approaches, and is used here as a methodological tool that helps design methodology in general, and methods in particular. In this chapter, the PESTEL approach is analysed in terms of its methodological, and not theoretical, dimension. In other words, what is discussed here is its methodological usefulness in the context of this research.

More specifically, and in order to make the approach, as well as the way its components “fit together” with the methodology, more understandable, it is important to specify the general functioning of each one: Political factors refer the governmental interaction within a market. Economic refers to macro-economic factors such as the rates and different economic growth rates around the world (Grant, 2013). Social influences refer to different cultures and demographics. Technological relate to innovations, such as nanotechnology, internet or new materials used in the market of technological innovation. Environmental factors mostly focus on “green” issues, such as pollution and waste. Finally, we have the Legal factors that focus on legislation, as well as constrains or changes, as in the fields of health and safety, which are constantly undergoing legislative and regulatory change (Johnson et al, 2008).

For the purposes of this research, the six factors of the PESTEL approach are applied on the variables required for answering the research questions. The PESTEL approach is used for the implementation of all three methods. Specifically, for both the questionnaires, and the focus groups and personal interviews.

Political	<ul style="list-style-type: none"> - Government policy - Political barriers - Incentives
Economic	<ul style="list-style-type: none"> - Financial incentives - Human resources programs - Tax exemptions
Social	<ul style="list-style-type: none"> - Integration of small and medium-sized enterprises into the market - Promoting youth entrepreneurship - Reduction of unemployment
Technological	<ul style="list-style-type: none"> - Innovation through technology - Encouraging the development of technological infrastructures - Encouraging technology within young entrepreneurship
Environmental	<ul style="list-style-type: none"> - Policies for green business practices - Rewarding institutions for green practices - Emphasis on business sustainability
Legal	<ul style="list-style-type: none"> - Flexible legal framework to encourage entrepreneurship - Legal framework that encourages young entrepreneurship - Modernisation of the Companies Act

Table 4.3 This table illustrates how the PESTEL framework was used in order to extract certain variables for the purposes of this research.

Source: own elaboration.

The implementation of the PESTEL approach is crucial to this research, because this is an institutional analysis and this approach enables us to structure our methodology on the basis of institutional analysis. The elements that co-constitute the PESTEL approach allow us to “fill them up” with our own variables, on the basis of our research questions. As shown on the above table, the relevant classification has been made for the purposes of structuring the methods. For example, as regards the “Political” factor we are interested in examining government policies and political barriers; as regards the “Economic” factor we want to see whether the state provides enterprises with financial incentives on the basis of criteria aimed at encouraging entrepreneurship in general, as well encouraging individual aspects such as young entrepreneurship, female entrepreneurship etc. The “Social” factor is of equal importance, since an enterprise is built within the framework of society, and its success depends on a society’s prosperity level. The “Technological” factor is also important. Other subjects, such as innovation, may be enhanced and promoted through technology. After all, innovation is one of the main research questions of this research. The “Environmental” factor is also critical. This issue has already been addressed in a previous chapter; finally, there is the “Legal” factor, which is inextricably linked with entrepreneurship. These items, along with their content (i.e. the individual variables that are fitted with the main PESTEL components), are examined through the methods implemented in this research.

In methodological terms, this approach is used to examine the institutional macro-environment. The PESTEL approach can actually help examine two critical things: First, it can help approach the macro-environment of the enterprise, i.e. to approach those factors that are not directly dependent on the enterprise and affect its operation, its growth and, ultimately, its survival. Second, it can help examine the overall institutional framework. In other words, it can help us move one step further from the business sector, and examine the external factors that influence the overall business environment of the sector under review. Of course, one is related to the other. That is to say, the examination of the institutional environment instrumentally helps us extract scenarios regarding the business environment, e.g. about the enterprise’s sustainability, the risks and competitive trends it faces, and the opportunities it is called to utilise within the overall environment in which it operates and grows. In this sense, the PESTEL approach provides us with this instrumental capability, which we are methodologically utilising in this research.

Yüksel (2012) suggests an analytical framework on how the PESTEL approach may be methodologically utilised. He argues that, precisely because this approach is, by its nature, merely a general idea and does not provide any technical framework, the researchers are able to develop it on the basis of their own criteria. That is, to offer technical content to this general framework. This is exactly what this research tries to do. That is to say, the

corresponding technical content “enters” the PESTEL approach on the basis of criteria such as the institutional analysis of entrepreneurship and parameters such as innovation. This way, a new tool is created, which leads us to the answers we are seeking.

The same rationale of PESTEL as a methodological tool is employed by Bradfield et.al (2005), who place the approach on the basis of the study of long term factors that affect entrepreneurship, thus allowing –as they claim– the creation of the appropriate scenarios regarding the future of the enterprise. The authors (2005) move one step further and argue that the various scenarios resulting from a PESTEL analysis may be used as methodological tools. More specifically, they argue that: “...it demonstrated the use of scenarios as a methodological tool for policy planning and decision making in complex and uncertain environments” (p.799).

Therefore, the benefits we can reap from the methodological use of the PESTEL approach, by analysing the data and providing it with content, are indeed numerous. Of particular interest is the way the specific approach is methodologically presented in this research. For example, whereas in the case of the online questionnaire regarding young entrepreneurship the PESTEL approach does not make use of all its components, since the survey focuses on analysing the political, social (and cultural) and economic environment, thus ignoring the other items of the approach, the focus groups method, as well as the questionnaire regarding innovation, make use of all the components of the PESTEL approach. In other words, the PESTEL approach is the cornerstone of our research methodology for a deeper institutional analysis of entrepreneurship.

4.6. The Institutional Voids analysis through the PRCM approach

One of the key tools of this research, which is based on the Institutional Voids approach that was discussed in the second chapter of this research, is what I refer to in my research as “PRCM”. In essence, this is also a set of institutional variables, quite similar to the components of the PESTEL approach, which are also used in this research for the institutional analysis of entrepreneurship.

However, as thoroughly discussed in a previous chapter, the difference between the PRCM and PESTEL approaches lies in the fact that, while PESTEL examines the institutional macro-environment, the PRCM approach examines the institutional micro-environment of an enterprise. This is, after all, indicated by the elements that constitute the PRCM approach, i.e. the political obstacles, the management of available resources, the cognitive obstacles, and the motivational obstacles. These pillars are taken into account by means of the methodology employed for the institutional analysis of entrepreneurship and innovation, and, more specifically, are used as the basis for the design of several questions, both in the two questionnaires, and in the focus groups and the various personal interviews.

In essence, this research represents a mixture of the two approaches, designed to maximise the methodology’s efficiency in regard to the research purposes and questions. The most important feature of the PRCM approach is that it stems from the institutional voids theoretical framework, a fact that has been analysed and thoroughly discussed in a previous chapter, also leading us to interesting conclusions in the final chapter.

4.7. Other approaches that support the research methodology

Apart from the above methods and methodological approaches, the research also employed other methodological tools that effectively helped further enhance the design of the methods and, in general, the entire methodology. For example, the design of the questionnaire regarding innovation in Cypriot enterprises took into account Porter's Five Forces Framework, as well as the industry life cycle model. This was done because many questions pertained to competition and the design of new products or services. Hence, such issues could not be ignored at the methodology design stage.

4.8. Statistical analysis and econometric approach

We should also refer to the mixture of qualitative with quantitative analysis. Tsiolis (2014), referring to the relationship between qualitative and quantitative approaches in social research, stresses that: "The quantitative approach is mainly implemented in surveys. It aims at uncovering general regularities or trends that govern social phenomena, by investigating these phenomena in a multitude of cases. On the other hand, the researchers who adopt the qualitative approach perceive of social life as a fluid reality and try to understand it in its dynamic dimension. They give special emphasis to the ways in which the social world is interpreted ... by social actors, as part of the multitude of their daily interactions and practices (pp. 272-273).

We could say that the quantitative approach "organises" and quantifies the data obtained through qualitative methods. On the other hand, it is important to elaborate on what the author (2014) says above in regard to qualitative approaches, specifically that "the researchers who adopt the qualitative approach perceive of social life as a fluid reality." This is, indeed, the major point of institutional analysis, where this research tries to strike a balance between theory and methodology. In other words, to design the methodology in a way that crystallises the institutional perspective of the objects of this research, i.e. entrepreneurship and the relevant issues under review.

Our research, on one hand emphasises on qualitative methods, such as the focus group method discussed above as well as the qualitative dimension of questionnaires (although certain questions have a quantitative aspect) and personal interviews, and on the other hand their analysis, with the exception of focus groups, is quantitative, using both statistical and econometric analysis. Our interest is focused on the way the combination of the two approaches –i.e. the qualitative and the quantitative– is attempted. After all, this could not be avoided in the case of this research, as the analysis is multilevel, touches upon institutional issues, makes comparisons, reaches conclusions, and makes suggestions.

In the questionnaires used for the purposes of this research, it is evident that some questions are of a quantitative and some of a qualitative nature. That said, the majority of the questions –also due to both the subject of the study, and the analytical framework– are of a qualitative nature.

As regards statistics, the analysis of the data obtained via questionnaires, is combined with analysis of variance (ANOVA), a statistical hypothesis testing tool that makes use of the

SPSS statistical package. In essence, ANOVA tests assumptions with the aim of detecting and recording any discrepancies in the sample averages.

Finally, the research also employs econometric analysis, especially in the questionnaire's section regarding business innovation. The reason for using econometric analysis is precisely because one of the main objectives of this research is to test the economic institutional theory as regards its empirical substantiation in the field of business innovation. Apart from that, econometric analysis may help formulate alternative policy proposals (policy evaluation) and, finally, help make forecasts regarding the development of various variables in certain areas of the sample (forecasting).

As regards the last observation, namely that the use of econometrics may lead to forecasting, it should be noted here that one of the main objectives of our research is the medium- and long-term assessment and forecast of the business environment in Cyprus, emphasising on SMEs.

4.9. Evaluation of the methodology

The methodology of this study is based on scientific theory and evidence. According to the aims, objectives and primary focus, the combination of the quantitative and qualitative approach is considered to be as appropriate as possible for its scope. Therefore, the structuring of the methodology primarily fits with the research questions of the study, and the final decisions regarding the selection of the methods and their design are based precisely on the nature of the research questions and assumptions. At this point, it should be stressed once again that methodology is an integral part of the originality of this research, since the way methodology is designed and structured makes institutional analysis “fit in” with the analysis of entrepreneurship. Therefore, the way this is achieved is in its own right one of the most important subjects of this research. This is why methodology is given particular attention.

By employing fully structured in-depth interviews, the research succeeded to explore the sample's attitudes, perceptions and opinions in an in-depth manner and to come up with appropriate outcomes and recommendations. On the other hand, focus group enhance this data collection effort. In other words, they are not necessarily covering the gaps, albeit offer further insight to the product of the questionnaires. The same applies to personal interviews, which are also useful tools, since they provide us with additional knowledge about the object of our study.

The piloting process employed for the questionnaire –as well as the other methods– helped ensure the better monitoring of the fieldwork's progress, replacing the questionnaire's weak points and generally resulted in improving the way that primary research was undertaken, as well its reliability and validity. Significant attention was also paid to the sampling issues and every effort was dedicated to a clear choice of the research population.

Although every step was followed with carefulness, there is always field for improvements especially in business research projects of this kind. For example, with a bigger sample

there could be better results generated, especially in terms of representation of the population.

The piloting process was used in all methods. A typical example is the case of the two questionnaires and, in particular, the questionnaire about innovation, which required piloting in order to determine the time needed for answering it, as well as for training the team that would distribute it, since the team's members should be able to provide respondents with explanations regarding its technical aspects, i.e. how the answers are given, how many sections it contains, any special instructions, as well as issue pertaining to data privacy.

4.10. Limitations of the methodology

In order to identify the limitations of the methodology we will, first of all, see whether this research provided adequate and clear answers to the research questions and assumptions. This is the picture that emerges from the results of the fifth and sixth chapters. That said, there are various technical limitations, which are referred to below. One of the most difficult undertakings of this research is the modeling process, i.e. the way in which the data that was obtained leads to the modeling of this data, so that it can be directly applied. The procedure mainly depends on two key factors: the completeness and coherence of the design of the method and, second, the variables selected for comprising its “backbone.”

Various parts of the research, both in the methodology chapter, and in other chapters, have pointed out the important issue of applicability in the case of other countries, apart from Cyprus. That is, whether the formula leading to specific takeaways can be applied in the case of other countries.

As explained, this depends on the peculiar characteristics of each country, on whether, for example, we have to do with a small nation, or a larger and more complex country, and as far as application in the future is concerned, this diversity would possibly require differentiations on both the methodology and the parameters of the model. On one hand, application in the cases of other small nations may be easy and feasible thanks to certain common characteristics, but, on the other hand, given that this is an institutional analysis, we should not overlook the difficulties in application because of the differences in institutional characteristics across countries. Institutional characteristics differ. Not all small nations have the same institutional structures or the same institutional mindsets and perceptions. Therefore, the issue of applicability in the case of other countries is subjective and complex, since it can be affected by many external factors. Nevertheless, the applicability “problem” is solved by the partial modelling of one of the issues examined in this research, i.e. innovation in Cypriot enterprises, under the lens of institutional analysis.

A lot can also be said about the selection of the PESTEL approach as the basic theoretical background of one of the two questionnaires and, more specifically, the one about young entrepreneurship. As mentioned above, the PESTEL approach is an “open” tool without specific content and, as a result, this content, i.e. the variables, must be provided by the researcher, depending on the subject of their research, something that is meticulously done in this case.

More substantial research limitations could be found in the methods, mainly the questionnaires and the focus groups, the main methods employed in this research. Although these issues are extensively discussed in the following chapters, the basic limitations can be presented here.

First, regarding the e-questionnaire that was distributed via Google Forms, and explores the young people's views on entrepreneurship, one of the problems lies in verifying the identities of the respondents in terms of their demographic information, although, as already stated in many parts of this research, the targeted distribution of the questionnaire helped mitigate the risk of it being completed by respondents outside of the required demographic (primarily age) range. Of course, these issues are solved within the study, through the use of statistical analysis and the ANOVA test.

Second, as regards the questionnaire on innovation in Cypriot enterprises, its weakness lies in its size, which might have proved too tiring for participants to answer, while in some cases might have proved a deterrent for answering. This is, after all, why before actually distributing the questionnaire to businesses, the distribution team was trained on how to explain it to respondents and make it as understandable and easy as possible. According to the measurements made regarding the time required for answering this questionnaire, the average time for answering all sections is ten minutes. It should be noted here that the distribution and collection of this questionnaire was a very difficult task, precisely because of its aforementioned characteristics.

Third, also in regard to the questionnaire on innovation, one possible limitation could be the interconnection between the sections, since in many instances the respondent is instructed to follow a specific sequence of questions, depending on the questions previously answered. That said, this could be considered as a limitation only in the case that there were no clear instructions, thus confusing the respondents. In our case, though, the instructions are clear, helpful, and easily direct respondents in answering this questionnaire as easily and swiftly as possible.

A fourth limitation that was detected as regards this questionnaire is analytical; more specifically, because of its large size, data analysis was a complex procedure.

Fifth, in the case of focus groups, the general limitations that can be identified are not related to the research itself, i.e. with its contents, but with the limitations that characterise the organisation and application of this method. All these were extensively discussed above.

These are the most important limitations of the research, which, nonetheless, have been taken into account in advance, so that they do not constitute major barriers to implementation and analysis.

[4.11 Further methodological considerations](#)

This section discusses the future applications of such an approach to institutional analysis, namely certain things that were not done here, and could be done in future researches and applications, in other fields as well.

A major issue that emerges is that of comparative analysis. In other words, whether this research –and most importantly, its methodological background– could be used in the future as a comparative tool. It has to be stressed that in both the initial chapters and in the chapter discussing the findings, there is extensive reference to the cases of other countries (e.g. the case of Malta) and to various applied indicators. That said, the tools extracted through this research may be used in future studies for making comparisons between different cases. At this point, of course, it would be helpful to point out that, apart from the fact that each country has its own peculiar characteristics, we also have to deal with markets, societies and, in general, economies of different sizes. Therefore, such a discussion about a future comparative study should be focused on the case of small economies, such as Cyprus, which is the object of this research, i.e. to focus on the institutional analysis of small nations. This is a term that is quite often used for classifying small countries that have their own characteristics and “react” differently in comparison to larger countries. As, however, already stressed many times here, we should not overlook the institutional dimension, since each country has its own institutional characteristics. Therefore, on one hand, there is, indeed, applicability in the case of other countries but, on the other hand, any analysis and interpretation should be based on the peculiar characteristics of each given case. Remember, after all, that a tool provides us with some numbers and trends. However, the overall qualitative and institutional analysis of the trends is a different issue altogether.

Another subject for research in the future is the various components used for creating the formula used in this research. More specifically, we are referring to the variables of the questionnaire on innovation in Cypriot enterprises. In future researches it would be helpful to expand these variables and –possible– increase the scope, although this depends on how multilevel the research has to be. In this research, however, the concept of business innovation has been thoroughly analysed, as mentioned in the above discussion about the questionnaire’s contents.

What would possibly benefit from a future expansion and restructuring is the questionnaire on young entrepreneurship, especially on the institutional analysis level. In other words, it would be helpful to examine other aspects of the institutional perceptions of young people regarding entrepreneurship. Of course, such expansion was effected through the focus groups. Specifically, wherever the answers to the questionnaires did not provide adequate “coverage”, we obtained clarifications and more detailed answers from the focus group discussions.

We must not overlook the issue of the time period of the research and distinguish it from the variables used. The research examines the perceptions of young people about entrepreneurship in Cyprus in 2018, while the questionnaire on innovation in Cypriot enterprises was distributed in 2018, in order to examine the period 2015-2017. Therefore, the time periods the data were collected have nothing to do with the instrumental variables used. The variables are the elements that will constitute the formula; while the chronological data must be updated in each case the innovation formula is applied.

To summarise, we can say that the future application and expansion of this research may be based on two key pillars: First, on the application of the variables in the cases of other countries, as well as in other cases in general. Second, on the restructuring and/or enrichment of the variables of the research, so that other issues pertaining to innovation and, in general, to entrepreneurship can be examined.

In conclusion, there is lots of methodological “space” for those researchers who wish to further expand the items of this research and delve deeper in to the fields of young entrepreneurship and innovation, under the prism of institutional analysis. The institutional background can by itself invest this research with the potential for interesting expansions and applications. For example, there are also other theoretical frameworks that could be used for future expansions of the research, many of which were presented in previous chapters, as, for example, the various indicators regarding entrepreneurship, innovation, and institutions. An amalgam of various elements from these indicators could provide this research with further “fuel” for methodological expansion in the future.

Chapter 5

Young Entrepreneurship in Cyprus: An institutional analysis

As discussed at length in the literature review, entrepreneurship and, in particular, young entrepreneurship, is one of the most interesting fields of discussion in the context of an institutional analysis, since institutional processes and conditions have a major effect on the young people's decisions regarding their future professional and business choices. Some young people, for example, choose employment, either in the public or the private sector, while the plans of other young people provide for self-employment. Such decisions are affected by market conditions, economic conditions, the support provided by the state or other agencies, as well as other parameters, such as the level of knowledge regarding the design of a business plan. This chapter reviews the trends prevailing among young Cypriots as regards entrepreneurship, as well as their perceptions regarding the institutional obstacles to entrepreneurship, i.e. their potential and the opportunities they are given to do business.

Young entrepreneurship can also be used as a measure for assessing various factors discussed in this chapter. For example, by means of the following analysis it is possible to assess the political and social environment, i.e. external factors that have a positive or negative effect on business trends, young or female entrepreneurship initiatives, as well as other activities.

More specifically, this chapter discusses the following subjects: First, the respondents' demographics, given that a discussion on the issue of young entrepreneurship should be preceded by a classification on the basis of age. Apart from age, the analysis includes the respondents' sex, education level, and location. As regards the specific questions of this research, this chapter discusses and analyses the following subjects: the young people's willingness to make certain professional choices, for example, to choose between employment in the public or private sector and self-employment. Overall, the chapter discusses –through the use of various questions– the young people's ability to create, and lead, their own business, and whether they possess the skills required for solving a series of problems, such as personnel issues, as well as issues pertaining to marketing and, in general, various aspects of management. It also discusses the young people's perceptions of the economic dimension, whether they believe that financial assistance is required, and what are the agencies that may provide such assistance. The most important matter that is addressed in this chapter, though, is institutional analysis and, more specifically, what are the institutional obstacles that get in the way of the young people's business activity, as well as the opposite, that is to say, what are the institutional incentives that are offered to young people and that, in general, encourage and promote young entrepreneurship.

Therefore, the main study objective of this chapter is to approach and analyse the way young persons embark on their “maiden voyage” into entrepreneurship, in conjunction with other factors, which are explained below and were also introduced in the chapter on methodology, such as the degree of innovation and the use of new technologies, access to

financing sources, necessity-driven or opportunity-driven entrepreneurship, and the development-implementation of a business plan. This is the context –along with various external factors– for the institutional analysis of young entrepreneurship in Cyprus.

The following sections are divided on the basis of the rationale explained above, starting from the description and analysis of the respondents' demographics.

5.1. Demographic details

The main demographic criterion for being selected to answer the questionnaire on young entrepreneurship is, obviously, age, although some parts of this research also refer to the subject of female entrepreneurship. Hence the focus on certain age groups. That said, apart from age, the demographic data collected through the questionnaire include sex, education level –which also leads to interesting conclusions, since, as discussed below, the higher the level of someone's education, the stronger their desire for business activity– and location, which is divided into urban and rural areas.

Targeting in regard to demographics was a key concern of this research and was discussed at length in the chapter on methodology. It should just be stressed that, although this is an e-questionnaire,³⁰ it was sent and forwarded to persons selected on the basis of the age group that this research is focusing on. This, of course, gave rise to a technical problem, which concerned the process of checking the respondents to the questionnaire, particularly in regard to the process of verifying that the participants actually belong to the age group we are interested in. This problem was solved by using targeting methods based on social networks.

Based on the demographic data collected and, in particular, as regards sex, 43 percent of respondents are female and 57 percent are male, therefore there is a reasonable balance in regard to this demographic indicator. Although there is no difference in the way of thinking about the specific subject of the research, certain differing patterns may be detected in regard to the question of “who do you believe is more capable of running a business, men or women?”³¹ This question is discussed later in this chapter.

³⁰ The questionnaire is available online, at:

<https://docs.google.com/forms/d/e/1FAIpQLScBdk1xjONAvgNUh8vFIMrTmK8ExrPayegNurYnzd-vLQG7QQ/viewform> [it was designed and created for the purposes of this research and is available at all times].

³¹ This question is the last to be made in this questionnaire and, as discussed below, the majority believes that men and women are equally capable of running a business.

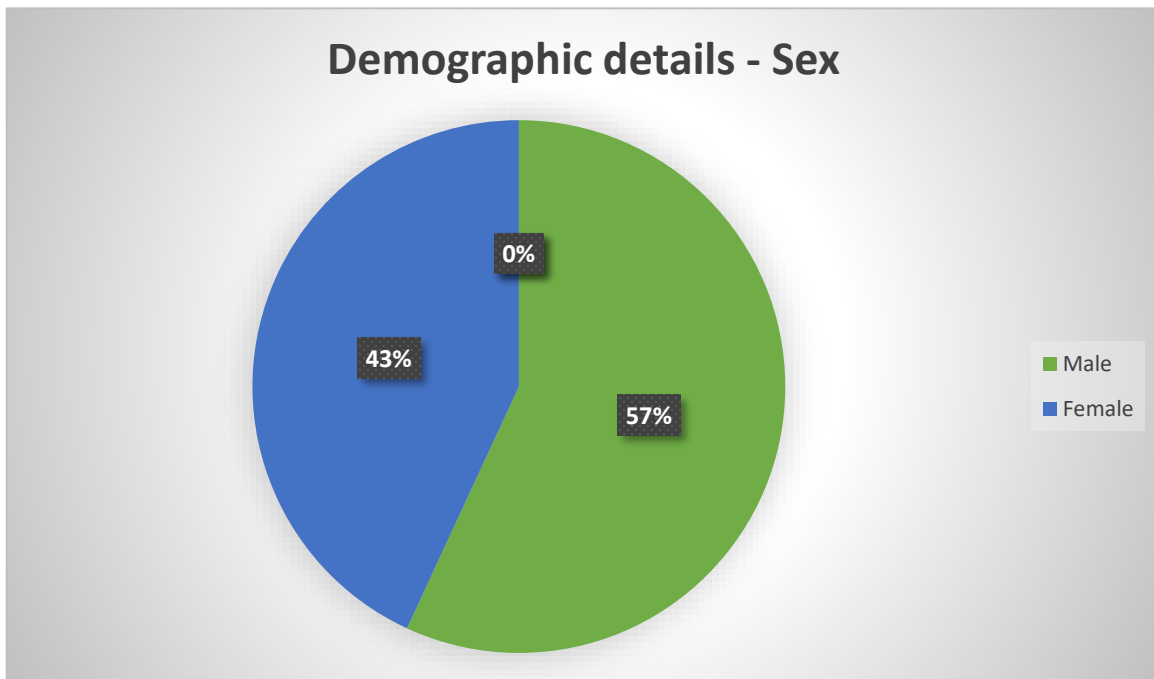


Diagram 5.1 This graph presents the proportion of participants to the research on the basis of sex.

The second demographic that plays a key role in processing the results of the survey is the age of the participants who answered this e-questionnaire through Google forms.³² It should be stressed here that the reason for selecting narrow age intervals is that this research deals with young entrepreneurship, therefore it was necessary to keep the intervals among the various age groups under control. After all, different age intervals give substantially different answers. For example, the age group 20-21, which mostly consists of first-year university students who are only familiar with elementary technical concepts (e.g. business plan, marketing, promotion), gave different responses to the questions than the age group 24-25, which includes many postgraduate students who have a profound knowledge of the details and explanatory approaches of designing a business. Therefore, each age group has its own features, which are useful tools for this research and are discussed in section 5.9.

An issue that came up at this point concerns the age that can be considered as the starting point of one's engagement with entrepreneurship – in the context of young entrepreneurship. Officially,³³ the young entrepreneurship programme is open to persons between the ages of 20-40, and in the case of female entrepreneurship between 18-55. Therefore, according to the official age classification, the sample of this research –also

³² Technical information about the creation of Google forms: <https://www.google.com/forms/about/>

³³ According to data by the Service of Industry and Technology of the Republic of Cyprus, eligible for the programme for promoting Young Entrepreneurship are all persons that belong to the age group from 20 to 40 years (i.e. must be at least 20 years of age and not older than 41 years of age on the date their proposal is submitted). There are other criteria as well, which are presented in the official website.

based on the target groups to which the questionnaire was distributed— is indeed representative. Even the selection of 30+ ages was determined in a manner ensuring that their no one exceeded the 40-year ceiling.

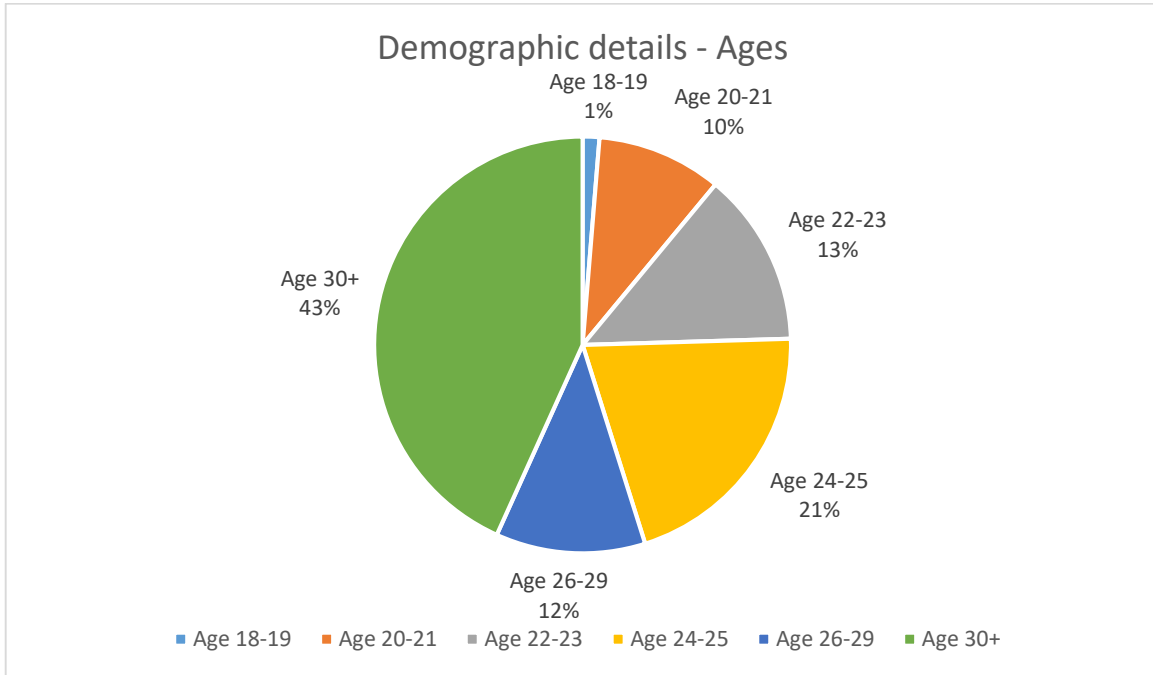


Diagram 5.2 This graph presents the participants' age groups, based on the segmentation and targeting made through the e-questionnaire.

Ages were divided into six categories, more specifically the age group from 18-19 years, the age group from 20-21 years, the age group from 22-23 years, the age group from 24-25 years, the age group from 26-29 years, and the age group above 30 years. In the case of the above-30 category, we verified the respondents' age, to make sure that no one was older than 41 years of age.

Another demographic is the participants' education level. As demonstrated in the following figure, the education level in Cyprus is high, since 63 percent (the majority) of participants to this research are college or university graduates, while 28 percent are holders of a postgraduate degree. There is, of course, a substantial part of the young population who discontinue their studies after high school or technical education. In this research we are trying to link the education level to the young people's perceptions of young entrepreneurship. In other words, whether they believe that the higher their education level, the easier it is to succeed in business. This issue is analysed through the focus groups discussions in section 5.11.

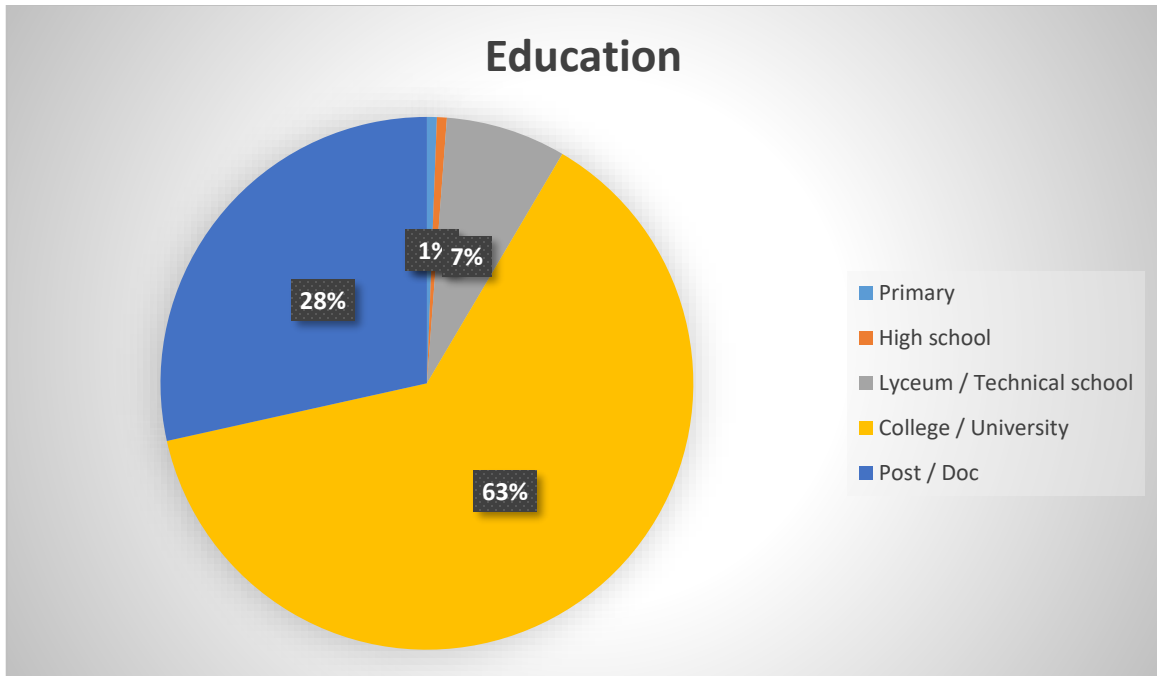


Diagram 5.3 This graph presents the participants' education level per educational status.

The final demographic that was taken into account for the purposes of this research is the respondents' location.³⁴ Thus, 81.5 percent of respondents live in a city/urban centre, while 18.5 percent live in a village/rural area.

³⁴ As regards this demographic, there was no targeting, as in the case of age. Nonetheless, it is interesting to see the distribution of respondents between those who live in the city and those who live in a village, since this will be helpful for the upcoming discussion.

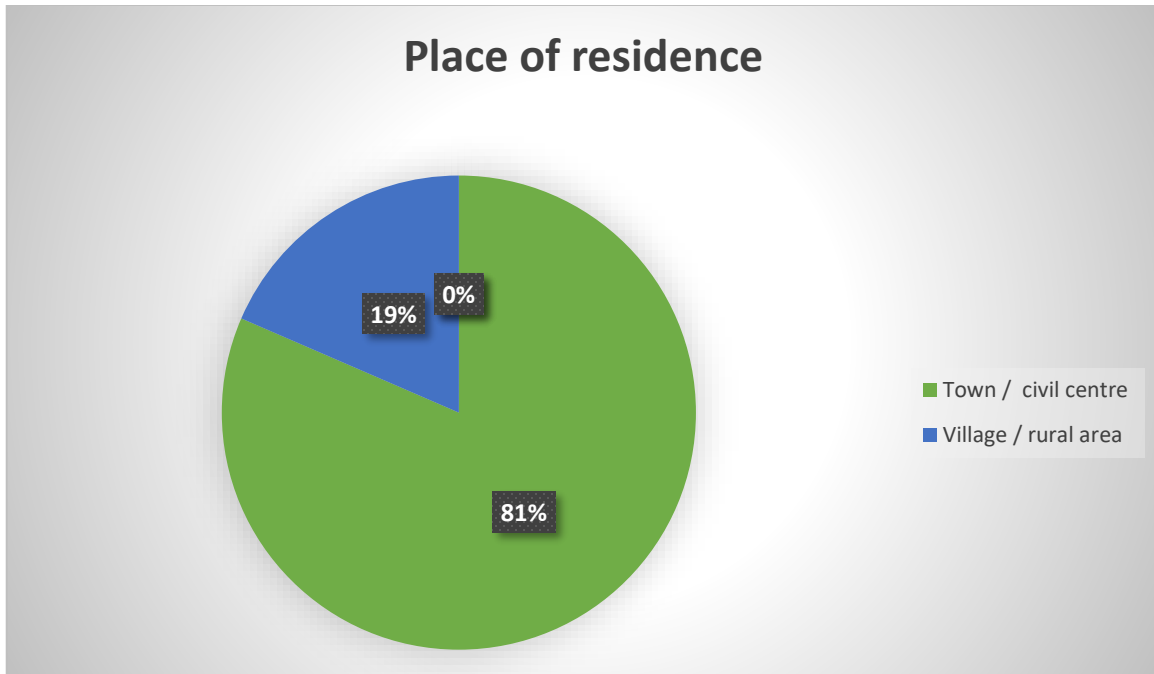


Diagram 5.4 Distribution on the basis of the respondents' location.

The location demographic is also very interesting since, as discussed in section 5.11 below, there is a proportion of young people whose perceptions about business, or their business ideas, are affected by, and developed on the basis of, their location or place of origin. For example, Green entrepreneurship ideas may be affected by a person's location or place of origin, as well as by the ownership of real property in this location.

In conclusion, demographic analysis can provide us with significant data, since it enables us to correlate and compare various business trends on the basis of demographics.

5.2. Employment in the public or private sector, or self-employment?

A trend that should be investigated in the context of young entrepreneurship is precisely what the young people themselves want, or consider being the best and ideal option, as regards their professional careers. In order to investigate this trend, as well as the various opinions held by young people, three different questions were used as part of this research. The first question was about the option of becoming a private sector employee, asking respondents to define the extent of their willingness to pursue this professional option in the medium or long term and taking into account all pros and cons, e.g. financial, personal, social etc. The same question was also asked in regard to becoming a public sector employee or a freelancer/entrepreneur.

The following graph shows the responses in regard to the first question, i.e. the young people's desire to become private sector employees. On a scale of 0 to 4, where 0 is the minimum desire and 4 is the maximum desire, the majority of respondents, i.e. 35.8 percent, report a desire level of 2, while desire levels 3 and 4 also get high rates at 30.3 percent and 23.6 percent respectively, demonstrating that young people are to a great extent driven by the thought and the desire to be employed in the private sector.

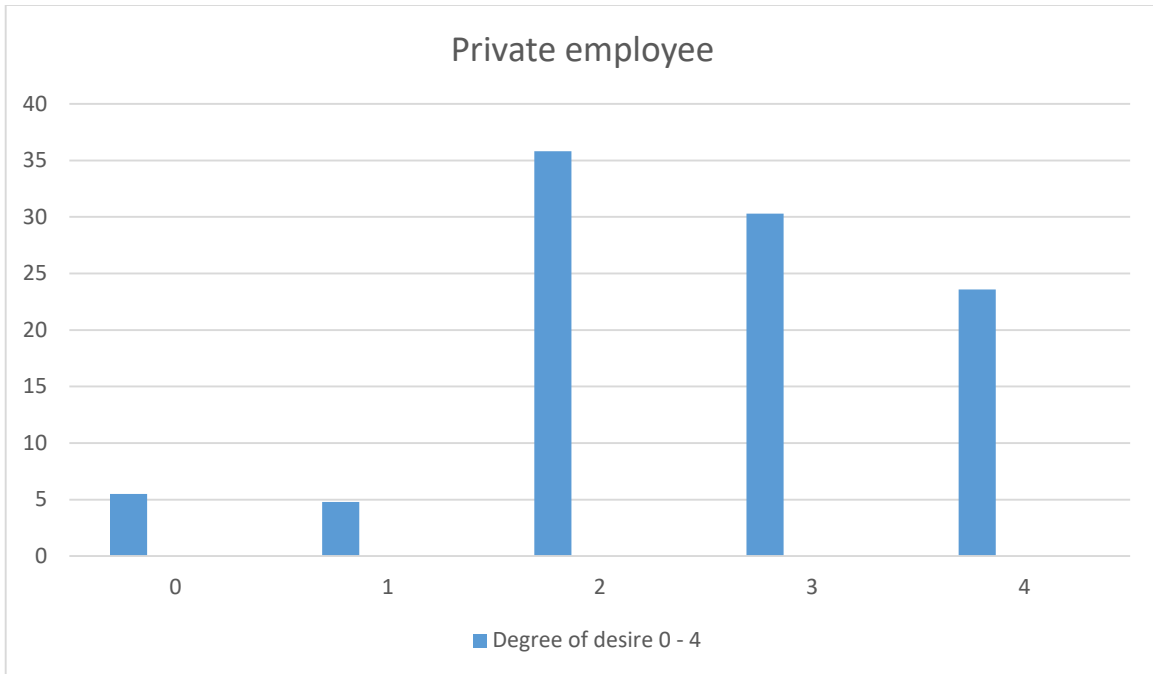


Diagram 5.5 This graph presents the desire for employment in the private sector.

The second question in this category is about the desire to be employed in the public sector. More specifically, the question is worded as follows: **Public sector employee: Please rate your desire for this professional option in the medium or the long term, also taking into account all positive and negative factors, e.g. financial, personal, social etc. (on a scale of 0 = minimum appeal to 4 = maximum appeal).** The following graph presents the answers in percentage form.

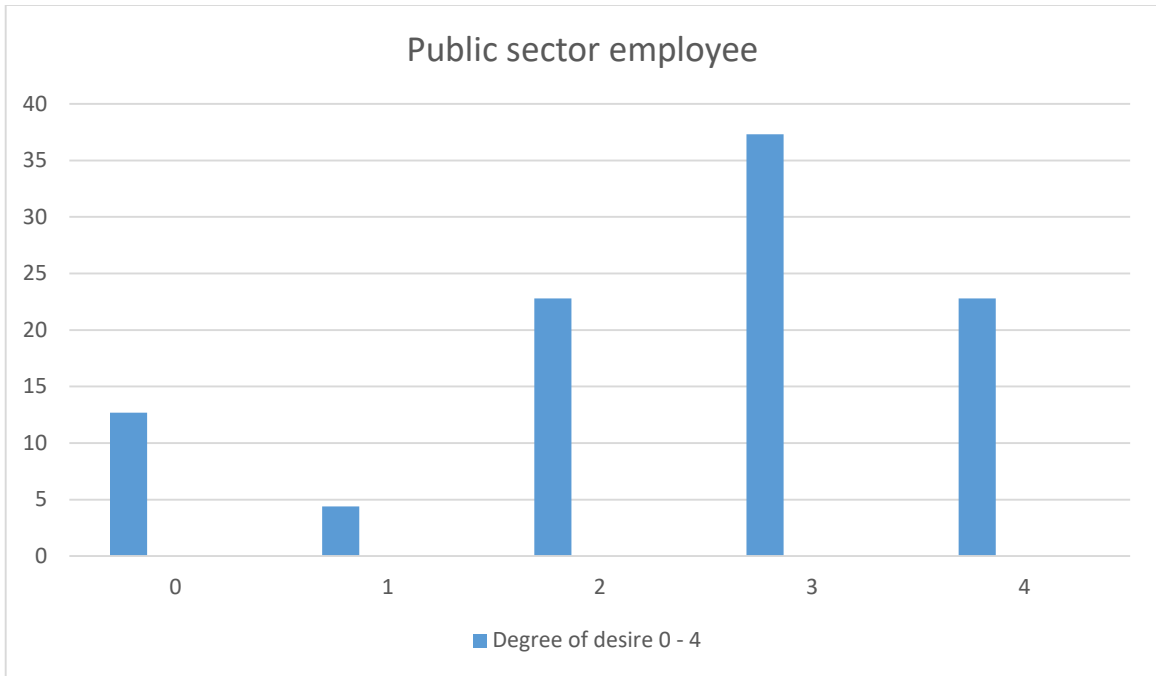


Diagram 5.6 This graph presents the desire for employment in the public sector.

We can see that the desire for employment in the public sector has a lead over the private sector, as the majority of respondents (37.3%) give it a 3 rating, while a substantial, and almost equal to the corresponding question for the private sector, 22.8 percent gave it a 4 rating.

When asked if they have ever considered setting up their own business, the majority of respondents answered “strongly”, while equal numbers of respondents considered it “a lot” and “a little”, followed by “fairly”, while “not at all” comes last with a very small percentage. We could say that the young people's inclination to set up their own business is strong, at least –as examined here– at the initial consideration stage.

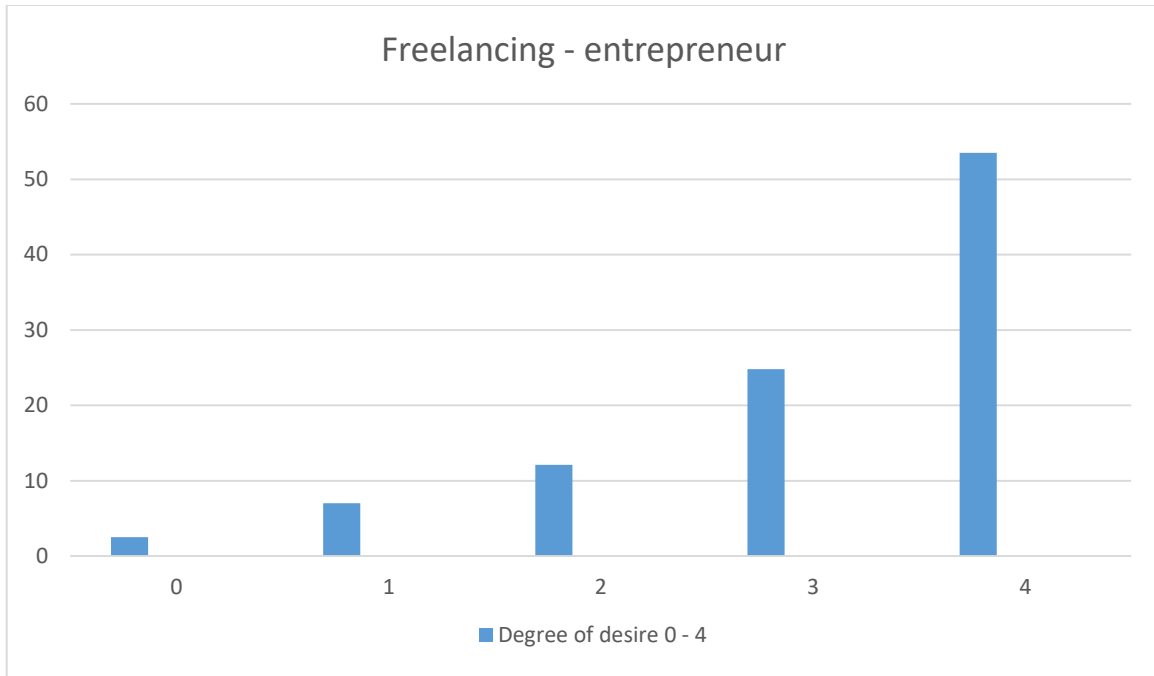


Diagram 5.7 This graph presents the desire for self-employment.

The same inference can be drawn from the question “Have you ever considered setting up your own business?” Therefore, the answers given to this question are independent from the above variables, in the sense that someone has probably considered setting up their own business, irrespective of whether they desire, at the same time, to be employed in the private or the public sector. We should always keep in mind, after all, that young people are generally concerned with the issue of their professional career, and therefore it is reasonable to come across various trends that, quite often, coincide. This is, after all, demonstrated by the results of this research. The following diagram illustrates the strong inclination of young people to consider setting up their own business, albeit without overlooking the high percentage of young people who barely considered such a possibility.

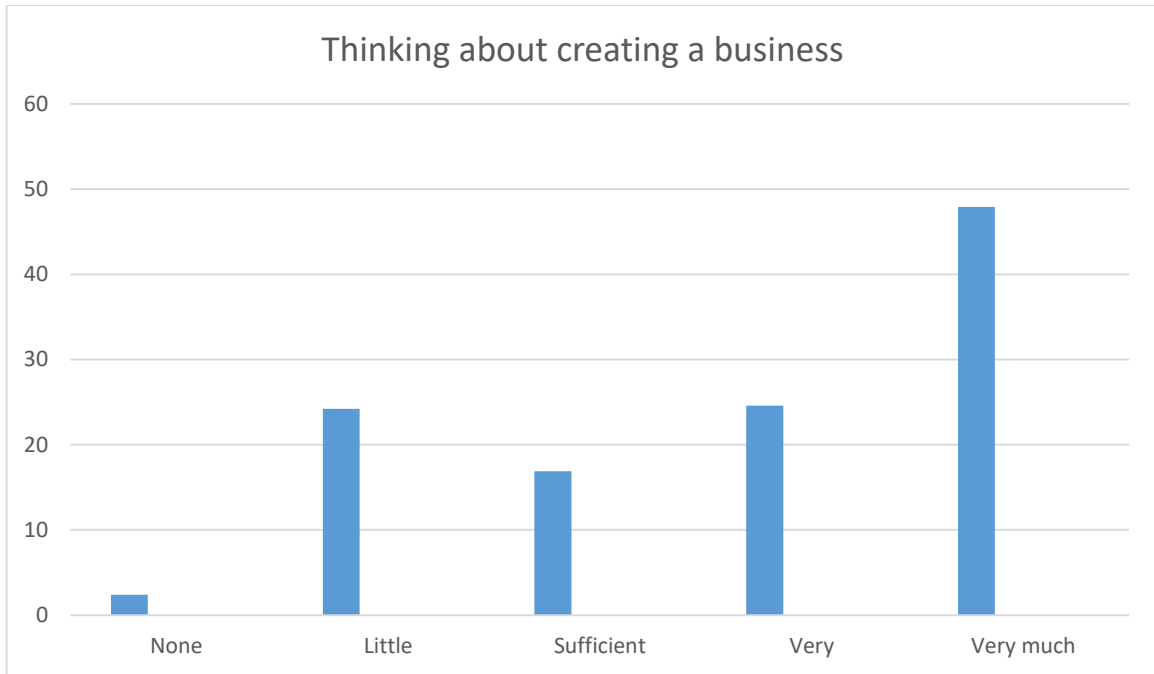


Diagram 5.8 This graph presents the desire for employment in the private sector.

The above results can be used to extract very useful comparative conclusions. For example, while our data show that a large portion of young people take a positive stance towards employment in the private or public sector, at the same time they are seriously considering, or at least have given some thought to, setting up their own business. This also leads to the conclusion that entrepreneurship plays a decisive role, and is of particular concern for young people, and this will be discussed later on.

5.3. Difficulty of setting up a business

A key issue of concern for this research is the young people's perceptions of how difficult it is to set up a business. That said, at this stage of the research it is not clear what type of business they have in mind at the outset; albeit this is a follow-up issue. This is due to the fact that the difficulty of setting up a business is closely related to the type of business and how a person conceives of the business they wish to create. This is why in the following questions we are trying to determine whether the respondents have an, at least, elementary knowledge of how to draft a business plan, a feasibility study etc. The main concern of this research, though, is the fact that the difficulty of setting up a business is affected by various obstacles, which are rated in our research and were also discussed as part of the theoretical analysis of this research.

As regards the question: “Rate the possibility of setting up your own business in the next five (5) years”, we can precisely see that the majority of young people lacks the certainty and, more importantly, the planning, although, as we saw above, most young people considered, or merely gave some thought to, creating their own business. This uncertainty is evident in the responses to this specific question. In other words, whereas 26.8 percent say that it is possible to set up their own business in the next five years, and 23.5 percent say that it is maybe possible to set up their own business in the next five years, in contrast 26.3 percent say that this scenario is neither possible nor impossible, and 16.8 percent say that it is maybe impossible. Moreover, 6.7 percent say that this is impossible.

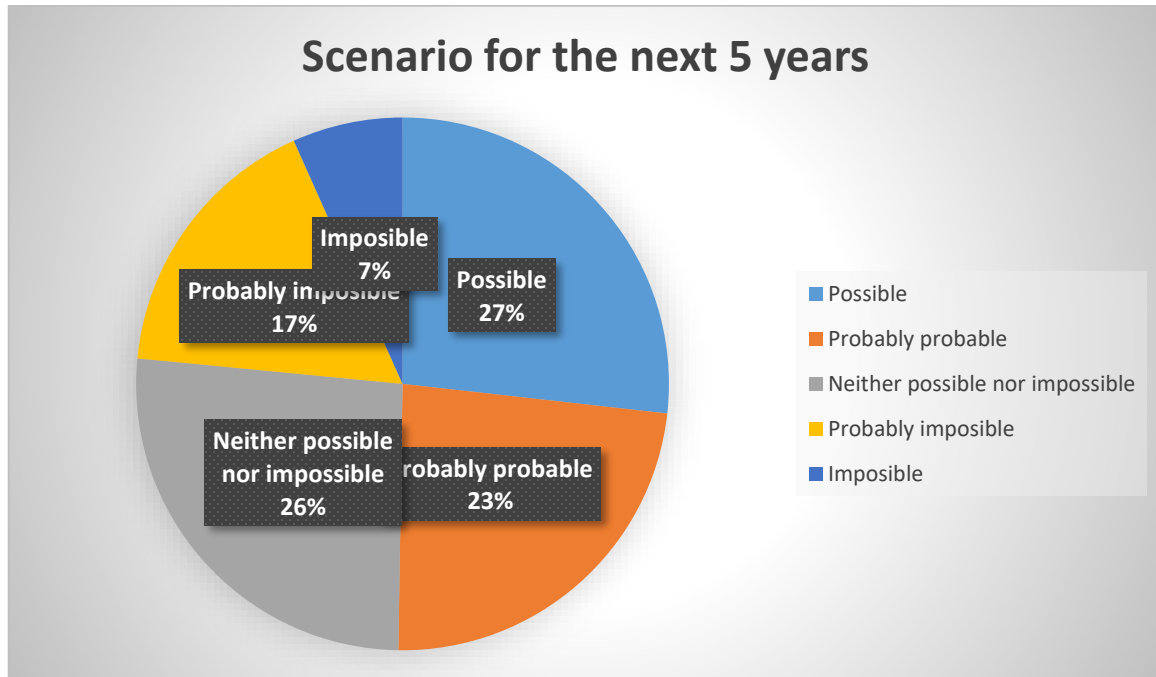


Diagram 5.9 Young people's perception of the possibility of setting up their own business in the next five years.

This picture is reversed in the following question, which calls respondents to: “Rate the possibility of setting up your own business in the next ten (10) years.” The percentage of those who answered “It is possible to set up my own business in the next ten years” is almost doubled in comparison to the corresponding question regarding the possibility for the next five years. More specifically, this response, i.e. whether it is possible to set up one's own business in the next ten years, is chosen by 44.4 percent of respondents, while “maybe possible” is chosen by 20.8 percent, since a portion shifts from this possibility to the “it is possible” scenario, i.e. they believe that the scenario of setting up their own business in the next ten years is, indeed, possible. The answer “neither possible, nor impossible” is chosen by 24.7 percent, while the percentage of persons who say that it is “maybe impossible” is dramatically reduced to 4.5 percent, as compared to 16.8 percent in the previous question. Also, 5.6 percent say that this is impossible.

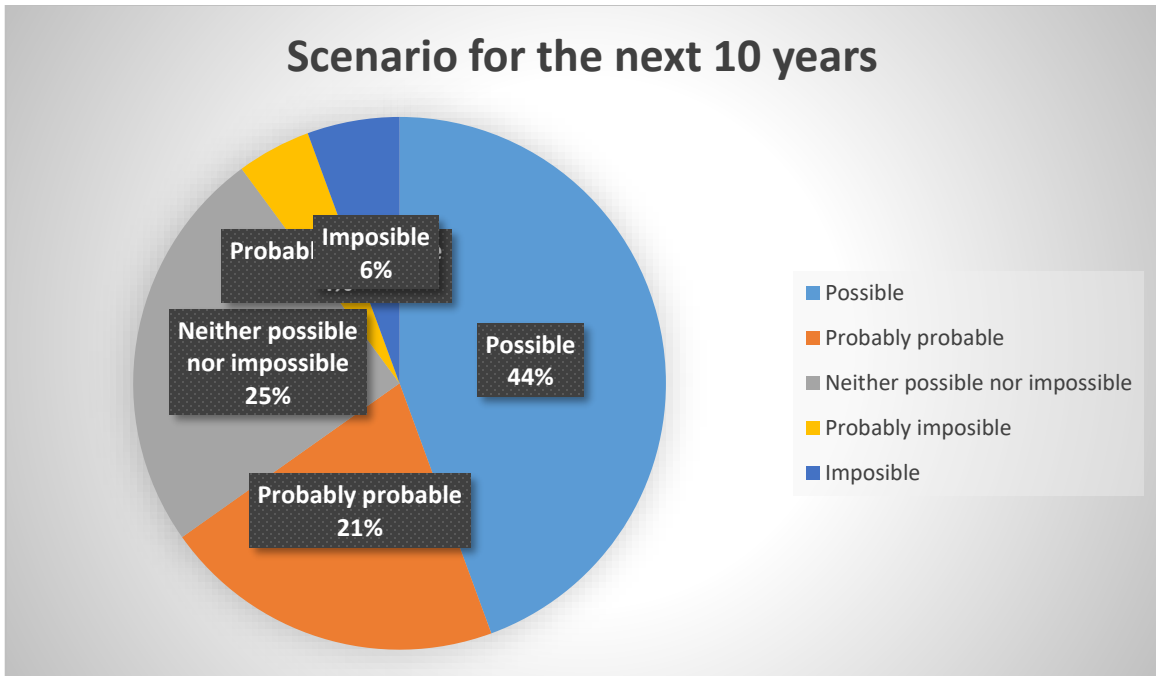


Diagram 5.10 Young people's perception of the possibility of setting up their own business in the next ten years.

Therefore, these two questions demonstrate that time plays a key role in the decisions made by young people as regards their business activity, and this is, after all, natural, since a substantial portion of the respondents were students at the time they completed this questionnaire, and thus were going through the process of settling down on the idea and, in general, the facts of what they wish to do with their professional lives.

At this point, however, it is important to see whether the young people are aware of the practical details of setting up one's own business. And by practical details –although the question is a general one– we mean all the practical and bureaucratic steps one must make in order to set up their own business. For example, formation of a company and a legal entity, registration with the tax authorities, registration of trade name etc. As regards this question, 41 percent of respondents replied that they are a little aware of the practical details, 19.1 percent said they are not aware at all, and 39.9 percent said that they are aware of the practical details.

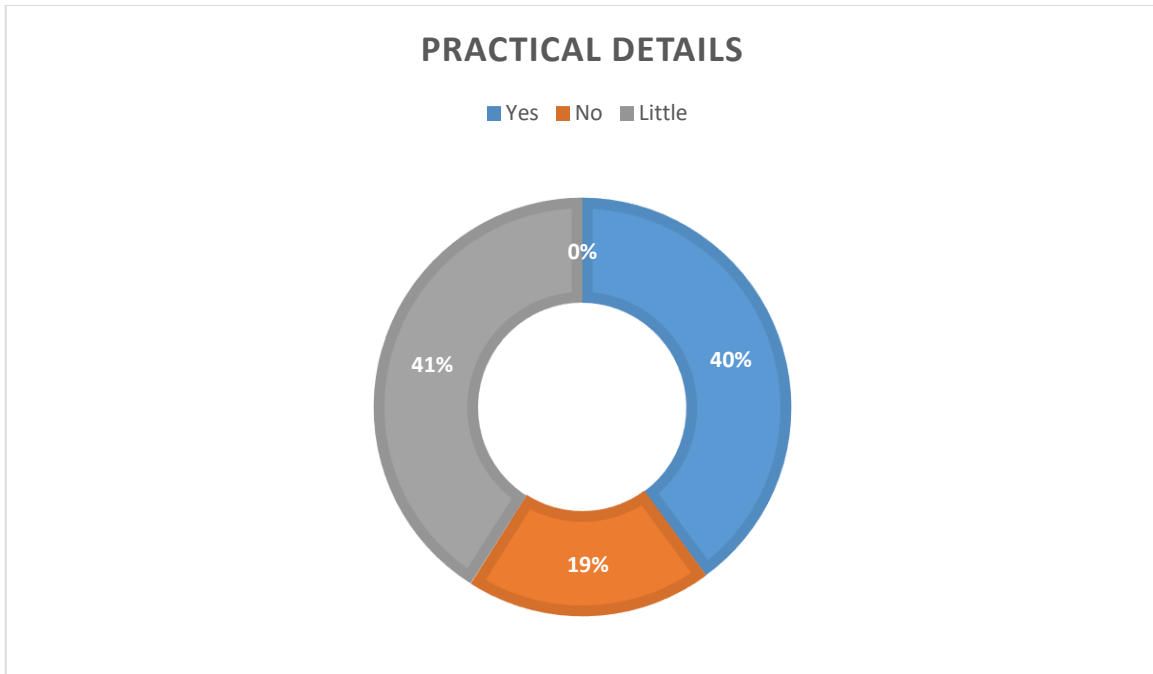


Diagram 5.11 Practical details of setting up one's own business

The next two questions are about the “Young Entrepreneurship” and “Female Entrepreneurship” programmes. What we actually want to examine by means of these two questions, is whether the respondents are aware of these programmes and, if yes, to what extent. In essence, both questions “fit in” with the preceding one, given that a person who is aware of the practical details of setting up a business will most probably be aware, or will have simply heard, of these two programmes, which provide for the subsidisation of part of the cost of setting up a business, on the basis of specific criteria.

The first question was: “Are you aware of the 'Young Entrepreneurship' programme?” Almost 28.5 percent gave an affirmative answer, i.e. they know about the young entrepreneurship programme. Moreover, 29.1 percent gave a negative answer, i.e. they knew nothing about this programme. In addition, 19.6 percent said that they are a little aware of this programme, while 22.9 percent replied that they have simply heard of this programme.

In the corresponding question about female entrepreneurship, which was put as: “Are you aware of the 'Female Entrepreneurship' programme?” 25.7 percent gave an affirmative answer, i.e. they know about the female entrepreneurship programme.

5.4. The influence of external factors

One of the key subjects of this research, which were also discussed on the theoretical level, are the various external factors that may have a positive or negative influence on any form of entrepreneurship. In the context of this questionnaire we focus on four external factor axes. Political, social, cultural, and economic. As discussed at length on the theoretical

level, external factors determine entrepreneurial actions, decisions, and choices. The most important fact is that these external factors are independent of firms, which are practically unable to do anything to alter them. What can be done, however, is to take into account the characteristics of these factors, in order to come up with the relevant business decisions and actions.

In the field of young entrepreneurship, in particular, young people seem to be particularly influenced by external factors and are very concerned of whether they are able to make entrepreneurial steps. As demonstrated below, the young people's decisions are affected by various deterrents. The following variables are based on the PESTEL approach, wherever –as stated previously– it was used for isolating the characteristics of the political, social, social/cultural and economic factors.

The first question made in this section is whether the political environment in Cyprus is conducive to the creation of businesses by young people. Fifty two percent replied “a little” and 24 percent “not at all”, both high percentages which paint an exact picture of the young people's disillusionment with the political environment, and also illustrate the extent to which this factor deters young people from taking their first entrepreneurial steps. Almost 20.7 percent gave an affirmative reply, i.e they said that the political environment in Cyprus is “very” conducive to the creation of businesses by young people.

The second item examined in this research is the social environment and, more specifically, the question was whether the social environment in Cyprus is conducive to the creation of businesses by young people. We can infer by the results that the young people's perception of the overall society and how it can influence their business decisions is different from their perception of the political environment. In other words, their perceptions of the effect of the political environment on their decision to do business are different from their perceptions of the effect of social environment on their decision to do business. At least this is shown by the responses of the persons who completed this questionnaire. More specifically, 41 percent replied “a little”, in contrast with 52 percent who replied “a little” in the case of the effect of the political environment on their business activity.

The third item is about the cultural environment and, more specifically, the question was put as follows: “Is the cultural environment (culture, civilization) in Cyprus conducive to the creation of businesses by young people?” This question specifically examines how the various cultural trends within society, as well as how the culture and the people's way of thinking, in general, have a positive or negative influence, and to what extent, on the young people's decision to set up their own business. In other words, whether the cultural environment encourages young people to do business. So, 33.7 percent said that the cultural environment in Cyprus is “fairly” conducive to the creation of businesses by young people, while 39.9 percent replied that the cultural environment in Cyprus is “a little” conducive to the creation of businesses by young people. Moreover, 8.4 percent replied that it is “very” conducive, and 3.4 percent replied that it is “very much” conducive. Finally, 14.6 percent gave a negative reply, in other words that the cultural environment in Cyprus is “not at all” conducive to the creation of businesses by young people.

The final item that is discussed here in the context of the external factors that have a positive or negative influence on the development of young entrepreneurship in Cyprus, is the economic environment. In other words, how the economic situation affects the young people's initiative-taking and decision-making regarding their business activity. Given the economic crisis and instability, the analysis of this external factor is particularly interesting. In this instance, the question was put as follows: "Is the economic environment in Cyprus conducive to the creation of businesses by young people?" It therefore leaves the field open for the respondents themselves to explain how they perceive of the economic crisis. For example, someone may perceive of the economic environment in terms of the difficulty to obtain financing (e.g. getting a loan from a bank) or in terms of the economic crisis, which imposes tougher terms of competition in the market. So, 35.4 percent of respondents give a negative answer, i.e. that the economic environment in Cyprus is "not at all" conducive to the creation of businesses by young people, and 37.6 percent say that it is "a little" conducive. Almost 20.2 percent say that the economic environment in Cyprus is "fairly" conducive, 4.5 percent say that it is "very" conducive, and, finally, 2.2 percent say that it is "very much" conducive.

5.5. Business success factors

This stage of the analysis examines the factors that contribute to the success of a business, which were specified as follows: One's determination to succeed in business; the honesty characterising a young or potential entrepreneur; the degree of versatility; enthusiasm, and how important it is to an entrepreneur's success. Another important success factor is risk-taking, i.e. one's ability to take risks in order to realise a business target. Business decisions may also be influenced by one's unscrupulousness. Further factors analysed in this section include the existence of a vision, i.e. whether the existence of a vision is important for an entrepreneur's success; flexibility, i.e. whether someone is flexible in their business choices and decisions and whether this plays a role and to what extent; and finally, creativity.

1. Decisiveness
2. Honesty
3. Versatility
4. Enthusiasm
5. Risk taking
6. Unprincipled
7. Existence of vision
8. Flexibility
9. Creativity

Before analysing these factors, though, the following question, which connects the previous stage with this stage, was asked: “If you did set up your own business, how confident of success would you be?” The reason why this specific question is made at that point is to facilitate –at a later stage and, more specifically, in the discussion chapter– a comparative analysis of the responses to this question *vis-a-vis* the previous responses concerning the influence of the political environment, the economic environment and so forth. Moreover, this is a question that, in effect, connects the external factor stage with the success factor stage.

Actually, what we primarily wish to analyse is the extent of the participants' optimism and their confidence regarding the successful outcome of their business venture. More specifically, 44.7 percent replied that they are “fairly” confident of their enterprise's success, while 26.3 percent replied that they are “a little” confident of success. Moreover, 16.8 percent and 7.8 percent replied that they are “very” and “very much” confident of their enterprise's success, respectively.

5.5.1. Decisiveness

Responses show that the decisiveness factor is one of the most crucial for the successful outcome of a business venture, at least according to the young people's perception. This is illustrated by the relevant percentages, as 69.3 percent of the respondents said that decisiveness is “very much” important for an entrepreneur's success, while 21.2 percent said that it is “very” important. In addition, 8.4 percent chose “fairly”. Therefore, negative responses, and more specifically, “a little” and “don't know/no answer” were chosen by a meagre 0.6 percent. None of the respondents chose “not at all” as a response.

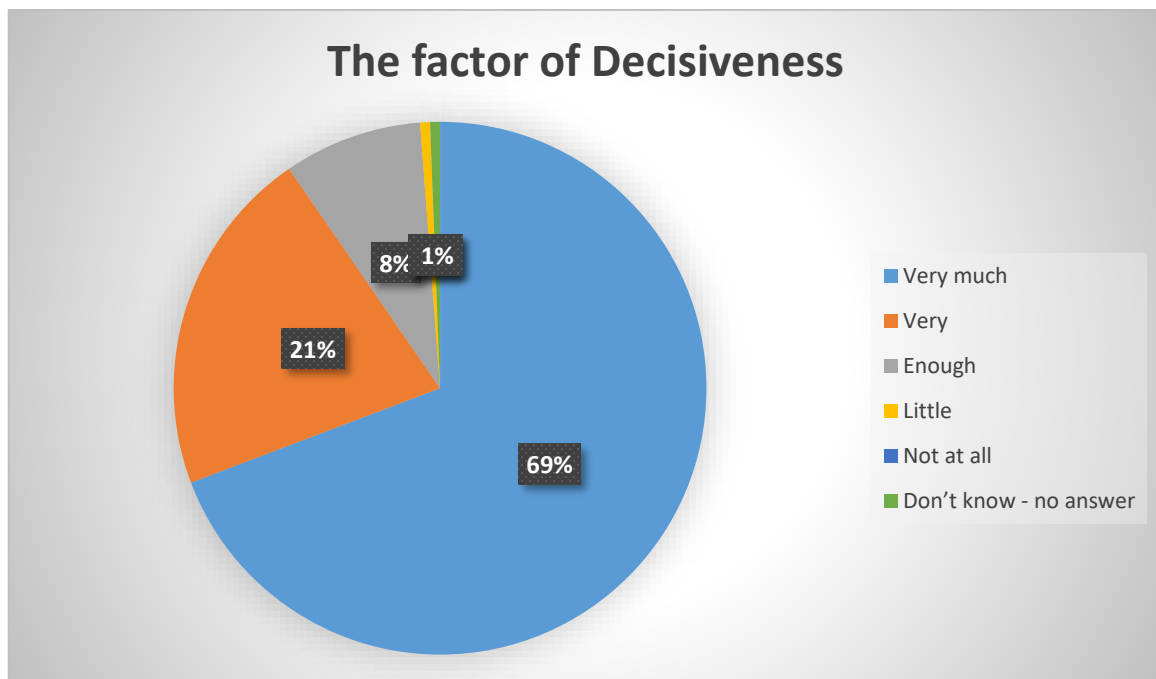


Diagram 5.12 The decisiveness factor

5.5.2. Honesty

Young people have, more or less, the same perception regarding honesty. In other words, the majority believes that the honesty factor is important, as 54.2 percent respond by choosing “very much”.

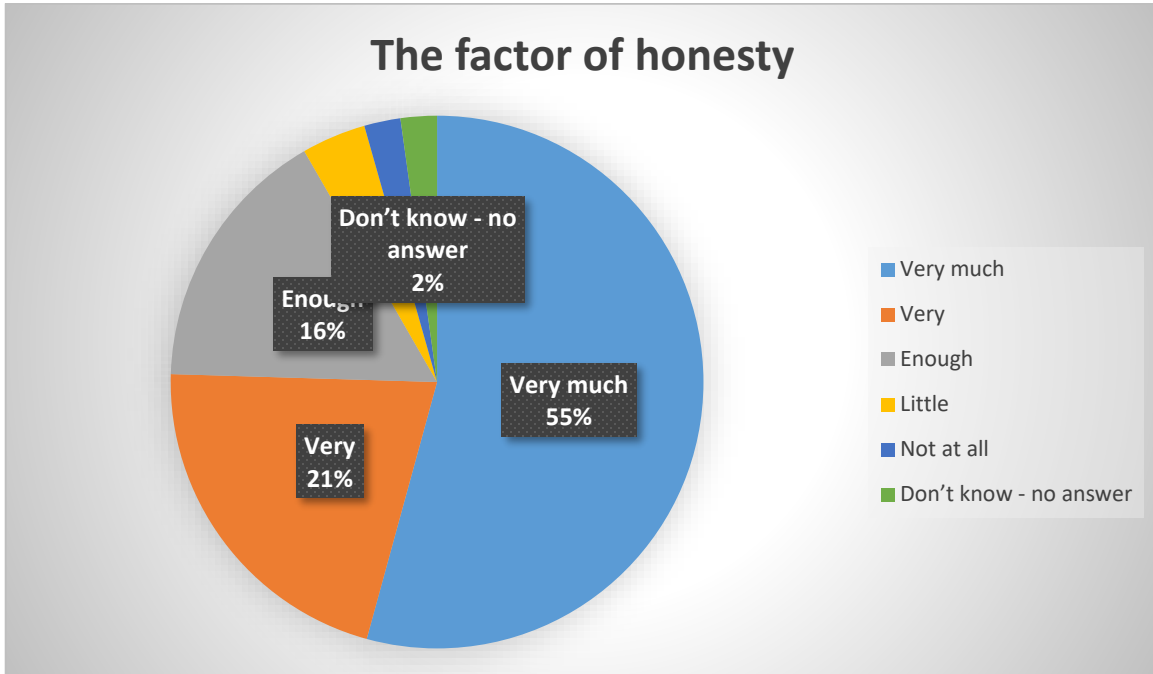


Diagram 5.13 The honesty factor

5.5.3. Versatility

Young people also believe that versatility is crucial for succeeding in business. This is obvious by the high percentage of respondents (68.4%) who said that it is “very much” important, followed by “very” important, with 19.2 percent.

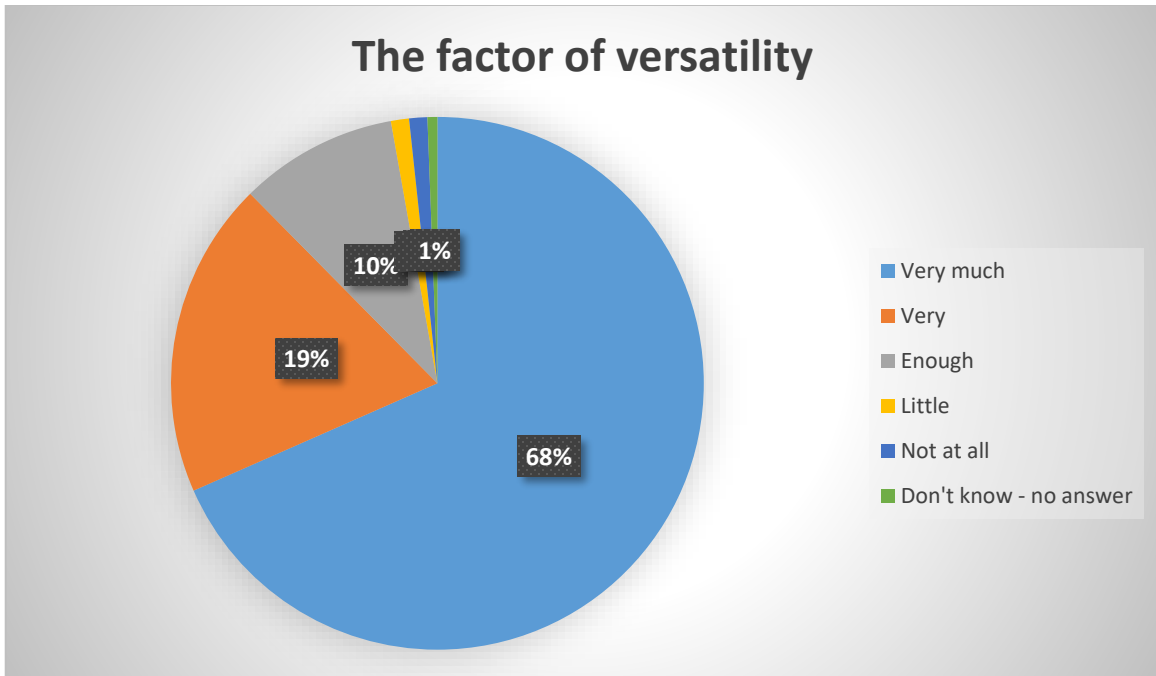


Diagram 5.14 The versatility factor

5.5.4. Enthusiasm

Enthusiasm is also taken seriously into account by young people as a factor of business success, as 50.8 percent of respondents said that it is “very much” important for an entrepreneur's success, while 21.8 percent said that it is “very” important. Moreover, 17.3 percent responded that this factor is “fairly” important, while 7.8 percent and 2.2 percent said that it is “a little” and “not at all” important.

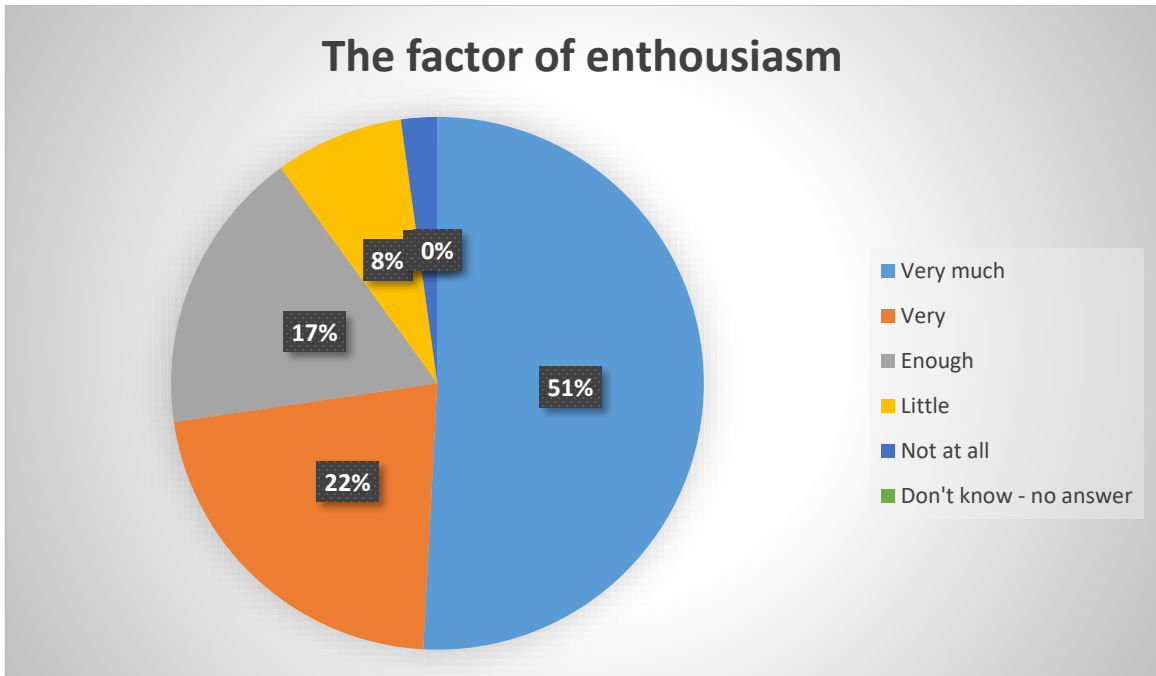


Diagram 5.15 The enthusiasm factor

5.5.5. Risk-taking

Another factor that influences business success and is examined by this research is risk-taking, i.e. whether a person who does business has the ability to assume the risk of a new decision, despite its inherent uncertainty. That said, risk-taking is inextricably linked with a wide range of knowledge the entrepreneur has to possess and take into account prior to assuming any risk, such as, for example, the viability of the project, the financial parameters, and so forth.

According to the respondents' replies, 44.7 percent believe that this factor is “very much” important for an entrepreneur's success, and 29.1 percent believe that it is “very” important. Almost 21.2 percent believe that risk-taking is “fairly” important as a factor, while 3.4 percent believe that it is “a little” important and 1.7 percent chose “don't know/no answer”.

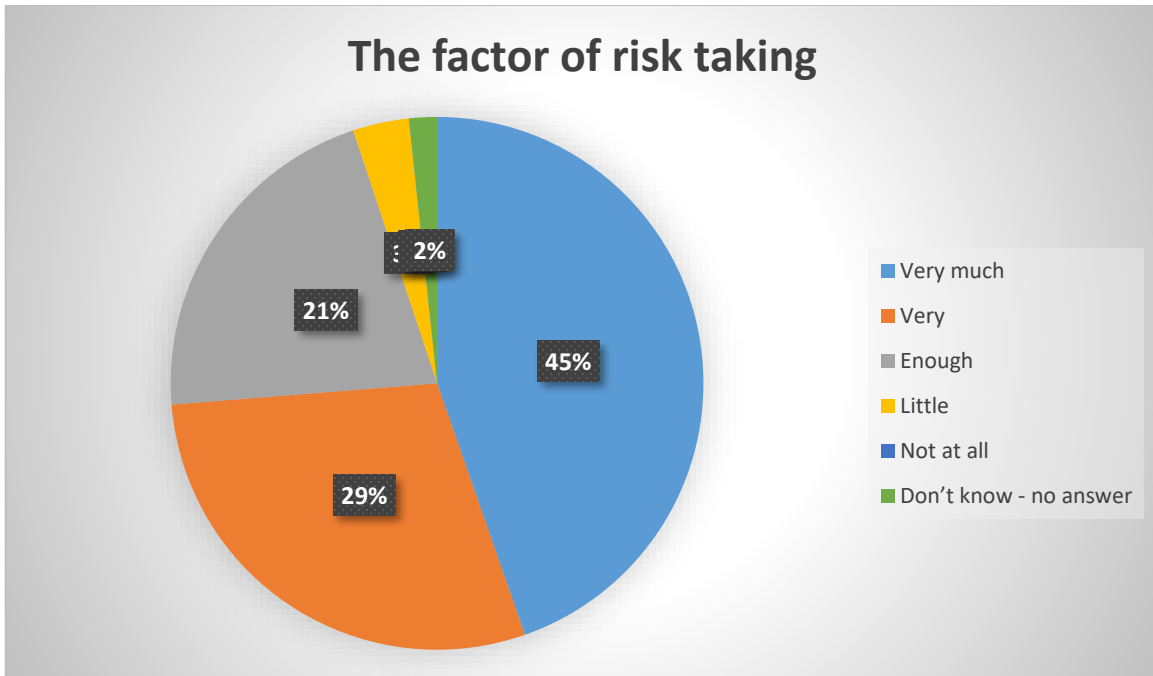


Diagram 5.16 The risk factor

5.5.6. Unprincipled entrepreneur

The factor of being unprincipled as an entrepreneur presents a very interesting case here, since perspectives vary enormously. In contrast with the above factors, where –in most cases– there was a clear majority in regard to their importance, being unprincipled shows an interesting diversity as far as the responses are concerned.

More specifically, 16.2 percent say that being unprincipled is a “very much” important factor for an entrepreneur's success, while 17.3 percent give a negative response, i.e. that this factor is “not at all” important for succeeding in business. Moreover, 16.2 percent say that this factor is “very” important, 21.8 percent say that it is “fairly” important, and 21.2 percent say that it is “a little” important. Almost 7.3 percent responded “don't know/no answer”.

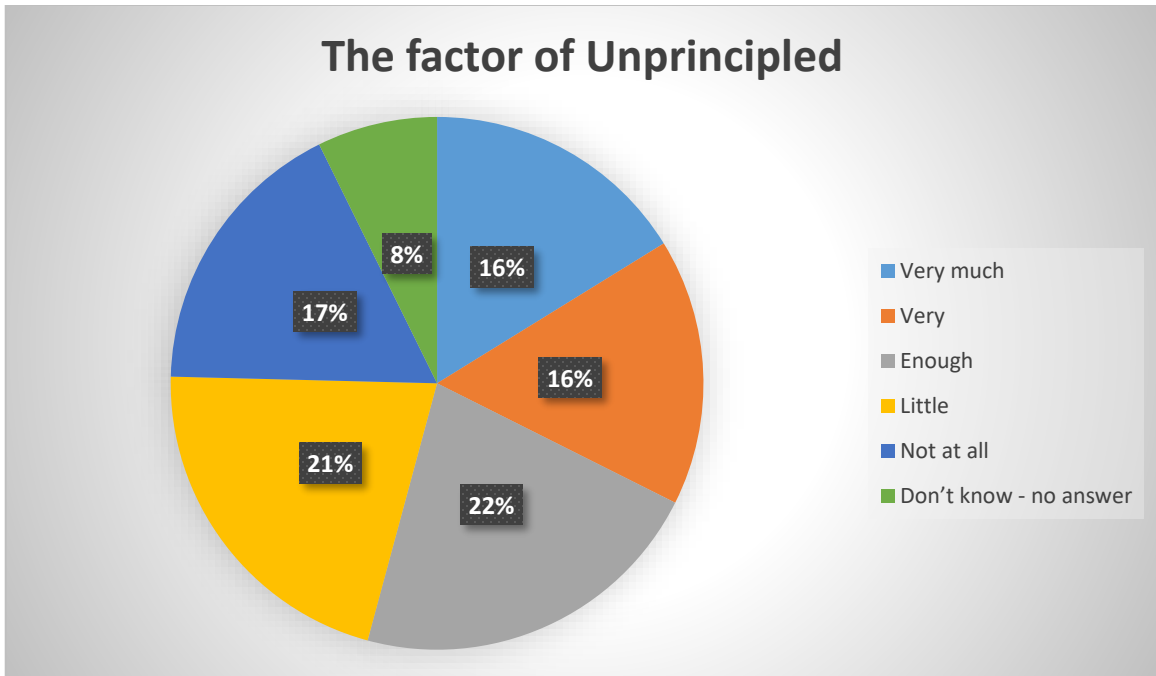


Diagram 5.17 The factor of being an unprincipled entrepreneur

5.5.7. Existence of vision

The existence of vision is, apparently, the most important of all factors, since respondents attribute to it the greatest, in comparative percentage terms, importance, with 76.5 percent saying that it is a “very much” important factor for entrepreneurial success, rating it even higher than the versatility factor, which in the corresponding “very much important” category gets a 68.4 percent importance rating. The following diagram presents a percentage breakdown of the responses regarding the existence of vision.

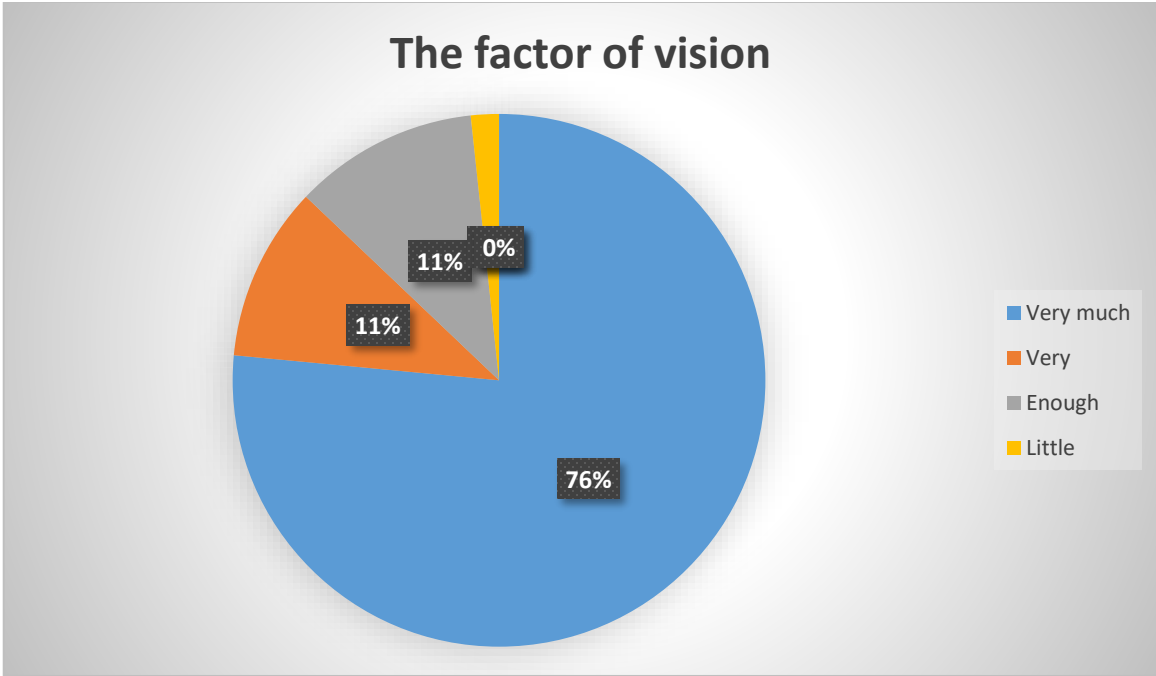


Diagram 5.18 The vision factor

5.5.8. Flexibility

The flexibility factor is also considered to be “very much” important since this option captures 51.4 percent of responses, and “very” important, with 31.3 percent. Moreover, 13.4 percent of respondents say that flexibility is “fairly” important, and only 2.2 percent say that it is “a little” important.

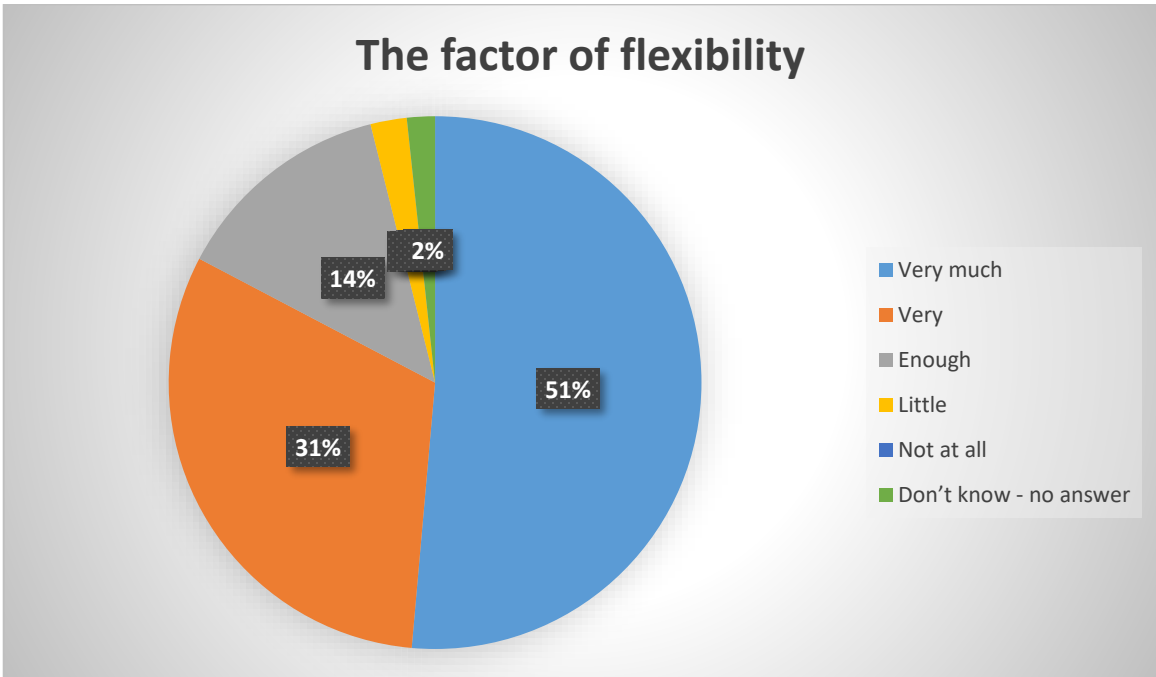


Diagram 5.19 The flexibility factor

5.5.9. Creativity

Finally, a further factor to be examined in this research –as regards the factors of an enterprise's success and how young people perceive of them– is creativity. In other words, whether being creative and fond of creating new things is conducive to the success of a business venture.

As evident in the participants' responses, the creativity factor is also considered to be an important business factor, as 67 percent said that it is “very much” important for an entrepreneur's success. Moreover, 24 percent said that it is a “very” important factor, and 8.9 percent said that it is a “fairly” important factor for succeeding in business. It is indeed telling that no one chose the other answers to this question, i.e. “a little” and “not at all” important, and no one chose the “don't know/no answer” option, demonstrating that young people are conscious of the creativity factor.

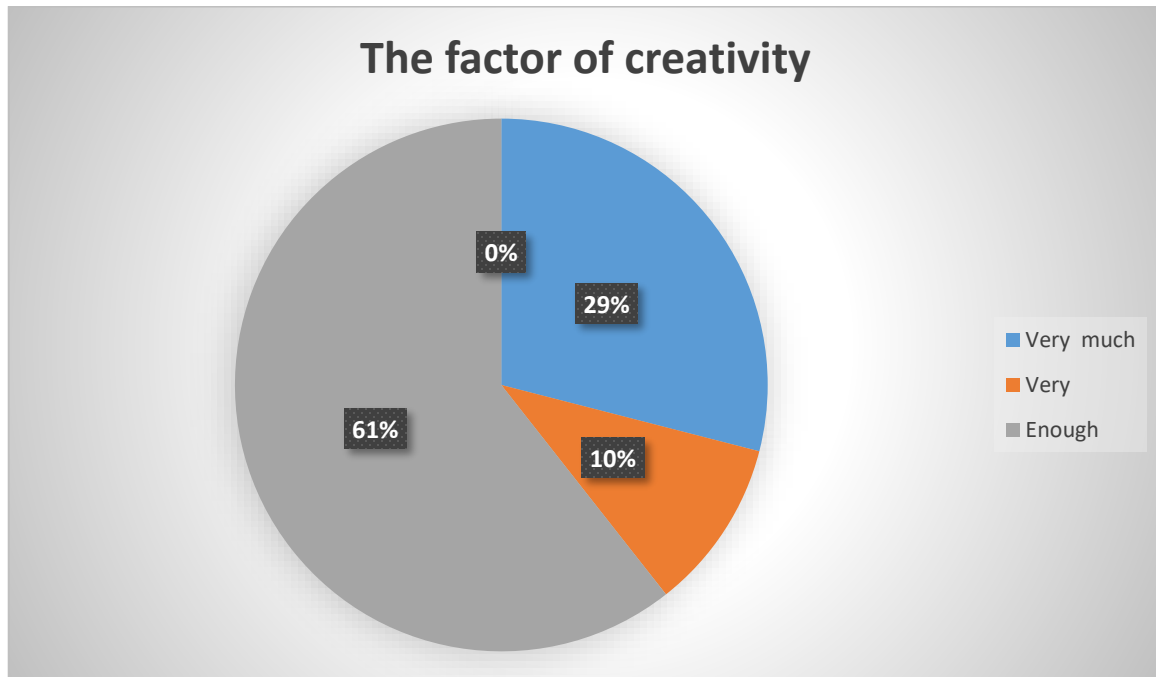


Diagram 5.20 The creativity factor

5.6. Business activity hesitations

This section of the analysis explores the obstacles to the young people's entrepreneurial activity, focusing on the following three deterrents: a) the unstable economic environment; b) bureaucracy; and c) the establishment and collusion. At this point, though, it is important to make clear that these questions are different from the previous questions regarding the external factors (e.g. political, economic, etc.), because they represent a different research

and interpretation subject. At this stage we do not interested in whether these factors are conducive to the creation of a business, but whether these factors make young people hesitate to do business.

As regards the unstable economic environment, the question was: “Would you hesitate to do business because 'The economic environment is unstable?’” This question shows that young people apparently hesitate to do business because of the unstable economic environment. More specifically, 48.6 percent say “I agree” and 14 percent say “I strongly agree.” Another 24 percent is neutral since they “neither disagree, nor agree.” In contrast, 8.4 percent apparently wouldn't hesitate to do business because of the unstable economic environment, since they “disagree.” Moreover, 2.8 percent “strongly disagree.”

Young people seem to be very concerned with bureaucracy, According to data from this research, 29.3 percent “agree” that bureaucracy is a deterrent for doing business, while 9.2 percent say “I strongly agree.” Moreover, 25.9 percent “neither disagree, nor agree”, while 27.6 percent “disagree” that bureaucracy is a deterrent to business activity. Finally, 6.9 percent “strongly disagree.”

As far as the establishment and collusion are concerned, a large percentage of young people believe that it is a major deterrent. More specifically, based on the responses, 33.5 percent “agree” that the establishment and collusion are deterrents to business activity, while 10.6 percent “strongly agree.”

5.7. Business Support

One of the issues that concern young people as regards their business activity is whether they will have any support, of what type, and by whom. Although a substantial portion of young people –as demonstrated below– have an, at least, elementary knowledge of how to draft a business plan, support, at least at the early or planning stages of a business, is a major help for young people. This research divides business support into the following four pillars: a) design, b) operation, c) human resources, and d) financing.

5.7.1. The design of a business

For the purposes of this research, the term “design of a business” denotes: The process of preparing a business plan. More specifically, the study of all those parameters that need to be taken into account in order to properly design the business. The issues that emerge at the design stage include, for example, the preparation of a feasibility study, operating costs, risk-taking, the drafting of a marketing and promotion strategy, and competitive trends.

The question is put as follows: “In order to create your own business, would you like any support at the design stage?” Here, 89.4 percent answered “yes” and 10.6 percent answered “no”.

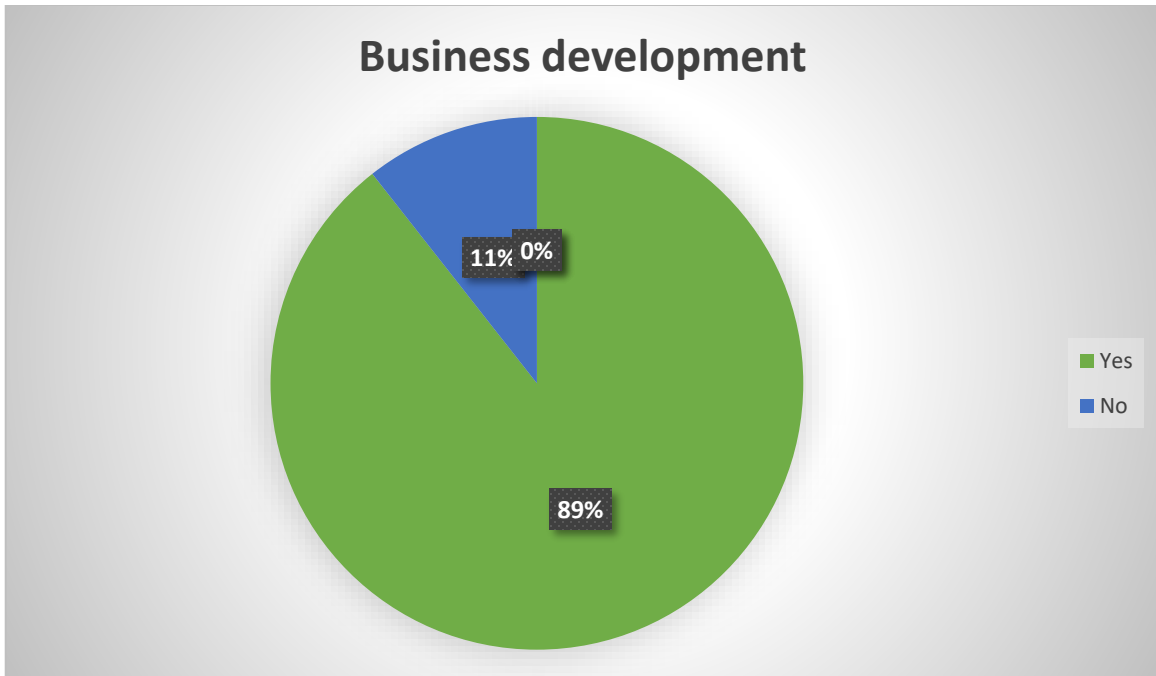


Diagram 5.21 Need of support for preparing a Business Plan

5.7.2. The operation of a business

For the purposes of this research the term “operation” of a business denotes its productive, commercial, as well as economic operation. Of course, there are also secondary operations, such as the new technologies and innovations operation; nonetheless, we emphasise on the first three operating features, as they were explained to the participants to this research. More specifically, the productive operation of a business concerns the production of goods or services. The appropriate production process is applied depending on the item that is being produced, and must also be based on the existing resources of the business. The commercial operation of the business refers to various sub-sectors, such as the distribution procedure. After all, the development of distribution networks is one of the most crucial parts of a business that actually has such a section. Commercial operation also includes the promotion procedures, research on consumer behaviour, and the relationships with the sellers and resellers of the goods or services. The economic operation mostly concerns the proper utilisation of capital, investments, and dealing with statutory and taxation obligations.

When asked whether they would like any support in regard to the operation of the business they would like to create, 76.5 percent gave an affirmative and 23.5 percent gave a negative response.

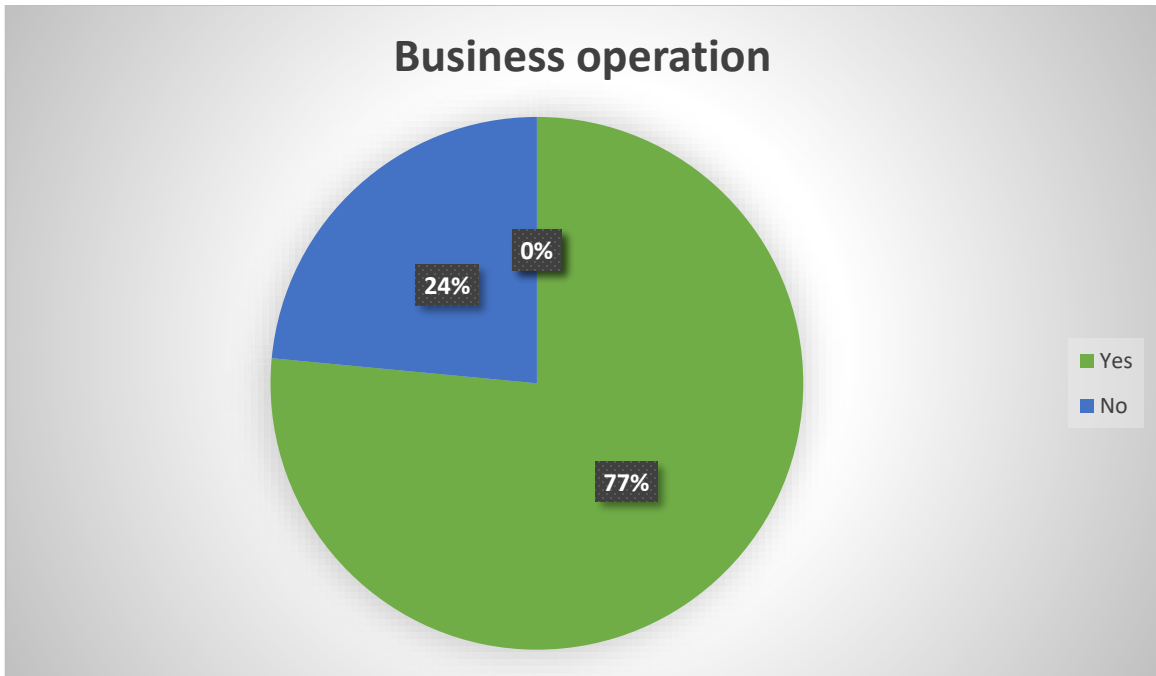


Diagram 5.22 Need for support in regard to the operation of a business

5.7.3. Human Resources

Another element that is examined here, as regards the inclination to seek support, is that of human resources and, in particular, the appropriate human resources. The question was put as follows: “In order to create your own business, would you like any support for finding the appropriate personnel?” Here, 67 percent answered “yes” and 33 percent answered “no.”

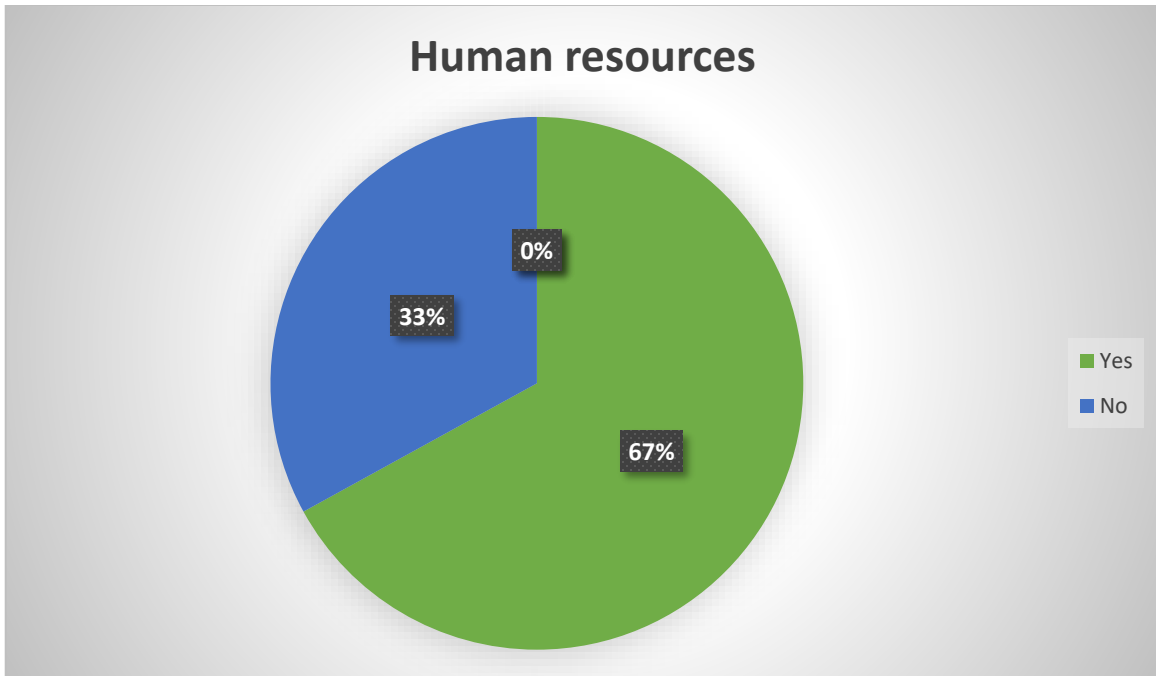


Diagram 5.23 Need for support in finding human resources

5.7.4. Financing

The provision of support in order to find financing sources is one of the most central issues of concern for young people, as regards their business activity. It is probably the number one consideration that influences their decisions. This is evident in the large percentage (91.6%) of those who responded that they need support in order to find financing for creating their own business.

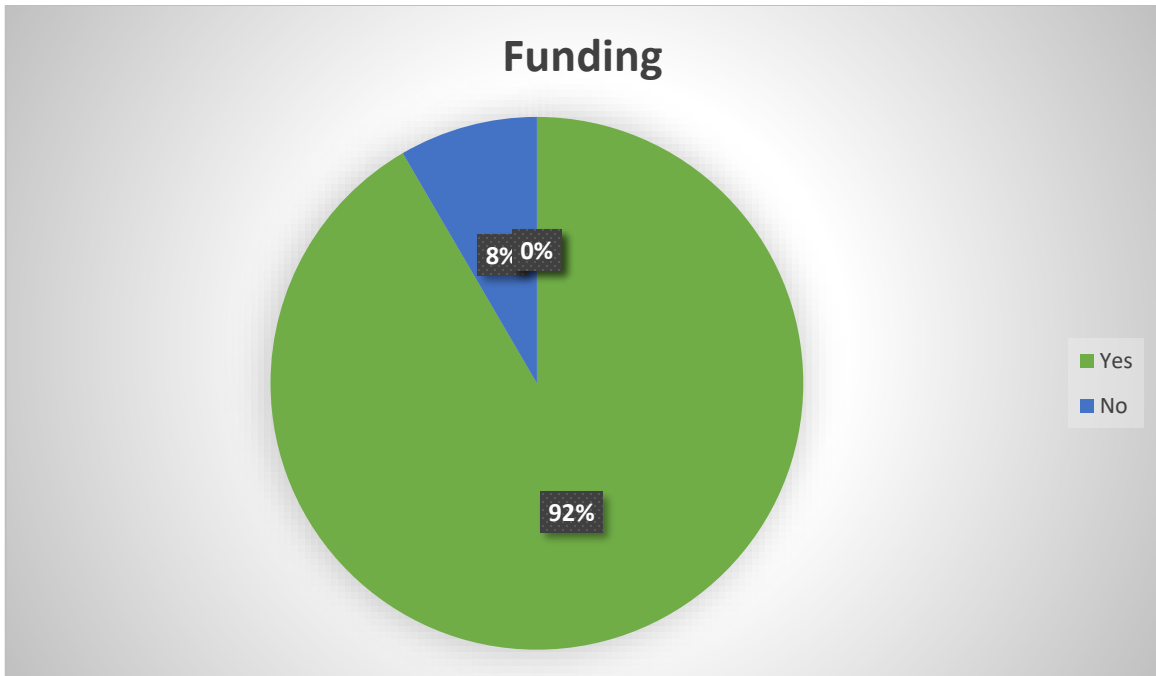


Diagram 5.24 Need for support in finding financing

This question is linked to the next one, about whether the respondents would be interested in collaborating with a private agency that would undertake the preparation of their business proposal, in order to obtain financing (e.g. preparation of applications for the Young Entrepreneurship programme). These are usually application with multiple parts, which –in most cases– require specialised knowledge in many fields, for example, accounting data, architectural plans, marketing design, preparation of feasibility study, explanation of technical terms etc. Therefore, on the basis of this logic, in most cases young people look for specialised agencies or freelance specialists to prepare these financing applications. The same applies to banks, i.e. the preparation of borrowing applications, although banks maintain their own support departments.

5.8. Readiness to set up a business

This section presents the analyses of questions pertaining to the extent to which a young person is ready to set up a business. More specifically, the data under review include: whether young people believe that it is easy to set up a business; whether they believe that they are ready to set up a viable business; and whether they are aware of how to develop a business plan, of the chances of successfully setting up and business, and of the difficulty or ease of maintaining a business.

As regards the first item of this section, i.e. whether young people believe that it would be easy to set up a business, they appear to be sceptical. A significant portion of almost 35.8 percent “neither disagree, nor agree”, in other words do not believe that it is easy, but

neither they believe that it is difficult. Correspondingly, 27.9 percent “agree” that it is easy, while 24percent “disagree.”

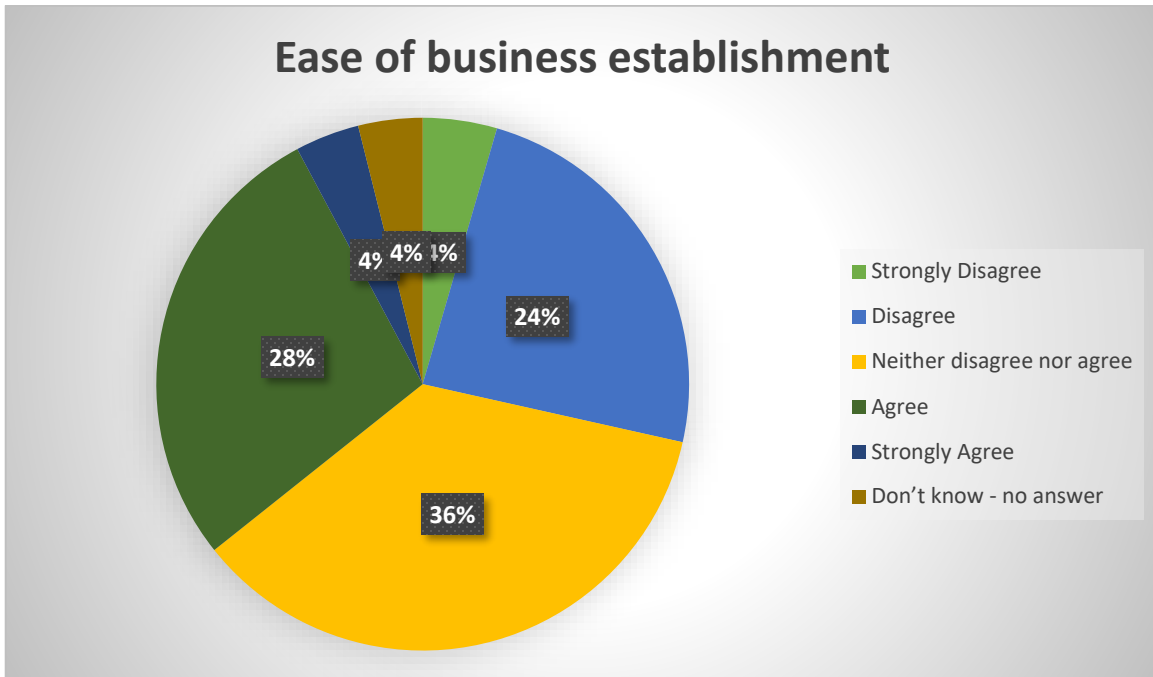


Diagram 5.25 Readiness to set up a business

The question on whether they believe that young people are ready to set up a viable business emphasises on the concept of being “viable” and, therefore, its conceptual interpretation was previously explained to the respondents. Some of the features of viable enterprises, especially small and medium-sized ones, can be classified as follows:

1. Features that emphasise on the openness of a business, for example the development of consumer relations, as well as the focus on export trade, whenever, of course this is applicable and supported by the type of goods and services offered by the business.
2. Features that emphasise on the development of added value, i.e. added value per employee, in order to ensure the viability of the production stage.
3. Manufacturing is one of the most rapidly growing sectors in Cyprus. It is deemed to be a viable sector to select and invest in, since its risk is clearly lower as compared with services. A key feature in this case is that both large-scale and small-scale industry are in constant need of raw materials, which are processed by the manufacturing sector.
4. Innovation is a key element of a viable enterprise. That said, innovation is not a singular concept, since it pertains to all the processes of developing a business, from the design stage to the production and consumption stages. At this stage of this research and as part of the specific questionnaire, the term “innovation” denotes the production of smart and

alternative ideas as regards goods or services, as well as the development of innovative processes within the various sections and stages of the enterprise.

5. Finally, another key innovative feature, which was explained to participants prior to completing the questionnaire, is involvement in productive B2B networks and partnerships with larger enterprises, i.e. whether young entrepreneurs are prepared –within the context of a viable business– to develop such networks of collaboration in order to facilitate the viable growth of their enterprise.

In essence, therefore, the participants responded to this question on the basis of the explanation they were given in regard to the concept of setting up a viable business and on the basis of what characteristics. There is, of course, a portion of the participants who, owing to their educational profile, are more familiar with the concept of viability.

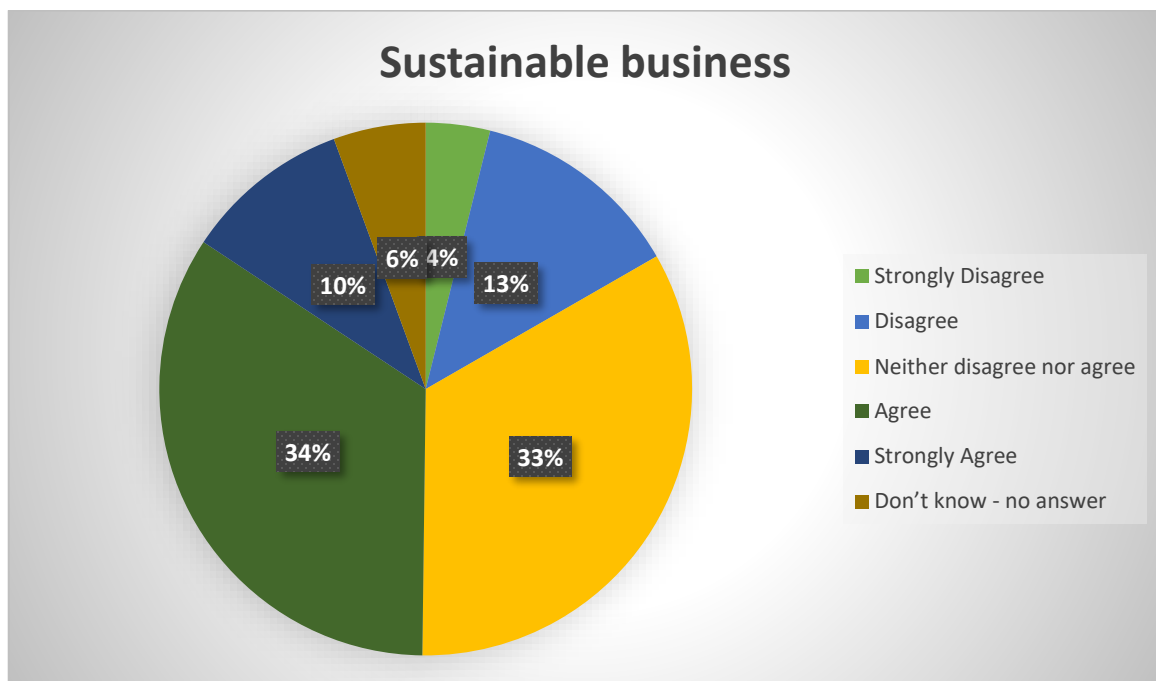


Diagram 5.26 Readiness to set up a sustainable business

As shown in the above diagram, 34.1 percent “agree” that they are ready to set up a viable business, while 10.1 percent “strongly agree.” The percentage of those who “disagree” that they are ready is noticeably smaller at 12.8 percent, while 3.9 percent “strongly disagree.” On the other hand, a substantial portion of almost 33.5 percent “neither disagree, nor agree”, demonstrating that a –potentially– significant portion of the participants has no clear view of the concept of a viable business. Moreover, 5.6 percent responded by “don’t know/no answer.”

The next question is about whether they know how to develop a business plan. In this case, 34.5 percent responded that they “agree”, i.e. they know how to develop a business plan, while 18.1 percent “disagree”. A neutral stance is maintained by 26.6 percent, who stated

that they “neither disagree, nor agree.” Finally, 11.3 percent “strongly agree” and 2.8 percent “strongly disagree.”

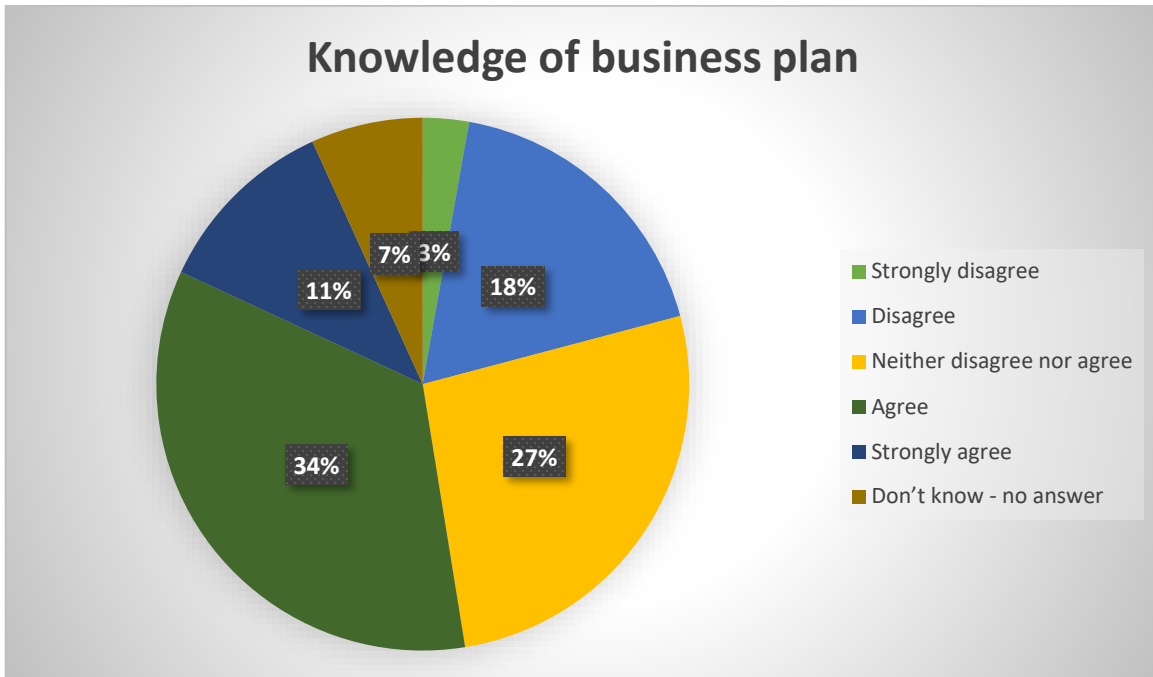


Diagram 5.27 Knowledge about how to develop a business plan

As regards the question: “If you tried to set up a business, do you believe that you would have a great possibility to succeed?”, responses reflect the readiness and optimism/confidence of the majority of young people that the business they will set up has a great possibility of success. More specifically, almost 49.2 percent gave an affirmative response, i.e. they “agree” that if they tried to set up a business they would have a great possibility to succeed, while 11.2 percent “strongly agree.” Moreover, 33 percent “neither disagree, nor agree”, while only 1.7 percent “disagree.” It is, indeed, telling that no one said that they strongly disagree.

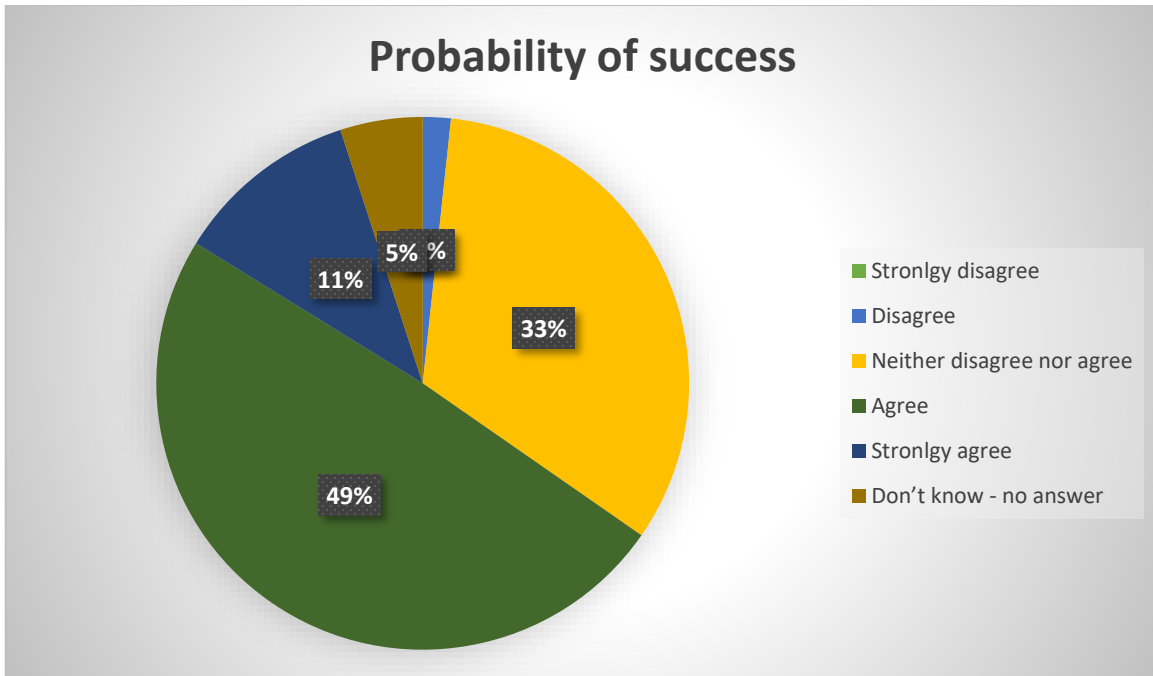


Diagram 5.28 Possibility of business success

Finally, this section examines whether the participants believe that it would be easy for them to maintain a business. More specifically, the question was put as follows: “Do you believe that it would be easy for you to keep a business?” This question emphasises on “keeping”, i.e. whether the young people who contemplate doing business actually believe that they can, in other words they are capable of, successfully keeping and sustaining –on all counts– their business. This is, of course, a general question, albeit its place in the overall sequence matters precisely because it is preceded, and followed, by targeted questions, and because it lays the groundwork for investigating the readiness of young people who contemplate their possible involvement in business, as regards maintaining the hypothetical enterprise.

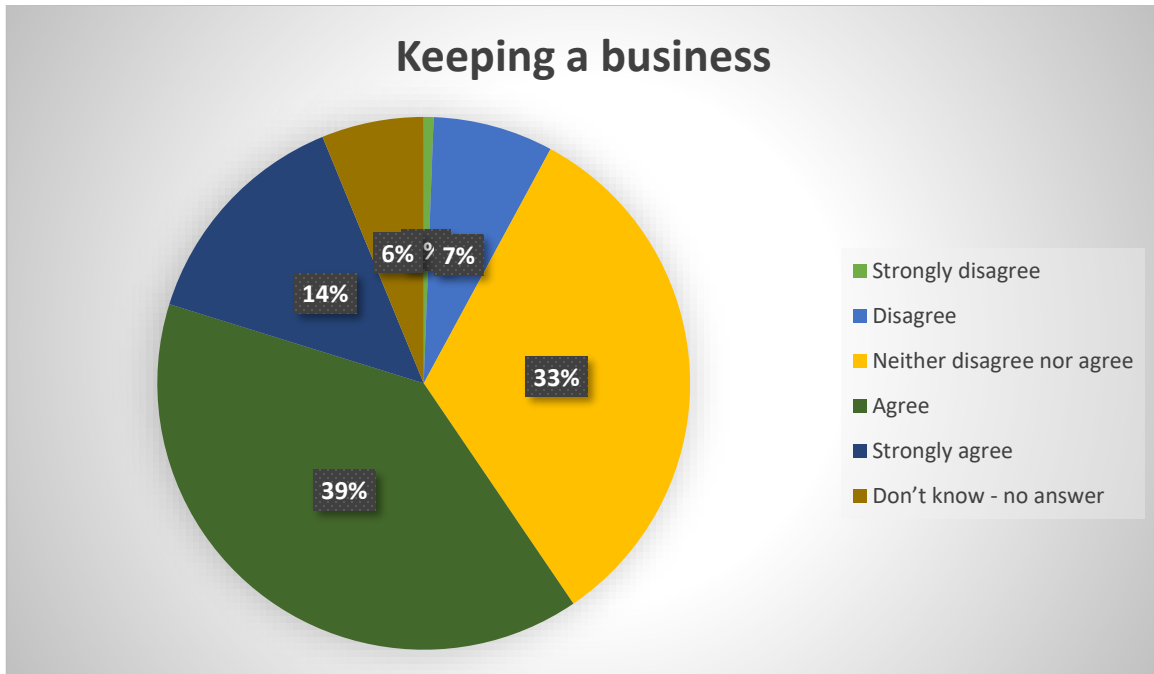


Diagram 5.29 Easy/difficulty of maintaining a business

As shown in the above diagram, based on the answers provided by the respondents, 39.3 percent “agree” that it would be easy to maintain a business, while 14 percent “strongly agree” that it would be easy to maintain a business. Negative answers draw small percentages. More specifically, 7.3 percent said that they “disagree” that it would be easy for them to maintain a business, while a very small percentage (0.6%) answered that they “strongly disagree.” A large percentage of people, more specifically 32.6 percent, took a neutral stance of “neither disagree, nor agree” in this question as well. Almost 6.2 percent responded “don’t know/no answer.”

5.9. Abilities

This section examines and analyses the ability factors that potentially affect and influence the young people who consider doing business. That is to say, it discusses whether young people believe that they possess certain abilities required for becoming entrepreneurs.

The first factor is the ability to recognise business opportunities to the extent required for becoming an entrepreneur. The recognition of business opportunities is one of the major tactics deployed mainly for identifying the positioning of one's enterprise within the market, versus, or in comparison to, one's competitors. The second factor is creativity and, more specifically, whether they believe they are creative enough to become entrepreneurs. The creativity factor was also discussed above, albeit under the lens of its importance and not as an ability factor; that said, it is extensively discussed in the section on comparative analysis. The third factor is related to the problem-solving ability, i.e. the extent to which someone is able to satisfactorily handle any problem that may arise within the enterprise. The fourth factor is the leadership and communication ability required for becoming an

entrepreneur. In other words, to what extent can someone properly lead a business and to what extent they can communicate on various levels, for example within the team, and solve communication disputes. The fifth factor is the ability to develop new products and services to the extent required for becoming an entrepreneur. The sixth factor is related to the ability of collaborating/networking with other individuals or agencies, i.e. being able to collaborate for the sake of the business and build such collaboration networks on various levels of the enterprise. The final question is about the respondents' beliefs on who is more capable of becoming entrepreneurs, men or women; this question can point to wider institutional issues, such as, for example, the cultural issue.

5.9.1. Ability to recognise business opportunities

When asked whether they believe they possess the ability to recognise business opportunities to the extent required for becoming entrepreneurs, the majority of respondents gave an affirmative reply, since 41.3 percent said that they “agree” and 14 percent said that they “strongly agree” that they are capable of recognising business opportunities. Almost 33.5 percent said that they “neither disagree, nor agree”, while negative answers got low ratings, as illustrated in the following diagram.

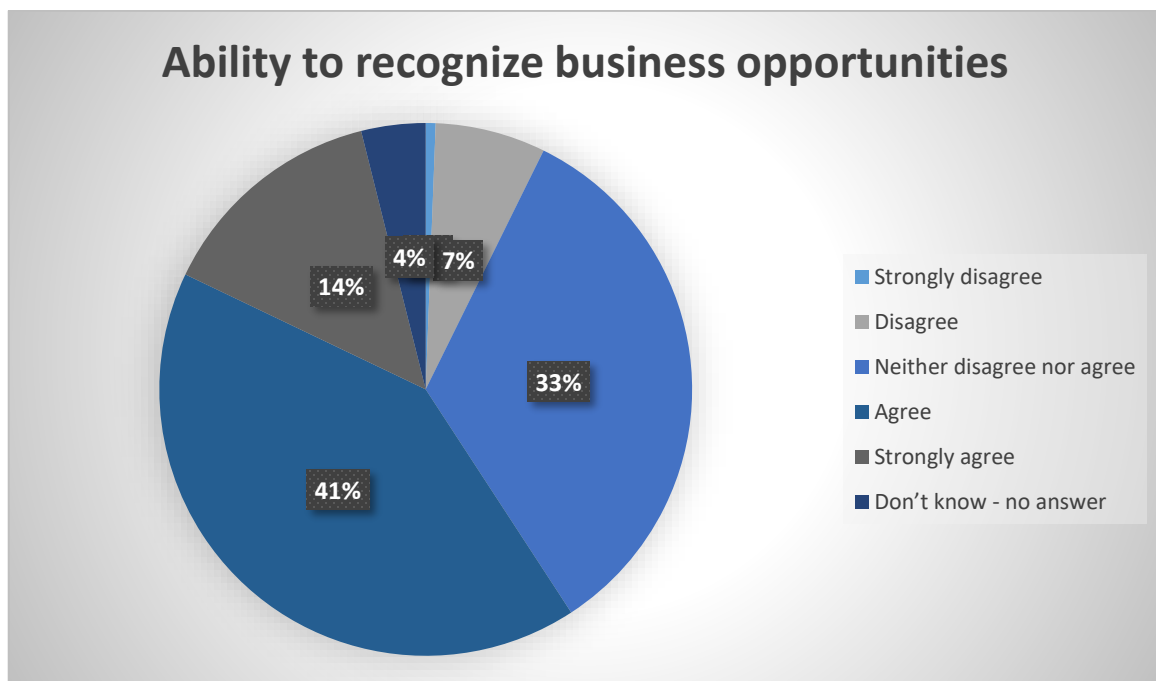


Diagram 5.30 Ability to recognise business opportunities

5.9.2. Creative ability

As regards the question “do you believe that you are creative enough to become an entrepreneur”, affirmative responses got even higher percentages than in the previous question. More specifically, 50.6 percent say they “agree” that they are creative and 23.9 percent say they “strongly agree.” “Neither disagree, nor agree” was chosen by 19.9 percent, while negative responses got very low percentages.

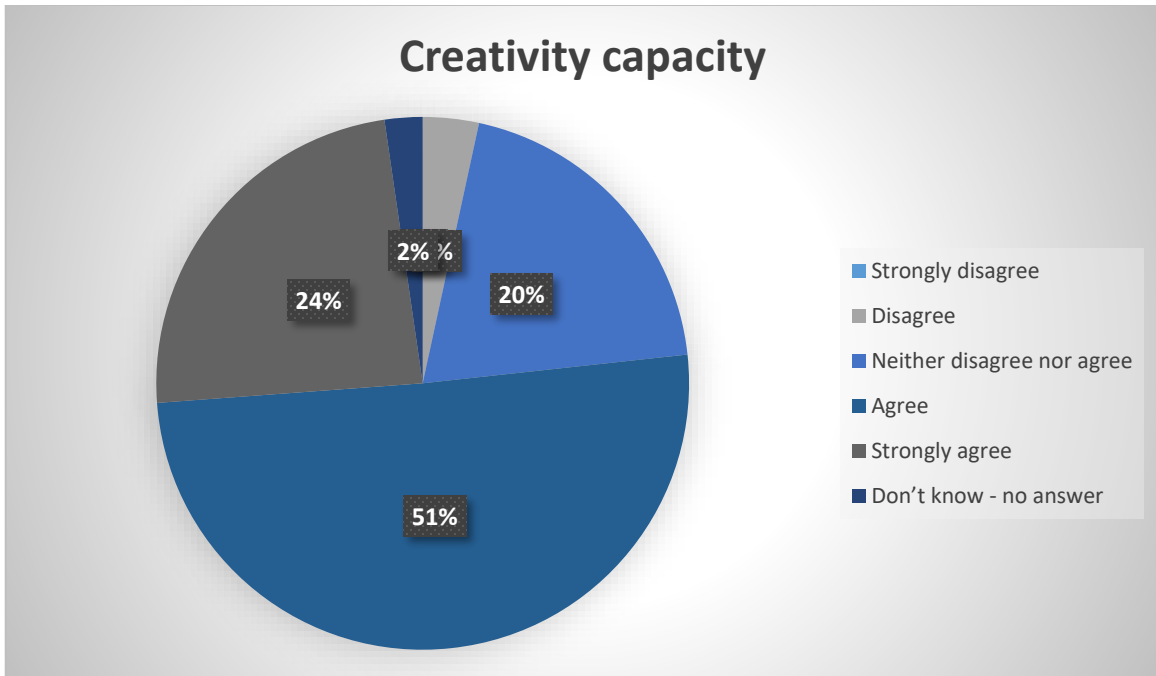


Diagram 5.31 Creative ability

5.9.3. Problem-solving ability

An interesting ability factor is problem-solving, and the findings of this research show that young people are self-confident, trust their judgement and knowledge, and believe that they possess this ability. This is demonstrated by the percentages. More specifically, 48.3 percent “agree” that they possess a problem-solving ability to the extent required for becoming entrepreneurs while 22.5 percent “strongly agree” that they possess this ability. “Neither disagree, nor agree” was chosen by 25.3 percent, while negative responses got very low percentages.

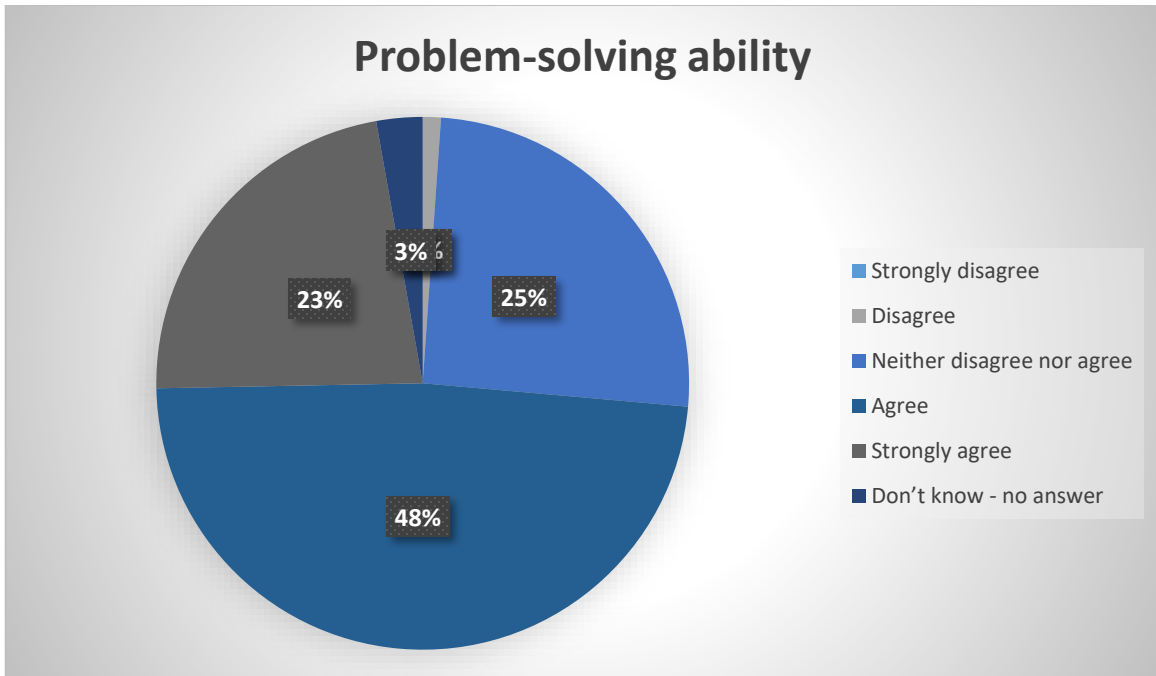


Diagram 5.32 Problem-solving ability

5.9.4. Leadership and communication ability

The leadership and communication ability is one of the most central issues that a young person who contemplates doing business should address from the very beginning. This because leadership abilities determine and influence other factors, such as the problem-management and problem-solving factor that was discussed above. The leadership and communication factor interacts with other factors, as discussed in one of the following chapters.

As regards the trends pertaining to the leadership and communication ability, the responses show that 57.9 percent “agree” that they possess leadership and communication abilities to the extent required for becoming entrepreneurs, while 23.6 percent “strongly agree” with this statement. These percentages demonstrate the young-people strong self-confidence as regards their leadership abilities. Almost 11.8 percent “neither disagree, nor agree.”

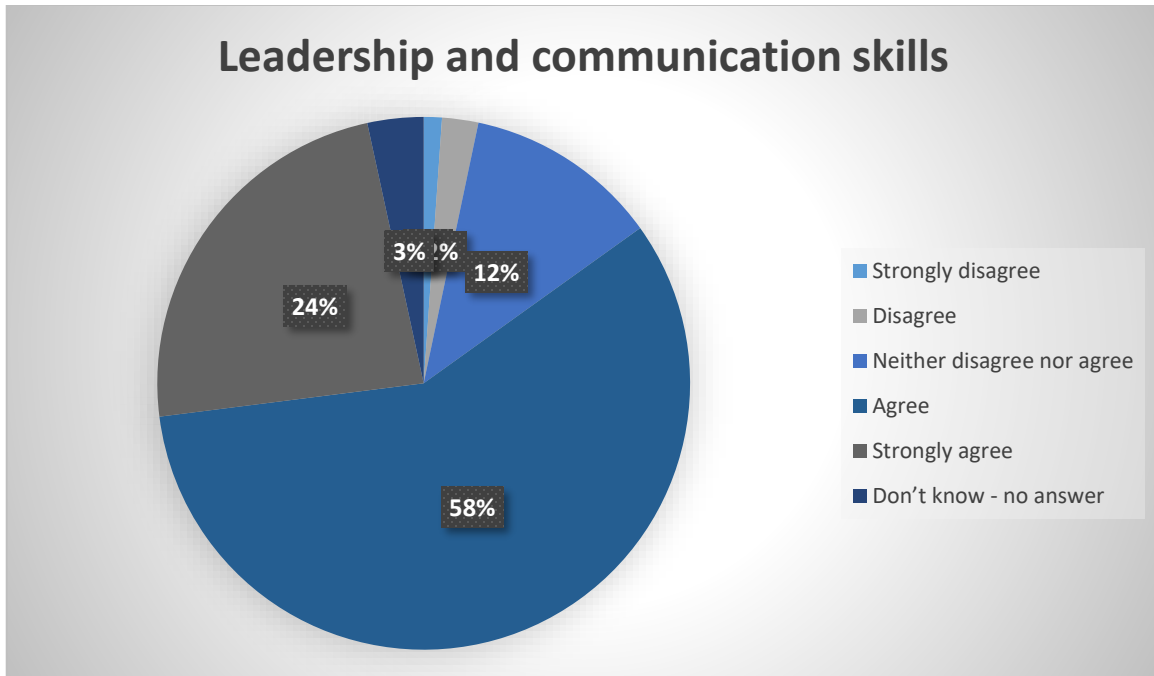


Diagram 5.33 Leadership and communication ability

5.9.5. Ability to develop new products and services

As stated above, the development of new products and services is one of the basic procedures of the production stage. The development of a new product or service requires, first and foremost, proper design and planning, on the basis of a strategy that takes into account various parameters, such as competition and consumer behaviour. Therefore, the participants who responded to this question are aware of these basic facts in order to understand the development of new products and services.

Based on the findings of the research, 40.3 percent “agree” that they are able to develop new products and services to the extent required for becoming entrepreneurs, and 15.9 percent “strongly agree.” Moreover, 33 percent “neither disagree, nor agree.” Negative responses were given by 5.7 percent who “disagree” that they possess this ability and 1.1 percent who “strongly disagree.” Finally, 4 percent responded by “don’t know/no answer.” The relevant diagram is presented below.

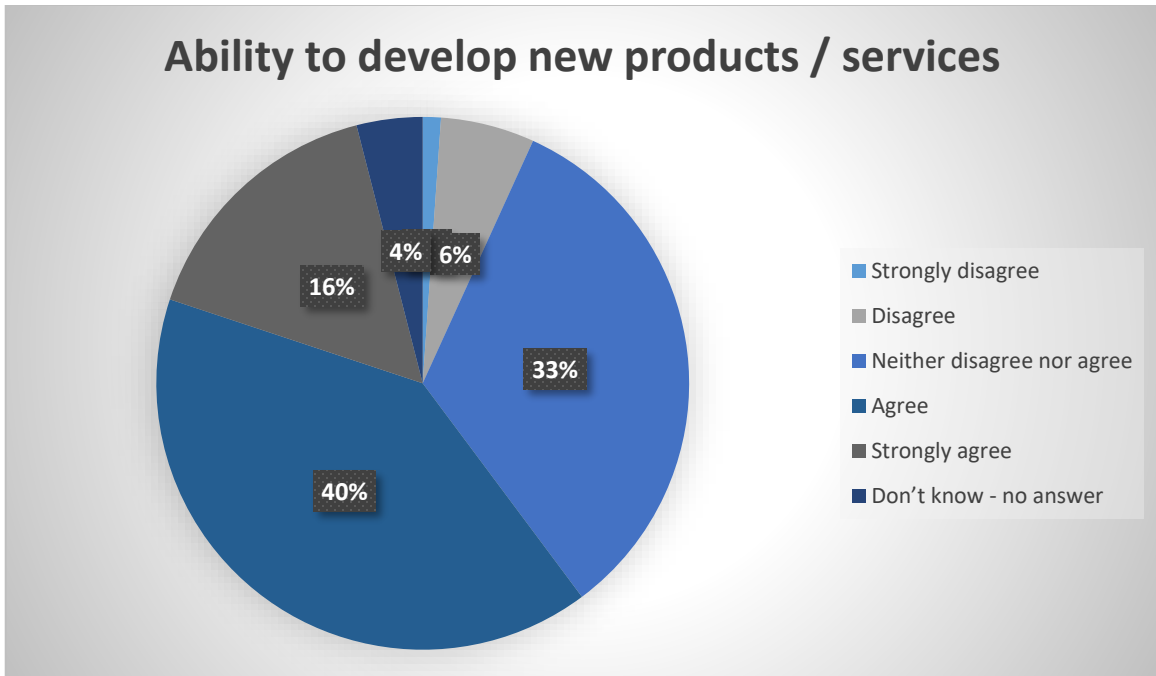


Diagram 5.34 Ability to develop new products and services

5.9.6. Collaboration/networking ability

Another ability factor that is examined as part of this research, is the one pertaining to collaboration and networking. According to the responses given to this research, 52.8 percent give an affirmative answer, i.e. agree that they possess abilities for collaborating/networking with other individuals and agencies to the extent required for becoming entrepreneurs. Moreover, an equally significant 18.5 percent “strongly agree” that they possess this ability. A further 16.9 percent gave a neutral response, i.e. they “neither disagree, nor agree.” Negative responses were given by 7.9 percent who “disagree” that they possess this ability, while 0.6 percent “strongly disagree” and 3.4 percent responded by “don’t know/no answer.”

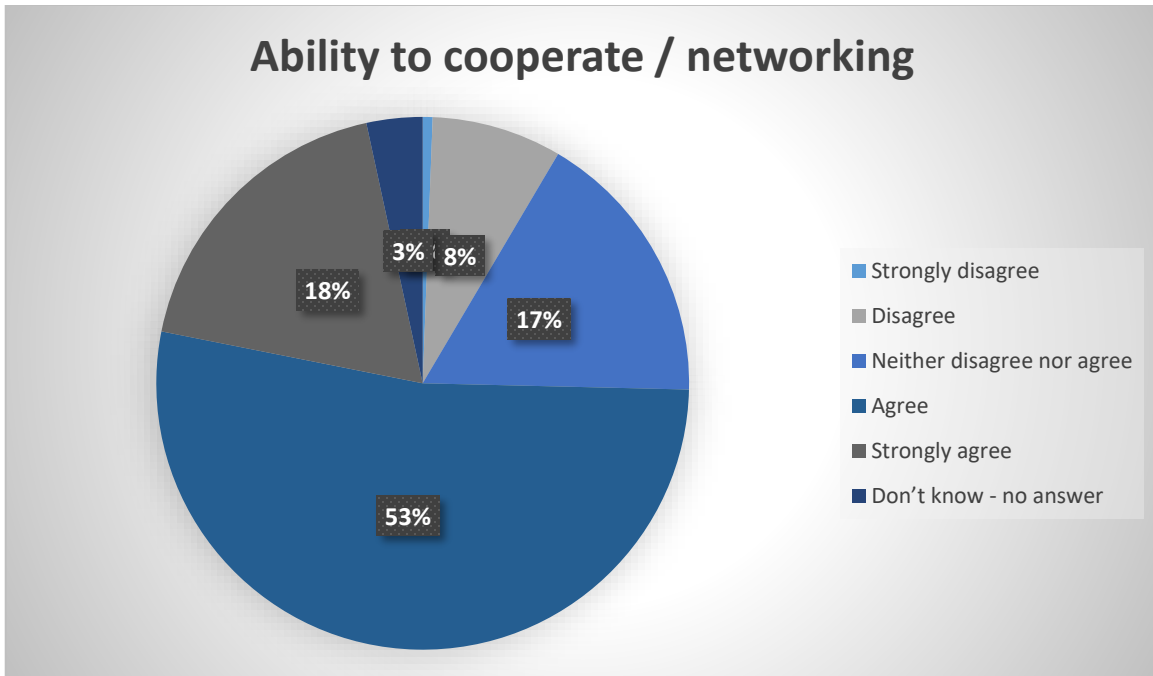


Diagram 5.35 Collaboration/networking ability

5.9.7. Male/female ability

The final question of this questionnaire is about the ability of men/women. More specifically, the question was put as follows: “Who do you believe are most capable of becoming entrepreneurs, men or women?” Based on the responses, 74.2 percent believe that men and women are equally capable of becoming entrepreneurs. Moreover, 14 percent believe that men are “probably more” capable, while 5.6 percent believe that women are “probably more” capable. A small percentage of 2.2 percent said that men are “definitely more” capable, matched by a corresponding 2.2 percent who said that women are “definitely more” capable.

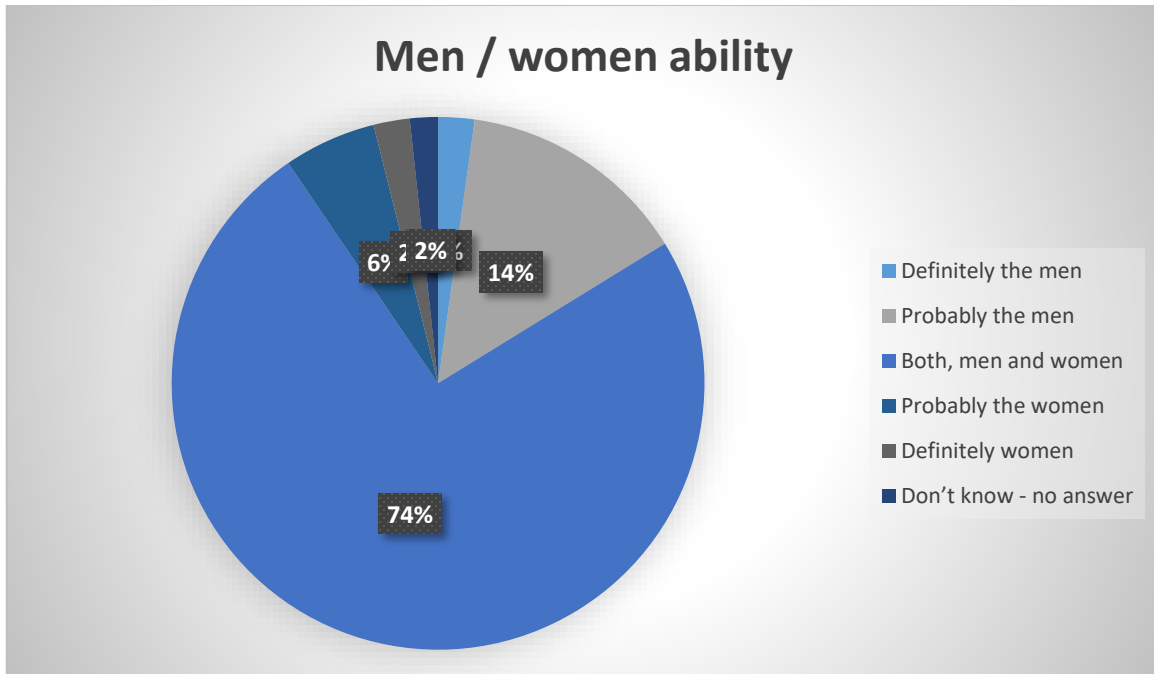


Diagram 5.36 Ability by sex

5.10. Comparative analysis and discussion of the above factors of the questionnaire on young entrepreneurship: The issues that arise

This section is an attempt to a comparative analysis-discussion of the factors analysed above, as part of the questionnaire on young entrepreneurship. A comparative approach will help better understand the correlations among the responses that were given and are analysed above, as well as how these items interact with each other.

First, there will be no further discussion of the demographics (section 5.1), since the subject was exhaustively analysed in the beginning of this chapter, as well as in the methodology chapter. We should simply stress, once again, that demographics are important to this research –not only to the findings of this chapter, but also of the following ones– since it focuses on certain target groups in order to extract results and reach conclusions.

Section 5.2 presents an analysis of the results pertaining to the young people's preferences for employment in the public and private sectors (as employees) or as freelance professionals (own business or self-employment). We can observe some interesting correlations here. Although we can see that a significant portion of young people choose the public sector, since they consider it to be the safest solution, their percentage is not substantially different from that of those who choose the private sector, which rates equally high in the young people's preferences. What is very interesting here, however, is that the freelance professional/entrepreneur option gets the highest percentage among the young people's preferences, exceeding even the public sector option, which is considered to be a safe choice. Young people seem to prefer being freelance professionals or setting up their

own business. There are, of course, certain statistics that should be taken into consideration. Whereas in category 4 (maximum appeal) the freelance professional/entrepreneur option gets a 53.5 percent and the government employee option gets a 22.8 percent, in category 3, which is one step below maximum appeal, the freelance professional/entrepreneur option gets a 24.8 percent and the government employee option gets a 37.3 percent. On one hand, this does not lead to safe conclusions. On the other hand, we can infer that those who go for category 4, i.e. maximum appeal, are the most conscious of their preference and thus provide a more coherent and decisive response, in contrast with other categories (1, 2, 3), where there may be a shift in preferences along the way. For example, it is easier for someone to move from preference category 3 to preference category 2 or 4, than it is for someone to move from category 4, i.e. maximum appeal, to category 2. This, of course, is theoretical. In practice, there are various factors that influence a person's professional career.

However, the discussion about the young people's preference is also interesting on the institutional level. Whereas we would expect that the public sector option would be the superior one, also because of the peculiar characteristics of the Cypriot society (a traditional society that made a social investment on public administration by resorting to party apparatuses and favouritism), an emerging trend is for young people to more clearly perceive of the new social conditions and understand that their professional career is a serious issue, which is not any more considered within the narrow context of their traditional family environment.

Section 5.3 is an analysis of the difficulty of setting up a business. We can see clearly that young people understand the meaning of time. In other words, the meaning of short-term, medium-term, and long-term planning, as well as how time can influence situations, perceptions, and even their own preparedness to do business. After all, the questions were not asked in a random manner, since we wished to demonstrate the importance of the young people's understanding of –at least– basic concepts. This also demonstrates the significant practical problems that exist. For example, the limited knowledge about the details of the young and female entrepreneurship programme, or other financing programmes. In effect, limited knowledge about the practical procedures required for setting up a business leads to difficulty in setting up a business, especially if young people have no other support. This is demonstrated by the question on whether “you are aware of the practical details of setting up your own business.” The issue of institutional, or other, support will be discussed below and was also analysed through this questionnaire, and we have already seen the trends on whether young people seek support in various areas while setting up a business.

Section 5.4 is very important, since it examines the external factors that influence the decisions and, in general, the perceptions of young people regarding their business activity. As stated in section 5.4, and, moreover, as analysed in the methodology chapter, the design of external factors was based on the PESTEL approach, albeit without utilising all of its elements, since the questionnaire of this survey was based on only four of the six axes, and, more specifically, on political (P), social (S), cultural (C) and economic (E) factors.

Analysing the macro-environment (the focus of the PESTEL approach) is, after all, important, since this environment not only offers the tools and mechanisms for the creating of a new or start-up business, but also has a positive or negative contribution to the survival of a business. As argued by Johnson, Scholes, and Whittington (2009), the PESTEL approach provides the researcher and the entrepreneur-analyst with a global perspective, since the key drivers help us focus on whatever is important and, finally, the scenarios utilise the external drivers in order to explore the various ways in which the macro-environment may change. In our research, the PESTEL approach is not used to highlight future business scenarios, but to analyse the perceptions of young people in regard to entrepreneurship. For example, Minh and Hjortsø (2015) examine something more similar to this research, since they look into the institutions' impact on small and medium-sized enterprises (SMEs) and, more specifically, how the institutional environment influences the development of innovation and networking practices, which is discussed in the following chapter that analyses entrepreneurship under the prism of the businesses themselves, of the way these businesses perceive of entrepreneurship, and of the strategies they pursue for developing business models that entail innovation e.g. differentiation strategies etc.

Here, we can see that the young people understand whether the wider environment in which they live and grow, is conducive or not to their business choices and to what extent. In other words, this is an outline of their beliefs, based on the environment they live in.

The following issues arise as regards this parameter: the political environment seems to draw the bulk of negative responses, as the majority of young people believe that this political environment is not conducive to their professional and business development. That said, we have to delve a bit into the meaning of the term “political environment.” This term denotes the overall quality of the political environment, and not only the work of the government, although the latter is considered to have a sufficient impact –positive or negative– on the young people's perceptions. So the question arises as to whether the respondents' answers are given in the wider or the narrow sense, notwithstanding the fact that the meaning of the term “political environment” had been explained from the very beginning. As far as interpretation is concerned, of course, there is a thin line that divides the two cases, since both are related to the political institutions that are expressed through the work of the government at large, and the government of the time. Therefore, the impact on the formation of opinions about political institutions is partly, albeit to a great extent, determined by government policy.

The responses show, however, that external factors interact with each other, since there is no great difference in their percentages. The factor that gets the most negative answers is the economic factor, as 35.4 percent say that it is “not at all” conducive, and 37.6 percent say that it is “a little” conducive. This shows that the young people are aware that the crisis is not conducive to their effort to set up a business. That said, the wider economic climate of the period this research was conducted has some specific features, the most important being the banking crisis (e.g. the case of the Cooperative Bank and the merger of the “good bank” with Hellenic Bank or the various ratings assigned by international rating agencies).

All this obviously influences the respondents' perceptions of the economic factor and whether, and to what extent, this factor affects their business aspirations. Undoubtedly, banks are probably the most important economic institution, which clearly affects both the perceptions and the mood of the people.

The social and cultural parameter is more positively viewed by young people. Their majority has a positive view of the social and cultural environment and believes that it can contribute to the development of young entrepreneurship. This is a very interesting issue, since, on one hand, the economic and political situation is problematic, but, on the other hand, the social and cultural elements remain the key institutional drivers of recovery. Besides, when the issue is viewed from its institutional dimension, it would be a huge oversight not to analyse it from both its social and cultural aspects as well.

Section 5.5 is about the following nine factors that determine an enterprise's success: decisiveness, honesty, versatility, enthusiasm, risk taking, unprincipled, existence of vision, flexibility and creativity. These factors are analysed in terms of their significance for the young people's perceptions. This section begins with a more general question, more specifically: "If you did set up your own business, how confident of success would you be?" The reason for using this connecting question is, firstly, to record the general trends as regards the young people's perception of an enterprise's success and, then, to start analysing the individual factors that determine success. It should be mentioned here that all factors got high importance ratings, except for "being unprincipled", where perspectives vary. However, the existence of vision stands out, as it gets the highest importance rating in the young people's perceptions of business success. In general, young people seem to be able to understand the basic "keys" to an entrepreneur's success. They mentally distinguish, for example, "vision" from the objective or objectives of an enterprise, or understand the importance, as well as the hazardousness of risk.

Section 5.6 analyses the factors that deter young people from doing business. The deterrents that are analysed here are the following: the unstable economic environment; bureaucracy; and the establishment and collusion. When the question whether they would hesitate to do business because "The economic environment is unstable?" is compared with the question of section 5.4, on whether the economic environment in Cyprus is conducive to the creation of businesses by young people, we can see that there is coherence in the responses. That is to say, the percentages of those who respond that the economic environment is not conducive are almost equal to the percentages of those who respond that this unstable economic environment is, at the same time, a serious deterrent for most young people. Here we could also draw a parallel between the deterrent of bureaucracy with the question of section 5.4 about the political environment, since bureaucracy is a distinctively institutional problem over time, which, in connection with poor management, cannot be resolved in an effective and viable manner.

Section 5.7 deals with the issue of support to businesses. In this research, support to businesses is examined along the following axes: support as regards the design of a business; support as regards the operation of a business; support as regards finding the

appropriate human resources; and, finally, support for finding financing. The overall results of the section indicate that young people do seek support in order to be able to set up their own business. This is evident in the question on whether the respondents would be interested in collaborating with a private agency that would undertake the preparation of their business proposal in order to obtain financing (e.g. preparation of applications for the Young Entrepreneurship programme). A question that could provide us with an even clearer orientation as regards the young people's perceptions of support. More specifically, the responses to this question indicate that young people show a big to maximum interest for the possibility of such collaboration. What is, nonetheless, more clearly evident is that larger percentages of young people seek support as regards business development and finding financing, followed by support regarding the operation of the business. Young people seem to be more convinced that they can find the appropriate human resources without any support, as 33 percent said that they do not need any support in this area.

Finally, section 5.8 deals with how prepared young people are to set up their own business. The question on whether “you believe that it would be easy for you to set up a business?” provides us with interesting evidence, since there is no clear majority in any direction. The responses show that young people are thoughtful and aware of the difficulties inherent in setting up a business. However, this is not a deterrent, as almost 45.8 percent said that they “neither disagree, nor agree.” In general, the picture presented in this section points to the young people's preparedness in various areas. For example, 53.3 percent of young people say they are prepared (counting in both “I agree” and “I strongly agree” responses) to maintain a business. Or, for example, their majority believes that if they tried to set up a business, it would have a great possibility of success. However, there are also questions where the respondents appear to be more sceptical. For example, the question on whether they are prepared to create a viable enterprise. Or, for example, if they know how to develop a business plan.

That said, there are certain issues arising from the above analysis, the discussion of which is of particular interest. Such an issue is the type of business or, in general, the business philosophy a young person wishes to develop. For example, if we are talking about a start-up business, a question that arises is whether this idea actually possesses the features of an enterprise of this type, and how viable it is in the medium and long terms. The most important is whether the young people who contemplate setting up such a business are aware of its features and whether they can develop and support such a business plan. Considering that one of the key ingredients of a start-up business is innovation and the young entrepreneur's ability to design and implement strategies, both this and the following chapter analyse the subject not only from the point of view of young entrepreneurship, but also from the point of view of Cypriot-based businesses.

The following section contains a comparative analysis of the above findings *vis-a-vis* the findings obtained through the focus groups.

5.11. Analysis of Variance (ANOVA test)

According to the ANOVA statistical analysis for testing the mean values of our quantitative variables, the values do not show any problem or statistical error. More specifically, the following conditions apply:

- The quantitative variable is normally distributed in each category of the qualitative one.
- The quantitative variable is equally dispersed in all categories of the qualitative one.
- k-groups of people (k-samples) are independent

5.12. Comparative analysis *vis-a-vis* the findings of the focus groups³⁵

Interesting evidence are also extracted from the conversations conducted with the participants, through the use of the focus group method. As mentioned in the methodology chapter, multiple focus groups were conducted, with a specific number of participants who were selected by means of a screening process (each potential participant was interviewed separately).

The agenda of the conversation does not differ from the philosophy of the aforementioned questionnaire, albeit it has been adapted in a way that facilitates debate and interactivity. Therefore, the broad axes on which the conversation with the groups was conducted, are the following: direct and indirect objectives as regards the professional occupation of young people; how do young people perceive of the creation of a business and, in general, how do they picture the concept of a “business” in their own mind; whether they are aware of any practical difficulties and, in general, procedures required for setting up and creating a business; whether they already have any ideas and how innovative these ideas are; and, finally, whether the overall environment in Cyprus is conducive to this. Surely, as stated in the methodology chapter, the focus group conversations give rise to many other subjects of interest, which will be presented below, as part of a content analysis.

The first fact that was established through the focus group discussions is the reason why someone creates or wishes to create their own business. This was the opening discussion point made by the moderator, with the aim of encouraging and starting the conversation. Some of the participants said that they would like to create their own business because they do not wish to be employees and obey the orders of any superior. Others said that, although they would like to create their own business since this offers them independence and room for maneuver, at the same time they are concerned that setting up a business may be a huge risk. Risk aversion is related to the following findings of the discussion on institutional, economic and other obstacles, which may possibly prevent or hinder the creation of businesses by young people.

A common point of reference for focus group participants are the institutional and economic obstacles that exist as regards the financing of young entrepreneurship. Most young people have heard of the financing schemes, but only a small group actually got into the trouble of researching them. This is evident in the discussions conducted with the

³⁵ The focus group sessions were recorded in video and some of them have been posted on YouTube

participants. Apart from that, the majority of participants believe that there are many obstacles that prevent young people from actually getting in the process of applying for funds. As a matter of fact, a significant portion of participants think that it is a waste of time to apply for financing through a programme (e.g. the young entrepreneurship programme), since they believe that success mainly lies in the person-hours one will spend in order to create their own business.

The discussion progressed on exactly that pattern, emphasising on institutional and economic obstacles. For example, one of the points that were extensively discussed was the fact that the young entrepreneurship financing programme provided by the Republic of Cyprus through the Youth Board fails to cover actual financing requirements, as the applicants must, in practice, demonstrate that they possess the remaining 60 or 70 percent in order to be eligible for the remainder of the financial support, and thus the overall procedure becomes arduous since, according to the participants to the focus group discussions, young people are not financially independent, and the procedures for getting a bank loan are complex and difficult.

Moreover, the discussions also referred to family, as an institution that provides substantial support to the young people's business ventures. Most participants argued that those young people who enjoy financial or other (e.g. real property) support from their family, can do business more easily. Actually, participants referred to personal examples from their own experience and from the family businesses some of them own. This is exactly where a difference in perception, between those who have their own family business and those who have not, emerged. Those who do not have their own family business believe that the process of developing a business is very difficult, also expressing a fear of borrowing, failure, and bankruptcy.

A participant to these groups said that what is really necessary is capital and an idea. Moreover, certain participants referred to the use of technologies that facilitate the development of innovative business activities. In this case the participants referred to the examples of companies that are based in Cyprus and mainly operate on-line. The participants also believe that the use of new technologies can boost services and improve customer service.

When compared with the findings of the questionnaire, the findings of the focus group seem to be in agreement and point to certain issues for a more in-depth discussion. For example, the question referring to the young people's own perception of the possibility of setting up their own business in the next five years, or in the next ten years, we can clearly see the similarity between the data from the questionnaire and the data from the focus groups, and we can also see that they are consistent with each other in quantitative (questionnaire) and qualitative terms (focus groups). The young people's perceptions of entrepreneurship are the same in both methods. As regards this specific question, participants to the focus groups provide detailed explanations of exactly where their hesitation and concern for setting up their own business lies. Their main concern lies with institutional and economic factors. Institutional factors include the legal framework of

which they are probably not knowledgeable yet, the difficulty to obtain financing, and the lack of government incentives. What is, therefore, more evident in the focus group discussion is the young people's perceptions of institutions.

As regards incentives, the participants believe that the state should offer more incentives to young people who make their first entrepreneurial steps, for example, tax incentives and easier financing procedures.

The participants also referred to female entrepreneurship, since some of them did research on this specific financial assistance programme. In fact, they believe that it is important that women are targeted through this programme³⁶, since this encourages an even larger part of the population to do business through smart ideas. That said, they did not fail to refer to the difficulties of obtaining financing, since these are the same with those of the young entrepreneurship programme. Participants believe that these programmes should become more flexible. If these qualitative data obtained from the focus groups are compared with the quantitative data from the questionnaire and, in particular, the question about female entrepreneurship (“Are you aware of the 'Female Entrepreneurship' programme?”), we can see that there is indeed some relativity. In the quantitative analysis, 51.4 percent said that they are not aware of the female entrepreneurship programme, 9.5 percent said that they have simply heard of it, 13.4 percent said that they now a few things about the programme, and 25.7 percent said that they are aware of it. This matches with the qualitative findings of the focus groups, since the discussions showed that only certain participants were aware of the programme, since they actually took the trouble of researching it, while the rest of the participants were either not aware, or had simply heard, of the existence of a scheme for enhancing female entrepreneurship.

Moreover, participants do not believe that any sex is superior to the other in terms of the ability to create or lead a business. They believe that the two sexes are equal in terms of entrepreneurship and that any abilities are mainly related to the personality of each individual. Another key feature pointed out by the participants is experience.

At this point, those participants to the focus groups who said that they are aware of the female entrepreneurship programmes, were asked how they knew about it, i.e. which sources did they use to obtain information. Most participants said that initially they sought information on-line and then they turned to the official agencies for additional information about the application procedure.

Some of the participants are involved in the tourist sector through their family businesses, and this turned the discussion towards business examples from that sector. This was very interesting, since these examples helped us form an even better understanding of the characteristics of family businesses and, above all, their concern about the lifecycle of the business, and how it will be passed to the next generation. In other words, whether they will continue with the same business, upgrade it, or turn it onto something altogether new.

³⁶ See: Nearchou-Ellinas and Kountouris (2004).

In any case, they believe that the fact that the family provides them with a space (e.g. a store) is a great help for them.

A question that gave rise to a heated discussion among the participants is whether they believe that the Turkish invasion of Cyprus had an impact on the nature of entrepreneurship on the island and to what extent. Most participants believe that it had a negative impact, since the country lost territories that could be exploited by the primary sector of its economy. They were also negative in regard to the opening of the barricades, since the uneven tax policies of the north and the south create a “two-tier” market. The participants said that entrepreneurship can only be enhanced through the effective and actual reunification of the island, and not through the mere opening of a barricade, which gives rise to other problems.

The discussions also demonstrated that education is inextricably linked with entrepreneurship. The participants emphasised on the role of universities and whether they provide young people with the requisite means and knowledge for creating their own business. The participants almost unanimously agreed that the universities offer knowledge that acts as the basis for their future business activity, but, at the same time, believe that experience is a key element, which can not be obtained in any university.

Finally, an interesting feature of the discussions was the continuous reference to innovation and innovative enterprises. It was interesting mainly for the following reason: because most participants did not have any in-depth and effective knowledge of the business aspects of the concept of innovation, albeit they were aware of, and understood, the importance of innovation in terms of financing, i.e. the fact that their proposal for the development of a business plan must include innovation and, by extension, they understand the importance of innovation for the viability of an enterprise.

As part of a discussion on innovation, some of the participants referred to their own business ideas, arguing that innovation does not always cost a lot to implement, but may be a simple thing, or a plain procedure, such as a simple differentiated intervention in customer service that is not applied by any other competitor, or is not applied at a sufficient extent in the geographical area where a business operates.

The following table is a codification of the qualitative data variables, as extracted through the focus group discussions:

Field of discussion	Data
Reasons to set up a business	<ul style="list-style-type: none"> - Independence - Room of manoeuvre - Risk in regard to success
Obstacles (institutional/economic)	<ul style="list-style-type: none"> - Insufficient information about support/financing programmes - Procedural difficulties - Non-viable financing procedure

	<ul style="list-style-type: none"> - Legal Framework - Political
Other supporting institutions	<ul style="list-style-type: none"> - Family - Education -University
Expertise	<ul style="list-style-type: none"> - Knowledge of the design and implementation of a business plan - Knowledge of technology
Incentives	<ul style="list-style-type: none"> - Need for tax incentives - Need for easier financing procedures
Market-competition	<ul style="list-style-type: none"> - Market characteristics - Business characteristics and types
Innovation	<ul style="list-style-type: none"> - Economic dimension of innovation - Innovation expertise

Table 5.1 Classification of the variables as suggested by the focus groups of our research

Kourilsky and Walstad (1998), in their study on young entrepreneurship in the United States twenty years ago, and using the qualitative approach with focus groups in their methodology, came up with interesting evidence about the young people's views and attitudes; however, the most interesting fact is that their findings have a lot in common with our own research, that is to say with the case of Cyprus, twenty years later. For example, both sexes exhibit a low level of entrepreneurial knowledge. Women, however, are more aware of their shortcomings in this knowledge field than men. Both sexes believe that further education can remedy the problem of the lack of knowledge. This is exactly what we encountered in the focus groups of our research. Namely, that the knowledge of young people is inadequate, for example as regards the young entrepreneurship financial assistance programmes, but, at the same time, we saw that some women were better informed about the female entrepreneurship programme.

We can also find similarities with another study, by Adetayo (2006), which concerns a totally different case, more specifically the case of Nigeria, albeit also examines the young people's perceptions of entrepreneurship and, in particular, the programmes for the support of young entrepreneurship and also employs a qualitative methodology. For example, the young people of Nigeria see many deterrents as regards the institutional factor. Nonetheless, in the same study the young Nigerians exhibit a willingness to learn and be informed about programmes for the support of young entrepreneurship. Moreover, they generally wish to learn (through education) about entrepreneurship, because they believe that this is how they will develop their business skills.

In the above two cases, the comparison is made because it is interesting to see how two countries that are totally different and have totally different characteristics (United States - Nigeria) both from each other and from the country examined in our research, i.e. Cyprus, have so important common features of an institutional and essential nature.

A case of a country with characteristics similar to those of Cyprus is the case of Croatia, since it is one of the “small nations.” In their study, Cuckovic and Bartlett (2007) argue that a key motivation not only for young entrepreneurship, but also entrepreneurship at large, is the tax incentives regime, and that the Croatian government has designed and implemented such tax incentive policies for encouraging entrepreneurship. However, the focus group research performed by Cuckovic and Bartlett (2007) confirmed that most owners and managers of small and medium-sized enterprises believe that the tax system should be better adapted to their specific needs. The tax incentives issue was discussed above, in the case of our research in Cyprus, through the primary data we extracted.

Of particular interest is the case of Greece. An interesting study, which explores the views and perceptions of Greek public university students who have taken business studies, is that by Fafaliou (2012). According to this study (2012), almost half of the responding students (46.5%) were positively disposed towards entrepreneurship despite the difficulties and the obstacles they could possibly encounter during the stage of the conception of the idea and the early start of the business venture. Moreover, the study concludes that 34.7 percent of respondents already had a clear idea of the type of business they wanted to get involved with. In comparison, we can see that in our case as well, many of the participants in the focus groups developed their own business idea, and some of them actually realised it.

Another thing in common of our research with the study by Fafaliou (2012) is the fact that although the majority of participants said that they were not prepared to become self-employed in terms of adequate knowledge or experience, it is still a preferable option than working as salaried employees. Despite the large number of concerns also expressed in the study (2012) as regards the difficulties they expect to encounter at the stage before and after they start creating their business, 46.5 percent of respondents expressed the desire to set up their own business.

Since we are referring to university students, a further issue that it would be interesting to mention here is that of the correlation between a person's academic discipline and the profession they actually pursue or wish to pursue in the future, as well as what really influences such a decision. This issue is interesting precisely because it focuses on the institution of family and the way it affects the future decisions of young people. This because, as we saw from the focus group data of our own research, the institution of family plays –in the case of Cypriot youths– a key role in business choices and decisions, and is both an institutional and an economic factor. Referring to the case of Greece, Vasiliadis and Poullos (2007) argue that the family is a major support for young people, at least at the first stages of developing their business ventures. However, according to the research by Vasiliadis and Poullos (2007), the results of this study suggest that Greek university graduates start their own businesses, and this can be explained by the high rates of entrepreneurship among Greeks, which is comparable to the European average. Moreover, the authors (2007) say that: “...graduates start-up a business based on family resources or on their own funding and they don't use banking loans or community funding. Moreover, with regard to the affinity of object of study of the entrepreneurial activity, it appears that

the answers of graduates are not homogeneous, while they are differentiated, depending on the faculty of graduation” (p. 80). This quote is important, since it actually says that young people do not trust banks. This, of course, was exacerbated by the banking crisis, which, especially in the case of Cyprus, played a major role. Therefore, the institution of traditional family remains the principal source of financing.

We should not overlook the fact that entrepreneurship is directly related to unemployment (Mariana-Cristina, 2014). Mariana-Cristina (2014) argues that: “Youth entrepreneurship could help develop young people’s personality, identify new ways of employment and poverty reduction, and transform the society in general” (p.580). After all, the ultimate goal of the various national strategies for enhancing young entrepreneurship, female entrepreneurship and, in general, entrepreneurship, is to support employment and the entry of young people in the labour market. Kretsos (2014) points out that one of the outcomes of the Greek economic crisis and the bailout was the declining strength of young people in the Greek labour market, owing to the implementation of wide-ranging austerity policies and the consequent growth of insecure employment and youth unemployment since the first financial assistance deal of 2010. Therefore, the economic situation is directly related with unemployment and, by extension, with the labour market.

The institution of education and, more specifically, tertiary education, plays a major role in the overall development of entrepreneurship. We have already referred to many cases of surveys conducted within universities and to the views of the students, precisely because universities are an important hotbed of entrepreneurship-related knowledge and ideas. This is, after all, why universities must incorporate entrepreneurship courses, mostly of a practical nature, in order to act as brainstorming hotbeds, and as links to the labour market. Morris et.al. (2017), based on data collected in 25 countries, argue that the extent and type of the students' involvement in business activities are related to the syllabus (i.e. whether entrepreneurship is actually taught in the universities), and they are also related to the knowledge offered to the students regarding direct financing programmes, which determines whether they will immediately embark on a business venture or not. The prior experience some students possess –either directly through their family environment, or in connection with various entrepreneurship-related university initiatives– is conducive to setting up their own business. Even the difficulties encountered by young people in regard to financing, may have a positive effect, if they can be considered as prior business experience. Moreover, in their study Morris et.al. (2017) discuss the consequences of this situation and the measures that could be taken. This is also argued in the study by Stamboulis and Barlas (2014), i.e. the necessity to mobilise universities towards this direction, while Kakouris (2008) further specifies the discussion, by incorporating innovation as an integral part of entrepreneurship. As, after all, shown above, innovation is one of the key discussion topics of the focus groups we examined.

In their study, Apergis and Fafaliou (2014) examine the determinants that affect the tendency of young Greek university students to create a new business venture. Their study identifies many institutional obstacles, for example, bureaucracy, an issue that was also dealt with in our own research. The author's research (2014) also identifies the following

major factors: Risk propensity, prior experience in leadership, missing available time and the place of performing work.

As a concluding comment on the Greek case, we should mention the argument made in the book by Petkovic and Williamson (2015) that, although the Greek education system (from the early childhood education) is lacking in terms of the basic entrepreneurship skills it offers to young people, Greek youths believe, as mentioned above, that they possess the necessary means and knowledge to start their own business and, as a matter of fact, the relevant percentage is one of the highest in Europe.

The case of Cyprus was extensively discussed above, along with the analysis of the primary data. An interesting distinction as regards Cypriot enterprises is the one made by Hadjimanolis (2008) between small and larger enterprises, pointing out that the problems and obstacles faced by a business are obviously related to its size. Moreover, Hadjimanolis (2008) also deals with the issue of entrepreneurial education in Cyprus, and more specifically higher education. As in the above references to the Greek case, the author (2007) argues that entrepreneurship is an integral part of the social and economic process, and this is why it must be incorporated into the various levels of the Cypriot education system.

An interesting issue in the case of Cyprus –which was also mentioned in the focus group discussions– is that of the political problem caused by the Turkish invasion of 1974. Howells and Krivokapic (2009) approach entrepreneurship under the prism of the political issue, from the point of view of the Turkish Cypriots (whereas our primary data approached the issue from the point of view of Greek Cypriot youths). Thus, according to the authors (2009), Turkish Cypriots take a very positive stance towards the opening of the barricades, since they believe that it will benefit their businesses. They also believe that it will strengthen their commercial relations with the European Union.

Finally, an interesting subject that should be mentioned here –although it is not a subject of our primary research– is entrepreneurship among the Cypriots of the diaspora. It would be interesting for a future research to deal with this issue, since many Cypriots fled abroad after the Turkish invasion of 1974 and did business there. Panayiotopoulos (1996) deals with this issue and examines the business activity of Cypriots in London. He mainly emphasises on the role played by ethnic communities in the development of business activity among their members.

The following chapter analyses and discusses the primary data concerning innovation in Cypriot small and medium-sized enterprises.

Chapter 6

Institutional analysis of innovation in Cypriot small and medium-sized enterprises

6.1. Questionnaire description and variables

This chapter analyses the data of the survey on innovation in small and medium-sized Cypriot enterprises, in particular during 2015-2017, placing special emphasis on the various types of innovation, as explained below. The pertinent questionnaire was designed exactly for this purpose, i.e. to collect data on the innovations and innovative activities of Cypriot enterprises, under the prism of institutional analysis. In order to approach this subject, however, we should adopt a multilevel view of innovation, and this is what this analysis touches upon. As discussed, after all, in the literature review, innovation is not a unidimensional concept, albeit is a process that comprises many stages. Innovation has manifold and complex applications, which are analysed as such in this chapter.

As mentioned in the methodology chapter, in order for the questionnaire to be understandable by the company executives who responded to it, the first thing to do was to provide an explanation of how innovation is treated for the purposes of this research. More specifically, it was pointed out that innovation is the introduction of a new or significantly improved product (good or service), or of a new or significantly improved process, organisational method or marketing method by an enterprise. We should keep in mind here that this questionnaire was not filled in by whomever, but it was distributed in a targeted manner to executives of the enterprises under review, who are knowledgeable of this specific subject. For example, the owners of the enterprises (family businesses or SMEs), promotion and marketing executives, executives responsible for the strategic and financial planning of the enterprise, and so forth.

It was also explained to respondents that innovation must have features or intended uses that are considered to be new or represent a major improvement to whatever the enterprises previously used or sold. And this is precisely because we want to ascertain whether innovation in an enterprise is the continuation of an existing product or service.

On one hand, an innovation has to represent something new or a significant improvement only for a specific enterprise. On the other hand, though, it may have originally been developed, or used, by other enterprises or organisations. One of the purposes of the questionnaire is to demonstrate and analyse whether small and medium-sized enterprises “borrow” entrepreneurship and innovation features from other businesses, and whether they are capable of implementing them in their case.

In the context of this analysis we distinguish among the following types of innovation: **product innovation**, **process innovation**, **organisational innovation**, and **marketing innovation**. This research covers all four types: Sections 2 to 7 of the questionnaire refer to an enterprise’s product and process innovation. Organisational innovation and marketing innovation are covered by sections 8 and 9.

More specifically, though, apart from the aforementioned distinction among innovation types, the term “product innovation” denotes, in the context of this research, the introduction to the market of a product – either a good or a service– that is either new or significantly improved in terms of its characteristics or intended uses. This was something that had to be made clear from the very beginning to the enterprises that responded to this questionnaire.

Moreover, the questionnaire examines and analyses whether there are significant improvements to the technical specifications, ingredients and materials, embedded software, user-friendliness, and other operational features of a product. This logic covers a wide range of product innovation, thus making it easier for enterprises to respond, since they can “identify” themselves and their corporate identity in this data.

It is interesting to see who has actually developed these product innovations, i.e. whether they were developed by the enterprise itself, or this was done in collaboration with other enterprises and organisations; whether the enterprise adapted or modified products or services that had originally been developed by other enterprises or other organisations; or if, after all, these innovations were developed in their entirety by other enterprises and organisations.

It should be pointed out here that the term “product” denotes either a good or a service. The name of the enterprise and the sector in which it operates are recorded at the beginning of the questionnaire, therefore it is clear from the very outset whether we are referring to a good or a service. As stressed in the methodology chapter, company names are protected by privacy law and, therefore, no use of corporate names or brands is being made. These, however, are stored in our database.

A good is usually a tangible object, such as a smartphone, a piece of furniture, an appliance, a cell phone camera, a GPS system, a software package, or even software, music, and movies available over the Internet.

A service is usually intangible, such as web banking services, postal services, insurance, training programmes, aviation, consulting services etc. This distinction was made in exactly this manner in the questionnaire, in order to be as unmistakable as possible for the respondents.

Product innovation (new or improved product) must represent a novelty for the person who responds to the questionnaire, albeit not necessarily for their sector or market. Moreover, it may have originally been developed either by their own enterprise or by other enterprises or organisations.

The questionnaire emphasises on the improvement of existing goods or services, i.e. whether the enterprise improves their existing products in order to sustain their competitiveness. Emphasis is also given to the introduction of totally new goods or services. This, of course, depends on whether the enterprise actually has this capacity, i.e.

whether the enterprise produces its products on its own, collaborates with other enterprises, or makes imports.

More specifically, as regards the improvement of existing goods or services, this questionnaire examines the following:

1. Emphasis on the improvement of existing goods or services
2. Emphasis on the introduction of totally new goods or services
3. Emphasis on approaching new customer groups
4. Emphasis on specific customer solutions
5. Emphasis on low prices

In other words, it is important to see where SMEs are focused on and what exactly they give emphasis to as regards their innovative decisions and activities.

Process innovation is the implementation of a new or significantly improved production, or distribution method, or support activity related to the goods or services offered by an enterprise.

It includes significant changes in the techniques, equipment and/or software used by the enterprise in these processes.

Process innovation has to represent a novelty for the enterprise, albeit not necessarily for the sector or market the enterprise is operating in. Moreover, it may have originally been developed either by the enterprise itself or by other enterprises or organisations (i.e. adoption of an innovation).

More specifically, the section on process innovation covers the following subjects:

1. Methods for the manufacturing or production of goods or services;
2. Methods for the delivery or distribution of raw materials, goods, or services (logistics);
3. Process support activities, such as maintenance systems, or procurement, accounting or information technology applications.

Purely organisational innovations are excluded, since they are separately covered in section 8.

Innovative activities include all the scientific, technological, organisational, financial, and commercial activities that lead to, or are intended to lead to, the introduction of product or process innovations.

Some activities may be innovative in their own right, if they are implemented by the enterprise for the very first time. That said, they may not represent a novelty for the enterprise, albeit they may be necessary for the introduction of a product, or process, innovation.

Innovative activities include all types of Research & Development (R&D) activities, i.e. all of the enterprise's R&D activities that aim at the acquisition of new knowledge or the resolution of scientific and/or technical issues.

Innovative activities also include the procurement of machinery, equipment, buildings, software, and licenses. Technical and development operations, as well as the design, preparation, and promotion of products are also counted among these activities, provided that they are designed to facilitate the development and/or implementation of a product, or process, innovation.

Innovative activities are described in section 5.

Organisational innovation is the implementation of a new organisational method in your enterprise's business practices (including knowledge management), plus the organisation of the enterprise's workplace and its external relations, which has never been used in the past by your enterprise.

Such innovation ought to be the result of strategic decisions by the enterprise's management. Mergers or acquisitions are excluded, even if they are realised for the first time.

Marketing innovation is the implementation of a new marketing strategy, which is significantly differentiated from the existing marketing practices of your enterprise and has not been used in the past.

Such an innovation requires significant changes in the design or packaging, placement, promotion, or pricing of the product.

Seasonal, tactical or other routine changes in marketing methods are excluded.

Therefore, the discussion regarding marketing innovation focused on the following:

1. Significant changes of an aesthetic nature in the design or packaging of a product or service (excluding those changes that alter the functional or practical characteristics of a product, since they are considered to be product innovations).
2. New means or techniques for the promotion of a product (first-time use of e.g. an advertising medium, a new brand image, a membership card etc.)
3. New product placement, or sale, methods (first-time use of e.g. franchising or distribution licenses, direct sales, exclusive retail sale rights, new product presentation concepts etc.)
4. New methods for pricing goods or services (first-time use of e.g. discount systems, dynamic pricing etc.)

Logistics is a bundle of services that include the design, organisation, management, implementation, and monitoring of all flows pertaining to the materials, goods and relevant

information of an enterprise (from procurement, production, and storage to value-added services, distribution and reverse logistics). More specifically:

1. Stock management systems (e.g. automatic [and real-time] monitoring, scanning/detection of product delivery).
2. Digital supply chain management systems (paperless and transparent procurement transactions, supplier relations management, control of relevant business procedures).
3. E-procuring (e.g. new forms of buying and selling materials and goods over the Internet and other IT systems connecting suppliers and businesses).
4. Unique and automatic product identification across the entire supply chain.
5. Reverse logistics (all operations pertaining to the reuse and return of products and materials).
6. New delivery models, including the deployment of vehicles using alternative forms of fuel, or multi-modal logistics (e.g. combined use of road haulage and inland shipping services).
7. Improved distribution as a result of product redesign (in terms of packaging, weight, or density).

As far as innovation is concerned, this survey is also focused on the **financial aspect**. In other words, what type of expenses do innovative activities require. This issue is linked with the institutional issue, since it essentially has to do with the government's policies for enhancing entrepreneurship and various forms of entrepreneurship through the use of, mostly financial, incentives.

Of great importance is also the research carried out by certain enterprises in order to draw data, know-how, and information. Intra-firm Research and Development (R&D) refers to whether, in essence, the enterprise undertook R&D activities itself, including software development, with the aim of acquiring new knowledge or resolving scientific or technical problems.

Inter-firm Research and Development (R&D) is when the enterprise has outsourced R&D activities to other businesses (including other firms of the same group), or public or private research organisations.

Purchase of machinery, equipment, software, and buildings for the production of new or significantly improved products or procedures.

Acquisition of external knowledge from other enterprises or organisations, acquisition of know-how, copyrighted works, patents or other non-patented inventions, from other enterprises or organisations, for the development of new or significantly improved products and procedures.

Innovative activity training: Intra-firm, or outsourced, personnel training on the development and/or introduction of new or significantly improved products and procedures.

Activities related to the promotion/introduction of innovations in the market: Intra-firm, or outsourced, activities, including market research and advertising, aimed at the introduction of new or significantly improved goods or services to the market.

Design: Intra-firm, or outsourced, activities, aimed at changing the shape, appearance, or functionality of goods or services.

Other activities: Other intra-firm, or outsourced, activities, aimed at the implementation of new or significantly improved products and processes, such as feasibility studies, tests, tooling up, industrial design, etc.

This chapter also examines the factors that hinder innovative activities; more specifically, the following variables are analysed: Lack of own funds for innovation; lack of debt or private equity financing; high cost of innovation; lack of trained personnel; lack of partners; difficulty in securing innovation-related government subsidies or grants; uncertain market demand for your enterprise's innovative ideas; strong competition in your enterprise's market.

All the above are included in the context of **institutional analysis**, since this questionnaire examines various aspects of the institutional approach and, more specifically, the factors that hinder innovative activities, as well as the effect of legislation and regulation on innovative activities.

As regards the factors that hinder innovative activities, the questionnaire focuses on the following variables: Lack of own funds for innovation; lack of debt or private equity financing; high cost of innovation; lack of trained personnel; lack of partners; difficulty in securing innovation-related government subsidies or grants; uncertain market demand for the enterprise's innovative ideas; strong competition in the market.

As regards the effect of legislation and regulation on innovative activities, this questionnaire examines the following: the effect of product safety and consumer protection legislation; the effect of the legislation on operational and worker safety; environmental legislation and regulation and, in general, "green" regulations; copyright legislation; tax legislation and regulations; regulations regarding employment and other social affairs; and other laws and regulations that may possibly affect the development of innovative activities.

Then, the questionnaire examines whether the laws and regulations have affected the enterprise's innovative activities in any of the following ways: Encouraged one or more innovative activities; delayed the launching of one or more innovative activities; halted any innovative activities that were in progress; delayed the completion of innovative activities; and increased the cost of innovative activities.

6.2. Analysis

According to the data from the research, incentives and support seem to play a major role in the development of innovation. These are, after all, the key variables used in this research in order to delve as deeper as possible into the interplay between the institutional factor and innovation and, in general, entrepreneurship. As regards product innovation, it is evident that SMEs believe that local governments and the ministries are the most important sources of financial support for innovative activities. These two institutional actors played the most important role as sources of financial support for the development of innovative activities on the product level. Financial support is, of course, interpreted in various ways. For example, a municipality may provide an enterprise with a free-of-charge service for the promotion of a product. Therefore, the type of financial support in these cases, especially when we are dealing with institutional agencies, is different on a case-by-case basis.

	I_PRODUCT [95% Conf. Interval]	Coef.	Robust Std. Err.	t	P> t
LocalSupport201517	.4928763 1.149229	.8210526	.1599432	5.13	0.000
TaxMotives201517	-.5071237 .1492289	-.1789474	.1599432	-1.12	0.273
MinistrySupport201517	-1.220347 -.2322841	-.7263158	.2407761	-3.02	0.006
OtherSupport201517	-.3527833 1.089625	.3684211	.3514931	1.05	0.304
EUSupport201517	-2.07e-15 1.57e-15	-2.51e-16	8.86e-16	-0.28	0.779
_cons	.7509948 1.417426	1.084211	.1623993	6.68	0.000

Table 6.1 Public financial support for product innovation-related activities.

Moreover, in the context of institutional analysis we should not overlook the peculiarities of local communities. The SMEs under review –the majority of which are family businesses– operate within their local communities, in other words they are of a local nature. This explains to a certain extent the relationship between the enterprise and the municipality or community to which it belongs, and in which it exists and operates. On the other hand, though, in a future research it would be useful to examine the very opposite as well, i.e. those institutional facilities employed by agencies such as local governments, and their effectiveness. Bureaucracy, for example, is a major issue that affects entrepreneurship as a whole. In the previous chapter we saw that bureaucracy is one of the factors that are considered by young people consider to hinder the development of entrepreneurship.

The following graph illustrates the sources of (aggregate) financial support for innovative activities during the period under review, i.e. for the three-years 2015-2017. In essence, it clearly shows that local government, i.e. municipalities and communities, remain the most important source of financial support for all types of innovation, a fact that has to be seriously taken into account in the context of institutional analysis.

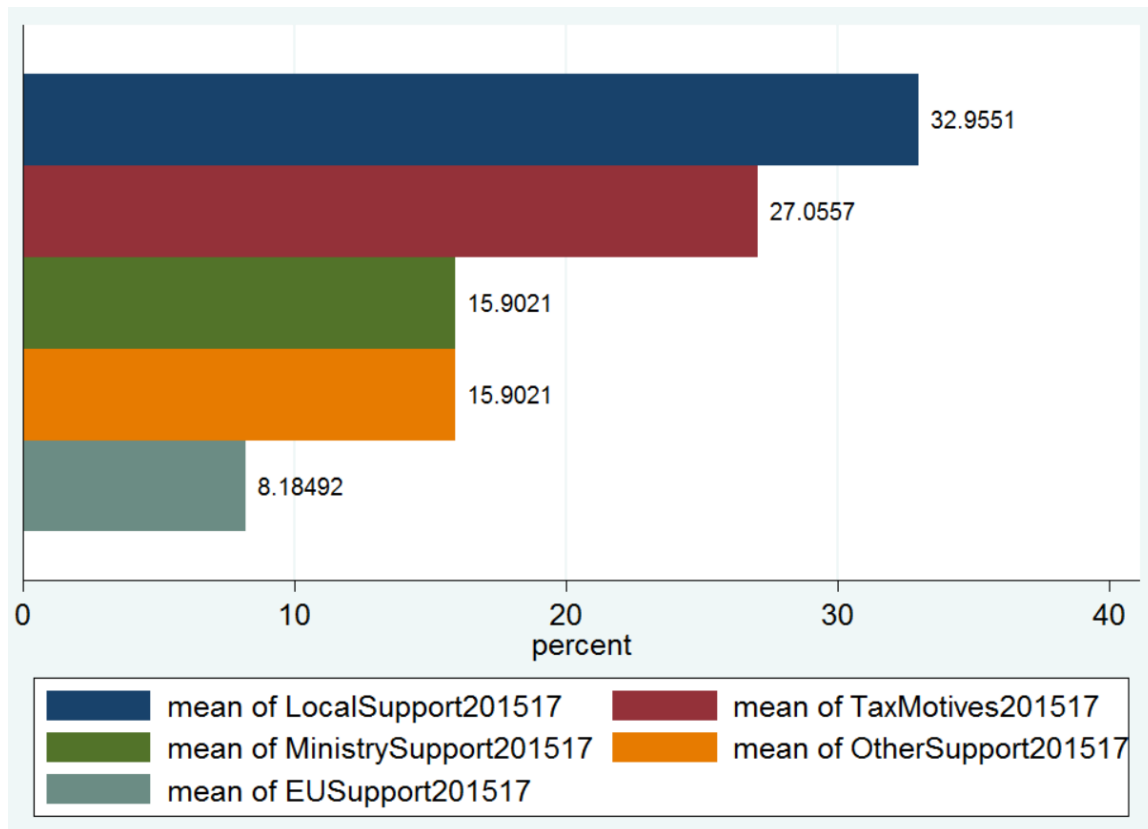


Figure 6.1 Public financial support for innovative activities (aggregate).

In contrast, as regards process innovation the data tell a different story. As shown in the following analysis, EU funds are the most important source of financial support for this type of innovation ($P > |t| 0.000$). Therefore, it can be argued that, according to Cypriot SMEs, the European Union is the most important source of financial support for the

enhancement of process innovation, i.e., as described above, the implementation of a new or significantly improved production or distribution method or support activity, in regard to the goods or services offered by a small or medium-sized enterprise.

This is demonstrated by the following values:

I_Process: P>|t| 0.000 I_Product: P>|t| 0.779

P>|t| 0.000 is a value that shows the importance attached by Cypriot SMEs to the financial support provided by the European Union, as regards process innovation. In contrast, enterprises do not believe that financial support from the European Union is important as regards product innovation, and, thus, turn to other sources of support and financing, more specifically local governments and ministries.

	I_Process [95% Conf. Interval]	Coef.	Robust Std. Err.	t	P> t
LocalSupport201517	-1.961509 1.12993	-.4157895	.7533367	-0.55	0.586
TaxMotives201517	-.9615086 2.12993	.5842105	.7533367	0.78	0.445
MinistrySupport201517	-2.575359 .9648329	-.8052632	.8626912	-0.93	0.359
OtherSupport201517	-1.587108 1.534476	-.0263158	.7606827	-0.03	0.973
EUSupport201517	1 1	1	2.43e-15	4.1e+14	0.000
_cons	1.185074 2.08861	1.636842	.2201779	7.43	0.000

Table 6.2 Public financial support for process innovation-related activities.

At this point, it is interesting to see the analysis regarding the financial support received by SMEs as regards marketing, i.e. the promotion of their goods and services. As shown in the following table, there are no major differences as compared to the above findings. According to the above findings, the most important sources of financing are local governments, ministries, and European Union funds. As far as promotion-related financial support is concerned, we can see below that tax incentives are considered to be somewhat important, along with the support from ministries and local governments. That said, as in the case of process innovation enhancement, the most important source of financing is the European Union.

	IMar_Promotion [95% Conf. Interval]	Coef.	Robust Std. Err.	t	P> t
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LocalSupport201517		-.4315789	.2526273	-1.71	0.099
-.9499274		.0867695			
TaxMotives201517		.5684211	.2526273	2.25	0.033
.0500726		1.08677			
MinistrySupport201517		-.8105263	.3198107	-2.53	0.017
-1.466724		-.1543289			
OtherSupport201517		-.0526316	.3531927	-0.15	0.883
-.777323		.6720599			
EUSupport201517		1	2.53e-15	4.0e+14	0.000
1		1			
		.6736842	.096799	6.96	0.000
.475069		.8722994			

Table 6.3 Public financial support for marketing innovation-related activities.

In addition, the analysis provides us with significant data about the **sources of information** and **sources of partnerships** as regards product innovation. Sources of information are an important factor, from which we can draw valuable conclusions regarding the role of institutions.

For example, the following statistical table shows that, as far as product innovation is concerned, Cypriot SMEs draw information from the competent public institutes. These are, for example, the Youth Board (as regards young and female entrepreneurship), the Research Promotion Foundation etc.

I_PRODUCT		Coef.	Robust Std. Err.	t	P> t
[95% Conf. Interval]					
InfoCompany		.1693698	.1593254	1.06	0.301
-.1641021		.5028417			
InfoSuppliers		.2711411	.2285367	1.19	0.250
-.2071918		.749474			
InfoCustomersPrivate		.1270237	.1697621	0.75	0.463
-.2282924		.4823399			
InfoCustomersPublic		-.1443418	.1777722	-0.81	0.427
-.5164234		.2277397			
InfoCompetition		.153777	.1372362	1.12	0.276
-.1334617		.4410156			
InfoLabs		.0489379	.1583387	0.31	0.761
-.2824688		.3803446			
InfoUnis		.2615467	.1456352	1.80	0.088
-.0432713		.5663647			
InfoPublicInstitutes		-.5691216	.1935424	-2.94	0.008
-.9742104		-.1640327			
InfoPrivateInstitutes		.1816324	.2016959	0.90	0.379
-.240522		.6037867			
InfoConference		-.2482814	.1542202	-1.61	0.124
-.571068		.0745051			

InfoScientificRes		-.0543615	.1517468	-0.36	0.724
-.3719712		.2632482			
InfoProfUnions		.3704072	.2027784	1.83	0.084
-.0540128		.7948273			
_cons		-.871691	.5802866	-1.50	0.149
-2.086245		.3428628			

Table 6.4 Product innovation-related sources of information and partnerships.

As regards the other types of innovation, i.e. process innovation, organisational innovation, and marketing innovation, the following three statistical tables indicate that no specific source or sources of information are statistically significant.

I_Process		Coef.	Robust Std. Err.	t	P> t
[95% Conf. Interval]					
InfoCompany		.0291376	.3169214	0.09	0.928
-.6341866		.6924618			
InfoSuppliers		-.0866414	.26195	-0.33	0.744
-.6349091		.4616263			
InfoCustomersPrivate		.3074857	.3125081	0.98	0.338
-.3466013		.9615728			
InfoCustomersPublic		.2175476	.3506042	0.62	0.542
-.5162754		.9513706			
InfoCompetition		-.1767921	.2344538	-0.75	0.460
-.6675095		.3139254			
InfoLabs		-.094522	.3535663	-0.27	0.792
-.8345448		.6455007			
InfoUnis		.0154299	.2739202	0.06	0.956
-.5578916		.5887515			
InfoPublicInstitutes		.034426	.2504993	0.14	0.892
-.489875		.558727			
InfoPrivateInstitutes		-.170085	.2527888	-0.67	0.509
-.6991781		.3590081			
InfoConference		.0696652	.2371791	0.29	0.772
-.4267563		.5660866			
InfoScientificRes		.2495898	.2405107	1.04	0.312
-.2538049		.7529844			
InfoProfUnions		-.0514359	.3013349	-0.17	0.866
-.6821372		.5792654			
_cons		.9130774	1.173497	0.78	0.446
-1.54308		3.369235			

Table 6.5 Process innovation-related sources of information and partnerships.

The actual conclusion is that enterprises are probably more familiar with product innovation, and this is why they are mostly seeking information about this type of

innovation. This may be the result, for example, of insufficient information and, above all, training on innovation-related issues.

IOrg_BusinessPracti~s [95% Conf. Interval]	Coef.	Robust Std. Err.	t	P> t
InfoCompany -.1892814 .2451926	.0279556	.1034008	0.27	0.790
InfoSuppliers -.198909 .2315238	.0163074	.102439	0.16	0.875
InfoCustomersPrivate -.5532302 .1057349	-.2237476	.1568276	-1.43	0.171
InfoCustomersPublic -.115094 .4950014	.1899537	.1451971	1.31	0.207
InfoCompetition -.1119853 .2114352	.049725	.0769711	0.65	0.526
InfoLabs -.1946918 .2163231	.0108156	.0978177	0.11	0.913
InfoUnis -.3744141 .1052459	-.1345841	.1141546	-1.18	0.254
InfoPublicInstitutes -.13152 .2837925	.0761362	.0988405	0.77	0.451
InfoPrivateInstitutes -.1995129 .2668149	.033651	.1109817	0.30	0.765
InfoConference -.2075245 .3729207	.0826981	.1381406	0.60	0.557
InfoScientificRes -.0901529 .4324546	.1711508	.1243758	1.38	0.186
InfoProfUnions -.2640258 .2084442	-.0277908	.1124435	-0.25	0.808
_cons -.803506 1.025719	.1111063	.4353385	0.26	0.801

Table 6.6 Organisational innovation-related sources of information and partnerships.

SMEs do not seek any particular information also in regard to marketing innovation. What we can see from the following table is that enterprises seek –albeit not to a significant extent– information from their own customer base. This is reasonable, since, in order to design their promotion strategies, enterprises must, first and foremost, draw information from consumers.

IMar_Design [95% Conf. Interval]	Coef.	Robust Std. Err.	t	P> t
InfoCompany -.2169699 .1788827	-.0190436	.0945647	-0.20	0.843

InfoSuppliers		-.141226	.0947121	-1.49	0.152
-.3394608		.0570087			
InfoCustomersPrivate		-.3017963	.1681268	-1.80	0.089
-.6536897		.0500971			
InfoCustomersPublic		.1186936	.1649242	0.72	0.480
-.2264967		.4638839			
InfoCompetition		.1023277	.1129856	0.91	0.376
-.1341538		.3388092			
InfoLabs		.0465938	.110656	0.42	0.678
-.1850118		.2781994			
InfoUnis		-.1152564	.1247022	-0.92	0.367
-.376261		.1457483			
InfoPublicInstitutes		.0527371	.1284078	0.41	0.686
-.2160236		.3214978			
InfoPrivateInstitutes		.0662971	.1712155	0.39	0.703
-.2920611		.4246553			
InfoConference		.0370569	.1180061	0.31	0.757
-.2099326		.2840464			
InfoScientificRes		-.019559	.1251854	-0.16	0.877
-.2815751		.242457			
InfoProfUnions		.058559	.1857701	0.32	0.756
-.3302624		.4473804			
_cons		1.229945	.4414257	2.79	0.012
.3060303		2.153859			

Table 6.7 Marketing innovation-related sources of information and partnerships.

The sources of information about all types of innovation, i.e. product innovation, process innovation, organisational innovation and marketing innovation are presented, on an aggregate basis, in the following graph.

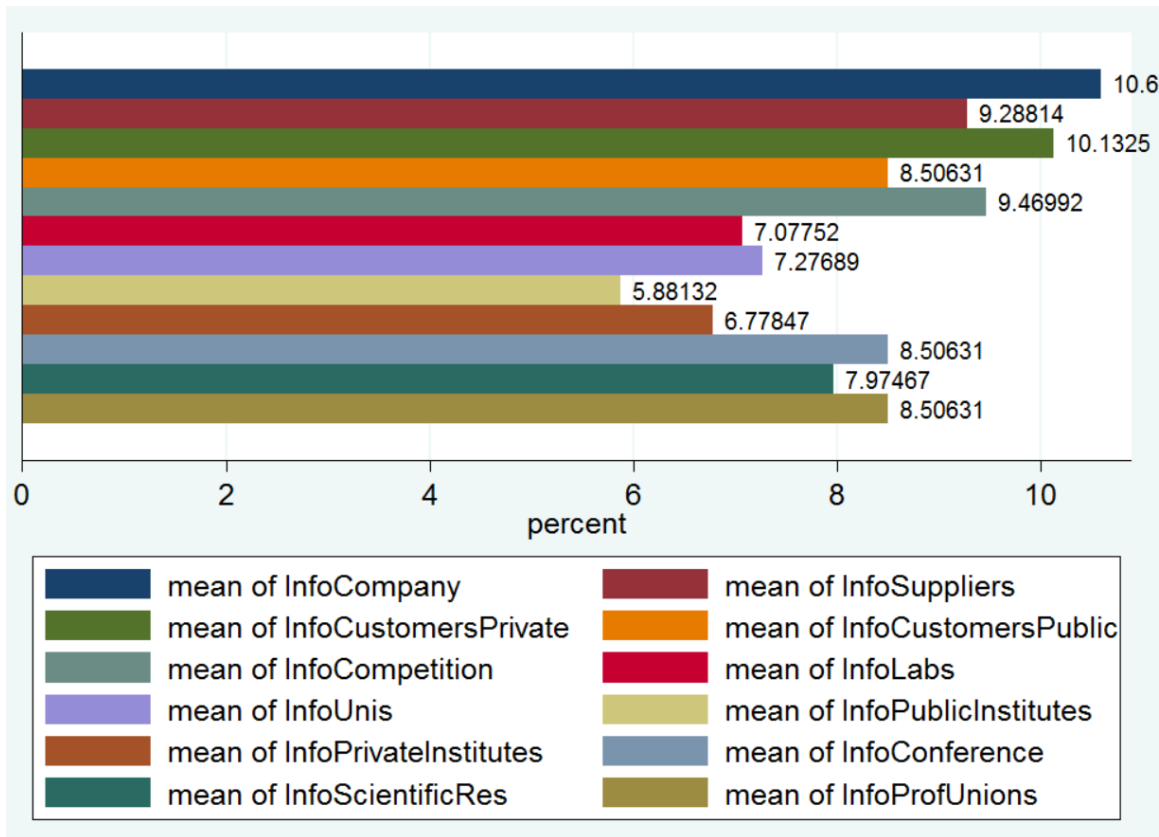


Figure 6.2 Aggregate sources of information for all types of innovation.

This survey analyses the, **mostly institutional, as well as market, factors that hinder innovative activities**. More specifically, it seems that the factors hindering product innovation are, primarily, the lack of debt or private equity financing ($P > |t| 0.006$), as well as the difficulty to secure government subsidies or grants for innovation ($P > |t| 0.037$). After all, product innovation requires the most costly innovative interventions, since it essentially concerns the production of a new product or, at least, an intervention on an existing product. Therefore, it actually constitutes an innovation that must be implemented on the production stage.

I_PRODUCT	Coef.	Robust Std. Err.	t	P> t	[95% Conf. Interval]
Obst_Funds	.1407475	.1442545	0.98	0.337	-
.1542862	.4357812				
Obst_Loans	.4186945	.1410314	2.97	0.006	-
.1302529	.7071362				
Obst_Cost	.024134	.1403044	0.17	0.865	-
.2628208	.3110888				
Obst_HR	-.2125411	.1382563	-1.54	0.135	-
.4953071	.0702248				

Obst_Parners		-.1975525	.1263877	-1.56	0.129	-
.4560443		.0609393				
Obst_GoverFunding		-.2343543	.1072944	-2.18	0.037	-
.453796		-.0149126				
Obst_Uncert		.1074648	.1296904	0.83	0.414	-
.1577818		.3727114				
Obst_Comet		.2281223	.1951974	1.17	0.252	-
.1711012		.6273459				
	_cons		.1560407	.8516688	0.18	0.856
1.585818		1.897899				

Table 6.8 Factors that hinder product innovation-related activities.

These results of the analysis corroborate the findings of the previous chapter, that is both the quantitative findings of the questionnaire on young entrepreneurship, and the qualitative findings of the focus groups. As in that case, the most important factors that emerged from the data we collected were the inhibiting ones, i.e. the obstacles; in other words, the lack of financing and the difficulty of obtaining it, as well as the difficulty to secure government subsidies. For example, as part of the focus group discussions special mention was made to the young and female entrepreneurship financial assistance programmes, and the general perception was that there are quite a few difficulties that render financing not only difficult, but also non-sustainable.

The following statistical table presents the data on the factors that hinder process innovation-related activities.

No significant obstacles are observed in this type of innovation as well, at least as perceived by the small and medium-sized enterprises under review. We can see, albeit not to a significant degree, that one of the obstacles to the development of process innovation by a business is the lack of own funds.

		Coef.	Robust Std. Err.	t	P> t	
I_Process						
[95% Conf. Interval]						
Obst_Funds		-.4897321	.2562402	-1.91	0.066	-
1.013802		.034338				
Obst_Loans		.423543	.2581724	1.64	0.112	-
.1044789		.9515648				
Obst_Cost		-.2977398	.2470665	-1.21	0.238	-
.8030474		.2075679				
Obst_HR		.147309	.1740503	0.85	0.404	-
.2086639		.5032819				
Obst_Parners		.1629832	.175963	0.93	0.362	-
.1969014		.5228679				
Obst_GoverFunding		.1222232	.2184511	0.56	0.580	-
.3245596		.5690059				
Obst_Uncert		-.0966254	.1872772	-0.52	0.610	-
.4796502		.2863995				

Obst_Comet		-.1673734	.2488055	-0.67	0.506	-
.6762379		.341491				
	_cons		2.660239	1.065581	2.50	0.018
.4808821			4.839597			

Table 6.9 Factors that hinder process innovation-related activities.

As far as all types of innovation are concerned, the following aggregate table shows that the most insignificant obstacle that affects innovative activities in SMEs is the lack of partners. This factor does not seem to concern enterprises. The next most insignificant obstacle is the uncertainty of market demand for the enterprise's innovative ideas. Moreover, it is interesting that, in the aggregate distribution presented in graph 6.3, the most important factor that acts as an obstacle to innovative activities, is the high cost of innovation and, in general, of innovative activities.

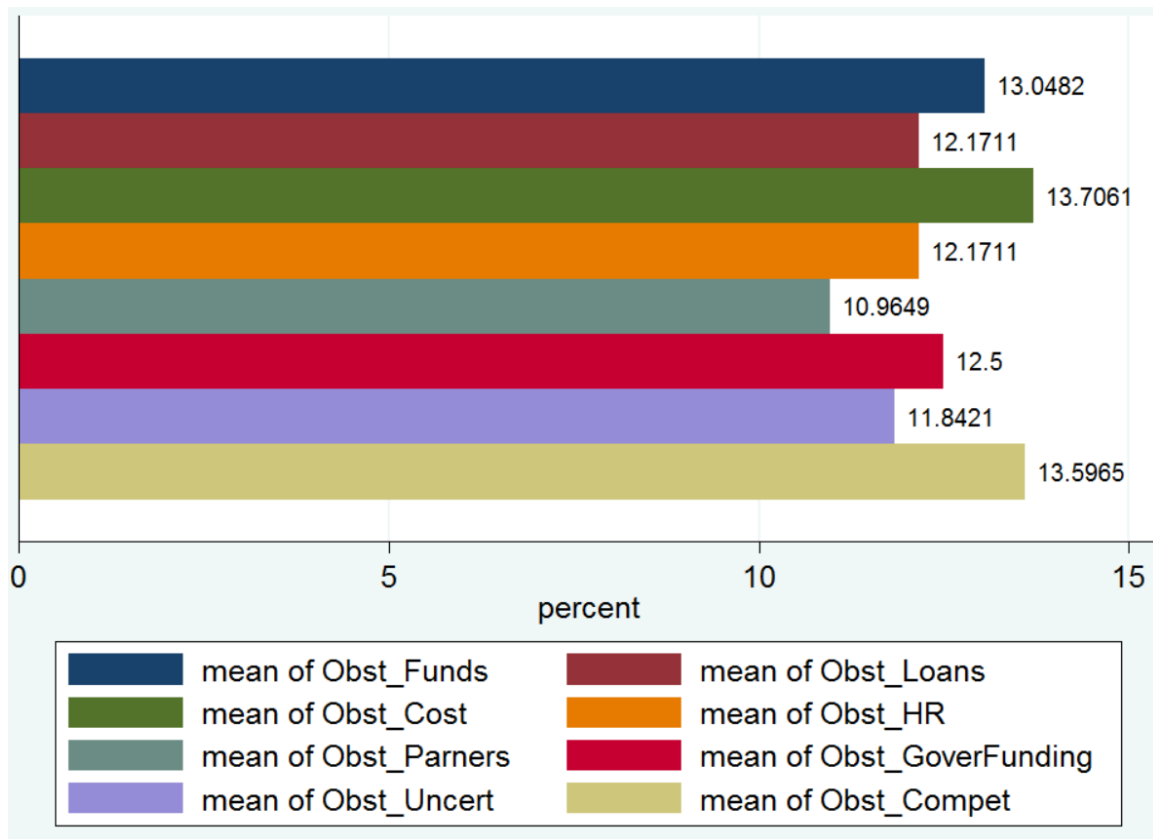


Figure 6.3 All factors that hinder innovative activities

The analysis shows that the **effect of legislation or regulation** on innovative activities is equally important. As shown in the following table, the most important factors as regards product innovation are the legislation on employment and social affairs, as well as the legislation on product safety and consumer protection. In other words, SMEs believe that these laws have an important effect on product innovation.

	I_PRODUCT	Coef.	Robust Std. Err.	t	P> t	
[95% Conf. Interval]						
Law_Protection	-.1965112	.1174298	-1.67	0.111	-	
.4422945	.0492722					
Law_Operation	-.0611304	.239983	-0.25	0.802	-	
.5634206	.4411599					
Law_Environment	-.0574727	.1463746	-0.39	0.699	-	
.3638383	.248893					
Law_Patents	.024985	.1271533	0.20	0.846	-	
.24115	.2911199					
Law_Tax	.0193253	.1583897	0.12	0.904	-	
.3121881	.3508387					
Law_Employment	.2963872	.1353248	2.19	0.041	-	
.0131491	.5796252					
Law_Other	.0588363	.103311	0.57	0.576	-	
.157396	.2750687					
LawMotives	-.0670861	.543608	-0.12	0.903	-	
1.204871	1.070699					
LawDelay	.2982945	.2468983	1.21	0.242	-	
.2184696	.8150585					
LawStopProcess	.0698913	.2833892	0.25	0.808	-	
.5232491	.6630316					
LawDelayCompl	.043834	.3606057	0.12	0.905	-	
.7109224	.7985904					
LawCostIncrease	.6131154	.4595844	1.33	0.198	-	
.3488058	1.575037					
_cons	.4171796	.4992126	0.84	0.414	-	
.6276843	1.462044					

Table 6.10 The effect of legislation or regulation on product innovation.

As regards the effect of legislation on process innovation-related activities, apparently there is no important variable that should be mentioned. At least, this is what table 6.11 shows.

	I_Process	Coef.	Robust Std. Err.	t	P> t	
[95% Conf. Interval]						
Law_Protection	.1060875	.1984174	0.53	0.599	-	
.3092049	.5213798					
Law_Operation	-.0674978	.2999876	-0.23	0.824	-	
.6953792	.5603835					
Law_Environment	.1259008	.19946	0.63	0.535	-	
.2915737	.5433753					
Law_Patents	-.0800678	.1627022	-0.49	0.628	-	
.4206073	.2604718					

Law_Tax		.0806897	.1799065	0.45	0.659	-
.295859		.4572384				
Law_Employment		-.0008534	.2240275	-0.00	0.997	-
.4697482		.4680415				
Law_Other		.062407	.151931	0.41	0.686	-
.2555882		.3804022				
LawMotives		-.9440544	.7091924	-1.33	0.199	-
2.428411		.5403023				
LawDelay		-.2623858	.4309818	-0.61	0.550	-
1.164441		.6396695				
LawStopProcess		.2483346	.4369479	0.57	0.576	-
.6662079		1.162877				
LawDelayCompl		.1153604	.633633	0.18	0.857	-
1.210849		1.44157				
LawCostIncrease		.3089206	.6467384	0.48	0.638	-
1.044718		1.66256				
_cons		.9890314	.8654073	1.14	0.267	-
.822287		2.80035				

Table 6.11 The effect of legislation or regulation on process innovation.

Now, as far as the effect of legislation on organisational innovation is concerned, table 6.12 shows that the “other legislation” (Law_other) option is important for SMEs. This is accounted for by the highly specialised nature of organisational innovation, which, as explained in the beginning of this chapter, is the implementation of new organisational methods in the business practices of the enterprise and, hence, it is governed by specific laws and regulations, depending on the industry the business is operating in. This is why most enterprises chose the “other legislation” option. Moreover, operational safety legislation is another major factor that affects innovative activities.

IOrg_Business~s		Coef.	Robust Std. Err.	t	P> t	
[95% Conf. Interval]						
Law_Protection		.0804501	.0774989	1.04	0.313	-
.0823691		.2432692				
Law_Operation		.1713573	.0934565	1.83	0.083	-
.0249875		.3677021				
Law_Environment		-.12566	.0825123	-1.52	0.145	-
.2990119		.0476918				
Law_Patents		.0067977	.0730732	0.09	0.927	-
.1467234		.1603187				
Law_Tax		-.0634717	.0739289	-0.86	0.402	-
.2187905		.0918472				
Law_Employment		.026968	.0753675	0.36	0.725	-
.1313733		.1853093				

Law_Other		.0931387	.0482856	1.93	0.070	-
.0083055		.1945829				
LawMotives		-.2091885	.2803788	-0.75	0.465	-
.7982425		.3798654				
LawDelay		.075622	.155725	0.49	0.633	-
.2515441		.4027881				
LawStopProcess		-.1353167	.1345076	-1.01	0.328	-
.4179066		.1472732				
LawDelayCompl		-.23666	.1716335	-1.38	0.185	-
.5972486		.1239286				
LawCostIncrease		.362482	.2695265	1.34	0.195	-
.2037723		.9287362				
_cons		.0520991	.2251219	0.23	0.820	-
.4208645		.5250628				

Table 6.12 The effect of legislation or regulation on organisational innovation.

As regards the effect of legislation on marketing innovation, table 6.13 shows that copyright law, as well as various incentives offered through regulations (e.g. tax incentives) are considered to be important by SMEs.

IMar_Design		Coef.	Robust Std. Err.	t	P> t	
[95% Conf. Interval]						
Law_Protection		-.0198787	.0581202	-0.34	0.736	-
.1415256		.1017683				
Law_Operation		-.1499184	.1082108	-1.39	0.182	-
.3764061		.0765694				
Law_Environment		.0970686	.0590996	1.64	0.117	-
.0266282		.2207654				
Law_Patents		-.1400965	.0507333	-2.76	0.012	-
.2462825		-.0339104				
Law_Tax		-.0005169	.0768942	-0.01	0.995	-
.1614584		.1604245				
Law_Employment		.1498961	.0824213	1.82	0.085	-
.0226136		.3224058				
Law_Other		.0056634	.0468768	0.12	0.905	-
.0924509		.1037777				
LawMotives		.5738619	.2119625	2.71	0.014	-
.1302193		1.017504				
LawDelay		-.0736982	.1733891	-0.43	0.676	-
.4366057		.2892093				
LawStopProcess		.0780691	.1570914	0.50	0.625	-
.250727		.4068652				
LawDelayCompl		-.1380407	.1889151	-0.73	0.474	-
.5334447		.2573632				

LawCostIncrease		-.1811816	.1710028	-1.06	0.303	-
		.5390945	.1767313			
	_cons		.9248374	.2279788	4.06	0.001
			1.402003			

Table 6.13 The effect of legislation or regulation on marketing innovation.

The following graph illustrates the overall effect of legislation or regulation on the innovative activities of the small and medium-sized enterprises under review.

More specifically, it seems that copyright is an issue of great concern for SMEs, especially as regards the protection of innovation-related patents and, in general, the patenting of innovative activities, but also as regards simpler issues, such as the registration of trademarks and brand names. Therefore, copyright may be a very simple to very complex issue. For that matter, section 13 of the questionnaire emphasises on this issue, by asking enterprises to answer specific questions: Whether they filed a patent application, a utility model certificate application, an industrial plan registration, a trademark application, or a copyright registration. The enterprises' answers to these questions depended on the respective sector they are operating in.

Moreover, the effect of tax and tax incentives legislation, as well as the legislation related to product safety and consumer protection also gets a high rating. According to the data, most small and medium-sized enterprises believe that these laws have a significant, positive or negative, effect on the development of innovative activities.

That said, it should be pointed out here that any reference to the effect of legislation or regulation on innovative activities is an open-ended assessment, with no specification of whether such effect is positive or negative. What is essentially of interest to this research is the impact of each law on innovative activities. In addition, any mention to innovative activities is open-ended, as it essentially refers to the four types of innovation, i.e. product innovation, process innovation, organisational innovation, and marketing innovation. In conclusion, we can say that the legislative-regulatory framework plays a major role in the small and medium-sized enterprises' decision of whether they will undertake innovative activities.

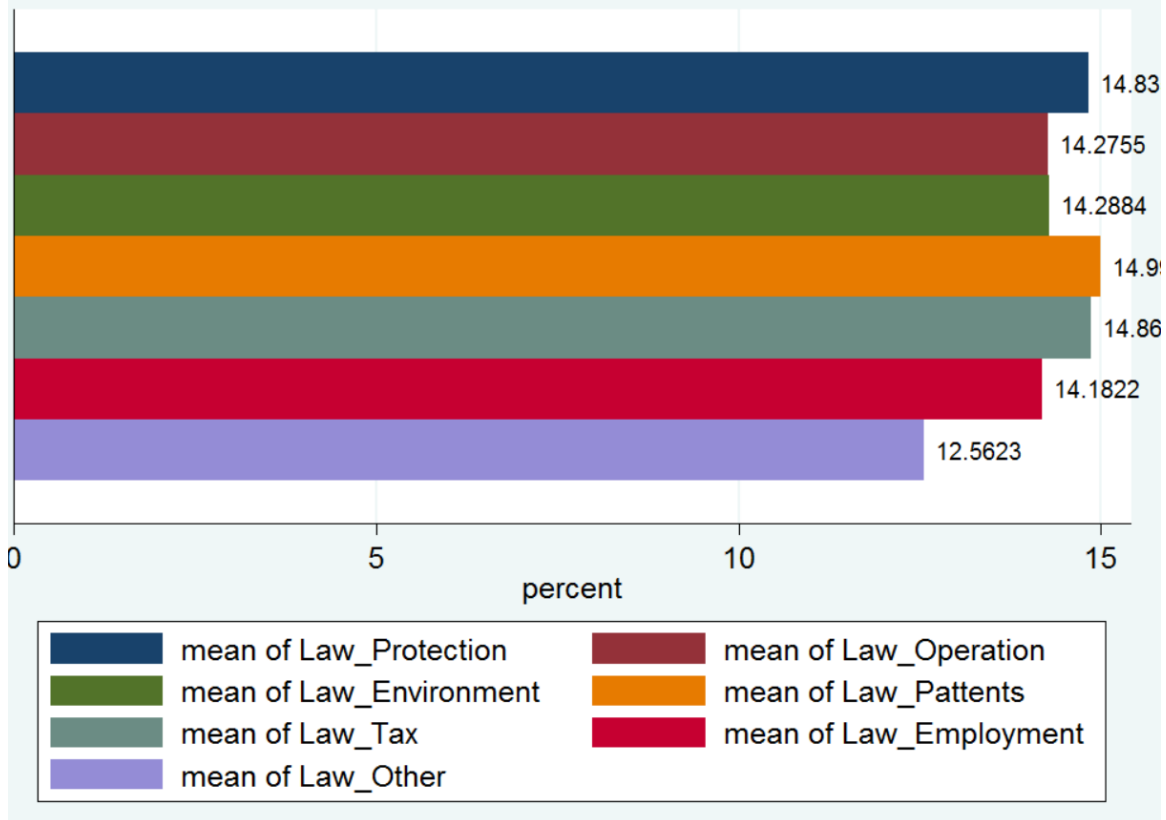


Figure 6.4 The overall effect of legislation on innovation.

Finally, as far as the institutional, as well as financial, contexts are concerned, it is important for our research to refer to the **obstacles to the implementation of innovation** and, in general, innovative activity in small and medium-sized enterprises during the period under review (2015-2017). The following graph provides a detailed classification of the importance of obstacles, as perceived by the SMEs under review.

In order to avoid any confusion with the above analysis of factors that hinder innovative activities (i.e. Table 6.8, Table 6.9, & Graph 6.3), the following graph (6.5) presents an overall picture of the importance of the following obstacles to the implementation of innovation and, in general, innovative activity: lack of own funds; lack of debt or private equity financing; high cost of innovation; lack of trained personnel; lack of partners; difficulty in securing innovation-related government subsidies or grants; uncertain market demand for the enterprise's innovative ideas; strong competition in your enterprise's market; legislation/regulation causing excessive burden; legislation/regulation causing uncertainty; legislation/regulation that lack coherence within the European Union.

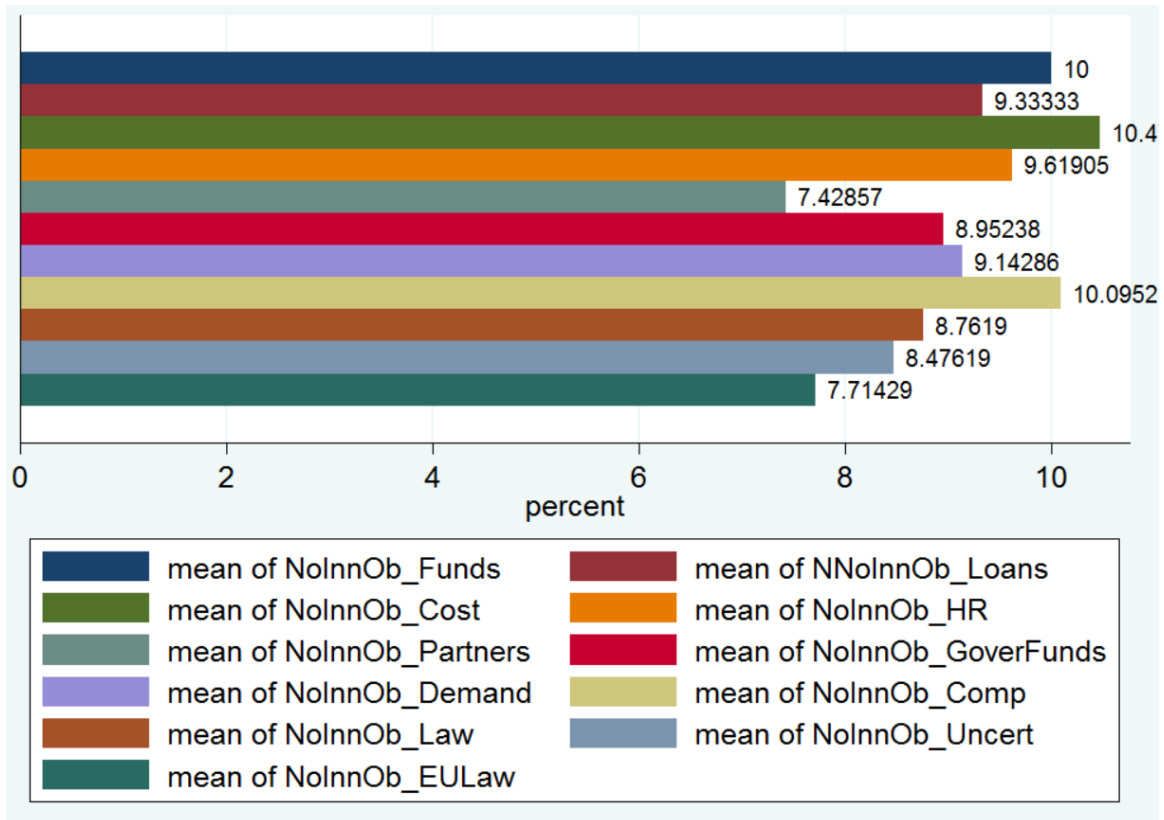


Figure 6.5 An overall picture of the obstacles to the implementation of innovation/innovative activity in enterprises.

Based on the results, as presented in graph 6.5, the most important obstacle to the implementation of innovation and innovative activities is their high cost. The second most important obstacle is competition. These findings are very interesting, since the high cost of innovation is closely linked to financing. Therefore, if financing is difficult to obtain and, in many cases, non-sustainable, as determined and discussed in the previous chapters, then the high cost of innovation remains taboo for many small and medium-sized enterprises.

6.3. Secondary issues

Apart from the above issues, which were extensively discussed, there are also some other, secondary, issues of specific interest.

The first issue is related to the provision public financial support to the innovative activities undertaken by SMEs: only a few enterprises from our sample participated in the EU's 7th Framework Programme for Research and Technological Development or Horizon 2020 Programme for Research and Innovation. Therefore, a future research could further specify

the sources of financing, for example the sources of European funds. This would help the research go deeper into the field of subsidies and financial support programmes.

Moreover, this research assessed the openness of Cypriot SMEs. The analysis showed that small and medium-sized enterprises are still cautious in regard to openness. This means that they are reluctant to collaborate with other firms or organisations in order to develop, or even design, an innovative activity.

As regards non-innovative SMEs, it is interesting to focus on the reasons why these enterprises are not innovating or never got into the process of developing some type of innovative activity. One of these questions was, of course, extensively discussed above, as part of the analysis of the obstacles to the implementation of innovative activities, which are divided into two main categories: institutional and financial. For example, the lack of funds or the high cost of innovation are financial obstacles. On the other hand, legislation that puts an excessive burden on enterprises or causes uncertainty, or the difficulties in securing innovation-related government subsidies or grants, are purely institutional obstacles. In general, though, financial obstacles are, to a certain extent, shaped by institutions. Therefore, any distinction among institutional, financial, or other obstacles is designed to ensure the improved classification of the variables for the purposes of this research.

On the other hand, one of the findings of this research as regards non-innovative SMEs is about the reasons why an enterprise failed to implement any innovation or innovative activity during the period under review. More specifically, the reasons recorded in the questionnaire are the following: a) limited market demand for innovation; b) no need for innovation, because of pre-existing innovations; c) no need to innovate because of limited competition in the market; and d) dearth of smart ideas for innovation. The enterprises do not present any coherent opinions as regards these issues, and many enterprises left this question blank. Still, most small and medium-sized enterprises consider the lack of smart ideas for innovation to be the most important reason that prevents businesses from implementing innovative activities.

6.4. Conclusions and correlations regarding innovation

The statistical correlations of our research provide us with interesting evidence and conclusions for further discussion. Thus, the above analysis leads us to the following research conclusions:

1. The institutional factor plays a major role in both the design and implementation of innovation.
2. Each type of innovation reacts differently within the institutional framework. For example, product innovation reacts and behaves differently from process innovation within the framework of the various institutions and institutional processes, as demonstrated by the above primary analysis. This depends on a multitude of factors that will be discussed in the following chapter.

3. The financial factor is of equal importance and, as demonstrated, is viewed as the most important factor for the development of innovation and innovative activities.

4. In continuation to the above point, the financial factor depends on the institutional framework and vice versa. For example, the obstacle of the high cost of innovation and the difficulty to secure innovation-related government subsidies or grants, are mutually reinforced. One has to do with the finances of the enterprise itself, while the other has to do with the flexibility of the institutions and, in particular, the institutional bodies.

5. Small and medium-sized enterprises are inclined to develop innovative activity, albeit consider it to be a “risk”, as demonstrated by the quantitative and qualitative analysis performed in Chapter 5. This is compounded by the high importance attributed to the obstacles that prevent innovative activities.

The following graph isolates the most important elements that affect innovation in the small and medium-sized enterprises of Cyprus. Based on the above analyses, the institutional framework is divided into institutional agencies, i.e. the agencies involved in this process (for example, business financing and research agencies), and existing institutional procedures (for example, the procedure an enterprise has to follow in order to apply for financing). The other pillar comprises the economic institutions, which are mutually connected with the institutional agencies, since their operation and effectiveness actually depends on the quality and flexibility of institutional procedures.

A subcategory of the institutional framework is the regulatory framework, which, as demonstrated by the preceding analysis, is instrumental to innovation. The regulatory framework comprises the laws and regulations or directives that govern various sectors of the market.

Finally, the characteristics of the market have a major effect on the development of innovative activities by small and medium-sized enterprises. As shown in the analysis of the research, SMEs are seriously taking into account the market's demand for innovative solutions, as well as the competition. Moreover, as shown in another part of the above analysis, SMEs use consumer behaviour analysis in order to glean information that will help them improve their innovative activities, by intervening either on the product, the processes, or other innovation-related aspects. That said, each market sector has its own peculiar characteristics, which accordingly affect innovation. Market behaviour is not, of course, independent from the institutional framework, The market operates within the context of the institutional framework.

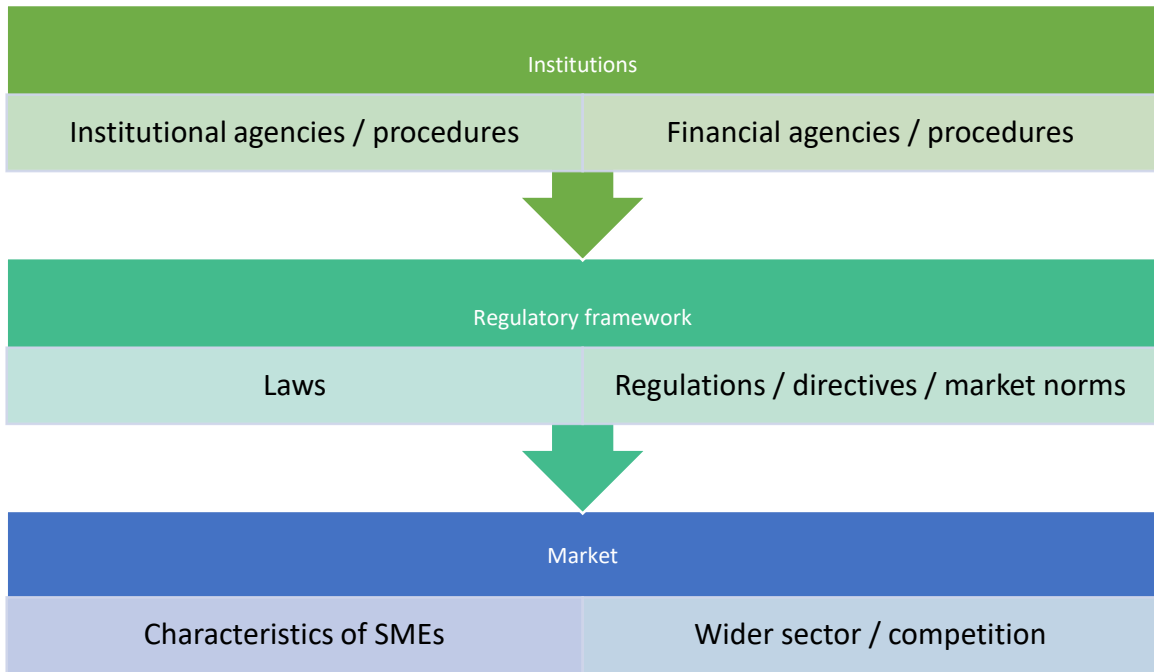


Figure 6.6 The pieces that comprise the jigsaw puzzle of innovation in small and medium-sized enterprises.

The following chapter contains a detailed presentation of the variables used for the study of the institutional and overall framework regarding innovation, which lead to an interesting modelling exercise. Moreover, the following chapter suggests certain subjects for further discussion and research, which emerged from the previous chapters.

Chapter 7

Discussion

7.1. Institutions and entrepreneurship: The necessity of a sound institutional framework

This study highlighted and analysed a contemporary issue of entrepreneurship, the issue of the institutional framework that is governing it. As stated in the introduction, this is a contemporary issue because of the circumstances that are currently prevailing; in other words, because of the economy, the political developments, as well as the institutional changes. These developments have, to a great extent, influenced the form of entrepreneurship and have put it under the lens of institutional economics. This study has concluded, through its analysis, that entrepreneurship can be better explained under the prism of institutional analysis and not under the traditional economic perspective, because this way the socio-political factors are seriously taken into account.

The above assumption is corroborated by our analysis, as our data indicate that entrepreneurs are primarily concerned about the markets, mostly as a result of the weak institutional framework, and not about competitive trends or other endogenous factors. Emphasis is mostly placed on exogenous factors, since these are the factors that determine the entrepreneurial network in a country. And this can be seen in a country such as Cyprus, which, on one hand, may be considered to be a mature economy and, on the other hand, is an economy with peculiar characteristics, which has undergone various periods of hardship.

There is also the positive perspective, i.e. those who believe that the existing institutional framework is good and offers potential. These two perceptions, the negative, or to be more precise, sceptical towards institutions, and the more positive and sanguine, lead us to the conclusion that, in many cases, institutional quality may be a subjective matter. On the other hand, we should remember that the institutional aspect of entrepreneurship can be measured by means of the various indices discussed in the previous chapters.

Irrespective of interpretation, what matters here is the fact that institutions determine the nature of entrepreneurship itself; that said, we can move one step forward and suggest that entrepreneurship is an important institution in its own right. Without entrepreneurship and, most importantly, without sound and sustainable entrepreneurship, a country's economy cannot be sustainable on the long run. At this point, it should be stressed that one of the findings of this research is that it is necessary for a state –not only Cyprus, which was the object of this study, but any state in general– to create entrepreneurial strictures that are readily accessible by all citizens who consider doing business, because this is how entrepreneurial activity will be generated.

It is not a coincidence that, as part of this research, we chose to deal with young entrepreneurship and small and medium-sized enterprises, since they constitute the most basic fabric of an entrepreneurial society and by analysing them –and especially by analysing

how the entrepreneurs themselves perceive of these matters– we can reach important conclusions about the level of entrepreneurship.

At this point we should point out that the difference between institutional economic analysis and traditional analysis lies in the fact that the former is based on human views and perceptions, and not on an arithmetically-based descriptive approach. This is, after all, why we chose a methodological combination of qualitative and quantitative approaches: because our analysis was, from the very beginning, placed within the institutional framework. Our methodology, as elaborated in chapter 4, approaches the institutional analysis of entrepreneurship in an original way, as discussed in section 7.3.

This study also highlights other important and interesting issues pertaining to institutions and entrepreneurship. For example, it highlights the issue of the quality of the political system or various governance issues, and how they help enhance entrepreneurship or not. Or, for example, the issue of bureaucracy, which always acts as a major deterrent. Our study also dealt with the cultural³⁷ and social factor, in other words the way society affects entrepreneurship. Of course, all those institutional arrangements are interrelated, especially in traditional societies, such as that of Cyprus. A society which, even today, is plagued by partisanism, because of the strong patronage relationships between political parties and citizens, the existence of a huge public servant apparatus and, in general, its traditional structures. Therefore, these characteristics obviously affect the perceptions of institutions and entrepreneurship.

We could say that Cypriot institutions are in a transitional phase and are “hanging on the balance”, since, on one hand, there is a need for modernisation and, on the other, there is a deeply-rooted traditional system that obstructs any progress. This slow transition is reflected on entrepreneurship and on the various entrepreneurial trends and initiatives. More specifically, it is reflected on the case of small and medium-sized enterprises, which are facing severe problems, also because of the economic crisis.

That said, one of the features of the Cypriot economy, which was also mentioned in a previous chapter, was that this crisis was primarily a banking crisis, a fact that made it even more difficult to provide financing for family businesses and SMEs. The absence of an institutional support mechanism in the event of economic emergencies severely curtailed the options for many small and medium-sized enterprises, which not only failed to grow, but were actually forced to shut down.

The economic crisis led the state to a process of institutional change, not invariably positive; as a result, doing business in Cyprus is currently at a critical junction. The institutional analysis of entrepreneurship, under the approach followed in this study, provides us with significant answers to questions pertaining to these changes and, above all, to their effect on business. That said, it also provides us with the opportunity to plan, as a polity, as Cyprus, the entrepreneurship of the future,³⁸ on the basis of sustainable strategies and enhancing our place in regional, as well as international competition.

³⁷ See also: Harry Ph. Sophocleous, and Masouras, A. (2018).

³⁸ See also: Audretsch, D.B., 2003.

7.2. The results of the research under the prism of the PRCM approach

One of the main findings of this research concerns the corroboration of the PRCM approach of institutional barriers to entrepreneurial growth, which was discussed in the literature review, as well as in the methodology chapter. The results of this research confirm the importance and applicability of these four groups (pillars) of institutional barriers to entrepreneurial growth, i.e. political barriers, barriers pertaining to the management of available recourse, cognitive barriers, as well as motivation-related barriers.

More specifically, our research confirmed an important assumption: that entrepreneurship is a key institution in its own right. It is so deeply forged together with society, with social processes, and with the economy, that it constitutes an integral part of a country's operation. This is, after all, why it was also approached in this study under the lens of national competitiveness: in order to demonstrate the major role of entrepreneurship on the national level, a fact that is also testified to by the various indicators that measure it and that were also discussed as part of this study.

Returning to the PRCM approach, the data of our research shows that the political factor is of great importance, since it is, effectively, the one that guides all other factors (such as the economic factor), as entrepreneurship-related decisions are being made on either the formal, or the informal, levels. The research also showed that young people are very concerned about the political environment and that the political factor affects any decisions they make in regard to business activities. Autio and Fu (2015), addressing the issue of both the political and economic factors as regards entrepreneurship, argue that the political situation in a country is the main driver of informal entrepreneurship, which, according to the authors, is defined as follows: "Informal entrepreneurs trade legal products and services, yet do not apply for business registration or file any incorporation documents with government authorities. The phenomenon of informal entrepreneurship (e.g., own-account workers without employees and employers with a few employees in their own informal-sector enterprises) has received some attention from both academic scholars and policy-makers" (p. 67). This type of entrepreneurship, i.e. informal entrepreneurship, is of particular interest, since a large portion of young people are engaged in it, at least at the early stage of their involvement and until they settle down to their final decision, and, of course, depending on the outcome of their activity. The political institutional factor allows, to a certain extent, the development of such entrepreneurship through the enactment of various pieces of legislation, for example the definition of the amount of an enterprise's profits that is not subject to taxation and, if exceeded, requires its registration with the tax authorities and, consequently, the payment of taxes.

The resources factor is also very important, since infrastructures are necessary not only for starting a new business, but also for the growth of an existing one. Resources and access to them are also related to the political factor, since, as shown in chapter 6 on innovation, many enterprises fail to innovate, precisely because they lack the necessary resources and because they believe that they do not have the support required for acquiring them. This either means the absence of economic support, i.e. financing, or some other form of making it easier to

acquire them. As we saw in chapter 3, resources also include human resources. This study has demonstrated that human resources also play a major role in entrepreneurial growth.

The cognitive factor is also very important, since it is a primarily institutional factor, which is related to knowledge and access to knowledge, education, and training. Some of the data of this research showed that there is a problem with access to entrepreneurship-related knowledge on various levels, for example, as regards access to information about various programmes for the enhancement of entrepreneurship, as well as various activities, while the picture becomes better as regards entrepreneurship-related training offered by educational institutions, at least on the tertiary education level, where the respondents to this survey actually belonged.

Finally, we could say that the fourth factor, motivation,³⁹ is the lead factor, since everything begins and ends with incentives. After all, the entire discussion is about whether the institutional framework provides the incentives for the development of entrepreneurship, not only among young people, but in general.

Analysing these four pillars, we observe that they all function within a framework of institutional arrangements, wherein one factor affects the others. This is, indeed, a key feature of institutions, i.e. that they are not static, but are characterised by perpetual mobility and are mutually affected, The PRCM approach as elaborated on in our research

7.3. The originality of the methodological approach

As stated in the methodology chapter, methodology was instrumental to the originality of this study, because the way that various tools were used, in order to give answers to the research questions, may become a model for the further research of entrepreneurship under the lens of institutional analysis. More specifically, the quantitative and qualitative approaches were implemented through institutional tools of research and analysis.

In chapter 4, where we tackled the methodology issue, we stressed that the examination of the institutional environment instrumentally helps us extract scenarios regarding the business environment, e.g. about the enterprise's sustainability, the risks and competitive trends it faces, and the opportunities it is called to utilise within the overall environment in which it operates and grows. In this sense, the PESTEL approach provides us with this instrumental capability, which we are methodologically utilising in this research.

Of equal interest is the instrumental usefulness of the PRCM approach, in conjunction with other theoretical approaches, such as the institutional voids theory. In an effort to combine various components that emerge from various theoretical approaches, we create an original mix of methodological elements, which help us approach entrepreneurship under the institutional lens – and in some cases under the lens of the market. This is precisely where the originality of the methodological approach lies.

³⁹ See also: Masurel, E., Nijkamp, P., Tastan, M. and Vindigni, G., 2002; Cromie, S., 1987; Hayter, C.S., 2015; Bell, J. and Stellingwerf, J., 2012.

As mentioned in chapter 4, there is lots of methodological “space” for those researchers who wish to further expand the items of this research and delve deeper in to the fields of young entrepreneurship and innovation, under the prism of institutional analysis. In other words, there is lots of methodological scope for further discussion. The institutional background can by itself invest this research with the potential for interesting expansions and applications. For example, there are also other theoretical frameworks that could be used for future expansions of the research, many of which were presented in previous chapters, as, for example, the various indicators regarding entrepreneurship, innovation, and institutions. An amalgam of various elements from these indicators could provide this research with further “fuel” for methodological expansion in the future. For example, the various indices that measure entrepreneurship include many interesting variables, which, if elaborated on by a researcher, may lead to the identification of new issues of concern for contemporary entrepreneurship. These issues are discussed in section 7.8.

7.4. Institutional Voids and Entrepreneurial Growth

One of the issues highlighted by our research is that of institutional voids and how they affect entrepreneurial growth. In the theoretical chapter we discussed the institutional voids theory, i.e. how various institutional voids, institutional deficiencies, and the absence of institutional bodies affect entrepreneurship, as well as how (that is, by means of what strategies) can enterprises survive in institutionally inadequate environments.

This, of course, varies from country to country. For example, in countries with low living standards these voids are evident and more intense. In the case of Cyprus, however, these voids can only be seen through research and daily involvement with business. These voids are identified and analysed in our research. That said, the institutional voids theory claims that these voids may give rise to business opportunities. This is an interesting question, which provides us with food for thought for a future research.

One thing is certain, though: in healthy societies, where the appropriate procedures are in place –irrespective of whether these procedures are slowed down because of institutional voids or difficulties–, it is not perfectly clear whether institutional voids have an exclusively positive or negative effect on entrepreneurship. Therefore, the question that is raised here as regards the institutional voids theory is whether it can be applied on prospering or developing economies, or on poor and problematic economies. The same stands for entrepreneurship. In other words, we cannot approach and examine it in the same manner everywhere, since, as mentioned above and below, each field of application and each country have their own peculiar characteristics.

7.5. Innovation challenges: Towards a national strategy framework for enhancing competitiveness

The results of our research lead us to interesting conclusions regarding innovation in Cypriot SMEs. Innovation, being subject that has always been high in the entrepreneurial agenda, is more topical than ever before, since, on one hand, intense competition in the market and, on the other hand, institutional change and technological progress are placing it at the epicentre of the entrepreneurial debate. The framework for the discussion regarding the challenges for innovation that resulted from our analysis is as follows:

- High cost of innovation: The high cost required for designing and realising an innovation is a major deterrent, especially for small and medium-sized enterprises. It is also related to the absence of special assistance programmes and, mainly, with the difficulty of accessing them because of either insufficient information, or red tape. On the other hand, it is interesting to see whether there are any innovative activities and procedures that do not incur a high cost.
- The lack of appropriate sources of financing: The discussion about the cost of innovation also shows that the sources of financing are the most important tool for supporting small and medium-sized enterprises. This financing may be related to innovation or other aspects of entrepreneurship, such as young and female entrepreneurship.
- Excessive risk-taking: Another factor that was discussed in this research was the risks assumed by small and medium-sized enterprises when they undertake some innovative activity. This is connected with the above discussion, since risk aversion is, in essence, related to the institutional framework. Institutions and institutional arrangements can encourage the growth of small and medium-sized enterprises by providing them with a comprehensive and coherent network of access to information either about financing, or about training-education on issues of concern to them.
- The lack of specialised personnel: The research revealed that small and medium-sized enterprises attach great importance to issues pertaining to personnel training. This is one of the issues we raised within the context of the PRCM approach. It has to be noted here that innovation requires the necessary knowledge and specialisation. Of course, we should not overlook the fact that innovation differs from sector to sector and each market segment requires different forms of specialisation.
- The irresponsiveness of consumers to new products and services: Another factor, which has nothing to do with the institutional framework, but has everything to do with consumer behaviour and marketing, is the consumers' irresponsiveness to new products and services. This may be explained in many ways, for example, as a result of excessive competition in the market and of an abundance in products and services that leads to reduced response to new products. This is a deterrent for small and medium-sized enterprises, which are afraid to take the risk of innovative growth, because of the uncertainty regarding the response of the public to any innovation.

Fostering an open and creative culture is imperative in order to enhance, not only innovation, but entrepreneurship in general, and this will be very helpful for boosting business activity.

This can be done by encouraging diversity and tolerance for/receptivity of new ideas and opinions by enterprises, in other words by making enterprises more open to the new knowledge and fresh ideas of young executives. On the other hand, socially-oriented innovation may enhance social cohesion. In the literature review, for example, we saw the case of social entrepreneurship. Our research also demonstrated that a major part of innovation concerns the diffusion of innovative outcomes and the new value created by it, and this is why in the literature review we tackled and discussed concepts such as open and closed innovation. Openness and mobility are key features.

What is really needed is to foster a climate that is conducive to entrepreneurship, and this is, after all, the general idea and the general conclusion drawn from our research. That is, to encourage initiative-taking; to ensure that failure does not necessarily lead to stigmatisation. You cannot try something that has never been done before and be certain about the outcome; moreover, innovation entails risk, and this is well known to both young people and small and medium-sized enterprises. Risk, as well as knowledge about risk and the possibility of taking business risks, are some of the issues that were raised by our research. After all, as said in the focus groups of our research, creative outcomes usually require lots of trial and error. Every failure brings us closer to solving a problem. On the other hand, more often than not failure also entails economic cost, which acts as a deterrent.

Another major issue that emerged through our research was the communication of an enterprise's innovative outcome to the public. Precisely because many small enterprises are unable to be extrovert/open, owing to the lack of either the necessary knowledge or the necessary tools, what is, in essence, needed is effective branding, i.e. the provision of support to small and medium-sized enterprises in order to help them create and communicate their corporate identity through a communication strategy. At the same time, we should enhance the awareness and knowledge of all interested parties about the benefits emanating from a modern National Research and Innovation System. There are various programmes, for example in Cyprus, which promote entrepreneurship and innovation; however, their operation is not coordinated and uniform. A single national strategy should be established. First of all, we need to promote the special features and the comparative advantages of Cyprus as a business destination, with the aim of attracting smart ideas and investments. This way we can promote three main features, which can enhance such a national policy: the differentiation of Cyprus from other business centres; the promotion of its unique character; and the promotion of the originality of its ideas and services.

Based on the above, we conclude that there is lots of scope, on the policy level, for improving the innovation framework for small and medium-sized enterprises. We also observe that the institutional framework plays an important role, since its effectiveness is reflected on the enterprises' decisions about whether they will use innovation or not. Apart from that, though, enterprises consider innovation to be a necessary strategy, in order to differentiate themselves and become competitive. Innovation, as stated many times in this study, is an integral part of entrepreneurship.

The findings of our research establish an initial framework for a national strategy proposal, both in the case of Cyprus and in the case of other countries that have the same, or similar,

characteristics, for the enhancement of entrepreneurship through innovation. More specifically, our findings lead to the following ten practicable national strategy proposals:

1. Small and medium-sized, as well as larger, enterprises should be strengthened in order to produce innovation on the local level, albeit with international prospects, in a faster, cheaper, and smarter way. The analysis of our research showed that some of the problems faced by enterprises include time-consuming procedures and high costs, and these problems need to be tackled on the national level. From then on, we need to enhance the concept of local innovation. In our research, local innovation is defined as follows: It is the type of innovation that is either designed and implemented on the basis of local needs (e.g. an innovation designed to cover local needs of the tourism product), uses local elements in its design (e.g. a new product using local raw materials), or both. A national strategy, apart from providing encouragement and assistance for the development and realisation of local innovation, should also help enterprises give international prospects to their innovation, i.e. to be able to take local innovation across national borders.

2. One of the greatest problems Cyprus is facing is the absorption of funds from entrepreneurship-related competitiveness programmes and the provision of support to small and medium-sized enterprises in order to absorb such funds. A coordinated and coherent national policy should maximise the absorption of resources from European competitiveness programmes (e.g. the “Horizon 2020” programme).

3. Another major issue is the strategy for fostering an innovation culture. This research has shown that, although citizens and stakeholders are aware of the importance of innovation, they need encouragement in order to innovate. In essence, there is no innovation culture that will help the market move on to the next stage, and incorporate innovation into business activity. A national strategy plan could offer the necessary incentives –per market segment– for turning innovation into a key feature of innovative activity.

4. National strategy for encouraging innovation should be uniform. This means that this strategy should bring together all innovation stakeholders and make them cooperate, including public services, local governments and various local growth and promotion companies, the enterprises themselves (as immediate stakeholders), universities, as well as NGOs.

5. Following point number four, the national strategy for the enhancement of innovation should include, through various activities and initiatives, the promotion, coordination, collaboration, and synergy either between enterprises, or between enterprises and various organisations.

6. Another issue that was extensively discussed and analysed in this research is the role that is, or could be, played by universities, as regards the enhancement of innovation and, in general, entrepreneurship. Actually, we should soon bridge the gap between academic institutions and businesses, thus shortening the distance from the idea to the market. Universities are already working towards this direction, but to make this effective, i.e. in order to make this connection between universities and the market actually work, the market

itself should be mature enough to be able to accept this interaction. In fact, it needs to be understood that the market has a lot to gain from academic institutions in terms of knowledge, education, training, and research. On the other hand, academic institutions should offer knowledge that is useful to the market, since they also have a lot to gain, mostly the absorption of their students and graduates by the labour market. Therefore, it is very important for a national strategy to focus on this relationship.

7. There is also the issue of the synergies created between different industries, an issue that should also be of concern for policy makers. More specifically, the promotion of cross-pollination among different industries and the combination of radically different technologies and industries will result in the enhancement of shared innovation, i.e. the type of innovation that is the result of shared inter-sectoral elements, knowledge, and practices.

8. Attracting investment should be a main pillar of a national strategy. More specifically, it should include the mechanisms required for attracting foreign investment and ensuring its absorption, through certain procedures, by small and medium-sized enterprises. In other words, small and medium-sized enterprises should be assisted in finding partners and investment from abroad, in order to enhance their innovative activities.

9. Following point number eight, a prerequisite for generating business interest from abroad and attracting foreign capital for innovation and, in general, for business activities and developments, is the enhancement of the image of Cyprus in the international scene (Nation Branding).

10. As a final point to our national strategy proposals, we should not forget the issue of competitiveness, which was extensively dealt with in this research. In chapter 3, we discussed the cases of other countries, such as Malta and the United Kingdom, and also referred to the case of Greece, as regards the important role of competitiveness in national economies and the prospects various countries have for enhancing their national competitiveness. Entrepreneurship and innovation may significantly enhance national competitiveness in the case of Cyprus as well. Precisely because it has the necessary infrastructure and, as we will see below, “thinkers” capable of contributing a lot, Cyprus can become a hub of entrepreneurship and innovation – emphasising on small and medium-sized enterprises and utilising its geographical, as well as technical and geopolitical features, as they are being currently shaped.

The emphasis placed by our research on small and medium-sized enterprises (Wiklund and Shepherd, 2003) is designed to demonstrate that: innovation in Cyprus can be low-cost and easy-to-introduce to both the local, and international markets. Moreover, it is obvious that Cyprus possesses a substantial amount of knowledge about new and smart technologies, as well as about Information Technology, which can be used by small and medium-sized enterprises, in order to create synergies and produce a good and competitive outcome. We can also see that Cyprus has many knowledgeable young people, who are looking for synergies with enterprises, in order to implement an innovative business idea. Thus, there is a strong foundation towards this direction. By enhancing small and medium-sized

enterprises, as well as the country's young workforce, Cyprus can become a very competitive business destination.⁴⁰

As analysed in the previous chapters, there was an interesting and continuous reference to discussions about innovation and innovative enterprises. It was interesting mainly for the following reason: because most participants did not have any in-depth and effective knowledge of the business aspects of the concept of innovation, albeit they were aware of, and understood, the importance of innovation in terms of financing, i.e. the fact that their proposal for the development of a business plan must include innovation and, by extension, they understand the importance of innovation for the viability of an enterprise. This finding of our analyses prompted us to propose that it is necessary to improve communication with, and the provision of information to, stakeholders about innovation-related issues, as well as that it is necessary to establish an official institutional body regarding these issues.

We were also led to the conclusion that the characteristics of the market have a major effect on the development of innovative activities by small and medium-sized enterprises. Therefore, this is not an exclusively institutional issue, albeit any activity is also determined by purely market/economic factors. As shown in the analysis of the research, SMEs are seriously taking into account market demand for innovative solutions, as well as competition. As, also, shown in another part of the above analysis, SMEs use consumer behaviour analysis in order to glean information that will help them improve their innovative activities by intervening either on the product or the processes or other innovation-related aspects. That said, each market sector has its own peculiar characteristics, which accordingly affect innovation. Market behaviour is not, of course, independent from the institutional framework, The market operates within the context of the institutional framework. In other words, there is an interaction between the institutional framework and the market, which should not be overlooked when approaching the subject of entrepreneurship from its institutional perspective.

For the concept of local innovation, which was discussed here, is a concept that emanates from our research –at least under the definition provided in the context of our analysis– although it is also encountered in international literature under different interpretations. For example, Breschi and Lissoni (2001) refer to “local innovation systems,” while other authors mostly refer to the regional role of innovation, emphasising on the characteristics of each region.⁴¹

In subsection 7.5.1 we present a specific business model from a case study in the city of Paphos, which provides a practical explanation of the concept of local innovation, which was mentioned above.

⁴⁰ See also: Hadjimanolis, A., 1999.

⁴¹ For example, see: Camagni, R., 1991; Bathelt, H., Malmberg, A. and Maskell, P., 2004; Amin, A. and Thrift, N., 1995; Morgan, K., 2007.

7.5.1. Neapolis Smart EcoCity: The evolution of Neapolis University and the role of local innovation

Neapolis University is based in Paphos and is in its tenth year of operation. This specific example is presented here because it includes elements of local innovation, which can help us approach and explain the concept of local innovation in a better and more practicable manner. Neapolis University is part of a wider project, the completion of which is expected in the near future. This project will consist of various services, as analysed below. That said, we chose Neapolis University as an example of local innovation because Paphos is a small coastal city of Cyprus, primarily touristic and famous for its history and archaeological monuments, while it was also the Cultural Capital of Europe for the year 2017. On the other hand, it is a growing city, which possesses the necessary “mix” and characteristics that can turn it into a business, as well as research, hub. Within this environment, Neapolis University is part of a wider project titled Neapolis Smart EcoCity, which is owned by one of Cyprus’ private land and real estate development groups, and is designed to become a driver of business investment. More specifically, in order to make the identity and characteristics of this project even clearer, we could say that the Neapolis project is about a world-class sustainable “New City” of Eco-Intelligence, implementing the most innovative development strategy, and aiming for a green, smart, and intelligent community.

Neapolis will provide an intelligent lifestyle built on Innovative Eco-Design utilising intelligent urban planning and sustainable strategies based on new and innovative technologies regarding Energy, Water, Waste and Lighting, aiming for Zero Carbon Emissions. Green innovation, which was discussed in previous chapters, is one of the key elements of this project. Green innovation is *de facto* related to the natural characteristics of a place. Therefore, we could say that Green innovation and, in general, Green entrepreneurship are by definition connected with locality, i.e. with the local natural characteristics. In order, that is, for an enterprise to utilise green elements, these should originate in the natural environment of its location.

The New-City’s concept, design and implementation are in line with the Future Europe 2010-2020 Strategy and capitalise on the synergy of education, research and innovation, proposing innovational programs utilising the resources of EU Funds, national funds, and private investment.

Neapolis will employ a single intelligence platform which will accommodate new “green technologies”, latest digital applications and sustainable town infrastructure solutions. Therefore, new technologies also play a major role in this project and are utilised for the development of its innovative features.

The critical value propositions of this project, as presented by the company that undertook its construction and management include the following characteristics and elements that make it innovative, since it offers services not available in the wider region, along with all the prospects that enable a local-based project to play an important regional role:

- EcoCity Green Design & Architecture – Balanced with Nature, Tradition and Culture; Intelligent City Planning; Sustainable Strategies.
- EcoCity Intelligent Utilities Network – Includes Smart Energy, Water, Waste Grids (integrated smart Energy grids with smart meters in every home and business).
- EcoCity Green, Clean Technologies - Recycling; Water Purification; Sewage Treatment; Solid Waste Management; Renewable Energy.
- EcoCity Smart & Green Building – Green Building Technologies (Materials & Resources, Indoor Environment etc), Energy Efficiency (BMS, Integrated Photovoltaic Systems etc).
- EcoCity Intelligent Platform & Internet - Smart Web Search Engine, knowledge resources and online public services with a single Ethernet environment.
- EcoCity Knowledge Grid Environment - Intelligent Information Ecosystem.

According to the company, the warranty of the program's achievement is commitment to critical value propositions: Ecopolis; Urban Aesthetics; Integrated Township & City Intelligence; Green Infrastructure; Intelligent Lifestyle Communities; Quality of Life Services; Sustainability Standards.

We should stress here that, as shown by a survey we conducted in the form of interviews with executives of the company responsible for this project, its purpose is to turn the city of Paphos into a business hub, into an attraction for multinational corporations that will view Paphos as a destination for establishing an innovation base or centre. Obviously, a University can play a major role in such a venture.

In the previous section, as well as in other chapters, we discussed the importance of Universities, and the institutional role they can play as regards the development and enhancement of entrepreneurship. Hence, one of the important elements of this example is the following: This project, despite being developed by private interests, is trying to establish its growth and differentiation through an institutional body, i.e. the University. This is, after all, why the University was established first: in order to become the institutional base for ensuring the sustainable and smart character of subsequent projects, through various synergies.



Figure 7.1 Services synergies through a local business project.

Source: Neapolis Smart EcoCity.

As we can see in the above image, as well as in the explanations provided above, this is a project that has two peculiar features: first, it is a local project, i.e. a project that tries to get incorporated into the local characteristics of the city and become a “city” within the city, without losing its identity and exploiting –in the positive sense of the word– the natural features of the location, in order to develop smart forms of innovation and create services with a social orientation, such as a University, a research health centre, etc. So, in essence, this is a project that features elements of local innovation. And on the other hand utilises service synergies. That is to say that a smart private city incorporates various services, such as a business park, a university, a healthcare park etc.

7.6. The dichotomy syndrome: Thinkers vs. Doers

This research unveiled an interesting characteristic of Cypriot people: they are more thinkers than they are doers. The dichotomy between these two behaviours is very pronounced in Cypriot society. This behaviour can also be interpreted by means of institutional analysis. If we take a close look at the findings of the survey we will observe reluctance towards doing business, at the same time that we observe an enthusiasm. These two contrasting feelings give rise to two opposite situations-behaviours: On one hand we have the production of knowledge and ideas, while, on the other hand, we have reluctance and risk aversion, thus ending up with a society that, as far as doing business is concerned, mostly consists of thinkers instead of doers.

Santini et.al. (2016) address this subject in their research, arguing that in order to bridge the gap between thinkers and doers as regards entrepreneurship, institutions need to help improve policy-making so as to ensure the provision of incentives for improving business activity.⁴²

This is also the conclusion of our own research on the role played by institutions and, in general, institutional arrangements, in the wider field of entrepreneurship. The following graph presents the institutional-based dichotomy between the two types, which is essentially reflected on the degree of the institutions' effectiveness. These policies are also the tools that define the results. In the case of Cyprus, our research shows that, although policy-making tools, i.e. the organisations and policies that can help boost business activity, are actually there, the problem mainly lies in their effectiveness. This can be interpreted in various ways, and our research provides answers to that as well. For example, the issue of red tape or the issue of difficult access to complete information; the time-consuming or inadequate nature of the relevant procedures; or even the existence of ill-conceived support and financing programmes which do not respond to the modern needs of new entrepreneurs, are all examples of problematic policies that are in dire need of revision.

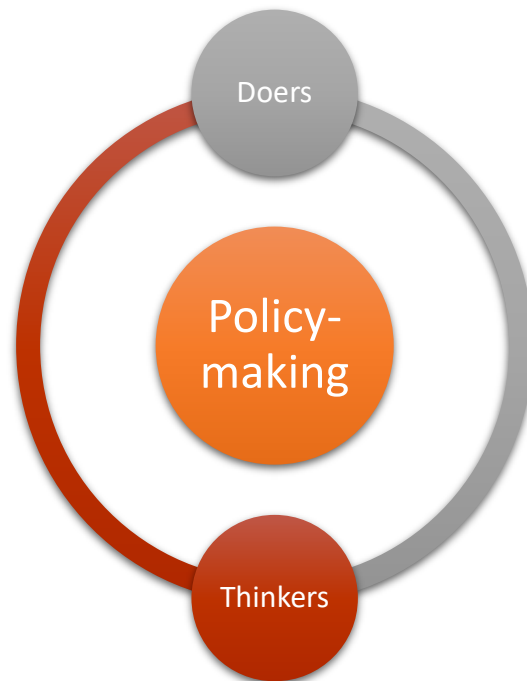


Figure 7.2 Thinkers vs. Doers: How can effective policies bridge the gap between those two situations?

Source: Own elaboration.

As regards the production of knowledge and ideas, our research shows that, in the case of Cyprus, this is to a great extent facilitated by education. Focusing our research on the case of Universities, we can see that there is good “machinery” for the production of knowledge and ideas, which also doubles as brainstorming for new business ideas.⁴³ Of course, in the past

⁴² See also: Boden, M., Marinelli, E., Haegerman, K. and Dos Santos, P., 2015

⁴³ See also: Ronstadt, R., 1985.

few years this has been facilitated by legislation that allowed the establishment of private universities, which led to the improvement of the quality of tertiary education.

After all, we should not overlook the fact that education has been one of the most important and traditional institutional pillars of society over time. Cyprus has all the elements and qualities that are necessary for enhancing business education systems and thus become a hub of entrepreneurial thinking.

At this point it should be stressed that both types, i.e. both thinkers and doers, are equally important for the market. It is self-evident, of course, that their coexistence leads to the completion of the entrepreneurial process, as we are moving from theory to practice and one thing complements the other.

7.7. Young entrepreneurship as the basis for tomorrow's market

The discussion and analysis of young entrepreneurship provides us with useful tools for understanding the characteristics of the market, at least in Cyprus, which is our point of reference, without this, of course, meaning that there is no room for further generalisation, as we will see below. We should not overlook the fact that young entrepreneurs are the seed for the markets of the future, and by extension, for the future of the country's economy. Therefore, an analysis of young entrepreneurship can provide us with an initial profile of this generation.

Based on the findings of chapter 5, we can see that young people give emphasis to the personality traits that they relate with entrepreneurship. For example, we saw the importance attached to the factor of enthusiasm, as 50.8% responded that this is a very important for an entrepreneur's success. Or, for example, the decisiveness factor, which is an equally crucial factor for the successful outcome of a business activity, according to young people.

Apart, however, from the factors pertaining to the personality of the individual who wishes to do business, young people also provide as with a complete picture regarding the state of institutions. Young people, precisely because they see things more objectively, also offer us a more realistic picture regarding the state and operation of institutions, either formal, or informal. Moreover, this research has the following peculiarity: On one hand, under the prism of young entrepreneurship we examined the perceptions of young people the majority of whom are not yet active in business; and on the other hand, through our innovation-related research we explored the views of small and medium-sized enterprises, and, in particular, of their managers, on innovation, especially in regard to the institutional framework and how it facilitates business activity.

Therefore, as stated in the introduction to this study, as regards originality, our research covers two basic stages: the initial stage of considering to do business (covering the target group of young people, although this can be widened, to cover more age groups) and, second, the stage of existing SMEs, by examining their growth phase and the various obstacles and opportunities that arise. It is exactly at this point where the research on young

entrepreneurship is “tied” with research on innovation in small and medium-sized enterprises. After all, one of the most important subjects covered when dealing with young entrepreneurship is the way young people themselves perceive of innovation; and in this case we obtained interesting data, which were discussed in chapter 5.

More specifically, chapter 5 discussed the following subjects: First, the respondents’ demographics, given that a discussion on the issue of young entrepreneurship should be preceded by a classification on the basis of age. Apart from age, the analysis included the respondents’ sex, education level, and location. As regards the specific questions of this research, this chapter discussed and analyses the following subjects: the young people’s willingness to make certain professional choices, for example, to choose between employment in the public or private sector and self-employment. Overall, the chapter discussed –through the use of various questions– the young people’s ability to create, and lead, their own business, and whether they possess the skills required for solving a series of problems, such as personnel issues, as well as issues pertaining to marketing and, in general, various aspects of management. It also discussed the young people’s perceptions of the economic dimension, whether they believe that financial assistance is required, and what the agencies that may provide such assistance are. The most important matter that was addressed in this chapter, though, is institutional analysis and, more specifically, what are the institutional obstacles that get in the way of the young people’s business activity, as well as the opposite, that is to say, what are the institutional incentives that are offered to young people and that, in general, encourage and promote young entrepreneurship.

The above issues lead to the application of the hybrid institutional model of entrepreneurship and innovation, which is discussed in the following section.

Another element that adds value to our research, is the institutional approach of entrepreneurship in relation with the political problem of Cyprus, i.e. the Cyprus issue, which was dealt with in Chapter 5, through the focus group method and from the perspective of young people: More specifically, Chapter 5 contained the following remarks about this matter: A question that gave rise to a heated discussion among the participants is whether they believe that the Turkish invasion of Cyprus had an impact on the nature of entrepreneurship on the island and to what extent. Most participants believe that it had a negative impact, since the country lost territories that could be exploited by the primary sector of its economy. They were also negative in regard to the opening of the barricades, since the uneven tax policies of the north and the south create a “two-tier” market. The participants said that entrepreneurship can only be enhanced through the effective and actual reunification of the island, and not through the mere opening of a barricade, which gives rise to other problems.

Reference to the Cyprus issue, that is the Turkish occupation, adds a peculiar feature to the case under review and paves the way for interesting future research and discussion on how it has been affecting, and may affect in the future, entrepreneurship, along with what possible solution to the problem would have the most positive effect on entrepreneurship.

7.8. The hybrid institutional model of entrepreneurship and innovation

The findings of our research lead us to the construction of an entrepreneurship model centred on small and medium-sized enterprises, which also incorporates innovation-related components and features. This is essentially a hybrid model, since it is open (as is the case with other theoretical approaches analysed in this study) to application in various contexts and cases, as we will see in section 7.10. That said, it should be pointed out here that the modelling of the methodology and, consequently, the application we used, covers three pillars of entrepreneurship: young entrepreneurship, innovation, and entrepreneurship that focuses on small and medium-sized enterprises, since the analysis of innovation is always centred on the case of SMEs. These three pillars are grouped into two main categories: Variables designed to estimate young entrepreneurship trends; and variables designed to approach innovation and SME activity.

For research purposes, small and medium-sized enterprises are covered both by the young entrepreneurship pillar, and the innovation-in-business pillar. Both pillars focus on small and medium-sized enterprises, and, as mentioned here, as well as in the introduction to this study, SMEs also include small family businesses. Therefore, the entire range of our study is about small and medium-sized enterprises. After all, the young people's perceptions regarding the creation of their own business *de facto* concerns, at least initially, small-sized enterprises, irrespective of their overall targets.

The following graph presents these pillars, the largest being the one about small and medium-sized enterprises, since every studied activity and range sums up to that. At the centre lies the pillar of innovation, precisely because innovation is pertinent to the entire range of entrepreneurship.

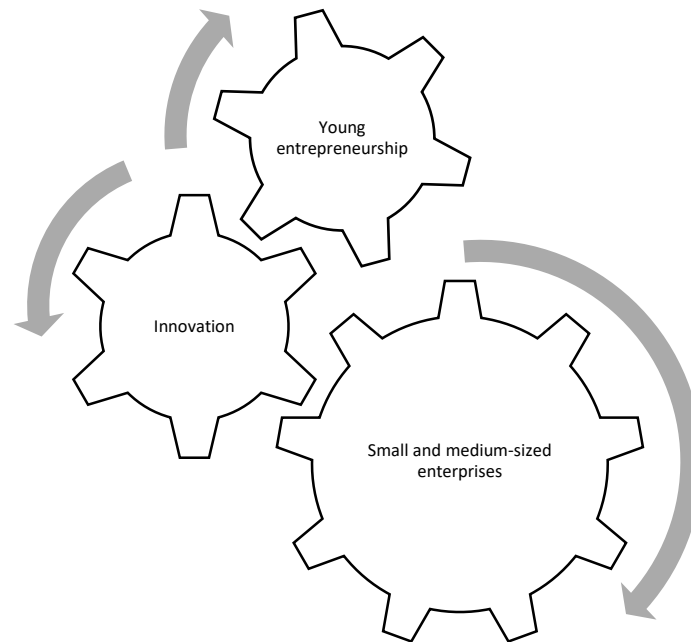


Figure 7.3 The three pillars of the hybrid institutional model for the study of entrepreneurship and innovation in SMEs.

Source: own elaboration.

A. Variables for assessing young entrepreneurship trends:

1. Professional choices: As part of this study, this variable examined component such as the young people's willingness to pursue the professional option of becoming a government employee or a private sector employee, as well as the option of being the owner of a business. Interest in this variable lies in the fact that we can record and understand the young people's perceptions of various professional options.
2. Rationale for setting up a business: It is important to examine whether young people are interested in, or contemplate, setting up their own business. The factors that drive them to establish a business, or prevent them from doing so, can provide us with useful tools for analysing the future development of the field of young entrepreneurship.
3. Knowledge of practical details about setting up a business: At this stage we examined whether young people are aware of the practical details required for setting up a business, for example the legal procedures.
4. Knowledge about assistance programmes: In this research, we extensively dealt with the financing provided by various assistance programmes. This was mainly done because information about these programmes, access to the relevant procedures, and, in general, the procedures themselves, constitutes a purely institutional issue. On the other hand, we also observed that this issue is of particular concern for young people, who, in general, seek

information about financing procedures. In our study we focused on specific programmes, i.e. on young entrepreneurship and female entrepreneurship.

5. Institutional factors that affect entrepreneurship: This variable may lead to an in-depth examination of all the institutional factors and parameters that are in play, and affect entrepreneurship and various processes. This, of course, as is the case with the other variables, depends on the content given by the researcher. In our research, we analysed the following institutional elements: the political environment and whether it facilitates or prevents the creation of enterprises by young people; the social environment; the cultural environment, i.e. culture and civilisation and how it affects entrepreneurship; and, finally, the financial environment, i.e. the economic and financial institutions, which are usually inextricably linked with political institutions.

6. The characteristics of an entrepreneur: In our research, we examined and analysed various characteristics of the entrepreneur and, primarily, we examined the young people's perceptions of these characteristics, such as honesty, the ability to take risks, having a vision, and so forth.

7. Creativity: The element of creativity features in the discussions developed as part of this study, but was also examined in our application. One of the positions of this study is that creativity is an integral part of entrepreneurship.

8. Resources/human resources: Resources, including human resources, are one of the most important elements that comprise the jigsaw puzzle of entrepreneurship. We dealt with them at various stages of our research. On the young entrepreneurship level, we essentially examined whether young people believe that they need assistance in finding the appropriate human resources for their enterprise. As a matter of fact, at this stage we did not cover the entire issue of resources, but only the issue of human resources. The infrastructures aspect was covered in Chapter 6, where we approached small and medium-sized enterprises under the prism of innovation, and particularly through the process innovation variable.

9. Extroversion/synergies: Another issue that was extensively covered in our study is the issue of business extroversion, as well as the willingness and ability of businesses, and more specifically small and medium-sized enterprises, to collaborate, and generate synergies, with other enterprises and agencies.

10. Knowledge required for maintaining a business: A person's knowledge regarding the maintenance and development of a business is an interesting subject and this is why it was approached by this study on the education level, i.e. whether universities provide young people with the knowledge required for tackling issues pertaining to entrepreneurship. By means of this variable, we examined and analysed the role played by universities from the perspective of young people, the importance young people attach to knowledge, and, in general, the level of entrepreneurial knowledge in the case of the country under review.

B. Variables for approaching innovation and SME activity:

1. Product (goods or services) innovation: The first and foremost item examined by our approach is product, or service, innovation. More specifically, this component examines, as part of its application in this study, the periods when a new innovation is introduced in a product or a service; and, secondly, who developed these product innovations. In other words, whether they were entirely developed by the enterprise itself; by the enterprise in collaboration with other enterprises or organisations; by the enterprise through the adaptation or modification of goods or services originally developed by other enterprises or organisations; or, finally, whether it was developed by other enterprises and organisations. The examination of these factors can help us reach useful conclusions, for example about the level of know-how of an SME, or the resources at its disposal and whether they suffice for it to develop product or service innovation on its own.

2. Process innovation: By means of this component we examine the methods for producing a new innovation, i.e. the methods used for the construction or production of goods and services; the methods for producing or distributing raw materials, goods or services (logistics); and the activities used for supporting procedures, such as maintenance systems, or procurement, accounting, or IT applications.

3. Ongoing or interrupted/suspended product or service innovation activities: This is an interesting component, which can help us understand why a small or medium-sized enterprise interrupts or suspends an innovative activity.

4. Product and process innovation-related activities and expenditures: The financial aspect of innovation is always interesting since, as demonstrated by our research, the funds needed for an enterprise to engage in innovative activities are more often than not difficult to find and, at the same time, of critical importance. Some of the data estimated by this component include, for example, the expenditure incurred by a small or medium-sized enterprise for research, for the acquisition of external knowledge from other enterprises or organisations, for training, for introducing innovations in the market, and other similar innovative activities.

5. Public financial support for innovative activities: This is a primarily institutional component, which examines public financial support for small and medium-sized enterprises. More specifically, it examines the financial support provided by local governments, the tax incentives available to innovative enterprises, and the financial support provided by Ministries and other agencies such as Universities, as well as from European Union programmes.

6. Product and process innovation-related sources of information and partnerships: Examining the sources of information is also important, since it indicates the degree of access to sources of information and various partnership networks. This also helps small and medium-sized enterprises become more open.

7. Organisational innovation: According to the definition given in Chapter 6, organisational innovation is the implementation of a new organisational method in your enterprise's business practices (including knowledge management), plus the organisation of the enterprise's workplace and its external relations, which has never been used in the past by an

enterprise. This is exactly what this specific component examines: the new business practices regarding organisational procedures, the new methods of work organisation and decision-making, and the new methods for organising external relations with other enterprises or public organisations.

8. Marketing innovation: Marketing should not be overlooked, since it is an integral part of the entire process. As analysed and discussed in various parts of our research, the promotion and external communication of innovation or, business ideas in general, helps businesses become more open.

9. Factors that hinder innovative activities: One of the most important components of our approach, which was extensively covered in this research, is the approach and analysis of the factors that hinder innovative activities. The various stages of our analysis showed that there are many deterrents, both on the institutional and economic levels, but also because of the characteristics of the market.

10. Effect of legislation or regulation on innovative activities: This is also a purely institutional component. The effect of legislation, not only on innovative activities but, in general, on business activities, was also extensively covered by our study. As a matter of fact, our approach proposes specific content for this component, which is also applied as, for example, in the case of the effect of product safety and consumer protection legislation, the legislation and directives pertaining to environmental protection etc.

11. Non-innovative enterprises: Non-innovative enterprises are also covered by our approach. In this case, we examined two key issues. First, we examined why there was no reason or need for innovation; and, second, whether innovation was actually taken into consideration, but there were huge obstacles to realising it. Therefore, this component, more generally, examines the business strategy, and not only the reasons for non-innovation.

12. Copyrights: This component examines the subject of copyright and, primarily, of patent registration. By means of this element we can analyse the number and type of patent registrations by enterprises. For example, as part of our research we examined issues such as applications for patents, utility model certificates, business plan registration, trademark registrations, trade secrets, and copyright registrations.

13. Public sector contracts and innovation: In this case we examined the institutional relationship between small and medium-sized enterprises and the public sector, and, more specifically, the assignment of contracts for the procurement of goods or the provision of services, and whether it is easy to develop such partnerships and with what types of organisation.

14. Innovations in logistics: According to the definition given in Chapter 6, logistics is a bundle of services that include the design, organisation, management, implementation, and monitoring of all flows pertaining to the materials, goods and relevant information of an enterprise (from procurement, production, and storage to value-added services, distribution and reverse logistics). In this case we examined issues such as stock management systems,

e-procurement, reverse logistics (all operations pertaining to the reuse and return of products and materials), new delivery models, including the deployment of vehicles using alternative forms of fuel, or multi-modal logistics, and so forth.

The most important fact regarding this study is that the aforementioned approach has been applied in practice through its various components, and this application helped us extract crucial data and reach important conclusions. This means that it actually “works”. From then on, every other application of this approach is legitimate, since it does not mean that the components can only be applied in the way they were used here. There are also many other issues that need to be examined, and the components of our approach can help do that. Further applications and future extensions are examined in section 7.10.

Finally, as mentioned above, the characterisation of this model (which mostly constitutes a theoretical approach) as hybrid, is due to its easy adaptation and application in other fields covered by its components. However, there is another major reason for this characterisation: The hybrid character of the model stems from its perspective, which, despite being essentially institutional, also includes elements that stem from the market itself, and elements that are examined under the lens of the economic approach. Therefore, the hybrid model that comprises the institutions, the market, and the economy, makes this approach even more flexible and interesting.

7.9. Research takeaways

Our study, apart from the other points that raised and discussed above, also came up with some general, albeit interesting, takeaways, which can form the basis for the future extension or other application of our research: More specifically, we came up with the following takeaways:

- Entrepreneurship is the one of the three main elements of the entrepreneurial capital, while the other two are economic performance and regional development (Audretsch & Keilbach, 2004). This is why at some point of our research we stressed that entrepreneurship is, in its own right, an institution that interacts with other institutions.
- The understanding of the meaning of entrepreneurship and the roles of entrepreneur through this literature review was considered to be the starting point firstly in understanding and secondly in developing entrepreneurial capital, which is concerned to give solutions to current economic crisis problems. Therefore, we accompanied the findings of our research with proposals and suggestions concerning the national policy on entrepreneurship, because encouraging entrepreneurship can provide a boost to the economy.
- As the role of the entrepreneur has changed, it is vital for those who are attracted by entrepreneurial activities, to be prepared to recognise opportunities, exploit them, and find the resources to begin a new venture. Our research provides us with useful tools, which can be used by entrepreneurs.

- In terms of entrepreneurial skills, it seems that in the future they would not be related solely to entrepreneurs, but also to other professionals. Thus, as entrepreneurial skills refer to abilities the demand of which is increasing in existing or new occupations, they can be characterised as emerging/new skills (CEDEFOP, 2014, p. 75).
- Under the belief that the entrepreneurship cannot be mainly effective due to economic reasons –as was the case from the economists’ point of view in the past–, but owing to the changes in values, perspectives, attitudes, demographics, institutions and education (Drucker, 1985, p. 13) emphasis should be given to policies, strategies and especially to education in order to support the entrepreneurial spirit which, simply speaking, means the recognition, evaluation, and exploitation of opportunities. As a result, everyone could be able to think and/or act as an entrepreneur either for his own benefit or for the benefit of the economy and the society.

In the next, and final, section we discuss the research implications of our study, referring to various fields of possible application in the future. In essence, the following section provides the motive for follow-up research, and for analysing other issues pertaining to entrepreneurship and its related fields.

7.10. Research implications: From the case of Cyprus to a wider scope

This research can find various scopes of application. The fact that it was based on the case of Cyprus and on the case small and medium-sized enterprises does not necessarily mean that all its future applications should remain within this limited scope. After all, the design of the econometric models of innovation that were developed and analysed in Chapter 6, as well as the design of the final hybrid model/approach of entrepreneurship in this chapter, enable this research to further develop, deal with, and be applied in, other fields as well, not only in the case of other countries, but also in the case of other fields of entrepreneurship. For example, our approach could also deal with specific forms of entrepreneurship, for example social entrepreneurship or green entrepreneurship.

The application of this approach in the case of other countries primarily depends on their characteristics and, more specifically, on their institutional and market characteristics. Given that the approach used in this research was designed for, and applied on, the case of Cyprus –the characteristics of which were mostly elaborated on in Chapter 2– any other possible application in the case of another country should at least resemble the characteristics of the country the approach was originally applied on. On the other hand, of course, the hybrid nature of the approach, as discussed above, along with its various components, enable the researcher to modify certain of them or provide them with content that is more pertinent to each case. This approach can primarily be used by the small and medium-sized enterprises themselves in order to understand, on one hand, their position in the market, how they are affected by institutional arrangements, and how they can use these arrangements to their benefit; and, on the other hand, it can help enterprises make strategic decisions regarding their future course and growth.

Moreover, our approach can become a useful tool for entrepreneurship training. It could be useful and essential for all those who are about to teach entrepreneurship in any level of education and with any interdisciplinary approach, as well as for aspiring entrepreneurs, as they could be well informed about what is the meaning of entrepreneurship, the role of an entrepreneur, and the skills a person needs to have before they begin acting as entrepreneurs. After all, one of the analysis points of our research is the institutional role of education, and we emphasised on the role universities can play through their linkage with the labour market.

In addition, it can help policy makers to form strategies for promoting entrepreneurial spirit and mindsets and create a climate that is conducive for taking entrepreneurial initiatives, such as setting up a new business, embarking on some kind of cooperative entrepreneurship, and choosing self-employment. By means of our research we indicated that the cultivation of an entrepreneurial and innovation-oriented culture can help the competitiveness and, in general, the economy of a country. This can have a positive effect in relation with other institutional policies, such as motivation and access to sources of information.

Finally, the value of this research study could lie in its contribution to more clearly frame future research, and the possibility to motivate other researchers to investigate entrepreneurship, entrepreneurs, innovation and relevant issues in depth, rather than to be evaluated as a complete and thorough review of relevant literature since it has a specific targeting. After all, we did not emphasise only on the design and application of the approach, but also made suggestions for future applications and extensions, also indicating entrepreneurship-related issues that pave new ways for exploring entrepreneurship and further increase its importance.

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