

Book Review

Review of “*Small Firms and Entrepreneurship in Central and Eastern Europe – A Socio-Economic Perspective*” edited by Oliver Pfirrmann and Günter H. Walter, Heidelberg and New York 2002: Physica

The transformation of the Central and Eastern European Countries (CEECs), which were for decades under socialist regimes, was supposed to be characterized by a transition from large-scale to small-scale production. With the abolishment of central planning, state monopolies and large combines, small firms run by private entrepreneurs should play a main role in these economies. A number of books such as Acs and Audretsch (1993) and Brezinski and Fritsch (1996) have collected contributions that analyzed these processes in their very early stages. This book, edited by Oliver Pfirrmann and Günter H. Walter, adds to this series of publications and reports on the situation as of the late 1990s. Most of the papers included in the book were originally presented at a workshop that took place November 1999 in Karlsruhe, Germany. The main focuses of this book are on the development of the small firm sector, entrepreneurship, and the policies implemented to promote innovation in these countries.

An introduction by the editors is followed by the various contributions, which are organized into three sections. The first of these sections entitled “Western Experience and General Questions” begins with a contribution by David Audretsch, who summarizes the western experience in regard to small firms and entrepreneurship. In the following section, Walter Heering and Oliver Pfirrmann discuss the limits to privatization in the CEECs. In the last contribution in this section, Fuad Kandil and Günther Walter outline their strategic concept of “primary endogenous and elites oriented modernization”.

The second section of the book investigates the role of small firms and entrepreneurship in Poland (Krzysztof B. Matusiak), Russia (Natalia Kovaleva), Hungary (Friederike Welter), Yugoslavia (Djuro Kutlaca), Slovenia (Viljenka Godina) and Romania (Ioan Piturescu). The articles, which are essentially country studies, deal with the state of the transitions at the end of the 1990s, some nine or ten years after the transformation process in these countries had begun. The focus

of the third section of the book “Selected Aspects of Small Firms Environment and Policy” discusses innovation and technology policy for the CEECs. Slavo Radosevic and Günter Walter consider the idea of “supporting innovation through institution building”, while Walter Heering discusses the possible role of “technology centers and science parks in the transition process”. Emmanuel Muller, Andrea Zenker and Tibor Döry present a case study of “regional innovation capacities and economic transition” in the region of West-Transdanubia (Hungary). Michael Steiner compares the economic situation of the CEECs with that of older industrialized regions in western countries. In the last paper in this section, Günter Walter discusses “possible strategies and policy steps for an innovation-oriented modernization”. Finally, Oliver Pfirrmann summarizes the main results and identifies a number of issues for further research.

So what is the role of small firms in the CEECs at the end of the 1990s? What has changed as compared to the situation described in earlier books on this subject? Apparently, the transitional process toward more small firms and increasing entrepreneurship in the CEECs is taking hold rather slowly. In fact in most of the countries under discussion, the role played by small firms can be characterized as more or less marginal. This is particularly true of the manufacturing sector.

The grounds for lagging development have been identified in numerous studies and are well known. The most prominent reasons are hesitant privatization, uncertainty in the legal, fiscal and macroeconomic infrastructures, a lack of entrepreneurial tradition, a lack of knowledge about how to run a business, the negative image of firm ownership, and an uncooperative administration, etc. As a result, a large part of the entrepreneurial activity in these countries is focused on trade and arbitrage and thus is largely “unproductive”. Small high-tech firms, often regarded as highly effective generators of progress, are still quite rare. The majority of firms that are run by scientists and engineers operate in trade and consumer services, and not innovation and technology.

According to this book, the main bottlenecks for innovation in small firms are finance, particularly the availability of venture capital, insufficient knowledge

in the areas of innovation management, and marketing, as well as the absence of a supportive infrastructure of business-related services. Policy attempts to improve the situation of innovative small firms in the CEECs have had only limited success. The primary means for promoting innovative small firms in the CEECs has been to set up technology centers and science parks. Experience in the West has shown, however, that this type of instrument is rarely effective. One reason for the rather limited success of technology centers and science parks in the CEECs is that their impact critically depends on the quality of their supply, and even more soon the quality of their management, which often appears to be rather poor. Another cause for the ineffectiveness of these institutions is that they require a sufficient number of firms or projects with an adequate level of innovation activity in order to be effective. Technology centers and science parks, as a policy measure, are obviously not well-suited to stimulating the formation of innovative businesses. But unfortunately, this particular issue, i.e., too few innovative firms appears to be one of the main bottlenecks for development in the CEECs. The empirical studies included in this book clearly suggest that to generate more startups of innovative firms and make existing firms more innovative, a more comprehensive approach is needed.

Obviously, the CEECs have to virtually rebuild their innovation systems. In particular, this requires reform of the educational system (especially in the realm of higher education), stimulation of the establishment and the utilization of links between the different innovative actors in a region (often characterized as co-operative networks), and the integration of the regional innovation system with the outer world, in order to enable the regional actors to catch up by absorbing the existing global store of relevant knowledge (for details see Fritsch and Werker, 1999). This is indeed a difficult task, and there are no simple recipes for achieving these goals quickly. The contributions in this volume do not pretend to have a readymade and compelling answer

to this question. Empirical examples indicate that the creation of an innovation system more or less from the ground up will take a long time to accomplish, probably several decades. The idea that the CEECs could base new innovation systems on what existed before is, in the majority of cases, not very realistic. In fact, a number of studies contained in this book suggest that the old system can act as an impediment and depending on it can even prolong the emergence of an innovation system needed for an innovative, open market economy.

The contributions collected in this book focus on a short period in the continuing transformation process in the CEECs. They provide rich and interesting material on a number of severe and unsolved problems that deserve further investigation. Obviously, the economic transformation of the CEECs will take a long time, probably several decades; and it does not require any special ability to predict that there are further books of this type to come.

References

- Acs, Zoltan J. and David B. Audretsch (eds.), 1993, *Small Firms and Entrepreneurship: An East-West Perspective*, Cambridge: Cambridge University Press.
- Brezinski, Horst and Michael Fritsch (eds.), 1996, *The Economic Impact of New Firms in Post-Socialist Countries – Bottom Up Transformation in Eastern Europe*, Cheltenham: Edward Elgar Publishers.
- Fritsch, Michael and Claudia Werker, 1999, 'Systems of Innovation in Transition', in Michael Fritsch and Horst Brezinski (eds.), *Innovation and Technological Change in Eastern Europe – Pathways to Industrial Recovery*, Cheltenham: Edward Elgar Publishers, pp. 5–22.

Michael Fritsch
Technical University Bergakademie Freiberg
Faculty of Economics and Business Administration
Lessingstr. 45
09596 Freiberg, Germany
E-mail: fritschm@vwl.tu-freiberg.de