Entrepreneurship and the Global Perspective

Niels Bosma

Utrecht University and
Global Entrepreneurship Research Association

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Contents

• Brief introduction to GEM
• Entrepreneurship in Europe
• The Polish context
• Trends in entrepreneurship and responses to the recession
• Conclusion / discussion
GEM: Motivation & Objectives

• “Entrepreneurship is important for economic development”
• Need for better understanding of the links between entrepreneurship & growth, and the role of policy
• Lack of detailed internationally comparable data
Baumol (1990): Sets of rules and norms in society determine to what extent entrepreneurship is productive.
54 countries surveyed in 2009

Factor-Driven Economies

Efficiency-Driven Economies
Argentina, Bosnia and Herzegovina, Brazil, Chile*, China, Colombia, Croatia*, Dominican Republic, Ecuador, Hungary*, Iran, Jordan, Latvia*, Malaysia, Panama, Peru, Romania*, Russia*, Serbia, South Africa, Tunisia, Uruguay*

Innovation-Driven Economies
Belgium, Denmark, Finland, France, Germany, Greece, Hong Kong, Iceland, Israel, Italy, Japan, Republic of Korea, Netherlands, Norway, Slovenia, Spain, Switzerland, United Kingdom, United Arab Emirates, United States
Unique features of GEM

- Harmonized data enables inter-country comparison
- Captures formal and informal entrepreneurial activity
- Collects data at the individual level
- Makes distinctions between *types* of entrepreneurship
- Measures e-ship across multiple phases:
  - Nascent
  - New
  - Established
  - Discontinuation

Important for Shumpeter’s *creative destruction*
Measuring Entrepreneurial Activity

GEM identifies different phases in the entrepreneurial process

Potential Entrepreneur: Opportunities, Knowledge, and Skills

Nascent Entrepreneur: Involved in Setting Up a Business

Owner-Manager of a New Business (up to 3.5 years old)

Owner-Manager of an Established Business (more than 3.5 years old)

Conception | Firm Birth | Persistence

Discontinuation of Business

Total Early-Stage Entrepreneurial Activity (TEA)
Why people discontinue businesses

Source: GEM Global Report 2009
Europe’s Position in a Global Perspective (I)
Early-stage Entrepreneurial activity (TEA) and GDP per Capita

Source: GEM 2009 Global report
Europe’s Position in a Global Perspective (II)
High Expectation Entrepreneurship and Employment Protection Regulations

Involvement in High-Expectation Entrepreneurship (HEA)
Percentage of Adult Population in 18-64 Age Group

Strictness of Employment Protection

Source: GEM 2009 Global report
Entrepreneurship in Europe (I)

- Differences between countries
  - North / South divide
  - West / East divide
- **North-West Europe**: low-medium participation in early-stage entrepreneurship, many other alternatives for income (and employees more protected, see previous slide).
- **Southern Europe**: higher participation in entrepreneurship, but less ambitious. Increase in necessity entrepreneurship in Greece. Decrease in early-stage entrepreneurial activity in Spain.
- **Eastern Europe**: less stable due to big changes in past decades. Increase in necessity entrepreneurship following the economic crisis, especially in Latvia and Hungary.
Entrepreneurship in Europe (2)

• Next slides map entrepreneurship across European regions using 2001-2006 data (based on over 350,000 data points)

• Differences at national and regional levels
  1. Differences in balance between perceptions and activity
  2. Differences in growth ambitions

• Low rates of early-stage entrepreneurial activity not necessarily ‘a bad thing’ if accompanied with good (employment) alternatives, for instance through *intrapreneurship* (GEM 2009 Global Report, p. 31).
Perceived opportunities to start a business (2001-2006)

TEA: Early-stage entrepreneurial activity (2001-2006)

Early-stage Entrepreneurial Activity: Low growth oriented (2001-2006)

Early-stage Entrepreneurial Activity: High growth oriented (2001-2006)

Entrepreneurship in Europe: Conclusions

- Differences in entrepreneurship:
  - Supra-national
  - National
  - Regional
- Socio-economic and cultural heritages, expressed in institutional settings
- Importance of urban areas
- Demographic issues
- Migration
- Ageing societies
Entrepreneurship in Poland

• OECD-Report (2009), partly based on PARP (2008):
  • Positive attitudes but also negative images
  • Relatively high participation in entrepreneurial activity; large regional variation (east-west contrast)
  • Growth orientation: unclear

Source: Cieslik and Van Stel (2010) Exploring business ownership in four Central and East European transition economies
Business Ownership Rates 1989-2008

Source: Cieslik and Van Stel (2010) Exploring business ownership in four Central and East European transition economies
Possible explanations of the observed patterns

- During communism, business ownership was allowed to some extent in Poland and Hungary, whereas it was almost completely forbidden in e.g. former Czechoslovakia.
- However, on average, the entrepreneurs in Poland and Hungary during the communist era were possibly not well equipped to operate within a market environment (“lack of customer focus”).
- Path dependency: without severe shocks, economic and entrepreneurial activity will show little changes over time.

Source: Cieslik and Van Stel (2010) Exploring business ownership in four Central and East European transition economies
Entrepreneurial attitudes: GEM 2004 results

- Croatia
- Czech Republic (2006)
- Denmark
- France
- Germany
- Hungary
- Poland
- Russia (2006)
- United Kingdom

Graph showing perceived opportunities to start a business (green) and perceived skills to start a business (blue) for different countries.
Entrepreneurial activity: GEM 2004 results

Necessity early-stage entrepreneurial activity

early-stage entrepreneurial activity
Entrepreneurship and the 2008-2009 recession

Comparing 2006-2007 with 2008-2009:

- **Opportunity perception** fell in half of all countries
- Decrease in opportunity perception in 50% of innovation-driven countries, increase in none of them
- Decrease in opportunity perception in 56% of other countries, increase in 13% of them
- **Fear of failure** rose in almost 40% of countries:
  - Increase in fear of failure in 33% of innovation-driven countries, decrease in none
  - Decrease in fear of failure in 44% of other countries, increase in one (6%)
Entrepreneurship and the 2008-2009 recession

Comparing 2006-2007 with 2008-2009:

• **Necessity entrepreneurship** increased as % of TEA in many innovation-driven countries:
  • Increase in necessity entrepreneurship as % of TEA in 39% of innovation-driven countries, decrease in 11%
  • Decrease in necessity entrepreneurship as % of TEA in 31% of other countries, increase in 25%
Entrepreneurship and the 2008-2009 recession

Comparing 2006-2007 with 2008-2009:

- **Business start-up attempts** in large innovation-driven economies most affected
- **New business activity** held up well
- Reduction in business start-up attempts in 50% of innovation-driven countries, increase in 25%
- Reduction in business start-up attempts in 31% of other countries, increase in 25%
- Reduction in new business activity in 11% of innovation-driven countries, increase in 39%
- Reduction in new business activity in 31% of other countries, increase in 38%
What the Entrepreneurs think

Comparing 2008 with 2009, more than half of entrepreneurs found that starting a business was more difficult, but around 20% found that it was less difficult.

Entrepreneurs were evenly divided on the effect on their prospects for growth.

Young, well-educated entrepreneurs who expected to create relatively high numbers of jobs were more likely to see more opportunities for their business as a result of the global slowdown.

The more established the entrepreneur, the more pessimistic they were likely to be.
Trends in Global Entrepreneurial Activity

• Entrepreneurial activity, in terms of the prevalence rates measured in GEM, are rather consistent over time.
• However, the global economic crisis does provide reasons for entrepreneurial activity to change. Changes can, however, be different depending on the (country) context.
• In the following slides: changes over time for United Kingdom, Hungary, Croatia, Germany and Latvia.
• Descriptive analysis!
<table>
<thead>
<tr>
<th>Attitudes</th>
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<td>Activity</td>
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<td>Aspirations</td>
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**GEM 2001-2009 Trends: Smoothed Measures**
Conclusions from 2001-2009 trends

- We observe a mixture of responses, also among countries that seem rather ‘related’
- In general, entrepreneurial attitudes more in line with business cycles than entrepreneurial activity: the more remote to the ‘event’, the clearer the pattern
  - Many countries show decrease in perceived opportunities
  - Many countries show increase in fear of failure
  - More countries with decreasing nascent entrepreneurship rates than countries with increasing rates
  - Very mixed pattern for prevalence rates of owner-managers with new firms
Entrepreneurial responses to the crisis

Different responses, depending on the country context:

– Lower start-up activity due to:
  • Lower expected profits
  • Postponing intended start-ups
  • Difficulties getting finance

– Higher start-up activity due to:
  • Fewer job alternatives, combined with less favourable social security system: more necessity start-ups
  • Those seeing new opportunities arising from the crisis

– Either or both mechanisms may be at play in countries
  • Latvia exhibits higher start-up activity, Spain lower start-up activity
  • Spain’s start-up activity may increase again if recovery does not set in substantially
  • UK: not so much affected or do both mechanisms apply?
What are the responses by entrepreneurs in 2009?

- Owner-managers in new firms with a positive response to the statement: “the global economic slowdown provides additional opportunities for your business” (% of total number of owner-managers in new firms)

<table>
<thead>
<tr>
<th>Country</th>
<th>Mean</th>
<th>se(mean)</th>
<th>N</th>
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</thead>
<tbody>
<tr>
<td>Brazil</td>
<td>10%</td>
<td>2%</td>
<td>222</td>
</tr>
<tr>
<td>China</td>
<td>8%</td>
<td>1%</td>
<td>404</td>
</tr>
<tr>
<td>Finland</td>
<td>11%</td>
<td>4%</td>
<td>50</td>
</tr>
<tr>
<td>France</td>
<td>10%</td>
<td>7%</td>
<td>21</td>
</tr>
<tr>
<td>Germany</td>
<td>12%</td>
<td>3%</td>
<td>160</td>
</tr>
<tr>
<td>Greece</td>
<td>9%</td>
<td>3%</td>
<td>75</td>
</tr>
<tr>
<td>Hungary</td>
<td>11%</td>
<td>4%</td>
<td>58</td>
</tr>
<tr>
<td>Iceland</td>
<td>19%</td>
<td>5%</td>
<td>68</td>
</tr>
<tr>
<td>Israel</td>
<td>16%</td>
<td>5%</td>
<td>47</td>
</tr>
<tr>
<td>Italy</td>
<td>18%</td>
<td>6%</td>
<td>43</td>
</tr>
<tr>
<td>Latvia</td>
<td>9%</td>
<td>3%</td>
<td>105</td>
</tr>
<tr>
<td>Netherlands</td>
<td>16%</td>
<td>4%</td>
<td>79</td>
</tr>
<tr>
<td>Norway</td>
<td>15%</td>
<td>5%</td>
<td>62</td>
</tr>
<tr>
<td>Russia</td>
<td>6%</td>
<td>4%</td>
<td>36</td>
</tr>
<tr>
<td>South Africa</td>
<td>36%</td>
<td>6%</td>
<td>70</td>
</tr>
<tr>
<td>Spain</td>
<td>15%</td>
<td>1%</td>
<td>637</td>
</tr>
<tr>
<td>Switzerland</td>
<td>18%</td>
<td>6%</td>
<td>47</td>
</tr>
<tr>
<td>UK</td>
<td>16%</td>
<td>2%</td>
<td>584</td>
</tr>
<tr>
<td>United States</td>
<td>30%</td>
<td>5%</td>
<td>94</td>
</tr>
</tbody>
</table>

Source: Bosma and Terjesen (2010)
Conclusions / discussion

- Entrepreneurship is a multi-faced phenomenon, requiring a multi-faceted approach in policy making
- Lower rates of entrepreneurial activity are not necessarily negative indicators for economic development; it may mean that better job alternatives become available
- Influences stem from cultural heritage, socio-economic context, demography and geography
- Perhaps more information required to appreciate the Polish context that is relevant to entrepreneurship... (?)
- Linking to existing local strengths is more important than trying to copy others’ strategies in the race for climbing in the global rankings
- Try to turn entrepreneurial activities that are prevalent but not productive into productive ones
Thanks for your attention!
nbosma@gemconsortium.org