



# Entrepreneurship, its meaning and its effects

Lecture for ICE Meeting The Hague



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# Introducing myself

- EIM a member of Panteia
- Research Program Entrepreneurship en SMEs
- [www.entrepreneurship-sme.eu](http://www.entrepreneurship-sme.eu)
- Brief curriculum vitae



# Table of content for this lecture

- ◆ Relevant concepts
- ◆ Historical framework
- ◆ Two revolutions
- ◆ Effects of entrepreneurship
- ◆ Conclusions



## Entrepreneurship: two notions

- Occupational entrepreneurship:  
'working on one's own account and risk'
- Entrepreneurial behavior:  
'pursuing opportunities without regard to the resources one currently controls'  
(PS this includes imitative as well as innovative entrepreneurship)



# Different types of entrepreneurs

(Source: Wennekers and Thurik, 1999)

	<i>Self-employed</i>	<i>Employee</i>
<i>Entrepreneurial</i>	independent entrepreneurs	intrapreneurs (or corporate entrepreneurs)
<i>Managerial</i>	(managerial) business owners	executive managers

# Innovation

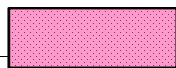
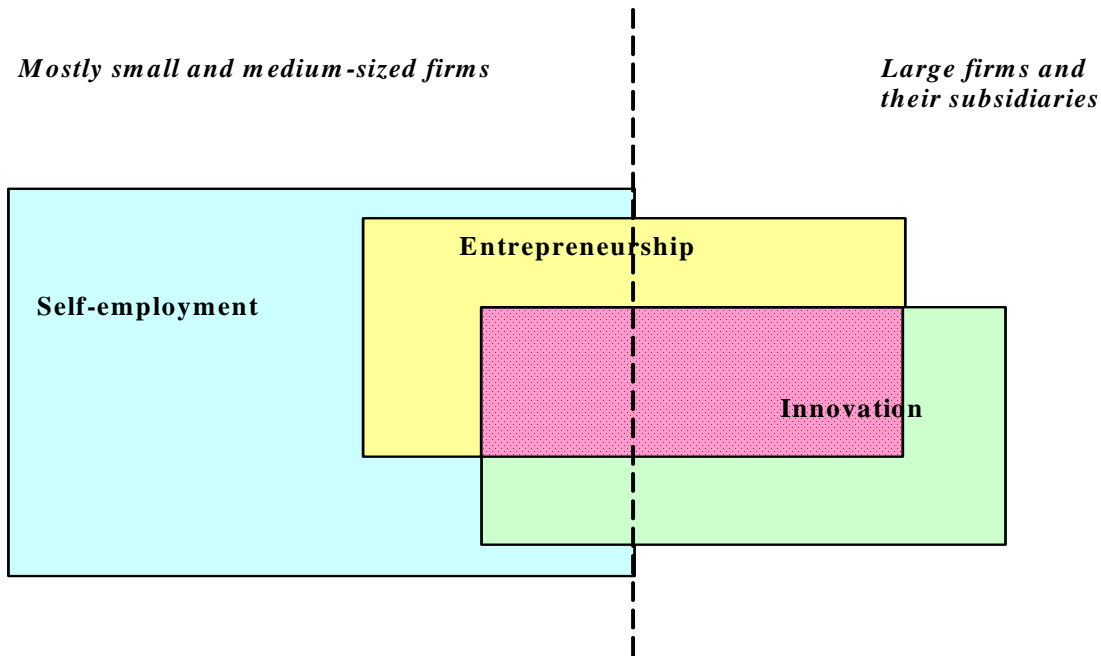
- ◆ New combinations
  - new goods and services
  - new methods of production
  - the opening of new markets
  - organisational change
- ◆ Radical versus incremental innovation
- ◆ Invention, innovation, diffusion



# Self-employment, entrepreneurship and innovation

(Source: De Jong and Wennekers, 2008)

Figure 1 Self-employment, entrepreneurship and innovation



= Overlap between innovation and entrepreneurship

# **PART II – Historical Framework**



# The long decline in the rate of self-employment

- Secular trends
  - France: from 60% SE in 1800 to 20% in 1970 and still declining
  - Comparable trends (until 1970) for the US, the Netherlands, and Sweden
- Cross-sectional evidence
  - 50% SE in low income countries
  - 10% SE in high income countries



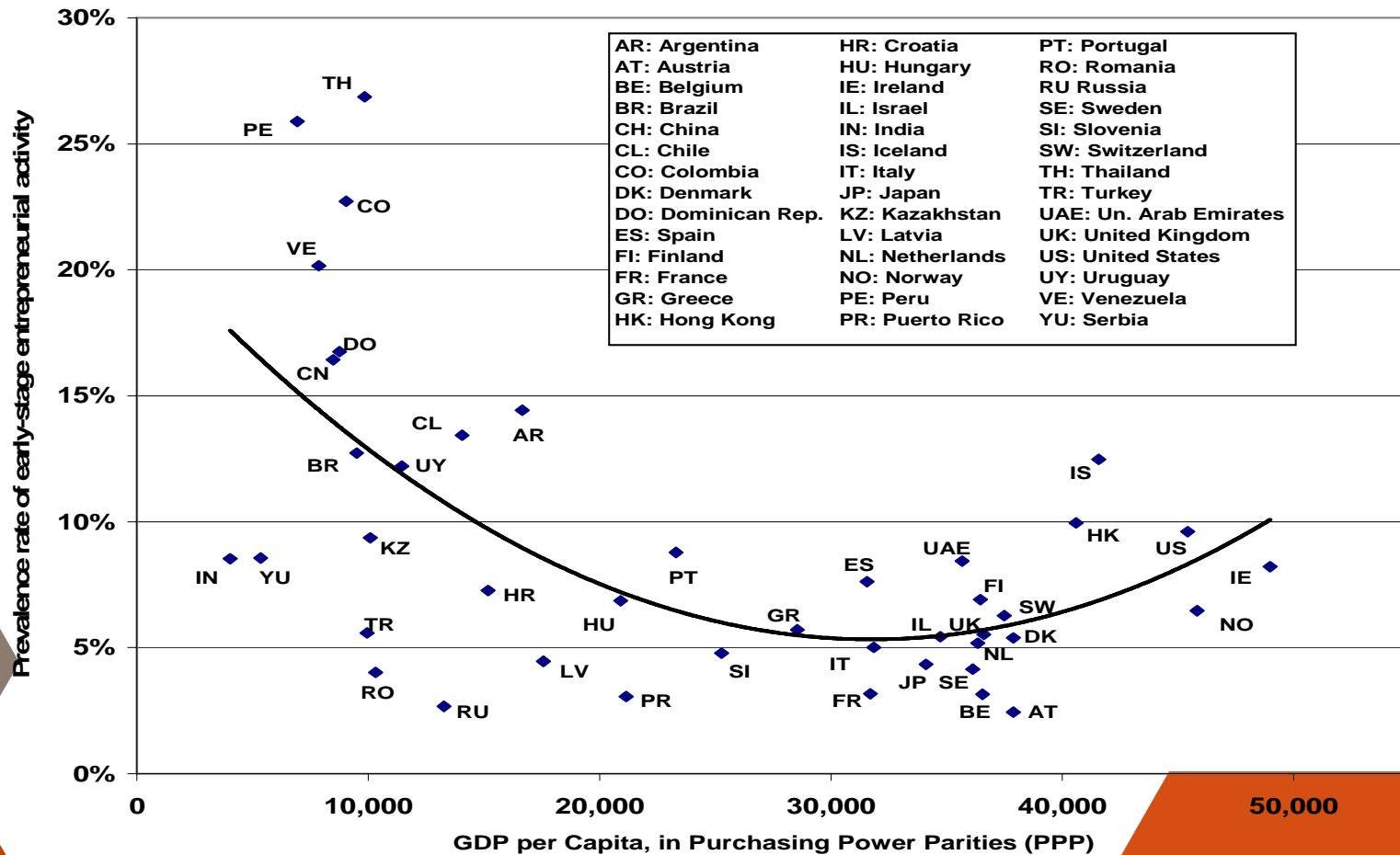
## Signals of a discontinuity

- Reversal in several Anglo-Saxon countries from the 1970s onward
- In the 1980s many European countries followed suit
- Revival of (interest for) new business formation and 'entrepreneurs'



# Economic development and entrepreneurial dynamics

(Source: Wennekers et al., 2008)



# Driving forces of discontinuity

- Economic development
  - the service economy
  - variety consumer preferences
  - occupational preferences
  - the knowledge economy
- Global trends
  - ICT revolution
  - deregulation



# **PART III – Two Revolutions**



# A partial renaissance? Solo self-employment Germany

(Based on Boegenhold and Fachinger, 2007)

	1991	2004
Solo SE as % in SE	45	54
Solo SE as % in LF	3.7	5.7
Employers as % in LF	4.5	5.0

## Driving forces of solo SE

- ◆ Demand side
  - subcontracting to individual SE in order to reduce labour costs
  - the rise of McJobs
- ◆ Supply side
  - Maslow's hierarchy of motivations
  - two-earner households
  - senior entrepreneurship



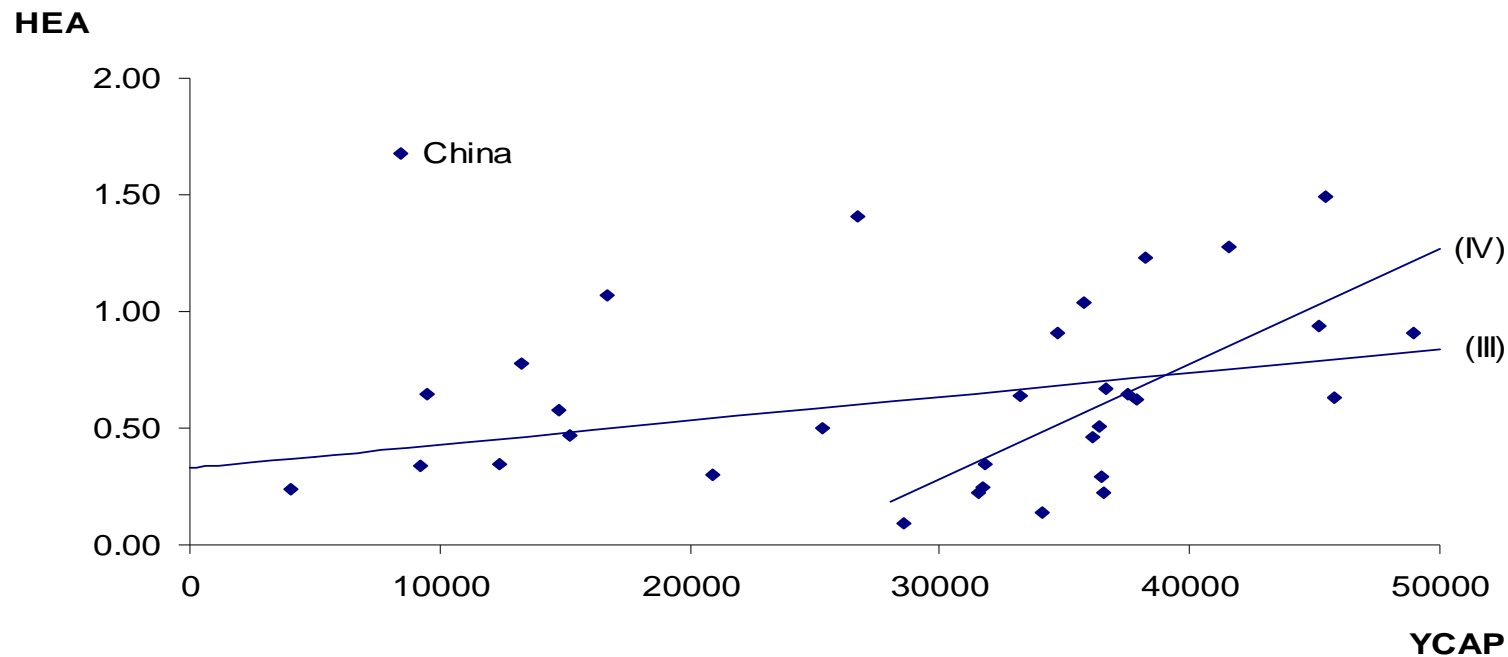
# The Third Industrial Revolution

- New technologies like ICT, biotech, nanotech etc.
- The gap between knowledge and innovation
  - uncertainty value of new knowledge
  - information asymmetries
  - conflict with core competences
  - opportunities for new entrepreneurs



# Ambitious new entrepreneurs (HEA) and per capita income

(Source: Wennekers et al., 2008)



# **PART IV – Effects of Entrepreneurship**



# Definitions of entrepreneurship (again!)

- ◆ Business ownership rate
- ◆ Early-stage entrepreneurial activity
- ◆ Innovative and/or ambitious new entrants
- ◆ Incumbent high-growth firms  
(incl. corporate entrepreneurship)



## **Main sources used for this section**

- Handbook of Entrepreneurship Research (2005)
- Special issue about start-ups in Small Business Economics (2005)
- The Value of Entrepreneurship (2007)
- Survey about 'Gazelles' by Henrekson & Johansson (2006)



# Effects of entrepreneurship: complex intermediary processes

- ◆ Dual causality
- ◆ Long time lags
- ◆ Countereffects
- ◆ Persistent 'country' effects:
  - role of culture
  - role of instiitutions



# Effects of entrepreneurship: intermediary variables

- ◆ Innovation and diffusion
- ◆ Competitive pressure on incumbents
- ◆ Other intermediary factors
  - variety
  - flexibility
  - hard work

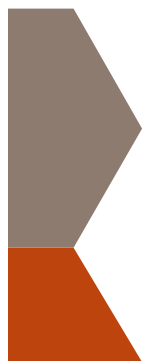


# Effects of entrepreneurship: ultimate outcomes

- Job creation
- Productivity
- Job satisfaction
- Negative consequences
  - inequality
  - insecurity
  - costs of failure



# **SOME VERY RECENT EVIDENCE**



## Effects on job creation: Fritsch et al (2008)

- Explaining employment growth across 70 German 'planning regions'
- Positive 10-year direct employment effect of new business formation
- Positive indirect effects of new entry on employment growth incumbents
- Indirect effect larger than direct effect



## **Effects on productivity: Erken et al (2008)**

- Cointegration model of TFP (for 20 OECD countries in 1970-2002)
- Reconfirms the role of traditional drivers of TFP: R&D; catching-up; human capital
- Business ownership rate (corrected for GDP per capita) also has a strong and significant positive effect on TFP



## Conclusions

- Entrepreneurship has many faces
- Entrepreneurship matters
- Ambitious entrepreneurship matters most
- 'Non-entrepreneurship' is also important
- We need more and better data on entrepreneurship and innovation

