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## **Entrepreneurship: a Source of Economic Growth in EU**

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**Abstract:** As the global recession evolved, The European Union faced new difficulties mainly in the form of financial problems and access to capital, but an important negative effect of this crisis is the fact that hundred of thousands of jobs were lost and hundred of thousands of businesses bankrupt. So in this research we tried to show how boosting entrepreneurship can bring The EU into an economic growth premise, by creating new jobs and new business. Also we stated some key measures that can be adopted by EU authorities in order to develop and support entrepreneurship.

**Key words:** entrepreneurship; economic growth; European Union

**JEL Classification:** F59; M38; O10; O42

### **1. Introduction**

The European Union is faced with a large amount of challenges in the near future, due to new market conditions emerged from both Global Crisis and the special European Context. Some challenges are: improving financial regulation, further EU enlargement, maintaining programs to join the Schengen area for present candidates, promoting economic recovery, restoring economic growth, developing economic and social integration strategies and policies that will help EU members reform their national public administration sector and converge to a European public administration criteria, and so on. In order to further develop some of these aspects of European integration and development, EU authorities must adopt strategies that have the ability to promote and sustain economic growth, business development, job creation, in short to promote and support entrepreneurial activity. By promoting entrepreneurial activity public authorities support: the creation of new business and new jobs, increase state budget revenues, economic growth, development of competition, the creating new products and services, the development of EU competitiveness, etc. By these alone we can see that entrepreneurship stands as a key factor in European economic recovery. So in this research we have examined the current situation of entrepreneurial activity in the EU, the evolution of the number of newly established enterprises and newly created jobs and what measures should be taken to stimulate entrepreneurship in the EU, both by EU authorities and national authorities of EU Member States. Our research focuses also on the state of entrepreneurship before and during the present European

Recession, on the economic downturn effects on entrepreneurship development in EU and on a comparison between the current situation of entrepreneurship in the EU, the USA and Asia, so we can find what strengths and weaknesses EU entrepreneurship has and what should be done to further develop entrepreneurship and competitiveness in the EU.

## 2. Entrepreneurship Survey and Facts in the EU

Entrepreneurship is a wide-spread concept that lacks a firm definition, because it states many aspects, such as: developing new business, implementing innovation, developing of new products and services, and so on. For a better understanding of the entrepreneurship concept we can state that generally it refers to the action taken by one or many parties in order to develop and implement a new thing or concept.

The importance of entrepreneurship to business and social life is very big because through entrepreneurship new business are created, new jobs appear, new products and services are developed, research and knowledge are stimulated, state budget revenues are improved, wealth is created, and so on. That is why EU authorities have declared entrepreneurship as one of the most important goals in European development and introduced it as a main point in the Lisbon European Council, in March 2000. And as a result The European Commission published in 2003 a Green Paper on “Entrepreneurship in Europe” that focuses on two main aspects: why do so few Europeans start their own business? And why are so few European business growing?<sup>1</sup>

So for a better image of how entrepreneurship is seen by Europeans and what do they think about entrepreneurs lets take a look at a quick survey.

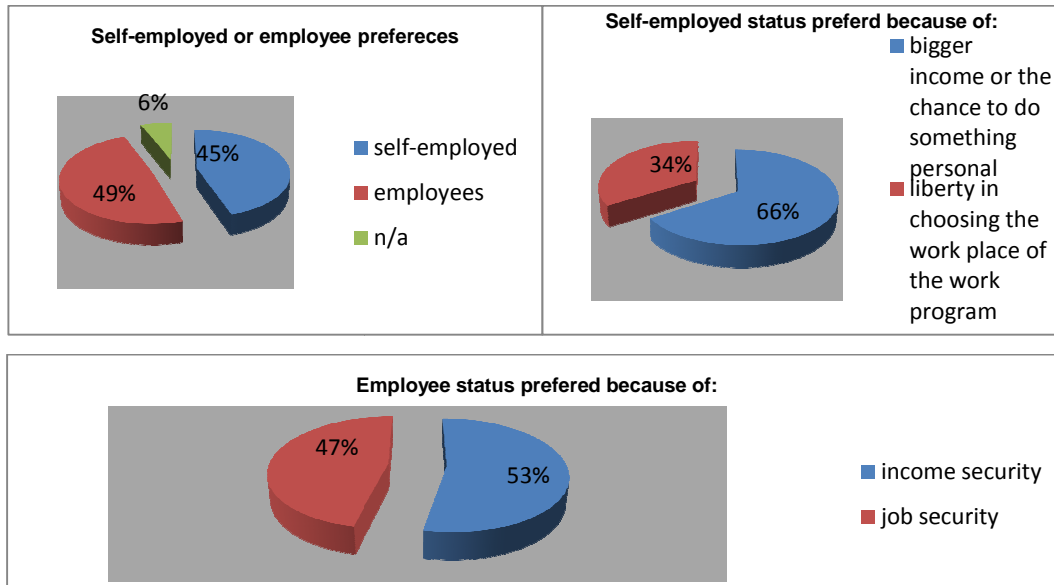


Figure 1. EU citizens opinions on self-employed vs employee status

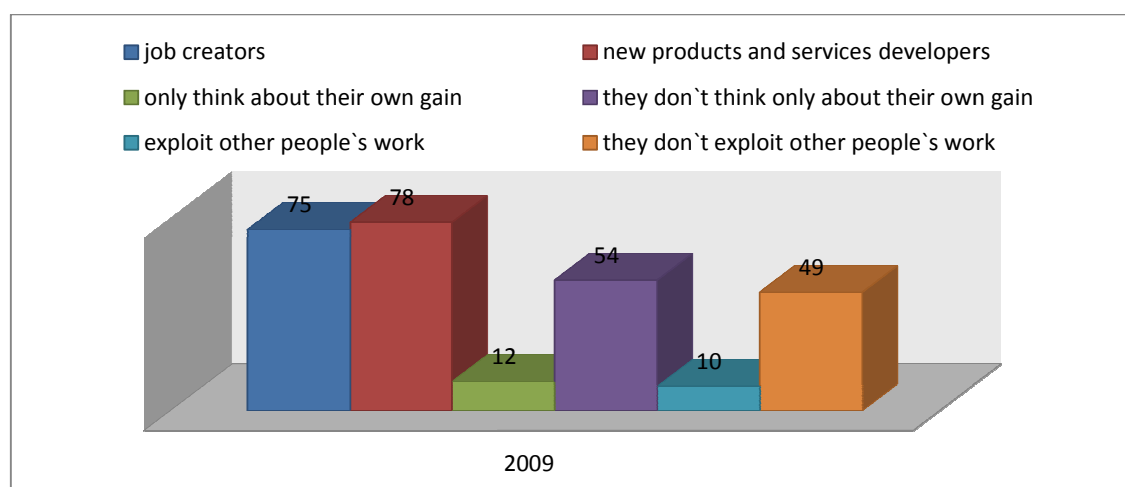
Source: own processing, based on data form Flash EB No283-Entrepreneurship, December 2009, p. 5

<sup>1</sup> Entrepreneurship in Europe and beyond, Analytical Report, Flash no.283 Eurobarometer, European Commission, December 2009

As we see in Fig.1 EU citizens in general prefer to be employees rather than self-employed, 49 % of them having this preference versus 45 % for self-employment. The difference is rather small between these statements so we can say that EU citizen are almost divided in half when it comes to this aspect of work status. The biggest stimulus for choosing self-employment is a bigger perspective regarding the level of income, 66 % of respondents, and for the employee status this is the relative high security of income, 53 % of respondents.

As we see Europeans are relative open to self-employment, but lets compare these data with how do EU citizens see entrepreneurs, as shown in Figure 2. Most EU citizen see in a bright light entrepreneurs, so as about 3 quarters of them think that entrepreneurs are job creators and new products and services developers, also 54 % of respondents argue that entrepreneurs don't think only about their own gain. These facts tell us that EU citizens appreciate entrepreneurs and their activity, but if they have such a very positive image about them why aren't they taking action in starting up their own business and being themselves entrepreneurs?

-percent-



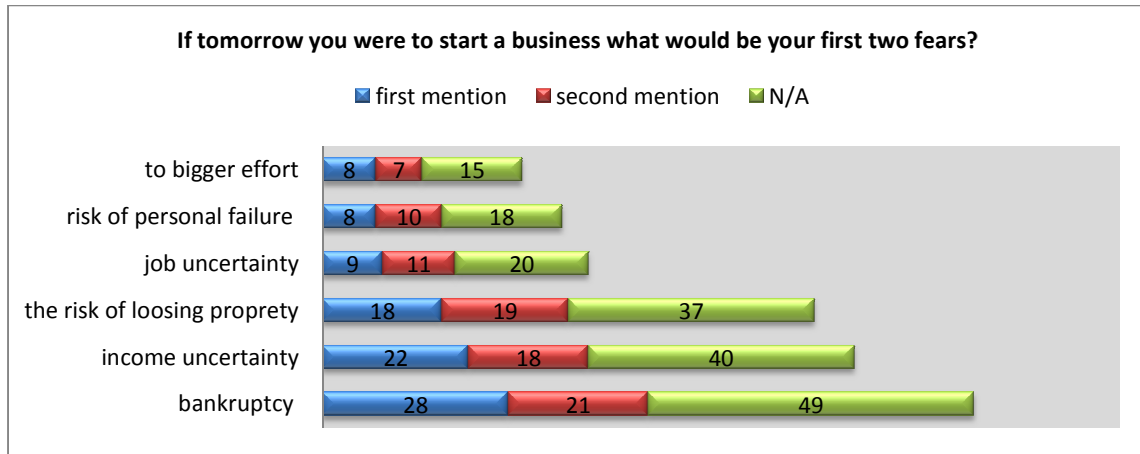
**Figure 2. How do EU citizens see entrepreneurs**

Source: own processing, based on data form Flash EB No283-Entrepreneurship, December 2009

The answer to the previous question is very difficult to give, because is one thing to like entrepreneurs and business and another to get involved and support all the work and risk that entrepreneurship involves. We can see what EU citizens fear most when it comes to starting their own business in Figure 3. So 49 % of EU citizens fear bankruptcy the most and this is followed by the risk of losing property (40%) and personal failure (37%). From these facts we see that the main aspect which determines EU citizens not to enter into business is the money factor and the fact that they fear losing and probably they think they don't have enough knowledge of experience to manage their own business.

These are confirmed by data in Figure 4, where we can see that 50 % of EU citizens think that the most important thing in starting a business is how to finance that business and 51 % think that the "perfect" business idea is the most important fact in starting a business. Also we can see that 34 % of them say that the right business partner is a key in starting a new business.

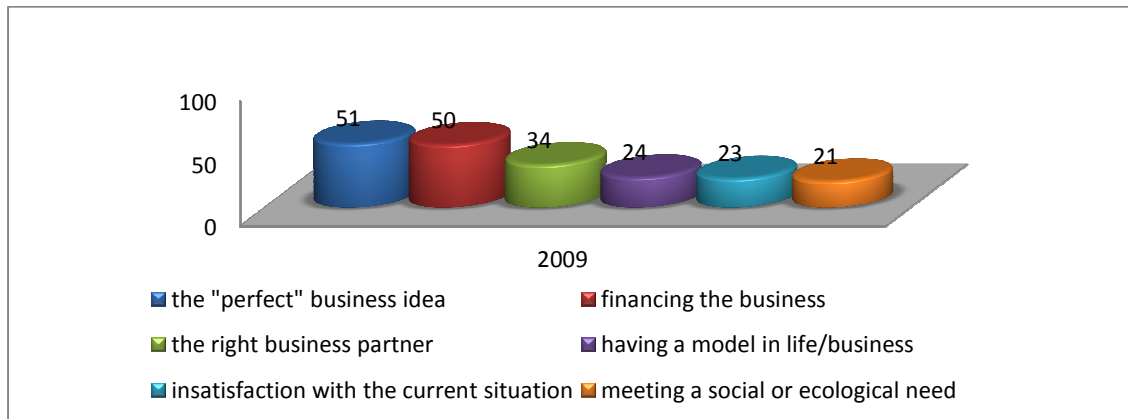
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**Figure 3. Main fears regarding starting a new business**

Source: own processing, based on data form Flash EB No283-Entrepreneurship, December 2009, p.70

-percent-

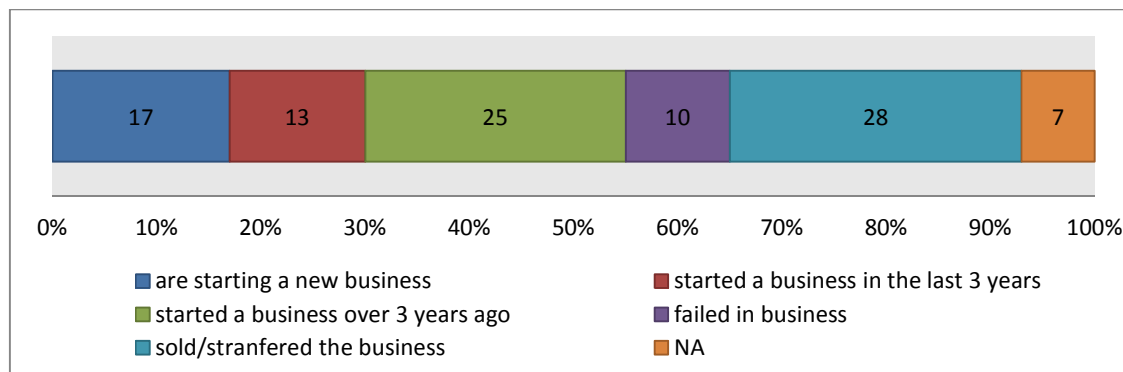


**Figure 4. The most important factors in starting a business for EU citizens**

Source: own processing, based on data form Flash EB No283-Entrepreneurship, December 2009

In order to develop entrepreneurship and to get citizens to take action and involve in business, EU authorities need to study how to meet the main fears in starting a business, as felt by EU citizens, in coloboration with measures that stimulate entrepreneurial culture and promote business awareness and interest among EU citizens.

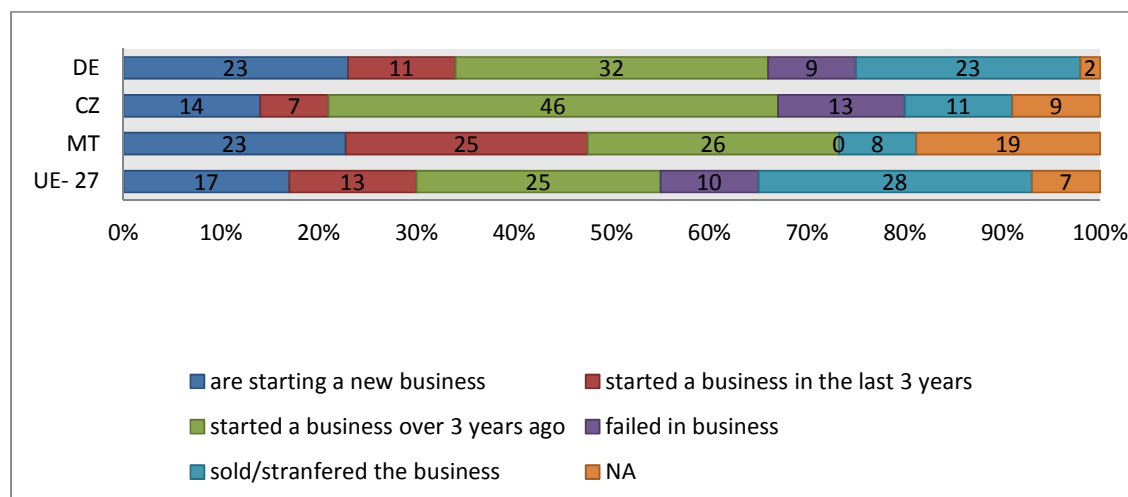
A situation regarding a 2009 statding in entrepreneurial development in The EU concludes that the largest percent of entrepreneurs (28%) sold or transferred their business in 2009, compared only 17 % taht were starting a business in 2009 and 13 % that started a business in 2006-2009, according to Figure 5. This shows that the global recession affected badly European economies and entrepreneurial development in the region, as well as the fact that the process of expanding the number of businesses and jobs created was slowed.



**Figure 5. Experience in business or starting a business among EU-27 entrepreneurs in 2009**

Source: own processing, based on data form Flash EB No283-Entrepreneurship, December 2009

For a better image of this situation we can compare the data from Figure 5 with data from Figure 6 and see the difference between EU entrepreneurial activity and the one from other major economies in 2009. So we can see that in The US 26 % of entrepreneurs are starting a business in 2009 and in China 41 %, and these aspects show that The EU has been left behind and need to boost its entrepreneurial activity in the near future in order to stand a chance at a healthy economic and social recovery. Another fact that support this idea is only in The US we can see the same percentage regarding businesses sold/transferred and in other strong economies like China, Japan and Korea the percentage is smaller; in China for example the percentage of entrepreneurs that sold/transferred their business in four times smaller than the percentage regarding entrepreneurs that are starting a business.

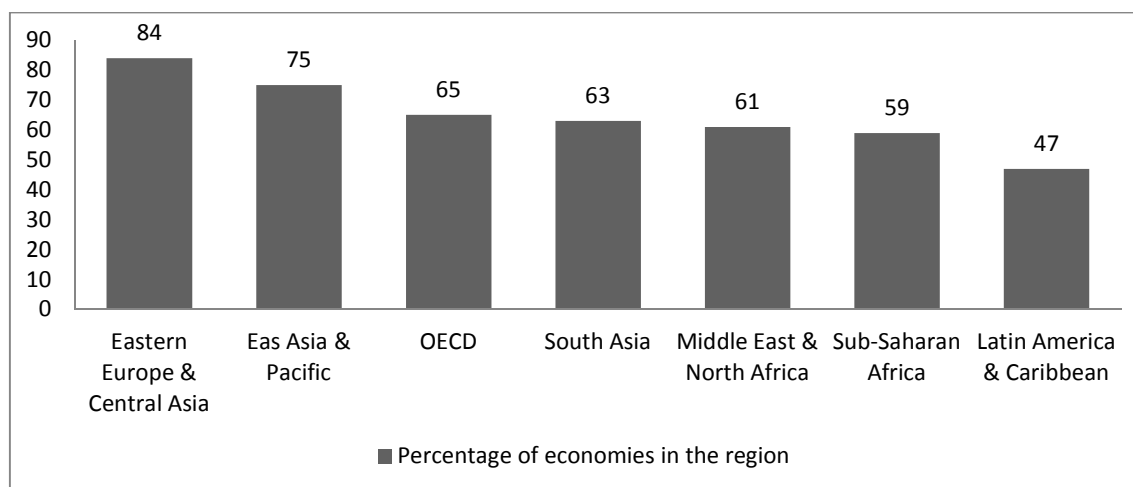


**Figure 5. Experience in business or starting a business among US, China, Korea and Japan entrepreneurs in 2009**

Source: own processing, based on data form Flash EB No283-Entrepreneurship, December 2009, p.51

Based on the comparison of EU entrepreneurial activity and the one in the other four economies mentioned, we can conclude that EU authorities have a lot of work to do in order to develop entrepreneurship, especially facing competition from China which is growing constantly and aggressively.

So let's develop the image by considering data from Figure 6. We can see that Eastern Europe & Central Asia are leaders in this chapter with 84 %, which is a welcoming fact for EU economies due to the fact that Eastern European countries are either members of The EU or they have strong economic relationships with EU countries. This aspect is also important because it shows that countries in the EU made reforms in regulating business which is a mean of supporting entrepreneurship development.



**Figure 6. Percentage of economies that reformed business regulation in 2009-2010 by regions**

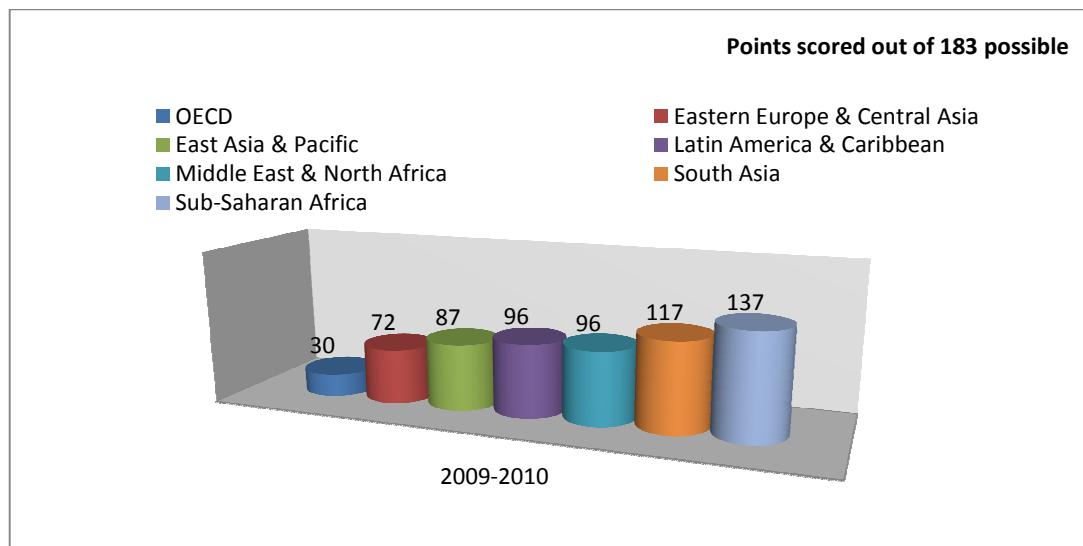
*Source: own processing, based on data from Doing Business Full Report 2011, The World Bank- International Financial Corporation, p.10*

Also it is very important to mention that in the „Top Ten Countries that improved the most doing business and ease the process of starting a business” The EU is represented by only one country, Hungary, on the 7th place<sup>1</sup> and this fact is one that represents a lack of result at EU level regarding stimulating entrepreneurship and business development.

Also, regarding the regions with the highest rank in business-friendly environment in doing business the situation is not so favorable for EU countries, because Eastern Europe & Central Asia scored only 72 points from 183 possible; the full ranking is shown in Figure 7. As we can see the regions with the most friendly environment are Sub-Saharan Africa and South Asia and it seems that the countries in these regions are more open to reform their way of doing business than EU economies, probably because in these regions most countries are emergent economies and in The EU most economies are either highly developed or have a higher level of development compared with countries in the two mentioned regions.

All of these aspects and facts show the position held by EU national economies and The EU as one economy in the process of developing entrepreneurship, business and creating a functional and business-friendly market in order to attract direct foreign investments.

<sup>1</sup> Doing Business Full Report 2011, The World Bank- International Financial Corporation, p.13



**Figure 7. The regions that have the most business-friendly environments in 2009-2010**

Source: own processing, based on data from *Doing Business Full Report 2011*, The World Bank- International Financial Corporation, p.11

Further more we can compare data form Figures 5, 6 and 7 with data form Table 1 so we can see how did foreign trade and GDP evolved in The EU, The US, China and Japan in 2009 compared with the entrepreneurial activity.

**Table 1- Foreign trade and GDP in The EU, The US, China and Japan in 2009**

-billion dollars-

Year	Country	Exports	Imports	GDP
2009	The US	1056	1605	14277
-	China	1202	1006	4985,4
-	Japan	581	552	4138,8
-	EU <sup>1</sup>	3619	3427	14085,4

Source: own processing based on statistics from the WTO, *International Trade Statistics, Leading Traders section* available at: [http://www.wto.org/english/res\\_e/statis\\_e/statis\\_e.htm](http://www.wto.org/english/res_e/statis_e/statis_e.htm), <http://www.tradingeconomics.com/Economics/GDP.aspx?Symbol=RUB>;

Eurostat, <http://epp.eurostat.ec.europa.eu/portal/page/portal/eurostat/home/>; European Union Economy, Wikipedia, [http://en.wikipedia.org/wiki/Economy\\_of\\_the\\_European\\_Union](http://en.wikipedia.org/wiki/Economy_of_the_European_Union); CIA, The World FactBook, available at <https://www.cia.gov/library/publications/the-world-factbook/geos/us.html>; [http://en.wikipedia.org/wiki/Economy\\_of\\_the\\_People's\\_Republic\\_of\\_China](http://en.wikipedia.org/wiki/Economy_of_the_People's_Republic_of_China), [http://en.wikipedia.org/wiki/List\\_of\\_countries\\_by\\_GDP\\_\(nominal\)](http://en.wikipedia.org/wiki/List_of_countries_by_GDP_(nominal)); CIA, The Word FactBook, available at [www.cia.gov/library/publications/the-world-factbook/geos/ja.html](http://www.cia.gov/library/publications/the-world-factbook/geos/ja.html)

Form this comparison we can see a little paradox because The Eu is the leading economic power, it has the largest GDP and the larged volume of exports and imports in the global market, but it has only one country in the „Top Ten Countries that improved the most doing business and ease the process of starting a business”, it has a low score on the most business-friendly economies and the percentage of

<sup>1</sup> EU is not considered separately as one country by WTO's Leading Traders Statistics.

entrepreneurs that are starting a business is smaller compared with the one in the other three countries mentioned.

Therefore, The EU is the economic leader of the world and it is one of the most unproductive areas regarding entrepreneurship development, so lets ask how would The EU economy look like if EU authorities will boost entrepreneurship development, implement wide-spread reforms regarding business regulation and will create a more business-friendly region?

To answer this question further studies have to be made by EU authorities, studies that could show, in figures, how entrepreneurship influences The EU GDP, its foreign trade and its economic development. All we can say for the moment is that developing entrepreneurship and creating a business-friendly environment in The EU is an untapped source for promoting and generating economic growth.

### **3. Conclusions**

The EU stands on a big source of economic growth that has remained untapped, in the form of entrepreneurship, and EU authorities must take actions in order to support and develop entrepreneurial activity and create a more business-friendly environment, so that new business can be created and, with this, new jobs, increase in tax revenues, increase in the level of employment, economic growth and the premise to increase wealth and the standard of living in The European Union.

Measures that should be taken by EU authorities to stimulate entrepreneurship include: stimulating the creating of new businesses by providing financial support and tax incentives, developing entrepreneurial culture and business awareness, creating European Authorities that act as free consultants for entrepreneurs, creating European Programs for entrepreneurship development, easing access to Structural Funds by creating an European Agency that will manage the access to Structural Funds and will replace national authorities in this area, stimulating corporations, multinationals and regional clusters to develop partnerships with SMEs and new-founded business in order to support entrepreneurship and innovation, creating European Entrepreneurship Academies and Competitions among EU students.

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