

# The New Business Activity: a Comparative Study across the European Countries

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## Abstract

The main idea of this paper follows the phenomenon of new business activity, expressed by new enterprise birth and survival and by their contribution to employment. The situation in new business activity in particular European Union (EU) countries is illustrated, using the data about the new enterprise birth, the survival of new enterprises and the importance of new enterprises for national employment. The empirical findings of this paper indicate that new business activity differs significantly across the EU countries. Hence, the establishment of new enterprises, their survival and also their importance for employment is not the same in the EU countries. In this regard, newly accessed worse performing EU countries indicate higher new enterprise creation and their contribution to employment but a lower survival rate.

*Keywords: new business creation, new business survival, employment, socioeconomic development, comparative studies*

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## 1. Introduction

The issue of new business formation is a complex topic, including economic, political and social dimensions. Accordingly, this issue attracts also the interest of researchers. Entrepreneurship is usually perceived to be one of the main drivers of socio-economic development and growth. The main idea of this paper follows the phenomenon of new business activity, expressed by new enterprise birth and survival and by their contribution to employment. In the following sections, the situation in new business activity in particular European Union (EU) countries is illustrated, using the data about the new enterprise birth, the survival of new enterprises and the importance of new enterprises for national employment. The paper is structured as follows. The first section introduces the theoretical framework on new business activity and its economical consequences. The second part describes the methodology of this paper. The third part illustrates the empirical results. The final part discusses and concludes the main findings.

## 2. Theoretical framework

Entrepreneurship and new business activity are perceived to be important drivers of regional and national economy. Although a wide research on the impact of new business activity on regional and national development and growth exists, conclusions of this research are rather ambiguous (see, e.g., Acs 2006; Fritsch 2011). Several studies provide evidence against the positive form of the relationship. The main arguments speak about the danger of the so-called “push” motives for new business creation when these are established because of a lack of other alternatives to be employed. Consequently, these businesses are of a poor quality and they do not contribute to socio-economic development. A number of businesses are likely to be closed soon after their establishment (see, e.g., Acs 2006). Another argument against the positive influence of new business creation on regional and national development mentions the crowding out effects of new businesses in economy (see, e.g., Fritsch & Noseleit 2013; Van Stel & Suddle 2008). Finally, it is important to evaluate the impact of new business formation on socio-economical development, considering the time dimension (see, e.g., Baptista, Escária & Madruga 2008; Van Stel & Suddle 2008; Fritsch & Noseleit 2013). However, despite these negative feedbacks, the research traditionally points out a positive relationship between socio-economic development and new business formation (see, e.g., Fritsch 2011; Acs 2006; Wang 2006; Stam 2010; Lee, Florida & Acs 2004). In this regard, the main arguments are as follows:

- new businesses are the source of innovations and commercialization of new ideas, especially high quality new businesses are connected with the ability to find and grasp market opportunities and use new technologies,
- new businesses push the existing businesses into innovations and technological progress,
- new businesses are the source of new jobs.

Moreover, new business activities contribute to structural change of regional and national economy, influencing the success and growth of economy.

Considering the abovementioned findings, it is substantiated to research the relations between new business activities and socioeconomic development of particular countries. In this regard, most authors concentrate their research on Western countries (see, e.g., Fotopoulos 2013; Bishop 2012; Acs 2006 for the discussion). On the contrary, a similar research, focusing on Eastern post-socialist countries, is limited (see, e.g., Wyrwich 2012 for a notable exception). Hence, a further research is highly desirable in this regard. This idea is justified especially by the fact that the impact of new business activity on socioeconomic development can be significantly different across various types of economies (Fritsch 2011; Acs 2006).

## 3. Methodology

This chapter presents the logical framework of the paper. The main objective of the paper is to evaluate the new business activity in EU countries, focusing on the quality of newly born enterprises and the importance of newly born enterprises for employment. In this regard, new business activity is understood as the registration of newly born enterprises in particular countries. The quality of newly born enterprises is measured by their survival rate. The importance of newly born enterprises for employment is measured by the employment share of newly born enterprises in employed population of the country. The analysis is based

on the comparison of new business activities across EU countries in the year 2014. The data was taken from the Eurostat database. To summarize, the following four indicators are analyzed in the remainder of this paper:

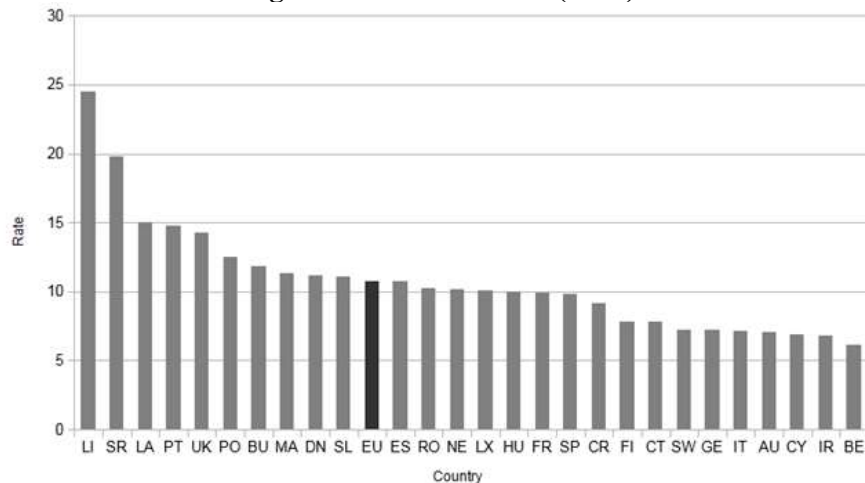
- the birth rate – the number of enterprise births in 2014 divided by the number of enterprises active in 2014,
- the survival rate – the number of enterprises in 2014 newly born in 2012 having survived to 2014 and divided by the number of enterprise births in 2012,
- the employment share of enterprise births – the number of persons employed in the enterprises newly born in 2014 divided by the number of persons employed in 2014 in the stock of all enterprises active in 2014,
- the employment share of 2 year old enterprises – the number of persons employed in enterprises newly born in 2012 having survived to 2014, divided by the number of persons employed in all active enterprises in 2014.

The objective of the paper is fulfilled through the comparative analysis of the four indicators. The evaluation of the indicators is based on the comparison to the EU average value, using traditional methods of descriptive statistics, in particular arithmetic mean, standard deviation, minimum and maximum values and coefficient of variance. Note that Greece was excluded from the analysis due to the lack of data.

#### 4. Empirical results

This chapter summarizes the main empirical findings resulting from the comparison of the indicators of new business activity in EU countries. The first analyzed indicator is the birth rate of enterprises. The comparison points out that especially newly accessed EU countries indicate higher than the EU average value. The United Kingdom, Denmark and Portugal are three notable exceptions. Additionally, the position of the high performing EU countries, such as Austria or Germany, is worth noting because these countries are found at the end of the ranking (see figure 1).

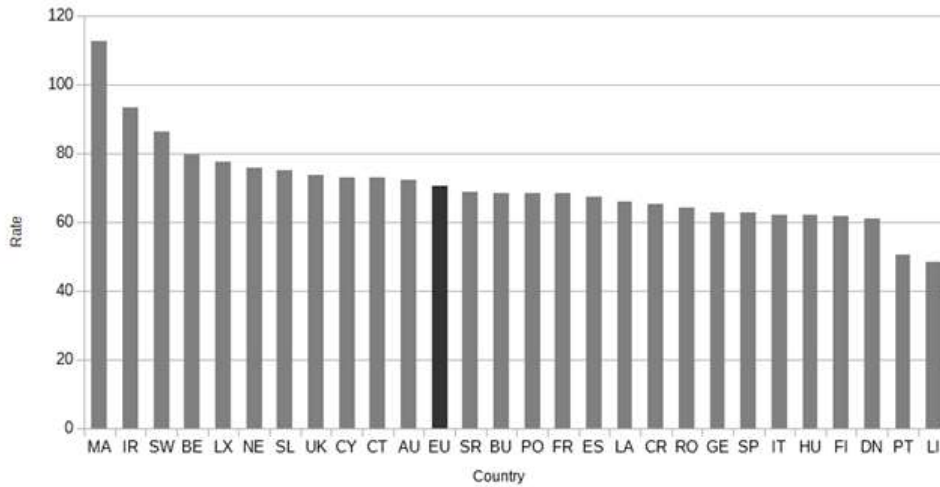
**Figure 1: The birth rate (2014)**



Source: own elaboration based on the Eurostat database

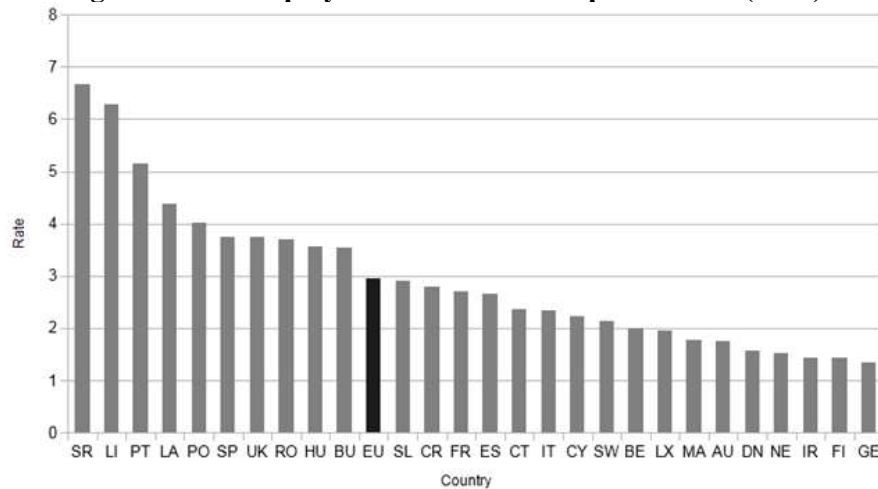
The quality of newly established enterprises in EU countries is the second indicator of our interest. Thus, the survival rate of the enterprises newly born in 2012 is analyzed. Figure 2 shows a completely different situation compared with figure 1. Hence, the survival rate is above-average mainly in high performing EU countries, such as Austria, United Kingdom or the Benelux countries. On the contrary, Lithuania – the leading country in the birth rate ranking (see figure 1) – is at the very end of the survival rate ranking.

**Figure 2: The survival rate (2012; 2014)**



Source: own elaboration based on the Eurostat database

**Figure 3: The employment share of enterprise births (2014)**



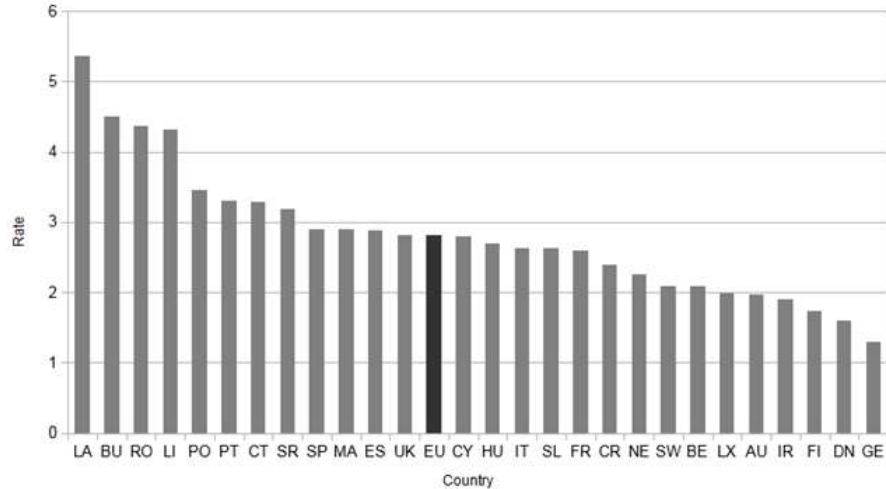
Source: own elaboration based on the Eurostat database

The contribution of newly born enterprises to employment is evaluated as the third indicator of our interest (see Figure 3). This indicator extends the information about the quality of new business activity in particular EU countries through its connection with employment. Figure 3 reveals that newly born enterprises contributes in average to less than 3 % of employment in EU countries. In this regard, newly born enterprises seem to be more important as a source of employment in newly accessed EU countries, with the exception of

the United Kingdom and Portugal. The lowest importance may be observed in highly performing countries, such as Germany, Austria or Benelux countries.

Figure 4 shows the importance of the two-year-old enterprises for employment in EU countries. This indicator is once again related to the quality of new business activity with respect to their contribution to new job creation. In this respect, a relatively better position of newly accessed EU countries may be observed. The United Kingdom is also in this case an exception.

**Figure 4: The employment share of 2 year old enterprises (2012; 2014)**



Source: own elaboration based on the Eurostat database

Table 1 summarises descriptive statistics of the analyzed indicators. Evaluating the minimum and maximum values of indicators, relatively wide differences between the most and the least successful countries may be observed. The coefficient of variation indicates a relatively higher variation of the two employment indicators, compared to the indicators relating to the birth of new enterprises and relating to their survival rate.

**Table 1: Indicators of new business activity – descriptive statistics**

Statistics	Birth rate	Survival rate	Employment share 2014	Employment share 2012
Median	10,03	68,40	2,65	2,70
Arithmetic average	10,74	70,35	2,95	2,81
Standard deviation	4,16	12,65	1,43	0,96
Minimum	6,16	48,25	1,33	1,28
Maximum	24,50	112,48	6,67	5,37
Coefficient of variation	0,39	0,18	0,48	0,34

Source: own elaboration based on the Eurostat database

## 5. Discussion and conclusion

The empirical findings of this paper indicate that new business activity differs significantly across the EU countries. Hence, the establishment of new enterprises, their

survival and also their importance for employment is not the same in the EU countries. In this regard, the main empirical results of the analysis can be summarised as follows:

- The highest new enterprise birth rates were identified in worse performing EU countries. These include especially the newly accessed postsocialist countries.
- Concerning the survival rate of new enterprises in the EU countries, the highly performing EU countries indicate also higher survival rates. Hence, the rate of newly born enterprises is relatively lower in these countries; however, their quality is higher. This conclusion is in accord with the idea of some studies pointing at a high new business activity in worse performing territories but suffering from a low quality of this activity.
- The relationship between new business activity and employment is stronger in worse performing EU countries, especially in the newly accessed postsocialist countries.
- Note that the United Kingdom may be regarded as an exception in the evaluation due to its relatively high values of all the indicators.

The empirical findings justify further research on new business formation and its impact on economy. The results of such research can play a significant role for designing national and regional policies aiming at entrepreneurial support.

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