

Chapter 2

Creating Value Through Entrepreneurship Based on the Economic Cycle

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ABSTRACT

This chapter examines in-depth the behavior of necessity- and opportunity-driven entrepreneurship. First, it considers their relevance to total entrepreneurial activity. The chapter determines which social and economic factors affect the two types of entrepreneurship, as well as their relative importance for a sample of 32 previously selected countries during a period of expansion (2001-2008) and of crisis and recovery (2009-2016). The analyzed factors include monetary and fiscal policy instruments (economic factors) and representative variables of governance and human capital (social ones). The findings show that both necessity- and opportunity-driven entrepreneurship largely explain the behavior of total entrepreneurial activity. They moreover show that the explanatory factors of both kinds of entrepreneurship differ depending on the business cycle phase considered. These findings will be key to proposing efficient economic policy measures to promote entrepreneurial activity and, thus, economic growth in economies around the world.

INTRODUCTION

Entrepreneurship involves the set of activities related with identification, evaluation and exploitation of new business opportunities in the market (Peña et al., 2014, p.47). Entrepreneurs play a central role in the creation of economic and social value throughout the positive impact that their economic activity exerts on employment (Keynes, 1936; Halicioglu & Yolac, 2015), innovation (Schumpeter, 1911/1963;

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Acs & Audretsch, 2003; Galindo & Méndez, 2014), competitiveness (Thurik et al., 2008), economic growth (Urbano & Aparicio, 2016; Acs, et al.; 2017) and the social well-being (Ribeiro et al., 2007, Fritsch and Kublina, 2018).

An entrepreneur can be innovative (Marshall, 1963/1890; Schumpeter, 1911/1963; Malerba y McKelvey, 2019), persevering, a leader (Say, 1803/1855; Weber, 1904/1955; Palazzeschi et al., 2018), risk and uncertainty tolerant (Knight, 1921/1947; Zahra, 2018) and have the quality of “alertness” to perceive new economic opportunities that no prior economic actor has yet recognized (Kirzner, 1973). Entrepreneurs not only venture for purely economic motivations, based on the pursuit of profit, but also for a psychological, personal, or social motivations as the desire for autonomy, independence, achievement, recognition, self-esteem, among others. All in all, every entrepreneurial initiative has some kind of motivation that drives it (De la Vega et al., 2008). All these components reflect the important role of entrepreneurs in the creation of both economic and social value.

In recent years, there has been growing interest in the entrepreneurial phenomenon, not only by governments and other authorities since it was established as a key component of economic policy (Acs et al., 2017), but also by individuals who are increasingly attracted to the option of becoming entrepreneurs. The existing attraction for the figure of the entrepreneur and the consolidation as a meritorious employment option, has become evident in aspects such as the emergence of a large number of financial and fiscal assistance programmes aimed at this group; educational reforms to include entrepreneurial training programs; the standards, regulations and bureaucracy designed to simplify and facilitate the process of starting and developing a business, etc.

The aim of the present study is two-fold. Firstly, it attempts to demonstrate that entrepreneurship is a crucial factor in the creation of value and that it should be used as a key component of economic policy in the achievement of that objective. Secondly, the behaviour of the entrepreneurial activity is analysed to identify what factors influence them and how these factors ‘effects differ across different countries and the stage of economic cycle, differentiating between growth (2001-2008) or crisis and the beginning of recovery (2009-2016). Besides the purely economic factors that have traditionally received considerable attention, the social and cultural factors are also considered in this study. It cannot be ignored that besides involving the economic activity itself, entrepreneurship constitutes an important social phenomenon.

To achieve these objectives, econometric models are estimated with the panel data method. The world’s most entrepreneurial countries and the most representative economic and social factors of entrepreneurial activity, represented by monetary policy, fiscal policy, human capital and governance, have been selected. The Total Early-Stage Entrepreneurial Activity (TEA) index, an indicator defined by the Global Entrepreneurship Monitor project (GEM), has been used to measure total entrepreneurial activity. It measures the percentage of 18-64 population who are either a nascent entrepreneur or owner-manager of a new business.

The research contributes both theoretically, advancing knowledge of the economic and socio-cultural factors that affect entrepreneurship, and practically, helping in the design of efficient policies to promote entrepreneurial activity across different countries and economic cycle stages. This is highly useful in a context in which entrepreneurial activity has become a key to promote long-term economic growth and value creation.

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