Entrepreneurship in Times of Crisis

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Entrepreneurship represents the views, attitudes and actions of an individual that desires to create or extract value from a perceived opportunity. This usually manifests through the individual's willingness to face risk through the form of starting a business organization. Entrepreneurship plays a key role in transforming the economy and society by stimulating economic development, testing innovative ideas, creating new jobs, and by enriching the quality of life and human existence.

Keywords: economic crisis ; entrepreneurship ; new firms ; resilience ; spatial panel data model

1. Introduction

Entrepreneurship is an essential ingredient for regional development and competitiveness, and understanding its underlying factors is a matter of high interest for scholars and policy makers alike. A wealth of economic literature has studied entrepreneurship in relation to economic crises [1][2][3], as well as including locational factors of influence. The territorial distribution of entrepreneurial activity in any country is largely shaped by the specific local economic, social, and political climates in which these firms perform their activity. Economic shocks might exert a powerful, yet territorially uneven influence on the birth of new firms and the survival of existing ones. Some regions can be more resilient than others to economic shocks, therefore the entrepreneurial initiative is less affected by the economic crises [4]. However, all regions are impacted to a certain degree when a major recession occurs, such as the one triggered by the 2007–2009 global economic crisis.

During economic crises, new firms, which are generally smaller and more vulnerable, are less likely to survive and thrive. Their survival rate is influenced not only by the size and sector of activity, but also by the location [5][6]. In this context, an important factor in understanding the regional differences in the recovery from a crisis is the spatial dependence that exists among neighboring regions. Spatial dependence is represented by similar characteristics of neighboring regions from a geographic point of view. It implies that neighboring regions tend to be alike, i.e., their characteristics are usually positively correlated. Given the scarcity of studies that acknowledge spatial dependence while modelling entrepreneurship activity (e.g., [4][5][7]), we aim to fill a gap in the literature by analyzing entrepreneurship recovery and dynamics after a crisis from a spatial perspective, using appropriate spatial econometrics tools.

The crises act as a trigger for some opportunity-driven entrepreneurs, and resilient regions can thrive even in these conditions or recover faster after the depression. Given the scarcity of regional statistical data regarding the economic effects of the COVID-19 pandemic, we draw lessons from the previous major crisis, namely the 2007–2009 Great Recession, for assessing the likely economic effects of the current crisis on the birth of new firm. We focus on the interval between 2008 and 2020, aiming to investigate the impact of a major economic crisis on new business formation in Romania, and to determine if the response to crises is shaped by location.

2. Factors Influencing Entrepreneurship

Previous research indicated that besides their contribution to economic growth, new firms are also able to enhance economic resilience to crises [2][3]. Some studies showed that regions with a high level of entrepreneurship are more flexible and more resilient to exogenous shocks due to increased economic diversification and the entrepreneurs' ability to perceive and exploit potential opportunities even in times of crisis [8]. Recent academic debates on new firm formation during the last economic crisis showed that regions with high entrepreneurial initiative are better at withstanding crises and can adapt faster to new economic conditions [9]. Resilience to economic crises is frequently linked to entrepreneurship in the literature, and the findings reveal that entrepreneurship contributes to urban resilience [10], wage cuts may relatively influence entrepreneurial initiative [11], and the "spatial stickiness" of the "entrepreneurial regimes" promote resilience and the ability to adapt to economic shocks [9].

Entrepreneurial initiative, embodied in new firm formation, represents an important driver of economic development, which has captured the interest of many researchers trying to better understand its determinants. Numerous studies that empirically investigated the factors that influence new firm formation [9][12][13][14][15][16][17][18][19][20][21][22][23] obtained different results, depending on the period or the geographic localization of the study. Previous research revealed many regional factors affecting the dynamics of entrepreneurial activity, such as population growth, demographic characteristics, economic growth, wages, unemployment, and entrepreneurial density [13][19][24][25].

2.1. Economic Growth

There is a growing body of literature identifying the determinants of new business formation on a regional basis [13][20][22][26]. Choosing the location for a new firm depends on the presence of agglomeration economies, especially in cities where population and firm density can influence the search costs for workforce and suppliers [27].

A common determinant of new firm creation in literature is economic growth. A positive relation between GDP per capita and entrepreneurship was found in several studies [28][29], while others indicated negative correlations in the case of poor countries [30]. There are also studies arguing that GPD per capita is not significant for new firm creation [24].

Increases in wages trigger greater demand for goods, which positively influences the creation of new firms [27]. High wages, associated with a high level of skills, can stimulate the creation of new firms, since new entrepreneurs are usually better skilled than the average population [20].

2.2. Unemployment

Higher rates of unemployment in a region could lead to more people starting their own businesses, due to difficulties in finding a job [31]. Many studies investigating unemployment and its relationship with new business formation seem to be contradictory and dependent on time or geographical factors [31][17]. In the short term, the relationship is negative—an increase in unemployment predicts, for instance, a decrease in entrepreneurial activity in the following months, explained by difficulties at the level of the national economy and social aid for the unemployed. In the long term, the relationship is positive, with an increase in unemployment predicting higher entrepreneurial activity, which may be explained by the “push effect”. Higher rates of unemployment could lead to new firm formation, as a negative change in labor market conditions, and the limited availability of waged employment, may push individuals into entrepreneurial activity.

2.3. Education

Education as a factor of influence on entrepreneurship, is explained in the literature based on human capital theory: people invest in themselves through education because they expect a higher income [32] or they want to acquire the necessary skills to validate profitable business opportunities [9]. Higher education positively influences labor productivity, which ensures entrepreneurial success. As a determinant of new firm formation, education (especially tertiary education), was found to be statistically significant in numerous empirical studies [19][33][34]. Since the results depend on location and time, there are also studies that did not find education to be statistically significant for the birth of new enterprises [12][15].

2.4. Demographic Characteristics

Among other factors of influence, demographic characteristics, such as the age distribution of the population, were found to be surprisingly significant for the creation of new enterprises. It is common knowledge that the working population in the 35–50 age range is more likely to start a business [15][35]. A study in The Netherlands [35] showed that the impact of population changes on the birth rates of new firms depended on the regional context: it is negative in urban areas and positive in rural ones.

2.5. Inflation

Start-ups are often financed with entrepreneurs’ own savings, which, in an inflationist economic environment, puts the entrepreneurs at higher risks, due to the increased difficulty of recovering the initial investments [36] and the disruptions in business plans. Studies have found a negative correlation between inflation and entrepreneurship [37], confirming that unpredictability discourages long-term involvement in a business.

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