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Using QCA to explain firm demography in the European Union

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ABSTRACT

Entrepreneurship is currently considered one of the major foundations of economic growth. There is a strong tendency to understand entrepreneurship as technology, self-employment, new ideas, innovation, or wealth creation. We can thus expect more developed countries to show higher growth rates, given the importance of firms' development for economic and social growth. For this reason, it is important to determine the conditions that have the greatest influence on entrepreneurship dynamics at the macroeconomic level. Using firm birth and death rates (related to business dynamics and entrepreneurship), we focus on the European Union and use qualitative comparative analysis techniques to determine the necessary and sufficient conditions for business dynamics. After dividing the whole EU sample into cohesion and non-cohesion countries, we find that entrepreneurship in cohesion countries is driven by necessity, while in non-cohesion countries, it is driven by opportunity.

1. Introduction

Entrepreneurship is a current buzzword, appearing in newspapers, on television, and in politicians' speeches around the world. From a macroeconomic viewpoint, entrepreneurship can be seen as a way for countries and regions to enhance their economic development. More dynamic countries are expected to have higher growth because they offer their citizens better conditions (Acs, Audretsch, Braunerhjelm, & Carlsson, 2012; Galindo & Méndez, 2014, among many others).

According to Schumpeter (1934), studying the behavior of firm creation should only be part of the analysis. Schumpeter identified the creative destructive paradigm, according to which, economic dynamics make some companies more efficient and lead to the destruction of less efficient ones. Therefore, apart from firms' creation, it could be interesting to study firms' deaths, which is given less attention in the literature.

The main goal of this study is to analyze European Union (EU) countries using firms' demographic data, which include their birth and death rates. We also analyze churn rates, which is the sum of birth and death rates, giving us an indicator of global economic dynamics.

Therefore, we propose to analyze not only birth rates but also death rates, part of what Eurostat calls firm demography. We try to identify the most important conditions for firms' dynamics in two different groups of EU countries, considering five kinds of attributes: i) economic indicators; ii) population density and social conditions; iii) infra-

structure; iv) investment; and v) international trade. In terms of tools, the qualitative comparative approach is selected in this research. Firstly, we analyze European Union countries as a whole. But because these countries face different economic conditions, we then split the whole sample into two sub-samples, according to the EU's cohesion concept. A country is considered to belong to the cohesion group when it has a gross national income (GNI) per inhabitant of less than 90% of the EU average.

The main contribution of this research comes from the combination of both birth and death rates with the distinction of studying cohesion and non-cohesion countries, based on structural differences and specific EU rules. Our main results point to a different behavior pattern in the influence of conditions on firm demography. In cohesion countries, entrepreneurship (measured by business dynamics) is influenced by a lack of structural conditions, while in non-cohesion countries, the existence of those conditions has a positive influence on firm demography. These results could be related to the widely recognized fact that in more developed countries, entrepreneurship is more driven by opportunity, while in less developed countries it is driven by necessity. The literature contains some discussion about the effect of both necessity and opportunity entrepreneurship on economic growth (Reynolds, Camp, Bygrave, Autio, & Hay, 2002). Urbano and Aparicio (2016) find that both concepts could be related to higher economic growth, but the effect of the necessity motive is less than that of opportunity entrepreneurship. Other studies, such as Wong, Ho, and Autio

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