

The Importance of the Entrepreneurship and the Situation in Portugal

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Abstract — A study on the published bibliography is developed on the importance of entrepreneurship in the economies of the XXI century, in which four areas of relevance are deducted. In the development of the current economies, entrepreneurship assumes an importance increased by four motives: it contributes to the creation of job, it contribute to innovation, it increases the creation of wealth and contributes to the development of the economy and of the society and, finally, it constitutes an ever growing option of career for a great deal of workforce.

Index Terms — Career, Development, Entrepreneurship, Innovation, Self-employment.

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1 INTRODUCTION

Everyone talks about entrepreneurship these days. All governments announce their intention of betting on entrepreneurship, all business associations intend to promote entrepreneurship. All economical publications present sections on the subject.

What is, therefore, the reason for this interest and what is the situation of the phenomenon in Portugal? This is what will be approached in this work, based on Gartner's concept (2001): entrepreneurship is the creation of new enterprises.

2 THE IMPORTANCE OF ENTREPRENEURSHIP

The importance of the study of entrepreneurship is developed by several authors. For Low and MacMillan (1988) and Gartner (2001), entrepreneurship must be studied, fundamentally, to explain and to ease the role of the new company in the development of the economical progress. Another reason pointed to justify investigation in this area resides in the idea that, besides explaining how the markets work, it is also necessary to realize why they work and, for that, it is crucial to understand the role of a central agent in this process: the entrepreneur (Raposo and Silva, 2000).

Lambing and Kuehl (2003) defend that this subject must be studied mainly due to the dimension that it took, and they give us an idea of this dimension through the growth of the number of new companies created in the

United States of America (U.S.A.), in the last forty to fifty years. Thus, in 1955, in that country, there were 4,5 million small enterprises, in other words, 1 for each 38 inhabitants. In 1965 this ratio passed for 1/29, in 1975 for 1/26, in 1985 for 1/20 and in 1998 for 1/16, less than half of the value registered in 1955. The pure dimension of the phenomenon of the creation of new enterprises is, according to these authors, a justification to the attention that is dedicated in the published investigation.

The importance of the entrepreneur and of the creation of new firms, mainly the small businesses, for the economical and social development of a country is pointed by the European Commission (2003) like another motive that justifies an effort of investigation on the phenomenon. The Green Paper of the European Commission (2003) points out as reasons to consider entrepreneurship important, its contribution for:

1. The creation of jobs.
2. The economical growth.
3. To improve competitiveness.
4. To use the potential of the individuals.
5. To explore the interests of the society (protection of the environment, production of health and education services, and social security).

Reynolds (1991) offers a more global vision on the phenomenon of entrepreneurship, telling that the enterprising subsystem, while a part of the social and economical system of a society, fulfills two functions, that of arbitration between subsystems (namely between the financing, the innovation and the suppliers of productive factors), and of integrator of the economical subsystem. For fulfilling such an important role in the society, it is not surprising that the entrepreneur is a target of so much attention in the published literature.

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On the other side the significant increase that has been happening in the publication of investigation on entrepreneurship is a recognition of the importance what the phenomenon assumes in the development of the economies, a fact already underlined by Schumpeter (1949) more than fifty years ago.

This importance is recognized not only by the investigators but also by the political power: from the socialist French government, to the conservative governments of the E.U.A., going through the English government, they have all been underlining the strategic importance of entrepreneurship for the economical and social development of their countries (Raposo and Silva, 2000).

Henrekson (2002) and Coulter (2003) point three main reasons for the explanation given to this phenomenon: the creation of job, the innovation and the creation of wealth.

Reynolds, Storey and Westhead (1994) add a fourth: the constitution of the own enterprise sets itself as an important choice of career that affects the life of millions of persons in the whole world nowadays.

So, by analysing the published works, it is possible to summarize four principal reasons to justify the importance of the study of entrepreneurship:

1. The creation of jobs, including the self-employment;
2. The importance of young enterprises for the innovation in the economy;
3. The contribution of the creation of enterprises for the creation of wealth and for the development of the economy and of the society;
4. The career option for a significant part of the workforce.

Regarding the first pointed reason, the creation of jobs, Reynolds, Storey and Westhead (1994) estimate that, both in Sweden and in the USA, around half of the jobs created along a period of six years were due to the small and medium enterprises (PMEs) created in the same period. Also in the U.S.A. the small enterprises recently created are responsible for the creation of 3/4 of the new jobs (Henderson 2002). Palich and Bagby (1995) affirm that the governments see the entrepreneurs like the principal creators of new jobs, while Allen and Weinberg (1988) analyse several studies on the creation of jobs by PMEs to conclude (pp. 197) that its weight in this macroeconomical variable is high in the U.S.A.: "(...) during the period of 1969-1976 firms with fewer than 20 employees created about two-thirds of all new jobs and firms with under 100 employees created 80 percent of all net new jobs (...)" (Birch, 1985).

This conclusion is confirmed by the works of Arzeni (1998) and Birley (1986), and that last one affirms the new enterprises are responsible for 2,9% of the total of posts of work.

Also Timmons and Bygrave (1986) confirm this situation by concluding that the small enterprises of technological base are responsible for a quota of the creation of job superior to their weight in the economy. On the other hand, Arend (1999) uses statistics from the United States, according to which in the 80's the small enterprises created 20 million jobs, while the great companies contributed to the unemployment with strong "downsizings". It is of pointing out the green book on entrepreneurship of the European Commission (2003) where it is put in evidence the role that the business spirit assumes in the creation of job.

It is noticed, however, that the creation of job for the new enterprises passes in parallel with the possible close of ancient enterprises, outdated and won by the new ones. In other words, if on one side jobs are created, the process of creative destruction (Schumpeter, 1942) also leads to the loss of other jobs.

Baptista and Thurik (2004) studied the relation between the creation of new enterprises and the unemployment in Portugal and concluded that this relation is less significant or elapses with a more extended time gap than the average of the countries of the OECD, but even so it is positive.

Still on this subject, Baptista, Escária and Madruga (2004) found empirical confirming evidence of which the creation of new enterprises has straight effects in the creation of job, but has also indirect effects, through the increase of competition, on efficiency and on innovation. However, these indirect effects act with a time gap of around eight years, that is to say, the creation of new enterprises has also an influence of long term in the creation of job.

Regarding the second reason, the innovation, Reynolds (1994) and the white book of the U.S. Small Business Administration (1998) accent the importance of the new enterprises for the innovation in the economy, not only for the quantity of patents registered on behalf of these, proportionally much larger than the registered one on behalf of the most ancient enterprises, but also for the challenges that they set to the already installed enterprises.

Arend (1999) corroborates this position by indicating that, in the eighties', the small enterprises spent globally more in research and development (R&D) than the great

enterprises and they produced 24 times more innovations for each dollar invested in R&D than the companies of Fortune 500, still they advanced that, to the incumbent firms, it is of no interest to explore the technological innovations, because the change has, sometimes, very high costs and risks.

Timmons and Bygrave (1986) confirm this situation while concluding that the small companies of technological base are the fountain of most of the technological "radical" innovations.

Hamel and Prahalad (1991) go further and affirm that to the large enterprises it is, in general, practically impossible to be truly innovative. In fact, the concern with the short term and the bureaucracy suffocate the innovation in the large companies (Drucker 1985).

Barrett and Weinstein (1998), however, say that it makes part of the nature of any great organization to be hostile to change (as a reflex of a certain form of homeostasy), in spite of the biggest enterprises having a potential advantage in the innovation since they have more resources to investigate, better established systems of distribution and can more easily finance and support the risk of the projects.

Therefore, for the young enterprises the innovation is its motto of development and the systematic search of innovation makes central part of the concept of entrepreneurship (Drucker, 1985a, 1985b, 1998).

Finally, it is important to mention Schein's (1974) study of "5 career anchors", because it concludes that the entrepreneurs were all in the group of creativity, that is, they were distinguished from the remain for this characteristic, necessary condition for the innovation.

As for the third reason, the creation of wealth and development, Reynolds, Storey and Westhead (1994) and Reynolds (1994) showed that, in the U.S.A., high taxes of creation of companies were, in the analysed period, a necessary condition for the economical growth. Reynolds, Storey and Westhead (1994) and Reynolds and Maki (1990, 1991) concluded that the creation of enterprises almost always accompanies the economical growth, while Sump, Gartner and Shaver (2003) confirmed that the creation of new independent business explains between a fourth and a third of the variation in the economical growth in a great deal of the industrialized countries. Also Arzeni and Pellegrin (1997), Tang and Koveos (2004) and the white book of the US National Commission on Entrepreneurship (2001)

concluded for the existence of a statistically significant relation between the creation of new companies and the growth of the GNP.

Still on this issue, Baumol (1995) ended that the most important thing for the development of a society is not the existent quantity of entrepreneurs in the economy, but their distribution among different activities, namely between the informal economy and the formal one.

In the same sense, Henderson (2002) considers that the value of the entrepreneur is obvious both on a national level and on a regional or local level. At the level of the nations, he verified that those which have more enterprising activity have also a higher growth of the GNP, affirming even that entrepreneurship explains a third of the difference of growth between countries, though it should think that the relation between entrepreneurship and growth is stronger in countries that depend more on international commerce. According to the same author, it is still the segment of small enterprising companies that grows the most in the exports of the U.S.A., being that between 1987 and 1997 the number and the value of the exports of American Small and Medium Enterprises tripled.

On his turn, Coulter (2003) confirmed the existence in the countries of the G7 of a strong relation between the level of enterprising activity and the annual economical growth. Based on the report of the Global Entrepreneurship Monitor (GEM), this author supplies conclusive evidence that promoting entrepreneurship and the dynamic entrepreneur of a country had to be a component of the action of any government that intends to stimulate the economical growth and the social development. These conclusions confirm the work of Schumpeter (1942), which recovered the figure of the entrepreneur for over fifty years now and set him as the principal "activator" of the economical development, thanks to his innovator function.

The European Commission (2003) shares the same idea by concluding, in his green book on entrepreneurship in Europe, that the countries with a higher increase of the taxes of business initiative have a tendency to have a bigger subsequent decrease of unemployment, and still concluded that the "business spirit" contributes to the economical growth and can still contribute to reinforce the economical and social cohesion of the least developed regions and to stimulate the economical activity, the creation of jobs and the integration of the unemployed people in

the working environment.

In the same sense, Audretsch (2004) ends up saying that entrepreneurship is the fountain of economical growth in the modern economies, since it allows the use of advancements in the knowledge.

Let's also highlight the work of Audretsch and Fritsch (2003), because it stresses that there is not a straight and unmistakable relation between entrepreneurship and economical growth. This relation can be different in different economical systems and in different times. In fact, while the studies carried out in Germany in the eighties of the XX century did not identify a relation between the level of entrepreneurship and the economical growth (Audretsch and Fritsch, 1996, Fritsch, 1996 and 1997), the study of Reynolds (1999) about the U.S.A. came to a completely different conclusion, identifying a clear and positive relation between two variables.

Meantime, using the same model, again in Germany, but with data of the nineties of the XX century, the results were then completely different, indicating that the regions with higher rates of creation of new firms showed a clearly higher economical growth. According to the authors, these results show that an alteration was registered in the structure of the German economy, having the motor of the growth of this country moved from the large established companies, as it was in the eighties, to enterprising activity, in the nineties.

Also van Stel, Carree and Thurik (2004) support that the relation between entrepreneurship and economical growth is not identic in all countries, but it depends on the level of profit per capita of the country. These authors conclude that "(...) entrepreneurship fulfills different roles in countries located in different stages of economical development" (van Stel, Carree and Thurik, 2004: 1).

Wennekers et al (2005) defends, in the same sense, that this relation between entrepreneurship and economical growth has a form of U, in other words, for the most developed countries the form of stimulating the growth will lay in stimulating entrepreneurship, while in the countries less developed it becomes more viable to obtain this growth through a bigger exploration of economies of scale, for example, or the attraction of great foreign investments.

The way enterprising activity affects economical growth comprises three main vectors (Wennekers and Thurik, 1999 and Karlsson, Friis and Paulsson, 2004):

1. Innovation;

2. Addition of competition;

3. Creation of enterprises and of job.

However, Karlsson, Friis and Paulsson, (2004) admit that the effect of the increase of competition in the growth still need to be better studied.

Another vision on this subject is that of Sturzenegger and Tommasi (1994) that conclude the weak economical growth of some countries resulted from the allocation of entrepreneurs' resources for less productive activities.

An important contribution for the understanding of the relation between entrepreneurship and economical growth is offered by one of Michael Porter's conclusions: "Invention and entrepreneurship are at the heart of national advantage" (Porter, 1990: 125).

Consequently, besides being important for economical growth, entrepreneurship also assumes particular importance for the development of economies, especially when these cross moments of transformation (Spilling, 1996 and Jackson, Klich and Poznanska, 1999). This importance is due, in great part, to the role assumed by the creative destruction in the processes of change of the economies, i.e. the creation of new enterprises is going to lead to the exclusion from the market and to the shutting down of companies previously existent (Jackson, Klich and Poznanska, 1999).

Finally, Bygrave and Minniti (2000) and Acs and Armington (2002) point out the importance of the positive "externality" resultant from the activity of successful entrepreneurs, through the encouraging effect for others to create their own firms and through the search for products and services for the new companies, which will lead to the creation of other enterprises generators of wealth in that region.

As for the fourth and last reason that justifies the importance of entrepreneurship, the matter of career option, the white book of the U.S. Small Business Administration (1998) underlines the relevance of the option and the work of Henderson (2002) tells that North Americans who work for themselves gain a third more than the wage-earners and that entrepreneurs who created an enterprise earn even more. For this economical reason and for a matter of affectation of the human capital of each individual, entrepreneurship is a subject that requires study, since it affects the lives of millions of persons who every year pledge in the creation of their own company

In accordance with the executive report of the Global Entrepreneurship Monitor of 2003

(Reynolds et al, 2004), of the 2,4 thousand million inhabitants in active age (18-64) in the 40 countries then analysed, almost 300 million persons were engaged in the process of creating a new enterprise, in other words, 190 million new enterprises were to be created in that year. This represents an estimate of 300 million new entrepreneurs in those 40 countries in 2003. These numbers are reinforced by the work of Reynolds (2003) that concludes that, between 1993 and 2002, the percentage of adults between 18 and 74 years old involved in the creation of new enterprises in the U.S.A. grew from 4 to over 13%.

Douglas and Shepherd (1999) analyse the issue of career choice for the entrepreneur as being dependent of the usefulness he expects to withdraw from each of the options (to create his enterprise or to remain an employee). This usefulness results from the compensations (financial and others) which he expects to receive, from the risks that he is going to assume, from the demanded effort, from the autonomy to take decisions and from the conditions of work. Carter, Gartner and Shaver (2003) add that those who opted for a career as entrepreneurs reveal to attribute less importance to the roles and to social recognition than others.

The present work claims to be inserted in this preoccupation and in this line of acting, once it is proposed to study an important factor of economical and social development. It is to this purpose that the Nobel prize winner Hayek (1974) presents the

entrepreneur as the key to the development of the nations.

Finally, Shane and Venkataraman (2000) face this situation of the relevance of the study of entrepreneurship in a different way, when they affirm that it is necessary to study this phenomenon for three reasons:

1. This is the process for which the society converts technical information in goods and services available in the markets;
2. It is also the mechanism that discovers and moderates secular and space inefficiencies in the functioning of the markets;
3. Innovative entrepreneurship is the crucial process for the change and evolution of the economy.

All these reasons put in evidence the considerable importance of entrepreneurship for the development of a region or country, thus justifying the realization of this work.

3 THE SITUATION IN PORTUGAL

To analyse if the enterprising activity in Portugal is high or low, it is useful to do the comparison with what goes on in other countries. For this comparison it is relevant the use of the Global Entrepreneurship Monitor report of 2001, first year in which Portugal was included in this annual worldwide study (Reynolds et al, 2001). The comparison (Fig. 1) is not much favorable to

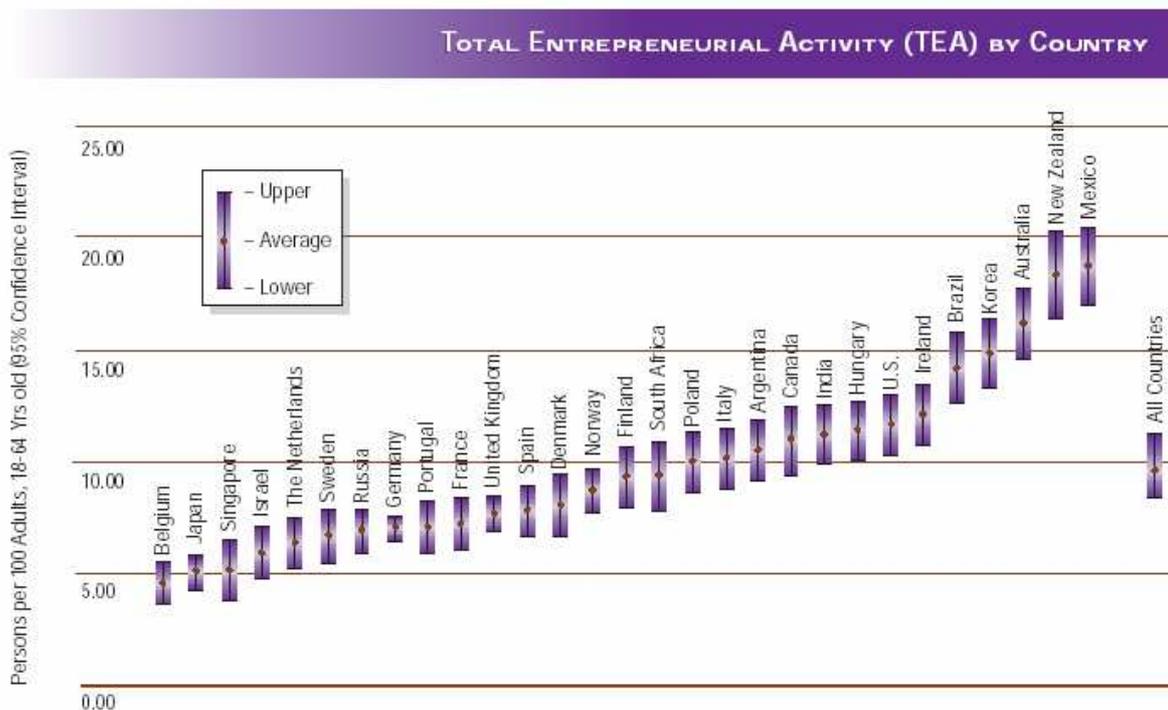


Fig. 1. Enterprising activity per country (Source: Reynolds et al, 2001).

our country given the fact that, between 29 participant countries, Portugal registers the 9th lowest level of enterprising activity, and only 7,1 % of the adult population was engaged in this activity (the lowest tax of the 29). Portugal was also one of the countries where the percentage of women involved in an enterprising activity was lower. In 2004, the situation got worse, being Portugal the 4th worst of 16 countries analysed in this year, with only 4 % of the adult population engaged in the creation of enterprises (Nova Forum and Sociedade Portuguesa da Inovação, 2005).

In 2003, another study (Carvalho, 2003) attempted to do a characterization of entrepreneurship activity in Portugal, looking for reasons to explain a very low level of business initiative. By using the Global Entrepreneurship Monitor report of 2001 (Reynolds et al, 2001) to make comparisons with other countries, it found geographical, historical, educational, cultural and economical reasons to explain the weak expression that the phenomenon registers in Portugal. Also this study concludes for the necessity of betting on the formation in entrepreneurship to give dynamism to the economy, pointing out, however, the need to alter the dominant culture in the society regarding the entrepreneur.

Sardinha and Carvalho published in 2003 a comparison between Portugal, Spain and the Countries of the so called Group of Viségrad (Poland, Czech Republic, Hungary and Slovakia) as for the structural conditions for entrepreneurship and they concluded that it is in the education and in the formation that those countries, which entered the European Union in 2004, have advantage.

In the same year another study was published (Braga and Natário, 2003) where, based on UNO's "Human Development Report 2001", the Portuguese situation is analysed for its human development and access to knowledge, and concludes that, in the rate of access to knowledge, Portugal is the last of the EU (15 members then), while, in the rate of creation of new knowledge, Portugal little or nothing contributes to the inventive activity of the community, while in global terms, Portugal is one of the economies with less capacity of innovation in the EU.

The results of this study become particularly important for the understanding of a part of the reasons that explain the low levels which Carvalho (2003) presented for entrepreneurship in Portugal.

Gaspar (2004) analyses the reasons that

explain the differences in the creation and closing down of new enterprises between NUT III regions. He begins with a short description of the phenomenon of creation and closing of enterprises in the nineties', which are characterized by an enormous concentration in Lisbon and Oporto. He then tries to explain this evolution through a regressive analysis with macroeconomical variables, following closely similar studies carried out in other countries that tried to identify factors of the environment that have a larger influence in the phenomenon of entrepreneurship. The conclusions show that factors related to demand, namely the external demand (represented by the exports), assume an important role in the explanation of the differences between NUT III zones.

The study of the Ministry of Social Security and of Work (2003) presents quite different conclusions (possibly because of the use of different sources) pointing to 6 groups of explicative variables for differences between the creation of companies in the different NUT III regions. By using the creation of firms for 100 existent ones, only three groups of variables turned out to be explicative of these differences: the qualification of the regional work force (graduates' percentage), the degree of wealth of the region (GNP per capita) and the former existent business structure. It is not possible to compare the two, since one study used the creation of enterprises divided by the total population and the other used the creation of enterprises divided by the active population.

Contradicting a little the results of these two studies, Couto, Tiago and Natário (2004) conclude for the non-existence of significant differences between the different regions of the country, a situation that may be due to the diversity of statistical sources which were used.

4 CONCLUSION

Of everything that was mentioned before, it is necessary to conclude that the phenomenon of entrepreneurship in Portugal registers alarmingly low levels, in great part due to the historical evolution of the economy and of the Portuguese society and also due to the low levels of innovation and access to knowledge.

It is also possible to conclude that the creation of companies is quite focused in Lisbon and Oporto, while other regions of the Country (specially the interior and the islands) register an enormous lack of entrepreneurial dynamic.

This is a worrying conclusion, given the importance that entrepreneurship assumes in the XXI century economies, as described in section 2.

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