



Entrepreneurial Framework Conditions and Sustainable Growth in Europe. A Multimethod Analysis

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ABSTRACT

Entrepreneurial activity is an output of the interaction of an individual's perception of an opportunity and capacity to act upon this and the distinct conditions of the respective environment in which the individual is located. The Global Entrepreneurship Monitor has proposed that entrepreneurship dynamics can be linked to conditions that enhance (or hinder) new business creation. The Entrepreneurial Framework Conditions are one of the most important components of any entrepreneurship ecosystem. The state of these conditions directly influences the existence of entrepreneurial opportunities, entrepreneurial capacity and preferences, which in turn determines business dynamics and growth. Taking into consideration all these aspects, in the present study we intend to analyze comparatively the main entrepreneurial indicators that can influence the sustainable growth of efficiency-driven and innovative-driven countries from Europe.

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1. Introduction

Entrepreneurial activity is an output of the interaction of an individual's perception of an opportunity and capacity (motivation and skills) to act upon this and the distinct conditions of the respective environment in which the individual is located (Singer, Amorós, Arreola, 2015). The Global Entrepreneurship Monitor has proposed that entrepreneurship dynamics can be linked to conditions that enhance (or hinder) new business creation. GEM has pursued and analyzed the bidirectional relationship between entrepreneurship and economic development (Wennekers and Thurik 1999; Carree and Thurik, 2003; Acs, 2006; Audretsch, 2007). GEM has developed a conceptual framework that sets out the key elements of the relationship between entrepreneurship and economic growth and the way in which the elements interact. It took as its starting point the recognition that while other researchers had defined general national framework conditions for established businesses to thrive (Schwab and Sachs, 1997, 1998), a different set of "entrepreneurial framework conditions" (EFCs) and both entrepreneurial skills and entrepreneurial opportunities were necessary to enable new business activity.

The current GEM conceptual framework reflects the complexity of the causal relationships between entrepreneurship and economic development globally (Bosma et al., 2009; Bosma and Levie, 2010). It acknowledges that the contribution of entrepreneurs to an economy varies according to its phase of economic development (Wennekers et al., 2010; Gries and Naude, 2008), which to certain extent drives the institutional setting. It also reflects a nuanced distinction between phases of economic development, in line with Porter's typology of "factor-driven economies", "efficiency-driven economies" and "innovation-driven economies" (Porter et al., 2002), and recognizes that GEM's unique contribution was to describe and measure, in detail, the conditions under which entrepreneurship and innovation can thrive. These categories are based on the World Economic Forum's (WEF) Global Competitiveness Report, which identifies three main phases of economic development based on GDP per capita and the share of exports comprising primary goods. In the present paper we took into consideration only two phases, as the European countries fall in only these two categories (see table 1).

In the efficiency-driven phase, an economy has become more competitive with further development accompanied by industrialization and an increased reliance on economies of scale, with capital-intensive large organizations more dominant. This phase is generally accompanied by improved (and improving) basic requirements, and attention is then directed toward developing the efficiency enhancers.

As development advances into the innovation-driven phase, businesses are more knowledge-intensive, and the service sector expands. While entrepreneurship and innovation factors are more dominant

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in this phase, it must be noted that these conditions rely on a healthy set of basic requirements and efficiency enhancers (Amorós, Bosma, 2014).

Table 1–Efficiency-driven and Innovation-driven Economies

European Union	Efficiency-driven Economies	Innovation-driven Economies
	Croatia ²⁾ , Hungary ²⁾ , Lithuania ²⁾ , Poland ²⁾ , Romania	Austria, Belgium, Denmark, Estonia, Finland, France, Germany, Greece, Ireland, Italy, Latvia, Luxembourg, Netherlands, Portugal, Slovenia, Slovakia, Spain, Sweden, United Kingdom

²⁾ In transition to Innovation-driven economies

2. Entrepreneurial framework conditions

Entrepreneurial Framework Conditions (EFCs) are one of the most important components of any entrepreneurship ecosystem and constitute “the necessary oxygen of resources, incentives, markets and supporting institutions for the creation and growth of new firms” (cf. Bosma et al., 2008: p. 40).

The National Experts Survey (NES) is part of the standard GEM methodology and it assesses various EFCs as well as some other topics related to entrepreneurship. The NES questionnaire is used to collect the views of experts on a wide range of items, each of which was designed to capture a different dimension of a specific EFC. The NES was carefully designed and refined to capture informed judgments of national, and in some cases regional, key informants regarding the status of EFCs in their own country/region’s economies. The NES sample comprises a minimum of 36 respondents, with four experts drawn from each of the entrepreneurial framework condition categories. Out of this sample, a minimum of 25% must be entrepreneurs or business owners, and 50% must be professionals. The responses to the items follow a five-point Likert scale, where “1” means the statement is completely false according to the expert and “5” means the statement is completely true. Experts are also asked to express their views about the most important institutional successes and constraints for fostering entrepreneurship in their country. They also provide some key recommendations for the same purpose.

Entrepreneurial activity is shaped by a distinct set of factors (referred to as Entrepreneurial Framework Conditions and listed below) existing a relationship between these factors, entrepreneurship dynamics and economic growth. The state of these conditions directly influences the existence of entrepreneurial opportunities, entrepreneurial capacity and preferences, which in turn determines business dynamics (Singer, Amorós, Arreola, 2015). These factors are as follow:

1. Entrepreneurial Finance. The availability of financial resources-equity and debt-for small and medium enterprises (SMEs) (including grants and subsidies).
2. Government Policy. The extent to which public policies give support to entrepreneurship. This EFC has two components: 2a. Entrepreneurship as a relevant economic issue and 2b. Taxes or regulations are either size-neutral or encourage new and SMEs.
3. Government Entrepreneurship Programs. The presence and quality of programs directly assisting SMEs at all levels of government (national, regional, municipal).
4. Entrepreneurship Education. The extent to which training in creating or managing SMEs is incorporated within the education and training system at all levels. This EFC has two components:
 - 4a. Entrepreneurship Education at basic school (primary and secondary), and
 - 4b. Entrepreneurship Education at post-secondary levels (higher education such as vocational, college, business schools, etc.).
5. R&D Transfer. The extent to which national research and development will lead to new commercial opportunities and is available to SMEs.
6. Commercial and Legal Infrastructure. The presence of property rights, commercial, accounting and other legal and assessment services and institutions that support or promote SMEs.
7. Entry Regulation. Contains two components: 7a. Market Dynamics: the level of change in markets from year to year, and 7b. Market Openness: the extent to which new firms are free to enter existing markets.
8. Physical Infrastructure. Ease of access to physical resources-communication, utilities, transportation, land or space—at a price that does not discriminate against SMEs.
9. Cultural and Social Norms. The extent to which social and cultural norms encourage or allow actions leading to new business methods or activities that can potentially increase personal wealth and income.

Taking into consideration all these aspects mentioned above, we analyzed the link between the entrepreneurial framework conditions and economic growth of efficiency-driven and innovation-driven economies from Europe.

3. Methodology

To analyze the link between variables included in the survey and their connection to the economic development, the following statistical and data analysis methods were applied:

- Parametric Pearson Correlation
- PCA - principal component analysis
- Hierarchical cluster analysis
- Non-hierarchical cluster analysis

Correlation analysis was carried out separately for each group of countries,;

- Efficiency-driven countries
- Innovative-driven countries

For the execution of these methods we used SPSS statistics and Excel for a better interpretation and visualization of data.

4. Results

4.1. Parametric Pearson Correlations

The parametric Pearson correlations are different for the two categories of countries analysed.

For efficiency-driven economy countries, there were recorded some direct, high intensity correlations (Pearson,) statistically significant:

- *Nat. Policy – Regulation and R&D Transfer* = 0.958. When taxes and regulations encourage new SMEs, there is also research carried out and development transfer, leading to new commercial opportunities.
- *Nat. Policy – Regulation and Cultural and Social Norms* = 0.923. Flexible regulations are encouraged by the cultural and social norms, allowing actions that lead to new business activities.
- *Government Programs and Cultural and Social Norms* = 0.979. When the government launches programs to support entrepreneurship or support the entrepreneurs financially, social and cultural norms encourage the countries in their entrepreneurial actions.
- *Education – Post-School and Commercial Infrastructure* = 0.919. The commercial, accounting and legal services and institutions are supporting SMEs, as the education at post-secondary levels develops.
- *R&D Transfer and Internal Market – Openness* = 0.926. The more research is carried out, the more open to new entries the market becomes.

For innovation-driven economy countries, there were recorded some direct, high intensity correlations (Pearson,) statistically significant:

- *Nat. Policy – Regulation and Government Programs* = 0.808. When government implication in entrepreneurship grows, taxes and regulations encourage new SMEs as well.
- *Nat. Policy – Regulation and Physical Infrastructure* = 0.703. The access to physical resources-communication, utilities, transportation, etc. develops when taxes and regulations encourage new SMEs.
- *Education – Prim. & Second and Education – Post-School* = 0.731. An interesting fact is that education at basic level is connected to education at post secondary level, meaning that the entrepreneurial activities should start from early ages and then develop progressively.
- *Government Programs and R&D Transfer* = 0.819. There is a link between government programs supporting entrepreneurship and the research and development transfer that is available to SMEs.
- *Education – Prim. & Second and Cultural and Social Norms* = 0.757. As cultural norms encourage actions leading to new business activities that can potentially increase personal wealth and income, the entrepreneurial education develops within universities, business schools and colleges.
- *Education – Post-School and Physical Infrastructure* = 0.715. The access to physical resources-communication, utilities, transportation is facilitated by the development of entrepreneurial education at post-secondary levels.

4.2. PCA and cluster analysis

After applying PCA, for all countries studied, it is observed that there are many correlations between the 12 variables studied, as follows:

- Reverse correlations of medium intensity, between the variable *Internal Market – Dynamics* and variables: *Government Programs*, *Education – Post-School*, *Commercial Infrastructure*, *Internal market - openness*
- Direct correlations of medium intensity, marked in bold in the correlation matrix, presented in table 1.
- Direct correlations of high intensity, underlined in the correlation matrix, presented in table 1.

Table 2–Correlation Matrix

	Finance	Nat. Policy – General Policy	Nat. Policy – Regulation	Government Programs	Education – Prim. & Second	Education – Post-School	R&D Transfer	Commercial Infrastructure	Internal Market – Dynamics	Internal Market – Openness	Physical Infrastructure	Cultural and Social Norms
Finance	1											
Nat. Policy General Policy	0.42	1										
Nat. Policy Regulation	0.36	0.614	1									
Government Programs	0.37	0.631	<u>0.83</u>	1								
Education Prim. & Second	0.38	0.375	<u>0.666</u>	0.426	1							
Education Post-School	0.5	0.438	<u>0.672</u>	0.641	<u>0.727</u>	1						
R&D Transfer	0.56	0.519	<u>0.699</u>	<u>0.819</u>	0.359	0.511	1					
Commercial Infrastructure	0.58	0.215	0.435	0.451	0.515	<u>0.701</u>	0.604	1				
Internal Market Dynamics	-0.14	-0.17	-0.25	-0.43	-0.28	-0.59	-0.39	-0.56	1			
Internal Market Openness	0.52	0.443	0.599	0.663	0.616	<u>0.685</u>	<u>0.696</u>	0.554	-0.49	1		
Physical Infrastructure	0.39	0.265	0.636	0.593	0.527	<u>0.676</u>	0.531	0.578	-0.34	0.459	1	
Cultural and Social Norms	0.29	0.291	0.622	0.441	<u>0.721</u>	0.524	0.392	0.403	0.079	0.501	0.528	1

Using varimax rotation, the 12 variables were grouped into 3 main components, according to Table 3, the three components explaining a rate of 75.4% of the total variance of the original 12 variables in the study, according to Table 4.

Table 3–Rotated Component Matrix^a

	Component		
	1	2	3
Nat. Policy – General Policy	.848		
Government Programs	.825		
R&D Transfer	.769		
Nat. Policy – Regulation	.706		
Internal Market – Openness	.522		
Finance	.428		
Cultural and Social Norms		.907	
Education – Prim. & Second		.831	
Physical Infrastructure		.593	
Internal Market – Dynamics			-.899
Commercial Infrastructure			.760
Education – Post-School			.626

Extraction Method: Principal Component Analysis.

Rotation Method: Varimax with Kaiser Normalization.

a. Rotation converged in 5 iterations.

Tables 3 and 4 show that the first principal component (PC1) explains about 55% of the total variance consisting of the following variables: *Nat. Policy – General Policy*, *Government Program*, *R&D Transfer*, *Nat. Policy – Regulation*, *Internal Market – Openness* and *Finance* – relating to policies, regulations, market and finance.

The second component (PC2) explains approximately 11% of the total variation and consists of the following variables: *Cultural and Social Norms, Education – Prim. & Second, Physical Infrastructure* – being more focused on education, culture, society and access to different facilities.

The third component (PC2) explains about 9.5% of the total variance and consists of the following variables: *Internal Market – Dynamics, Commercial Infrastructure, Education – Post-School* – a combination of market development, commercial and legal institutions and education at post secondary level.

Table 4–Total Variance Explained

Component	Initial Eigenvalues			Extraction Sums of Squared Loadings		
	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %
1	6.592	54.934	54.934	6.592	54.934	54.934
2	1.314	10.950	65.884	1.314	10.950	65.884
3	1.141	9.510	75.394	1.141	9.510	75.394
....						
12	.064	.532	100.000			

Extraction Method: Principal Component Analysis.

The three main components are „abstract”. In order to analyze internally these three components, the correlation coefficients were calculated between the original variables in the study and the three main components (see Table 5).

Based on Table 5, we can outline the following aspects:

- From the initial variables forming PC1, we noticed that *national policy - general policy* has a direct, medium intensity correlation with PC1; the other variables that compose it are directly correlated with PC1 but of low intensity, the weakest correlation actually belonging to *finance* (0.096) and *internal market-openness* (0.086). It can be noticed that most of the initial variables forming PC1 and PC2 correlates reversely with PC3.
- Out of the three initial variables forming PC2, two of them recorded direct correlation coefficients of medium intensity with PC2 (*Education - Prim. & Second* and *Cultural and Social Norms*).
- Of the three initial variables forming PC3, two of them have average values (0.354 for *commercial infrastructure* and -0.527 for the *internal market - dynamics*) the last being in fact a reverse correlation of this initial variable with PC3.

Table 5–Component Score Coefficient Matrix

	Component		
	1	2	3
Finance	.096	-.010	.075
Nat. Policy – General Policy	.464	-.157	-.209
Nat. Policy – Regulation	.226	.113	-.155
Government Programs	.342	-.125	-.029
Education – Prim. & Second	-.169	.394	-.020
Education – Post-School	-.097	.144	.211
R&D Transfer	.308	-.165	.049
Commercial Infrastructure	-.176	.070	.354
Internal Market – Dynamics	.084	.243	-.527
Internal Market – Openness	.086	.014	.122
Physical Infrastructure	-.085	.203	.094
Cultural and Social Norms	-.096	.484	-.241

Concluding the results detailed in Table 5, we can state that for PC1 *Nat. Policy - general policy* is the most defining variable, PC2 is characterized by the variable *Cultural and social norms* and PC3 is defined, but negatively, by *internal market - dynamics*.

To visualize how the countries included in the survey are grouping on the three main components, we applied hierarchical cluster analysis (using Ward distance), resulting a number of three clusters (Figure 1).

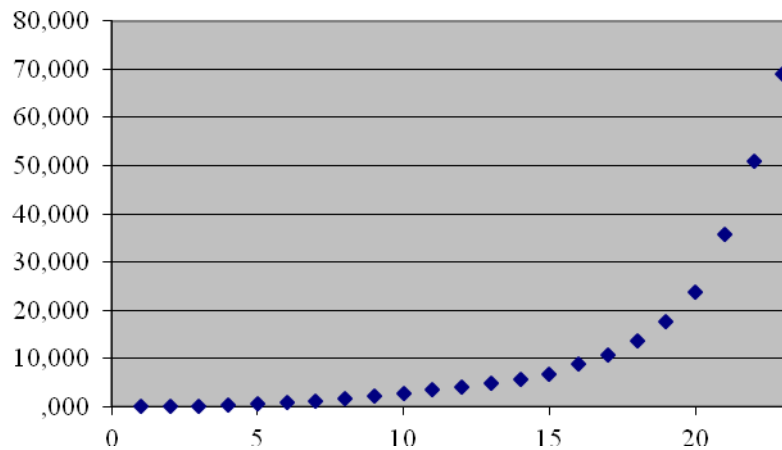


Figure 1. Number of clusters

According to ANOVA (illustrated in Table 6), the 3 clusters formed on the 3 main components are statistically significant.

Table 6–Final cluster and ANOVA results

	Cluster		Error				Final cluster		
	Mean Square	df	Mean Square	df	F	Sig.	1	2	3
PC1	4.296	2	.686	21	6.261	.007	-.45376	.92542	-.27718
PC2	7.770	2	.355	21	21.871	.000	-.35497	-.72403	1.23114
PC3	5.474	2	.574	21	9.540	.001	-.79260	.67939	.45289

Based on table 6 we can notice that:

- The countries that have formed the first cluster (10 countries) are not characterized by any of the main components. It is composed of countries that are not defined by the variables forming PC3 (Internal Market - Dynamics, Commercial Infrastructure, and Education - Post-School). This cluster has the particularity that, unlike cluster 2 and cluster 3, it is formed both of efficiency-driven economy and innovation-driven economy countries. Except Lithuania, all efficiency-driven economy countries are part of this cluster, according to data in table 5, column 1.
- Countries forming the second cluster (7 countries) are totally opposite to those grouped in Cluster 3, being characterized by the variables forming PC1 and are not defined by the variables grouped on PC2. This cluster consists of only innovation-driven economy countries, namely Western countries, developed economically and founders of the EU, according to data in table 5, column 2. Basically they are countries that have a strong legal infrastructure, have government programs, market opening and funding.
- Countries that form the third cluster (7 countries) are totally opposed to those forming cluster 2, and the cluster consists mainly of innovation-driven economy countries, only Lithuania belongs to the efficiency-driven economy countries. This cluster is characterized by variables forming PC2, namely: Cultural and Social Norms, Education - Prim. & Second, Physical Infrastructure and it is not defined by variables forming PC1.

These aspects can be viewed better in the plots of Figures 2-4.



Figure 2. Countries distribution on PC1 and PC2 components and according to clusters

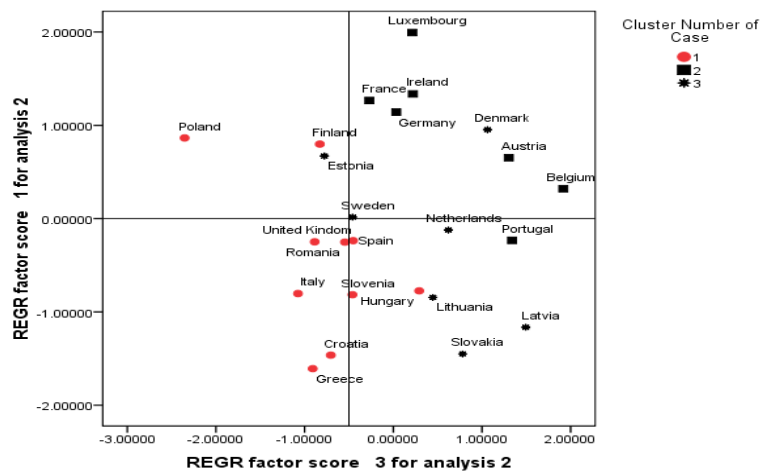


Figure 3 Countries distribution on PC1 and PC3 components and according to clusters

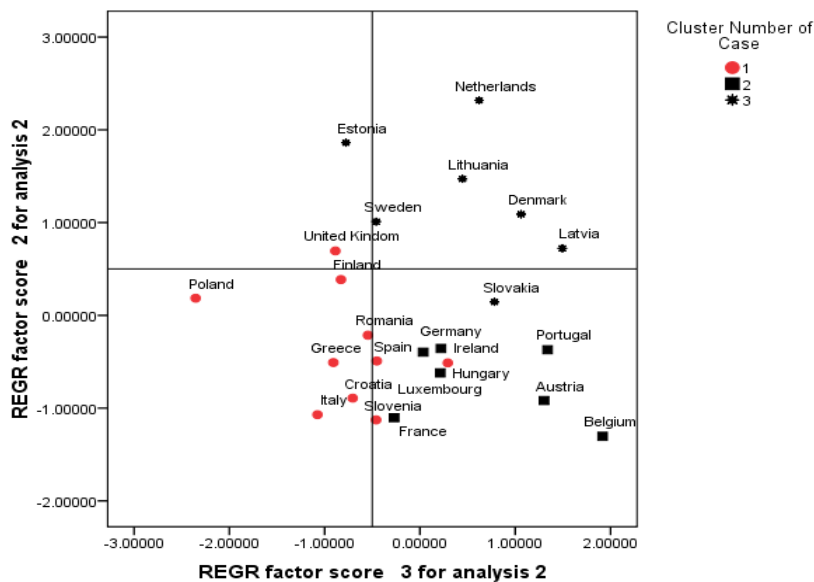


Figure 4 Countries distribution on PC2 and PC3 components and according to clusters

Figure 5 shows the dendrogram of countries on clusters formed using Ward method. This method does not put together groups with smallest distance, but it joins groups that do not increase too much a given measure of heterogeneity. The aim of the Ward method is to unify groups such that the variation inside these groups is not increased too drastically. This results groups in clusters that are as homogeneous as possible.

Hierarchical clustering techniques proceed by either a series of successive mergers or a series of successive divisions. The results of these methods can be displayed in a dendrogram. The dendrogram is the tree-like diagram that can depict the mergers or divisions which have been made at successive level.

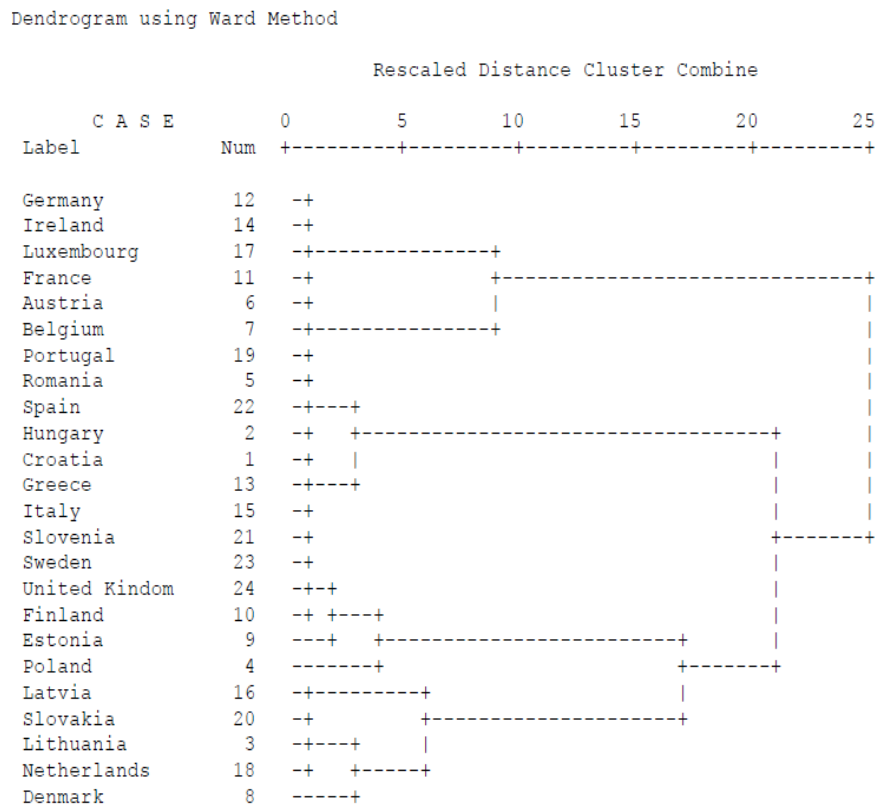


Figure 5 Dendrogram using Ward method

In Table 7 we illustrated the three clusters and their composition (the efficiency-driven economy countries are written in *italics* and the innovative-driven economy countries are written in **bold**).

Table 7-Final cluster and ANOVA results

Cluster 1	Cluster 2	Cluster 3
1. <i>Croatia</i> ,	1. Austria ,	1. Denmark ,
2. Finland ,	2. Belgium ,	2. Estonia ,
3. Greece ,	3. France ,	3. Latvia ,
4. <i>Hungary</i> ,	4. Germany ,	4. <i>Lithuania</i> ,
5. Italy ,	5. Ireland ,	5. Netherlands ,
6. <i>Poland</i> ,	6. Luxembourg ,	6. Slovakia ,
7. <i>Romania</i> ,	7. Portugal	7. Sweden
8. Slovenia ,		
9. Spain ,		
10. United Kingdom		

The first cluster is very atypical and not characterized by any of the 3 components. This cluster has the particularity that, unlike cluster 2 and cluster 3, it is formed both of efficiency-driven and innovation-driven economies. Except Lithuania, all efficiency-driven economies are part of this cluster. It is totally opposed to the variables forming PC3: *Internal Market - Dynamics, Commercial Infrastructure and Education - Post-School*. These countries are not concerned about any changes in the market, the presence of property rights, commercial, accounting and other legal and assessment services and institutions that support or promote SMEs, as well as education at higher levels, such as universities, colleges and business schools.

The second cluster is characterized by variables forming PC1: *Nat. Policy - General Policy, Government Program, R&D Transfer, Nat. Policy - Regulation, Internal Market - Openness and Finance* and it is not defined by variables forming PC2, this cluster being totally opposite to cluster 3. The third cluster consists of only innovation-driven economies, namely Western countries, developed economically and founders of the EU, concerned more about legal infrastructure, government programs, market opening and funding.

The third cluster is characterized by variables forming PC2, namely: *Cultural and Social Norms, Education - Prim. & Second, Physical Infrastructure* and it is not defined by variables forming PC1. The countries belonging to this cluster are located mostly in the Northern part of Europe and when it comes to entrepreneurship they are focused more on culture, society, education at basic levels and the access to different facilities: communication, utilities, transportation, land or space.

5. Conclusions

Structuring information obtained on carrying out statistical analysis and using PCA, parametric correlation and cluster analysis, we can say that:

- Countries forming cluster 1 are atypical because, according to the results, they have a market opening but do not have the commercial infrastructure for it, they also have no coherent national policy - general policy or cultural and social norms. In fact, these countries are either former communist countries (Poland, Romania, Hungary) or have had in the past domestic armed conflicts that undermined these aspects which have slowed entrepreneurial efforts (Croatia, Slovenia), or have not joined the Euro zone even though being EU members (UK), or the economy of these countries went bankrupt or nearly bankrupt as in Greece, Italy and Spain.
- Economies forming cluster 2 are countries with older democracies, they are EU founding members, are defined by national-policy – General-policy and are countries that do not have constraints, entrepreneurship having complete freedom and being well regulated at national level.
- Countries forming cluster 3 are only Nordic countries with strong cultural and social norms and physical infrastructure.

In the present research, and using descriptive and inferential statistics, we highlighted significant characteristics of the European countries in terms of entrepreneurship indicators. Such methods pointed out a unique, but explainable, grouping of European countries included in the study illustrating the link between the entrepreneurial conditions and the economic development.

As a final conclusion, entrepreneurship across countries included in the study depends on national policy - general policy, cultural and social norms, internal market - openness and commercial infrastructure.

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