

Executive summary

New businesses are not only vital for the creation of employment but also for the development of new ideas that simplify work and production processes and increase productivity. Consequently, business dynamics contribute to regional development and prosperity. Yet, the local reality across the OECD presents a picture of large regional disparities which needs to be understood. While some regions experience a high degree of business births and deaths, other regions only observe low levels of changes in their business population.

So far, the lack of a consistent and comprehensive database for OECD regions has been a major impediment for assessing differences in entrepreneurship across places. This report contributes to fill that void. It enables policy makers to compare business demography between different OECD regions and also highlights various place-specific factors that are more successful in stimulating the creation and development of businesses. Regions showing higher levels of entrepreneurship have on average better local governance, spend more on R&D activities, and have a more educated local workforce. Similarly, regions have on average higher firm creation when they have business-friendly regulations (ease of doing business) and a higher quality of governance (i.e. low levels of corruption). Financing constraints of firms appear to be related to higher rates of business deaths and lower rates of new business creation, while additional resources via EU Cohesion Funds can increase both the births and deaths of businesses.

Measuring business demography poses a number of empirical challenges that can be even more pressing at the subnational level. To analyse business dynamics comprehensively across regions, detailed information on demographic events (births, deaths and survival) and the accompanying effects on employment is required. In an ideal situation, robust and comparable statistics on business dynamics should allow firm cohorts to be followed over time, the location of those firms and related plants to be retained together with size, sectoral composition and the number of employees.

The enterprise approach for business demography statistics ensures the widest coverage across OECD countries and an already strong consistency in methods and definitions, on which further harmonisation should be built. Such an approach is best suited to study the creation and continuation of new businesses. On the other hand, the establishment approach offers the advantage of more precise location information on regional employment, but at the expense of a narrower country coverage and lower harmonisation achieved across countries. Given the conceptual and practical distinction between enterprise and establishment indicators, this project has collected both available sets of statistics and provided a comparison between the two. The indicators and methodological considerations developed through this work will help address a set of policy-relevant questions that relate to entrepreneurship and to the distribution of employment opportunities.

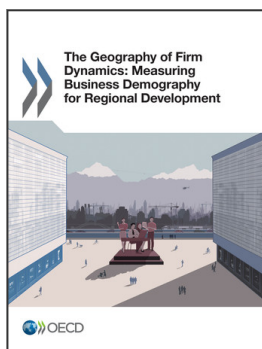
Key findings

- **New firms constitute, on average, 10% of all firms across OECD regions, demonstrating that business dynamics in the form of firm births are considerable in the OECD.** However, both within as well as across countries, regions differ considerably in business dynamics. At the top end of the range, business birth rates can reach up to 25%, whereas regions with the lowest business creation rates only recorded birth rates of around 5%. These dynamics are partially driven by non-employer firms for which birth rates are larger than for employer firms (on average 9%).
- **Urban regions show the largest levels of business dynamics, both in terms of business creation and destruction rates, which is particularly pronounced for mostly urban regions at the frontier of national productivity.** They account for 24% more business births, among all types of firms, than would be expected given their share of active firms.
- **Using enterprise-level data to monitor employment growth from business creation can be susceptible to a headquarter bias, a deviation from a region's actual share of national employment of, on average, 1.4 percentage points.** Capital-city regions tend to concentrate headquarters of large firms. On average they control 7 percentage points more employment than is located in their region.
- **New firms and small and medium enterprises (SMEs) contribute significantly to regional employment growth and can be stimulated by the right set of regional conditions pertaining to local governance, financing availability and education.** Based on data on employer enterprises, new businesses can create up to 8% new employment in regions, though regions across the OECD differ substantially in this regard. Similarly, in a subset of four countries, regional employment growth in small and medium-sized plants between 2010 and 2014 ranged from 30% to a loss of 27%. Regions with on average smaller existing firms also record higher firm birth rates. For those reasons, tailored policies that facilitate and encourage entrepreneurship can boost regional development and employment.
- **Ad hoc analysis on micro-data is a possible alternative way to build comparable and robust evidence on the dynamics of businesses and related employment.** By means of consistently performed micro-aggregation of business registers data in the context of Costa Rica, Finland, France and Sweden, young plants are shown to disproportionately contribute to regional net creation and employment growth. After controlling for firm-level characteristics, population density appears to significantly enhance both entrepreneurial activities and post-entry employment growth.

Way forward

One main lesson emerging from this report is that robust and internationally comparable regional business demography indicators require further harmonisation efforts across countries on the capacity to distinguish employer-only enterprises from those of non-employer ones and to enhance the capacity to track enterprises and their establishments in order to better assess the geographical dimension of employment creation.

Future efforts should be concentrated on extending and refining enterprise demography data. The high degree of harmonisation already achieved at the enterprise level will make it possible, in the short to medium term, to build a database of regional business demography encompassing all OECD countries, with the objective of extending the coverage as much as possible to detailed geographies (i.e. small administrative TL3 regions such as departments in France), and of distinguishing employer from non-employer enterprises also for the countries where such distinction is still not possible.



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