

Entrepreneurship, firm and employment creation in regions

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The measures taken to contain the COVID-19 pandemic have been generating widespread disruptions to the activities of many firms. Although firms of all sizes were affected, small and medium-sized enterprises (SMEs) were hit hardest due to their limited financing capacity compared to larger ones forcing them to run out of business or lay-off workers (OECD, 2020). In the post-COVID period, the creation of new firms will play an essential role in the recovery of economic activity and employment in regions. This section assesses the extent to which regions are able to enhance the creation of new firms generating employment.

Capital regions are often centres of economic activity and innovation in their respective countries, in particular when it comes to the presence and creation of firms. In 2017, capital regions accounted for 6% of the national population but they hosted 10% of all firms in their respective countries. The importance of capital regions is also visible in terms of new enterprises. The number of new firms per capita in capital regions is 1.5 times higher than in the rest of their respective countries on average (Figure 2.22). In this respect, the largest differences are observed in the Czech Republic and the Slovak Republic, where capital regions have twice as many new firms as the rest of the country.

The regional business environment in the OECD area is characterised by a considerable churning of firms, as new firms replace old ones every year. In 2017, 17% of firms with at least 1 employee in OECD regions consisted of newly created firms. However, the distribution of these new firms across regions can be highly uneven and differ from that of the population. In 2017, 57% of all newly created firms were located in predominantly urban regions although these regions were home to only 33.7% of the national population. The firm birth rate in predominantly urban regions was 2.1 percentage points (or 18%) higher than in other types of regions within the same country in 2017 (Figure 2.23). In some countries, such as Austria, France and the United Kingdom, that gap was larger than 30%, revealing a stark difference across places in terms of business dynamism.

New firms matter for regional economies in multiple important ways. They create new jobs, foster innovation and generate demand for other existing firms, with a direct contribution to the regional employment and economic dynamism. In 2017, new firms (i.e. those firms created in the previous 12-month period) directly employed an average of 3% of all employees in OECD regions. Notwithstanding a similar size of new firms across regions (2.5 employees in predominantly urban regions compared to 2.3 in other types of region), their weight on regional employment tends to differ depending on the country (Figure 2.24). Overall, across 17 OECD countries with available data, employment created by new firms accounted for 2.6%, 3.3% and 3.2% of the total employment in predominantly urban, intermediate and rural regions respectively.

Definition

Firm birth: Creation of a combination of production factors with the restriction that no other enterprise is involved in the event. Excludes entries in the business population due to reactivations, mergers, breakups, split-offs and restructuring. The firm birth rate is the ratio of new firms to active firms.

Firm death: Dissolution of a combination of production factors with the restriction that no other enterprises are involved in the event. Excludes exits from the population due to mergers, take-overs, breakups and restructuring of a set of enterprises.

Employment creation rate: The ratio of employees in new firms versus employees in all firms.

Employer enterprise: An enterprise having a positive number of employees in any part of the year.

Non-employer enterprise: An enterprise having no employees in any part of the year. The enterprise can have a positive number of persons employed (working proprietors, partners working regularly).

Source

OECD (2020), "Coronavirus (COVID-19): SME policy responses", *OECD Policy Responses to Coronavirus (COVID-19)*, OECD, Paris, <http://www.oecd.org/coronavirus/policy-responses/coronavirus-covid-19-sme-policy-responses-04440101/>.

OECD (2020), *OECD Regional Statistics (database)*, OECD, Paris, <http://dx.doi.org/10.1787/region-data-en>.

Further information

Territorial grids and regional typology (Annex A).

Figure notes

Figure 2.22 to Figure 2.23: Total economy: industry, construction and services excluding insurance activities of holding companies (ISIC Rev. 4 sectors B to S exc. K642).

Figure 2.22: 2017 or latest available year: CAN, FIN, LVA, NOR and GBR, 2016; IRL and USA, 2014; DNK, 2013. Countries ranked according to decreasing difference between firms count in capital regions (TL2) and the rest of the country.

Figure 2.23: 2017 or latest available year: AUT, BGR, HRV, CZE, HUN, POL, PRT, ROU, SVK and GBR, 2016; LVA, 2015; DNK, 2013. Countries ranked in descending order of the firm creation rate in predominantly urban regions.

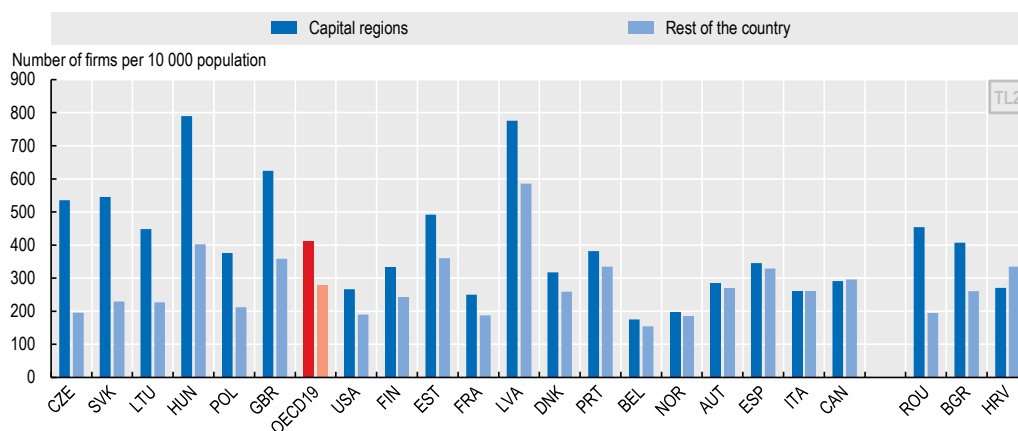
Figure 2.24: 2017 or latest available year: LVA and NOR, 2016; DNK, 2013. Countries ranked in descending order of the employment share in new firms in predominantly rural regions.

2. ECONOMIC RESILIENCE AND REGIONAL ECONOMIC DISPARITIES

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2.22. Number of firms in capital regions vs rest of the country, 2017

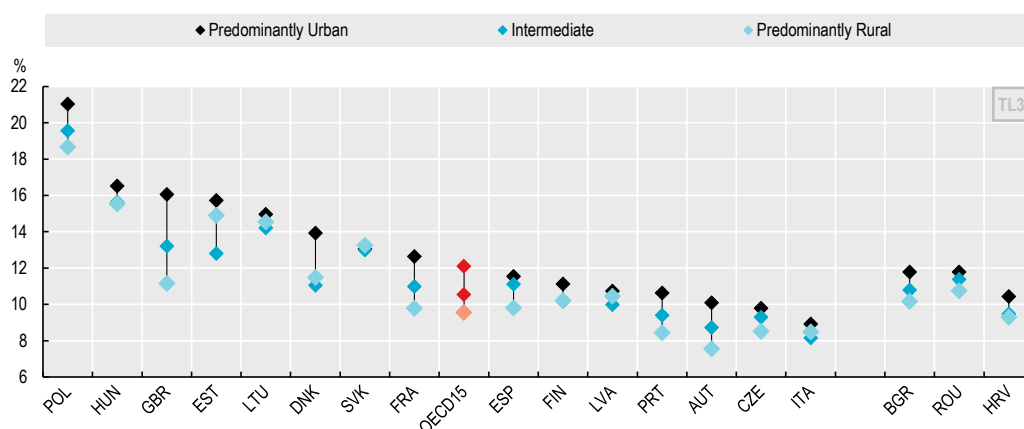
Number of firms of all sizes per 10 000 population, large regions (TL2)



StatLink <https://doi.org/10.1787/888934189982>

2.23. Firm birth rates by country and type of region, 2017 or latest year available

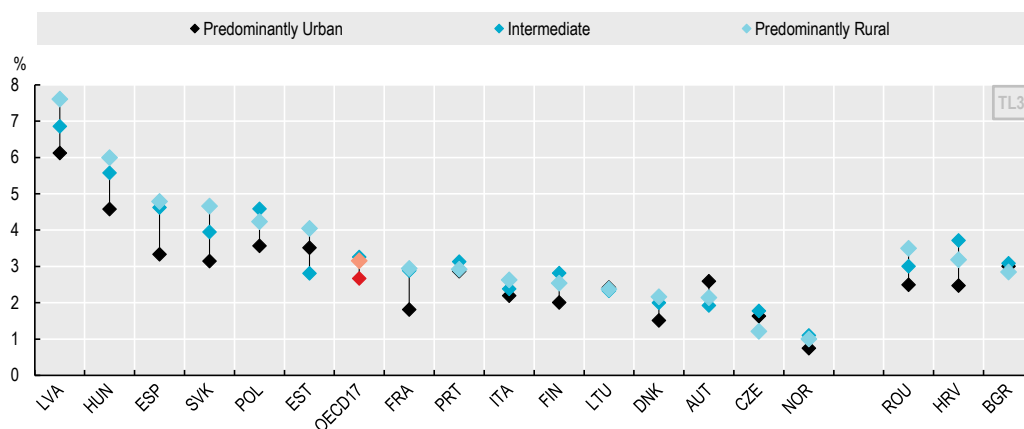
Newly created employer firms relative to the total number of employer firms, small regions (TL3)



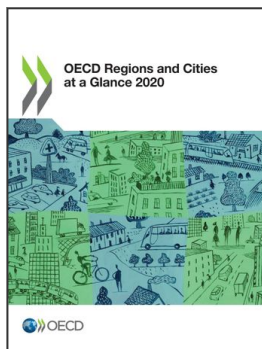
StatLink <https://doi.org/10.1787/888934190001>

2.24. Employment creation of new firms by type of region, 2017 or latest year available

Number of employees in new firms as a share of total firm employees, small regions (TL3)



StatLink <https://doi.org/10.1787/888934190020>



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