

Review on Entrepreneurship and Employment in Entrepreneurial Economy

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Abstract

Entrepreneurial economy was originated from America, there appeared a large number of entrepreneurs characteristic of being entrepreneurial. These entrepreneurs established a large number of innovative enterprises, and created most of the new jobs. In 1985, Peter Deruk first proposed the concept of entrepreneurial economy, and stressed that the economy had been turning America from the managed economy into entrepreneurial economy. This paper summarized the concept of entrepreneurial economy. Second, it explored relation between entrepreneurship and employment in entrepreneurial economy by referring to the related research achievements made by foreign and domestic scholars. Finally, it concluded foreign experience of promoting entrepreneurship and employment in entrepreneurial economy referring to the related study.

Key words: Entrepreneurs; Employment; Venture capital

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INTRODUCTION

The concept of entrepreneurial economy was proposed by Peter Deruk as a kind of new economy in the 1980s'. He

believed that in 1980s, America faced severe employment pressure, and the transformation from “management type economy” to the “entrepreneurial economy” changed the ending of the crisis. The American economic system has undergone profound changes, and what guided American economy to transform the type of entrepreneurial economy was management rather than a particular science or invention. American society went forwards to the entrepreneurial society. Since then, entrepreneurial economy became a hot issue and was discussed by many scholars. This paper is a summary of the research results and a reference of foreign experience of promoting entrepreneurship and employment in entrepreneurial economy in China.

1. CONCEPTUAL ANALYSIS OF ENTREPRENEURIAL ECONOMY

Many research results show USA can overstep Europe and became a world power in the twentieth century because USA is a nation full of immigrants with strong entrepreneurial spirit. So American has become an entrepreneurial society in the earlier time.

In fact, in America or called developed countries, innovation not only occurs in commercial and economic fields, but also in broader fields of education, health care, government and politics. In a society, it is important to introduce much-needed entrepreneurial spirit, and apply it to the new problems and new opportunities.

Entrepreneurial economy got widespread attention from scholars at the end of the twentieth century. Bygrave pointed out that entrepreneurial economy involved a high level of innovativeness, typical entrepreneurial culture and a plenty of entrepreneurial activities, all of which were the most important strategic advantage of the American economy. Analysis by Audretsch and Roy Thurik demonstrated that the entrepreneurial economy emerged in some developed economies outside USA,

and compared the management-style economy with entrepreneurial economy.

The famous entrepreneurial scientist Timmons once pointed out in his book, *Strategic and Business Opportunities in the Past 30 years*, that a new generation of entrepreneurs had completely changed the economic and social structure of America and the even of whole world, and set the entrepreneurial genetic code for the next generations; it would more powerful than any other driving force to change the lives and way of working of Americans and people all over the world, and would continue to become the leading force in the next century or centuries. Entrepreneurial revolution not only promoted economic growth, but also gave birth to the emergence of entrepreneurial economy.

Entrepreneurial economy is a new form of social economy led by technology economy paradigm. Audretsch regarded it as the main power in generating economic growth of the relationship between entrepreneurship and economic growth. He advocated a new economic growth model including entrepreneurial elements, in which entrepreneurs played a crucial role. He explained the intrinsic link between entrepreneurship and economic growth, and put forward the knowledge spillover and endogenous entrepreneurship theory.

Chinese scholars have also done a lot of research on the entrepreneurial economy, accordingly some definitions are given. Liu (2007) believed that the entrepreneurial economy was a kind of economic form based on knowledge that was the most important factor of production, promoted enterprise innovation by entrepreneurs, stimulated entrepreneurial spirit, transformed science and technology to the realistic productive forces through entrepreneurial mechanism. According to Liu (1998), the entrepreneurial economy system can innovate, apply to the original knowledge far more than the so-called high-tech. Development and application of knowledge are the main driving force to social sustainable growth in the developed country today. Labor, land, capital, entrepreneurs and the entrepreneurial spirit are the main factors driving economic growth, in which labor, land and capital are factors of production, the main function of entrepreneur is to promote enterprise innovation. Entrepreneurial economy is promoted by both newly established small and medium-sized enterprises and the existing enterprises, especially large corporations. It is a social economic formation integrating knowledge, technology, management, capital and entrepreneurial spirit. Huang (2008) believed that entrepreneurial economy supported and guaranteed innovations from the system structure, policy and strategy so as to promote the continuous creation and development of small and medium enterprises. Entrepreneurial economy has characteristics of high entrepreneurial start-up and exit rates, high research and development (R&D) input and

human capital investment and high economic growth. Driving force of entrepreneurial economy is not the traditional capital, labor, not even science and technology R&D, but entrepreneurial creativity, innovation and entrepreneurship. The entrepreneurial economy is the basis of entrepreneurial creativity, innovation and entrepreneurship. Li (2007) proposed that the entrepreneurial economy was based on knowledge as the main advantage of economic type. Knowledge is different from land, labor and capital as economic activity input. It is characterized by a high degree of uncertainty, the high transaction cost and relatively high transaction cost.

Although the scholars defined entrepreneurial economy differently, there is consensus among them. Firstly, they all emphasize the importance of innovation in the entrepreneurial economy, namely, the entrepreneurial economy must carry out innovative activities, including both technological innovation in the traditional sense and the economic innovation of industrial organization, market structure and business model. Secondly, they all emphasize the importance of entrepreneurial spirit in the entrepreneurial economy, which is the main driving force of economic development. Thirdly, they all agree that small and medium enterprises provide the majority of jobs in entrepreneurial economy. Therefore, based on the consensus, this paper defines entrepreneurship economy as follows: It is an economic form taking knowledge and entrepreneurial spirit as the core element of production, innovation as the main means, small and medium-sized enterprises as the micro economic basis, and promoting sustainable economic development by entrepreneurial mechanism.

2. LITERATURE REVIEW ON RELATION BETWEEN ENTREPRENEURSHIP AND EMPLOYMENT IN ENTREPRENEURIAL ECONOMY

2.1 Research of the Foreign Scholars

Study on the Timmons showed that the birth and growth of new companies led to new jobs, it was shocking in the last 25 years that the new companies developed explosively. According to the estimates, in the previous generation, there were 20 thousand new companies came into being per year, which was three times of the number in the middle of the 1970s'. In 1994, the majority of statistics given by government and other researchers showed there were about 1.1 million to 1.2 million new companies emerged every year in America. The number of new companies increased 4 times, due to which job opportunities increased greatly. In general, small businesses were the creator of jobs. At the beginning almost all of the enterprises were small in scale (limited

by resource constraints) so that they needed to develop in order to cope with competition. Small businesses created 75% of the new job opportunities at that time.

Research made by Robson and Gallagher of the showed that from 1971 to 1981 in UK the enterprises with less than 20 employees created about one third of the new job opportunities. From 1987 to 1991, the British companies sustained their wage levels generally by decreasing jobs. During this period, almost all job opportunities came from newly emerged small businesses.

Audretsch discovered that in the member states of OECD, small enterprises were growing in number because people paid more attention to self employment, which promoted economic growth and reduced unemployment in the long run. In USA more than 80% of new jobs were offered by the small and medium-sized enterprise rather than by large enterprises. Although big companies created 53% of new job positions, at the same time, they also cut 56% of already existing jobs. Study of Balje and Waasdorp showed that newly startup companies and highflying companies created 80% of new jobs during 1994 to 1998 in Netherlands. However, there was not a simple linear relationship between entrepreneurship and employment. According to the study of Audretsch, Carrree and Thurik, entrepreneurship doesn't have an immediate impact on employment because the companies need time to develop. According to study done by Audretsch and Fritsch in Germany, there is no time lag or the lag only exists for a short period between employment and entrepreneurship. Two years later, Fritsch and Mueller proposed a model and made a time lag test, and then made a comprehensive description of the impact of entrepreneurship on Employment: first, new ventures have a short-term direct effect on employment at the beginning of their establishment; second, new ventures will push out to some degree original enterprises out of the market, and the substitution effect leads to unemployment of staff in the original enterprises; finally, new ventures take advantage of induction effect to encourage the existing companies. Their results showed that the positive impact of entrepreneurial ventures on the growth of regional economy maximized on about the 8th year after their establishment; this effect would disappear in the 10th year. It showed that not considering other factors, macroeconomic policies designed to promote employment through entrepreneurship need to be adjusted according to the actual situation in the appropriate time to ensure the effectiveness of the policy.

2.2 Research of the Chinese Scholars

Chen (2002) proposed that venture capital supported setup of millions of new high-tech enterprises, created a large number of the employment opportunities with high technical requirements to the public especially white-collar class, and made great contributions to solve the employment problem. In the beginning these enterprises only employ senior technical personnel who engage

in research and development; with the rapid growth of enterprises, and they need more manufacturing, sales and other professionals. Tian Zhiwei believed that entrepreneurial activities created a large number of employment opportunities for the society and alleviate the employment pressure. Startups often have "multiplier effect" on employment, and new ventures usually absorb employment strongly and expand employment channels. Zhong Jiquan pointed out that entrepreneurship was the main way to solve employment problems. The influence of 100 employees is less than that of an employer. According to China Statistical Yearbook, from 1997 to 2001 years, in inactive state-owned units, urban collective units and associated units, there was a net reduction of 53.43 million job opportunities, but in actively entrepreneurial companies, joint-stock cooperative units and private enterprises, a total of 14.07 million new employment opportunities were offered. Private enterprises created 9.0 million new employment opportunities. According to the research done by Xia Qinghua, the substitution effect of entrepreneurship activities in new and small businesses on large enterprises in terms of social function was reflected in the following three aspects: first, in the 1990s, large enterprises in mature industries experienced downsizing, restructuring and reengineering and were in the period of prosperity. When the enterprises became more streamlined, they made some outsourcing. Second, when the big enterprises were busy on transforming, new enterprises grew sturdily, and absorbed employees.

3. INTERNATIONAL COMPARISON ON AND EXPERIENCE OF ENTREPRENEURIAL ECONOMY IN DEVELOPED COUNTRIES

3.1 Market Economy System and Entrepreneurship Policy Guarantee Entrepreneurial Economy

Entrepreneurial economic roots in a market economy, at same time entrepreneurial economy help improve the market economic system. In entrepreneurial economy, entrepreneurs upgrade continuously in economy and society and the policies supporting entrepreneurship have become the core part of economic policy. Entrepreneurship policies aim to promote entrepreneurship, reduce barriers and risks, and improve the business environment in order to help and encourage more people to start a business and furthermore give appropriate assistance in the course of business, so that more people could make successful entrepreneurship. As a result, entrepreneurship has become the core impetus of economic growth.

Highly developed entrepreneurial economy in America owes to her complete market economic system and entrepreneurship policy system. The complete market economy system formed the infrastructure of entrepreneurship economy, and worked with policy

system together to promote entrepreneurial economy. Such as the strict property system directed individual economic effort into the personal rate of return equal to the rate of social return activities and shaped entrepreneurial motivation; establishment of clear rules to economic activity reduced uncertainties, risks and changes of external environment so as to maintain policy system being vigor; protection on property rights and intellectual property rights promoted technological innovation and a large number of emerging entrepreneurs. To guide venture enterprises, USA established business information center, which had information, software and computer terminals for entrepreneurs to call at any time. Not only that, American states established business training rooms to help set up venture enterprises, support small businesses of venture investment and expand the business. The development of American venture enterprises also benefited from the enforcement of patent and copyright protection system, which could ensure entrepreneurs get timely return. Entrepreneurial economy protected the interests of business personnel, ensured their enthusiasm to do pioneering work again and again. At the same time, the states provided the basic rules for entrepreneurs to grow up. These policies and innovation, investment activities and entrepreneurs, venture capitalists and others involved in the entrepreneurial revolution pushed forwards entrepreneurial economy. Furthermore, with the support of public policies, the nation created all kinds of infrastructures, such as transportation, Internet, postal express, on which these pioneering researchers were highly dependent. The infrastructure ensured that entrepreneurs can contact to customers and suppliers effectively, communicate with others quickly and receive the services of delivery conveniently.

In Japan, market economic system is more perfect, governmental venture policies tend to support small and medium sized business enterprises. The Japanese government formulated the “Japan Small Business Investment Law” in 1963, and established three semi-official small investment businesses in Tokyo, Osaka and Nagoya. In 1980s, the Japanese government promulgated more than 30 laws and regulations and formed a relatively independent and complete system and legal collection to the small and medium-sized enterprise.

Policy support made by European government can be reflected by the establishment of business incubator. The government departments and the incubators had their own duties. The government was responsible for formulating policies, providing venture capital, mainly through economic and legal means to carry out macro-control, and did not impose administrative intervention.

3.2 Venture Capital Investment Is the Prerequisite for Entrepreneurial Economy

Venture capital is long-term risk assets investment made by professional investors. Such kind of investment is

different from general debt investment because it doesn't focus on the interest and dividends, but on the rich returns to capital income. It is a venture investment in high-tech industries related to technological innovation. It is also a kind of high risk and high return business. Therefore, it is also known as the risk investment.

Venture capital originated from USA. The American Research and Development Corporation are the earliest modern venture investment enterprises setup in 1946. In 1990s, America started a new economic cycle with a feature of high growth and low unemployment, during which the entrepreneurial economy was increasingly obvious. The results of the study showed that there were many factors to promote America entrepreneurial economy rapidly; the key factor was the financing system arrangements America used to support innovation activities. Plenty of venture capital provided important support to entrepreneurial firms. Developmental level of venture capital has become the necessary condition influencing entrepreneurial economy of a country. Venture investment means a lot. Venture capital is one of the most important parts. At present, 81% of the world's risk investment happened in America. Since the establishment of the Small Business Investment Company in 1958, small business investment plan has given nearly 90 thousand American small enterprises about US\$ 27 billion long-term debt and equity. Some investment companies who obtained funds from the plan later grew into the famous multi-national corporations, such as Intel, Apple and etc..

Venture investment in Japan follows America mode. In 1963, the Japanese government referred to USA “SME Investment Law”, especially formulated the “Japan Small Business Investment Law”, and started the history of Japanese venture capital. Although Japan's venture capital was greatly affected by USA in various aspects, but because of difference of the financial system, technology policy, industrial structure, social environment and other factors from America, Japanese venture capital lagged. In view of this situation, since the middle of 1990s, the Japanese government began to support the venture capital industry by taking policies including: broaden channels of funding, improve the legal foundation of venture capital institutions, expand the demand of venture investment, and set up a perfect exit mechanism of venture capital. Due to the implementation of these effective industrial policies, venture capital industry began to make great progress in Japan.

Before the 1990s, venture capital industry in the Europe was relatively slow, but in the 1990s, venture capital obtained considerable improvement in the European business community. Since the beginning of early 1980s, the British venture capital industry made important contribution to promote British start-up activities. From 1984 to 2004, Britain's annual venture investment grew about 53 times, in 2004, the British venture investment

amount accounted for the 47% of the total amount in the entire Europe because the government made solid entrepreneurial investment legislation to support venture capital investment activities. In the late 1980s, the French government formulated a series of policies and measures to promote venture capital investment. The influential measures included: increase state financial support to research and development, takes the tax relief measures to venture investment, allows financial institutions, large companies, insurance companies and pension funds to participate in venture capital, and opens the over counter market. These policies and measures supported a steady venture investment in France. By 2004, the total amount of venture capital investment reached 1.091 billion euros in France, second only to Britain in the Europe.

3.3 Entrepreneurship Education Is the Standing Policy for Entrepreneurial Economy

Western countries proposed the concept of entrepreneurship education in the early days. On the International Seminar Oriented on Education in the 21st Century organized by UNESCO, it was proposed the entrepreneurial ability was the “third passports”. It means that entrepreneurship education is as important as academic education and the occupation. Entrepreneurship education can promote to transform the university knowledge to practice, improve the entrepreneurship and innovation abilities of local population, strengthen cooperation with the outside world and solve employment problem. Entrepreneurship education has become a hot issue in the entrepreneurial economy. America entrepreneurship education started early. They formed a solid curriculum content. In 1947 in Harvard Business School, Myles Mace had a new course for MBA students, named New Ventures Management. Many entrepreneurship researchers believe that it is the first course of entrepreneurship education in American University. Started in the 1970s, many teachers and students in colleges and universities became entrepreneurs, so a large number of entrepreneurial enterprises emerged from Silicon Valley, which stimulated and promoted USA economy effectively. Therefore, entrepreneurship education began to attract wide attention from the society. Since the 1980s, entrepreneurship became one of the most popular academic fields in American universities, especially in the business school and the school of engineering. One study showed that, in the surveyed universities, 37.6% of universities opened entrepreneurship curriculum in their undergraduate education; 23% of university students chose corporate entrepreneurship courses in their university; 38.7% of universities provided with at least one entrepreneurship course in the undergraduate and graduate education. In the USA, 86% of the best stock market experts and entrepreneurs from high-tech enterprises received entrepreneurship education. In a sense, entrepreneurship

education and entrepreneurial spirit have become one of the direct driving forces in the USA economy.

In Japan, entrepreneurship education has the main features as follows: The entrepreneurs are various and with a certain degree of universality, there is positive entrepreneurial environment, entrepreneurs hold the motive of challenging, entrepreneurship education has substantial content and various forms, the mechanism of technology transfer is mature and there is a high rate of the success rate in their entrepreneurship activities. In recent years, in order to enhance the efficiency of entrepreneurship education, the Japanese government has introduced a number of policies to encourage college students to start their own business, which stimulated the emergence and development of entrepreneurial activities. Since the Japanese Fundamental Law of Science and Technology came into force in 1995, the entrepreneurship activities in Japanese university were more and more active. Later, the process was accelerated by the Promotion Law of University Technology Transfer, which came into force in 1998. In 2000, there were 100 newly established university background enterprises, 105 in 2001, 95 in 2002, total of which reached to 531 in the end of 2002. In general, entrepreneurship education in Japan is successful and the students’ entrepreneurial success has made an incentive effect on university entrepreneurship, which leads to a circular ascendant mode.

European countries are not identical to each other in the development of their own entrepreneurship education, but many of them have achieved positive effect. Over the past years, the EU countries have begun to attach importance to cultivate entrepreneurship and business skills, to adjust the current education system to promote entrepreneurship. More and more countries set up entrepreneurial guidance courses in school, incorporated entrepreneurship and skills education into the high school and secondary education program. For the construction of entrepreneurial culture, since the 1980s, the British government has formulated and implemented a series of policies to promote entrepreneurship education, such as setting up of entrepreneurial projects, establishing management institutions, funding to carry out teaching, research and service on college students’ entrepreneurship. In German the government set up systematically sound employment policies and effective operating mechanism, promoted occupational education, and provided a variety of funding to strengthen entrepreneurship education. The French government encouraged colleges and universities to contact to enterprises, encouraged students’ internship in the enterprises and relevant professional fields to obtain various occupation knowledge and experience. French experts pointed out that the spirit of entrepreneurs should start with education, which was the key to the success of an enterprise. So they advised to cultivate actively entrepreneurial interest and ability in students’ learning.

3.4 Entrepreneurial Culture Is the External Request of Entrepreneurial Economy

Entrepreneurial culture refers to value system and entrepreneurship of all entrepreneurial activities of entrepreneurs and potential entrepreneurs. Entrepreneurship needs corresponding entrepreneurial culture support and a good business atmosphere. People's entrepreneurial activities and general social culture interact with and penetration in each other and ultimately form a certain kind of entrepreneurial culture.

America is typical countries with free market, people generally have a strong entrepreneurial spirit, and entrepreneurial culture with entrepreneurial spirit as the main part has already won support among people. American government gave great attention on the construction of entrepreneurial culture and has formed a complete systematic arrangement of entrepreneurial culture. At the same time, USA is a nation of immigrants, so her entrepreneurial culture is characteristic with adventure, dare to innovate, emphasis on democracy and freedom, independent business and personal struggle. A report published in 1999 displayed that one out of 12 Americans would like to be their own boss. 91% of Americans believed it was respectable if a person started their own business. The average 18 year old American leaves their family, go alone to make a living and social entrepreneurship. At present, in American, there is a business in every four households, which contribute to American entrepreneurial culture including risk-taking and respect of innovation.

Europe has been trying to create her own Silicon Valley, but because of the inbred language, market, culture and education tradition, Europeans are shorter of having adventurous spirit of entrepreneurship. Therefore, in a long time, entrepreneurship economy in Europe is still far behind that in USA. The biggest obstacle comes from entrepreneurial culture.

Japan is an island country in the East who is characteristic of typical oriental culture influenced by Chinese Confucian culture, Japanese unique "samurai" culture. Japanese especially focus on cultivating personal sense of belonging to a team and responsibility and mission. They advocate live together in peace together within the team and require personal loyalty and obedience to team. At the same time the team also provides individuals with stable, superior material and cultural living condition to step up promotion opportunity, to improve one's social status, and to meet the personal sense of accomplishment. Their corporate culture was bred to the long-term employment and annuity sequence system in Japan, and also shaped the Japanese characteristics of being risk averse, suppressed personality, and being highly dependent on the team. In addition, small enterprises were not the main target customers for big Japanese banks and they have rarely

experienced in absorbing venture capital and short-term commercial loan, so it was difficult for them to obtain venture capital. Therefore, entrepreneurship was not popular then. Until the 1990, Japan began to encourage entrepreneurship. Despite the entrepreneurial activities in Japan gradually increased, especially some large companies started undertaking internally and many young people gradually made steps of innovative and risky behaviors, in general the Japanese culture was not conducive to entrepreneurship.

CONCLUSION

The paper summarized the concept of entrepreneurial economy and redefined it, summed up the research achievements made by the domestic and international scholars to explore the relation between entrepreneurship and employment in entrepreneurial economy, and concluded successful foreign experience of promoting entrepreneurship and employment in entrepreneurial economy. Based on the summary, in this paper, entrepreneurial economy refers to an economic form that takes knowledge and entrepreneurial spirit as the core elements of production, innovation as the main means, small and medium-sized enterprises as micro economic basis, through to promote economic development continuously with the support of entrepreneurial mechanism. As to the relation between entrepreneurship and employment, entrepreneurial activities can create a large number of employment opportunities for the community, and ease employment pressure. However, it is not a simple linear relationship between entrepreneurship and employment. Entrepreneurship would not have an impact on employment immediately; because it needs some time as well as the company needs time to grow. On the basis of it, the foreign experience was concluded as follows: the perfect system of market economy and entrepreneurial policy are the guarantee of entrepreneurial economy, venture capital is necessary for developing entrepreneurship economy, entrepreneurship education is a major requisite for entrepreneurship economy, and entrepreneurial culture is the external demand of entrepreneurial economic development.

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