

Miha Marič*
Mitja Jeraj**
Jasmina Pavlin***

ENTREPRENEURSHIP AS A SOLUTION TO THE UNEMPLOYMENT PROBLEM

Abstract: *The relation between entrepreneurship and unemployment has been an interesting topic for researchers for quite some time. In the time of global recession and mass layoffs different countries try to stimulate their residents to work on their ideas and to test themselves on the open market using various forms of subsidizing. It is important to point out that entrepreneurship does not constitute such a social security as employment in large companies. Entrepreneurship is not just a mixture of ideas, desires for success and a trend away from employment, integration with the right business partners and the issues of obtaining the initial capital, but largely also depends on the laws in each country and the infrastructure which this country offers. Countries with better entrepreneurial infrastructure (technology parks, university incubators, etc.) are definitely more open to competition and entrepreneurial activities than others. Globally interesting and internationally comparable study made each year by GEM (Global Entrepreneurship Monitor) (2008) notes that more and more people around the world are dealing with entrepreneurship. Schools for entrepreneurship are an important link between theoretical knowledge and practical involvement in the market. The international economic crisis has further accelerated the flow of restructuring, while unemployment continues to rise. It is therefore necessary to adopt measures that will help people with self-employment and, ultimately, in achieving a dignified life. Our contribution will be built on the hypothesis that where there is a higher rate of unemployment, more people will transit into entrepreneurship and where there is a higher rate of entrepreneurship there will be a lower level of unemployment. To test our hypothesis we will use available data from different countries and measure the correlations between the rate of entrepreneurship and the rate of unemployment and make a regression analysis of both values.*

Key words: *unemployment, entrepreneurship, transition, state policy, culture*

PREDUZETNIŠTVO KAO ODGOVOR NA PROBLEM NEZAPOSLENOSTI

Sažetak: *Veza između preduzetništva i nezaposlenosti već duže vreme je prisutna kao tema naučnih istraživanja. U vreme svetske ekonomske krize i masovnog otpuštanja radnika, razne zemlje pokušavaju da različitim oblicima subvencija stimulišu svoje građane da razvijaju sopstvene ideje i oprobaju se na slobodnom tržištu. Važno je istaći da preduzetništvo ne obezbeđuje istu vrstu socijalne sigurnosti kao i rad u velikim kompanijama. Preduzetništvo nije samo mešavina ideja, želje za uspehom, iskorak u odnosu na klasično zaposlenje, pronalaženje pravih poslovnih partnera i pitanje obezbeđivanja početnog kapitala, već u velikoj meri zavisi i od zakonske regulative i infrastrukture koju jedna zemlja nudi. Zemlje koje imaju bolje organizovanu preduzetničku infrastrukturu (tehnološke parkove, univerzitetske inkubatore i sl.) sigurno su otvorenije za konkurenciju i preduzetničke aktivnosti od ostalih.*

GEM (Global Entrepreneurship Monitor – Praćenje preduzetništva u svetu) koji svake godine objavljuje studiju od globalnog značaja i sa poređenjima na međunarodnom nivou, u studiji iz 2008. godine konstatuje da se sve više ljudi u svetu bavi preduzetništvom. Škole za preduzetništvo su važna veza između teorijskog znanja i praktičnog učešća na tržištu. Međunarodna ekonomska kriza dodatno je ubrzala tok restrukturiranja, dok je nezaposlenost i dalje u porastu. Neophodno je doneti mere koje će omogućiti ljudima samozaposlenje i pristojan život. Naš rad baziraće se na hipotezi

* Assistant Miha Marič, M.Sc., University of Maribor, Faculty of Organizational Sciences

** Mitja Jeraj, M.Sc.

*** Assistant Jasmina Pavlin, MA, University of Maribor, Faculty of Organizational Sciences

da u slučaju visoke stope nezaposlenosti više ljudi počinje da se bavi preduzetništvom, a da u slučaju visoke zastupljenosti preduzetništva dolazi do smanjenja stope nezaposlenosti. Prilikom provere naše hipoteze koristićemo raspoložive podatke iz različitih zemalja i meriti korelaciju stope preduzetništva i stope nezaposlenosti i napraviti regresivnu analizu obeju dobijenih vrednosti.

Ključne reči: nezaposlenost, preduzetništvo, tranzicija, državna politika, kultura

1. Introduction

Entrepreneurship is one way of solving the unemployment problem at least that is what we believe. When unemployed entrepreneurship has a refugee effect by which more people are pushed towards business ownership. We are basing our contribution on the Schumpeter effect by which the increase in the rate of entrepreneurship (business ownership) leads to greater levels of employment and economic growth (Baptista & Thurik, 2007: 76).

Based on the theoretical platform our hypothesis is that the unemployment rate and the entrepreneurship rate are reversely correlated. We suggest the development of entrepreneurial way of thinking and acting based on the promotion of entrepreneurial thought. We also suggest to the governments of different countries to promote entrepreneurial thought and establish entrepreneurial economies. Smaller companies, referring to entrepreneurs, are more able to quickly respond to markets demands because they are not so rigorously stiff. In modern economies is entrepreneurship a legitimate if not a preferred choice for employment because it offers certain benefits that one could not have when employed in a large corporation or in the public sector.

The research part of the contribution is based on a regression analysis between two variables. The first variable is the change between the rates of unemployment from the year 2007 and the year 2008. The second variable is the change between the rates of entrepreneurship from the year 2007 and the year 2008. The structure of the contribution is based on seven parts where the introduction is followed by the theoretical background of unemployment and entrepreneurship. After that comes the description of the methodology used for the contribution followed by the presentation of our research and the discussion referring to the results of our study. There after comes the conclusion and the list of references used.

2. Theoretical platform

2.1 Entrepreneurship

Entrepreneurship is becoming more and more important in the world economy. GEM (Global Entrepreneurship Monitor) has demonstrated that entrepreneurial activity is associated with national economic growth (Bosma, Acs et al., 2009: 7). In EU entrepreneurship is becoming one of the explicit parts of the economy. European Council constituted The Lisbon Strategy in 2000 and revised it in 2005. The main aim was to make the EU the leading competitive global economy and the main priorities were assigned to improve the economic performance of European regions and cities by promoting innovation, research capabilities and entrepreneurship with the objective of economic convergence (European Commission, 10.9.2009). Entrepreneurship, or the birth of new establishments, is important to job growth as well in the United States (Bednarzik, 2000: 6). In the United States every county, state, and region has been struggling to promote entrepreneurship (Venkataraman, 2004: 154).

Entrepreneurship is a complex phenomenon that spans a variety of contexts. The varied definitions in entrepreneurship literature reflect this complexity (Bosma & Acs et al., 2009: 11). Entrepreneurship, specifically, is defined as an “economic system” that consists of three components: (1) entrepreneurs, who desire to achieve their goals of economic survival and advancement; (2) the social constitution, that the entrepreneur’s right of free enterprise is granted; and (3) the government, that has the ability to adjust the economic institutions that can work to protect each individual entrepreneur and to stimulate entrepreneurs’ motive to achieve toward fostering of economic development and growth (Lowrey, 2003: 2). It is further recognized that the entrepreneurial process should lead to economic growth with the creation of successful growing companies like Microsoft, Intel and Sun Microsystems among others (Acs & Varga, 2005: 24).

Shane and Venkataraman (2000: 2) stress that researchers in other fields ask why entrepreneurship research is necessary if it does not explain or predict empirical phenomena beyond what is known from work in other fields. But on the other hand the nature of entrepreneurship research and the emergence of entrepreneurship as a legitimate academic pursuit have begun to attract the interest of scholars (Busenitz, West, et al., 2003:

286). According to Stevenson and Gumpert (1989: 89) managers describe entrepreneurship with such terms as innovative, flexible, dynamic, risk taking, creative, and growth oriented and on the other hand the story of the entrepreneurial process often told in the literature is one of the entrepreneur recognizing and acting on an unexploited opportunity (Acs & Varga, 2005: 24). The definition of entrepreneurship according to Antoncic and Hisrich (2003: 10) is that entrepreneurship is an emerging and evolving field of inquiry. Entrepreneurship research has been expanding its boundaries by exploring and developing explanations and predictions of entrepreneurship phenomena in terms of events, such as innovation, new venture creation and growth, and in terms of characteristics of individual entrepreneurs and entrepreneurial organizations.

2.2 Unemployment

Unemployment is defined in the resolution concerning statistics of the economically active population, employment, unemployment and underemployment, adopted by the Thirteenth International Conference of Labour Statisticians that took place in Geneva in 1982. The unemployed are defined as all persons above a specified age who during the reference period were "without work", but are "currently available for work" and are "seeking work", i.e. had taken specific steps in a specified reference period to seek paid employment or self-employment. (LABORSTA Internet: Main statistics (annual) - Unemployment (E), 20.9.2009)

The prevalence of unemployment is usually measured using the unemployment rate, which is defined as the percentage of those in the labor force who are unemployed. In the 1970s, European unemployment started increasing. It increased further in the 1980s, to reach a plateau in the 1990s. It is still high today, although the average unemployment rate hides a high degree of heterogeneity across countries (Blanchard, 2005: 3).

Various types of unemployment are distinguished between economists, including cyclical unemployment, frictional unemployment, structural unemployment and classical unemployment. Some additional types of unemployment that are occasionally mentioned are seasonal unemployment, hardcore unemployment, and hidden unemployment. Real-world unemployment may combine different types. The magnitude of each of these is difficult to measure, partly because they overlap (Sullivan & Sheffrin, 2003).

Another question that might appear may also be whether focusing on the unemployment rate is meaningful. The answer, in the case of European unemployment, is yes. Governments have used various measures to decrease unemployment numbers which have ranged from training programs, real or perfunctory, to generous invalidity programs, to subsidized early retirement programs (Blanchard, 2005: 8).

There are several explanations for high levels of unemployment rates. Unemployment is by theoretic also to economic development. From theoretical viewpoints there are two main hypotheses on the time path of unemployment. One hypothesis is 'natural' rate of unemployment or non-accelerating inflation rate of unemployment (NAIRU) hypothesis, which characterize unemployment dynamics as a mean reverting process, which is therefore consistent with a stable inflation rate. The other hypothesis is the unemployment hysteresis that proposed that cyclical fluctuations will have permanent effects on the level of unemployment due to labor market restrictions. Thus, under this hypothesis they suggest that the level of unemployment is characterized as a non-stationary or unit root process (Lee & Chang, 2008: 313).

The main consideration that leads us to think that this is an interesting question has to do with the re-allocative aspect of growth. In the long run, faster economic growth must come from a faster increase in knowledge (Aghion & Howitt, 1994: 477).

2.3 Relationship between entrepreneurship and unemployment

The relationship between entrepreneurship and unemployment was an interesting researching subject to scholars now for some time. An alternative view suggests that entrepreneurship, by virtue of creating a new venture, contributes to the reduction of unemployment. The unemployed have a propensity to possess lower endowments of human capital and entrepreneurial talent required to start and maintain a new firm, suggesting that high unemployment is associated with a low degree of entrepreneurial activities (Audretsch & Keilbach, 2007:352). Scholars distinguish two relationships between unemployment and entrepreneurship: First is a "refugee" effect by which unemployment "pushes" more people towards business ownership; and second is a "Schumpeter" effect by which increasing rates entrepreneurship (business ownership) lead to greater levels of employment and economic growth (Thurik, Carree, Stel, Audretsch, 2008:682).

Outside of the literature on job creation many studies examine the ambivalent causality between formation of new firms and (un)employment level. The effect of increased unemployment on start-up activity may be positive (according to the push effect theory of income choice) or negative (according to the pull effect theories on entrepreneurial capability and risk attitude). The reversed causality relationship is similarly ambiguous. New start-up firms provide employment opportunities in themselves and also create employment in existing firms. However, the low survival and growth rates of new firms suggest that their contribution to reducing unemployment would be limited (Wong, Ho, Autio, 2005: 338). Baptista and Thurik (2007: 78) noted that a low rate of business start-ups may be a consequence of low economic growth levels, which correlate with higher levels of unemployment. Entrepreneurial opportunities are the result of the push effect of (the threat of) unemployment as well as the pull effect produced by a thriving economy as well as by entrepreneurial activities in the past. In addition to unemployment leading to more or less start-up activity, the reverse has also been claimed to hold. New-firm start-ups hire employees, resulting in subsequent decreases in unemployment.

Earle and Sakova (2000: 579) point out in their paper that the equation of the concepts of self-employment and entrepreneurship in most of these studies must be reckoned as a maintained, rather than a tested hypothesis. Despite the lack of clear and convincing evidence of the benefits of having a larger small business sector and/or having a higher proportion of the workforce self-employed, as noted above, many governments around the world provide subsidies to individuals set-up and to remain in business. In Britain and France, for example, government programs provide transfer payments to the unemployed while they attempt to start businesses (Blanchflower, 2000: 472).

Consequently, there are not just theoretical reasons, but also empirical evidence, albeit contested, that while unemployment causes increased self-employment, self-employment causes reduced unemployment. Unraveling the relationship between self-employment and unemployment is crucial because policy is frequently based on assumptions that do not reflect the described ambiguities. Changes in unemployment clearly have a positive impact on subsequent changes in self-employment rates. At the same time, changes in self-employment rates have a negative impact on subsequent unemployment rates (Thurik, Carree, Stel, Audretsch, 2008: 674).

Baptista and Thurik (2007: 76) stress in their paper that entrepreneurship and small firms play a particularly important role for two main reasons: first, the use of new technologies has reduced the importance of scale economies in many sectors, and second, the increasing pace of innovation and the shortening of product and technology life cycles seem to favor new entrants and small firms, which have greater flexibility to deal with radical change than large corporations. Cowling and Bygrave (2002: 2) point out in their paper that even though many new business start-ups have no explicit growth aspirations it is still the case that a period of running one's own business provides an opportunity to learn new skills which are valuable to potential employers.

There is also a counterargument. Baptista and Thurik (2007: 78) also noted that the low rates of survival combined with the limited growth of the majority of small firms imply that the employment contribution of start-ups is limited at best, which would argue against entrepreneurial activities reducing unemployment. According to Audretsch and Keilbach (2007: 351) and their study made in Germany low-tech entrepreneurship capital is rather increased by regional unemployment and driven by direct incentives such as subsidies. Faria, Cuestas and Gil-Alana (2009: 2) also stress that on the one hand new firm startups hire workers, which may result in a fall of unemployment. On the other hand, high unemployment may lead to an increase in startup activity, since the opportunity cost of starting a new firm is lower for the unemployed. This suggests that both variables impact each other dynamically.

3. Methodology

3.1 Hypothesis:

We are going to test the following two hypotheses which are based on the literature review above:

H1: Where is a higher rate of unemployment, more people will transit into entrepreneurship.

H2: Where is a higher rate of entrepreneurship there will be a lower level of unemployment.

3.2 Data Collection

Countries in this research are from the GEM yearly report in which they explain and measure different aspects and levels of entrepreneurship for various selected countries. The number of countries listed in the report is 35 (N=35). The unemployment rates in these countries were between 1.3% and 31.6% in year 2007 and between 1.0% and 18.8% in year 2008. The average rate of unemployment in year 2007 was 8.02% and 7.07% in 2008. The entrepreneurship rates in these countries were between 4.3% and 39.0 % in year 2007 and between 4.4% and 36.7% in year 2008. The average rate of unemployment in year 2007 was 14.69% and 16.19 % in 2008. Countries and the data used for this research are presented in Table 1. For the missing variables in our analysis we will use the replace with mean treatment.

Table 1. Unemployment and entrepreneurship rates by country for the years 2007 and 2008 and the changes between these two years

Country	Unemployment rate in 2007	Unemployment rate in 2008	Overall entrepreneurship rate in 2007 (GEM)	Overall entrepreneurship rate in 2008 (GEM)	Change in the unemployment rates (Δ)	Change in the entrepreneurship rates (Δ)
Argentina	8.7	8.9	24.1	29.6	0.2	5.5
Belgium	8.1	7.6	4.6	5.3	-0.5	0.7
Brazil	9.6	9.8	22.4	26.4	0.2	4.0
Canada	6.4	5.9	n.a.	n.a.	-0.5	n.a.
Chile	7.8	7.0	21.4	20.2	-0.8	-1.2
China	4.2	4.0	24.6	n.a.	-0.2	n.a.
Columbia	11.1	10.6	33.6	36.7	-0.5	3.1
Croatia	17.2	11.8	11.1	12.3	-5.4	1.2
Denmark	3.8	3.5	11.1	8.4	-0.3	-2.7
Dominican Republic	16.0	15.5	23.2	27.9	-0.5	4.7
Finland	7.0	6.9	14.0	16.0	-0.1	2.0
France	8.7	8.0	4.8	8.2	-0.7	3.4
Germany	7.1	9.1	n.a.	7.7	2	n.a.
Greece	9.2	8.4	18.7	22.0	-0.8	3.3
Hungary	7.4	7.1	11.7	11.8	-0.3	0.1
Iceland	1.3	1.0	19.8	16.7	-0.3	-3.1
India	7.8	7.2	13.9	27.6	-0.6	13.7
Ireland	4.3	5.0	10.4	16.3	0.7	5.9
Israel	8.3	7.6	7.4	10.6	-0.7	3.2
Italy	7.0	6.7	10.4	11.0	-0.3	0.6
Japan	4.1	4.0	12.6	12.7	-0.1	0.1
Netherlands	5.5	4.6	11.3	12.3	-0.9	1.0
Norway	3.5	2.4	12.0	15.8	-1.1	3.8
Peru	7.2	7.4	39.0	32.7	0.2	-6.3
Romania	6.1	4.1	6.5	5.9	-2.0	-0.6
Russia	6.6	5.9	4.3	4.4	-0.7	0.1
Serbia	31.6	18.8	13.7	16.5	-12.8	2.8

Slovenia	9.6	4.6	9.3	11.8	-5.0	2.5
Spain	8.1	7.6	13.4	14.8	-0.5	1.4
Sweden	5.6	4.5	8.8	n.a.	-1.1	n.a.
Switzerland	3.3	3.1	12.7	n.a.	-0.2	n.a.
Turkey	10.2	9.7	10.8	10.7	-0.5	-0.1
UK	2.9	5.4	10.5	11.7	2.5	1.2
Uruguay	10.8	9.2	18.5	19.3	-1.6	0.8
USA	4.8	4.6	14.1	18.7	-0.2	4.6

Source: GEM Reports 2007 (Bosma et. al., 2008:16) and 2008 (Bosma et. al., 2009:16) and CIA – The World Factbook Webpage (16.9.2009)

The variables used in our research are the following:

- “Overall entrepreneurial activity rate” is the percentage of 18-64 population who are either involved in early-stage entrepreneurial activity or owner-manager of an established business.
- “Unemployment rate” is the percent of the labour force that is without jobs. Unemployment and unemployment rate were already defined in the theoretical platform.
- “The change between the entrepreneurship rates in 2008 and 2007” is calculated by deducting the overall entrepreneurship rate from 2007 from the overall entrepreneurship rate in 2008.
- “The change between the unemployment rates in 2008 and 2007” is calculated by deducting the unemployment rate from 2007 from the unemployment rate in 2008.

4. Research

Table 2: Pearson r Correlation Coefficients (n=35)

		unemp. rate 2008	Δunemp. 2007 to 2008	Δentrep. 2007 to 2008
unemployment rate in 2008	Pearson Correlation	1	-,516**	,226
	Sig. (2-tailed)		,002	,230
	N	35	35	30
Δ unemployment from 2007 to 2008	Pearson Correlation	-,516**	1	-,035
	Sig. (2-tailed)	,002		,854
	N	35	35	30
Δ entrepreneurship from 2007 to 2008	Pearson Correlation	,226	-,035	1
	Sig. (2-tailed)	,230	,854	
	N	30	30	30

** . Correlation is significant at the 0.01 level (2-tailed).

Table 3. Regression analysis for the Dependent Variable “Change in the overall entrepreneurship rate” (N=35)

$R=0.215$; $R^2=0.046$; $Adjusted R^2=0.017$

Predictors	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
(Constant)	0.476	1.217		0.391	0.698
Unemployment rate in 2008	0.195	0.154	0.215	1.264	0.215

Dependent Variable: Change in the overall entrepreneurship rate

With the predictor “Unemployment rate in 2008”, 0.017% variance of the change in the overall entrepreneurship rate is explained. The regression analysis is statistically not significant.

Table 4. Regression analysis for the Dependent Variable “” (N=35)

$R=0.034$; $R^2=0.001$; $Adjusted\ R^2=-0.029$

Predictors	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
(Constant)	-0.905	0.497		-1.822	0.077
Change in the overall entrepreneurship rate	-0.027	0.136	-0.034	-0.196	0.846

Dependent Variable: Change in the unemployment rate

With the predictors “Change in the overall entrepreneurship rate”, -0.029% variance of the change in the unemployment rate is explained. The regression analysis is statistically not significant.

5. Discussion

Our research shows us that based on the data of the rates of unemployment and overall entrepreneurship in selected countries in the years 2007 and 2008 we cannot with a statistical significance neither confirm nor refuse our H1 hypothesis which states that where there is a higher rate of unemployment, more people will transit into entrepreneurship.

Based on the data of the rates of unemployment and overall entrepreneurship in selected countries in the years 2007 and 2008 we also cannot with a statistical significance neither confirm nor refuse our H2 hypothesis which states that where there is a higher rate of overall entrepreneurship there will be a lower level of unemployment.

The basic limitation to our work was in the data collection and in the years chosen. Years researched which are 2007 and 2008 represent a transition period from a time of conjecture into a time of recession. The analysis was performed in a short period of time in which the two proposed hypothesis are not, at least in our research, statistically to be confirmed nor rejected.

The difference in comparing our result to the findings of other researchers we contribute to the time in which the data used were collected and the fact that in such period of time the transition into entrepreneurship becomes more difficult because of the restrains in getting the funds to become an entrepreneur which explains the part of the change in the overall entrepreneurship rate and of course because of different laws which give to the labor market a certain rigidity the unemployment rate does not change as quickly as the overall entrepreneurship rate does which is more based on anticipations.

6. Conclusion

Entrepreneurship is an always important factor in every countries economy. The same could also be said for unemployment which is not so much a problem for the economy (depending on the: social transfers, their part in countries GDP; tax collection and tax burden for the economy) as it is a social problem.

In trying to solve the unemployment problem is entrepreneurship one of the options to at least reduce the unemployment rate and the social problems that come from it. The effect is obviously a more long term than short term process.

Maybe in a way our findings are specific for the time period that we have researched which is a transition from a conjecture to a recession period in which the overall entrepreneurial rate stopped rising or even began to fall because some entrepreneurs had to “close shop” and the unemployment rates did not jet begin to fall because of different actions that the governments took and because of the rigor caused by the legislation in the labor market.

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