

Analysis of business demographics in rural Europe

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Abstract

The growing importance of rural regions' economic development in the European Union's economic policy decisions highlights the need to study one of the most crucial factors in this development: rural entrepreneurial activity. Therefore, this work aims to understand the business dynamics that characterize European areas defined as urban and rural, and subsequently delve into the various types of rural areas according to their greater or lesser proximity to cities. This analysis is based on the study of the main business demographic indicators across several European countries: business creation and survival rates. These indicators make it possible to draw conclusions not only about entrepreneurial activity but also about the success rate and sustainability of business ventures. The results obtained provide a foundation for deeper analysis and will enable the generation of conclusions that support decision-making and the formulation of economic policy recommendations aimed at fostering rural development in Europe.

Keywords: Entrepreneurship, business demography, urban areas, rural areas, proximity.

1. Introduction

Over the past few decades, the process of rural depopulation has intensified. While this is a widespread trend across Europe, it has been more pronounced in certain countries, such as those in Eastern Europe and the Baltic States, as well as in Germany, Mediterranean and Southern countries like Greece, Portugal, Bulgaria, Romania, large parts of Spain, and some areas in Southern Italy, as highlighted in the ESPON 2020 report (2018).

This depopulation process is driven by various phenomena, including increased population longevity and related demographic behaviors, social habits, economic and technological development of regions, and infrastructure growth (Del Olmo & Garrido, 2024).

The aim of this study is to introduce the analysis of business dynamics and demography in Europe from a perspective that is gaining importance in economic policy: the distinction between urban and rural areas.

Undoubtedly, analyzing the demographic behavior of businesses will lead to a better understanding of the conditions in which they operate. This will facilitate the design of more appropriate economic policies to foster business development in rural areas and, ultimately, to stimulate economic growth and population attraction in these regions revitalizing a fundamental part of European territory.

In response to this situation, various strategies and economic policy measures have been implemented to improve economic, technological, and infrastructure development in order to attract population to the most depopulated areas (mainly rural) and thereby accelerate their development.

One of the most important strategies has been to promote entrepreneurial activity in rural areas (Del Olmo et al., 2023). In fact, rural areas present economic and structural characteristics that offer opportunities for entrepreneurs and can even be enhanced through the development of regional transformation networks (Barber et al., 2021). In this regard, scholars such as Steiner and Atterton (2015) conclude that rural entrepreneurship contributes to the local environment both directly—through job creation and the development of local products

and services—and indirectly, through secondary effects or the added value of primary business activities.

The literature (e.g., Gyimah and Lussier, 2021) indicates that rural entrepreneurs are different from other types of entrepreneurs, as they not only leverage local resources but also develop them, thereby boosting the local economy (addressing poverty, unemployment, and lack of economic growth). In fact, authors such as Pato and Teixeira (2018) argue that a rural entrepreneur should not only reside in the rural area but also be influenced by their social environment and have an impact on the local community. Along these lines, Korsgaard et al. (2015) distinguish between entrepreneurship in rural areas and rural entrepreneurship, noting that the former often entails limited local integration (usually for economic reasons), whereas the latter involves the use of local resources and helps reconnect spaces viewing rural areas as more than just sources of profit.

However, scholars such as López et al. (2019) point out a significant lack of entrepreneurship-based strategies in the most depopulated European regions.

In short, studying entrepreneurial dynamics is essential for understanding behavior and delving into the factors that determine success and therefore their contribution to the economic development of rural regions.

The goal of this study is to develop a general analysis of the main business demography indicators in Europe, distinguishing entrepreneurial behavior and business failure, and examining the differences between urban and rural areas. It also explores rural areas according to their proximity to cities.

The analysis is based on a descriptive study of the main available metrics related to business creation and survival, following methodologies previously used in the literature for the European context (Schrör, 2007; Schrör, 2009; Del Olmo, Crecente & del Val, 2019), as well as in specific countries such as Spain (Garrido, 2008; Garrido, 2008b; Herce et al., 2012; Crecente et al., 2014; Crecente et al., 2015).

Therefore, this is a general study aimed at laying the foundation for future research that will be more focused on understanding the causes behind the observed behaviors.

2. Data and Methodology

The growing interest in studying business dynamics within the European Union has led, in recent years, to the development of increasingly comprehensive official databases. In this regard, Eurostat's efforts have provided greater insight into the demographic behavior of businesses in both rural and urban environments further distinguishing, within rural areas, between those closer to urban centers and more remote zones.

This study uses data from the “Business demography by other typologies” statistics, which allows differentiation between urban and rural areas. Table 1 defines the main concepts used in this study.

Table 1: Concepts of urban and rural regions.

Concept	Definition
Predominantly urban region	Predominantly urban regions are part of the urban-rural typology, being NUTS level 3 regions where more than 80% of the population lives in urban clusters.
Predominantly rural region	Predominantly rural regions are part of the urban-rural typology, being NUTS level 3 regions where at least 50% of the population lives in rural areas.
Predominantly rural and remote regions	A predominantly rural region is considered remote if less than half of its residents can reach the center of a city with at least 50,000 inhabitants by car within 45 minutes.
Predominantly rural regions close to a city	A predominantly rural region is considered close to a city if more than half of the region's population can reach a city with at least 50,000 inhabitants.

Source: Eurostat

Likewise, to easily analyze the demographic behavior of European companies in these regions, the demographic indicators defined in Table 2 are used.

Table 2: Company demographic indicators.

Indicator	Definition
Birth rate (%)	Number of firms born in the reference period (t) divided by the number of active firms at t.
Surviving businesses	Number of firms born in t-3 that have survived until t.
Three-year survival rate (%)	Number of firms born in the reference period (t) at t-3 that have survived until t divided by the number of firms born in t-3.

Source: Eurostat

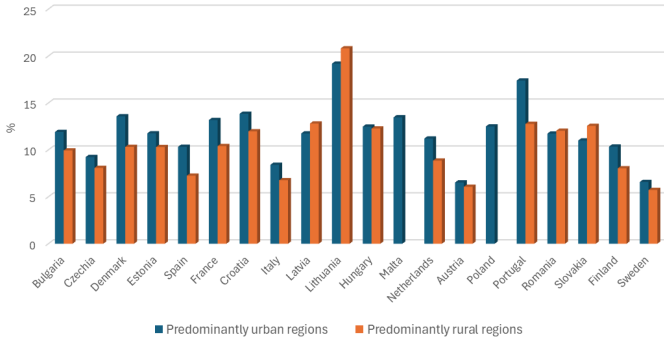
3. Business Demographics in European Rural Areas

A first approximation of the demographic reality of European businesses must begin with a characterization of entrepreneurial activity, that is, business creation.

The business start-up rate is a useful measure in this regard, as it allows us to see the proportion of businesses created in a particular year relative to the active business population in that year. However, the particular behavior of business dynamics during the pandemic makes it advisable to analyze the data for 2019 rather than 2020 (the latest available), given that the measures implemented to address the spread of the virus led to the paralysis of part of the economy and a historic drop in production, which naturally discouraged entrepreneurial spirit.

Figure 1 allows us to understand the business creation rate by distinguishing between predominantly rural regions and those characterized by urban areas.

Figure 1: Business Creation Rate (Urban VS Rural Regions) 2019.

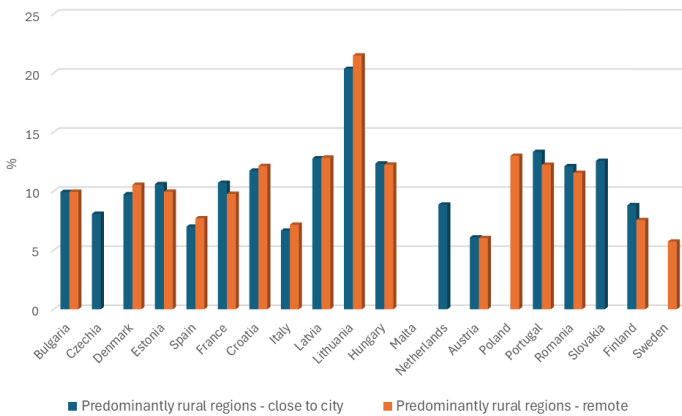


Source: Eurostat data

It can be seen that most countries show higher business creation rates in urban areas. However, the cases of Romania, Slovakia, Lithuania, and Latvia are noteworthy, where entrepreneurial activity is primarily located in rural areas.

Looking deeper into the behavior of entrepreneurship in rural regions, Figure 2 allows us to distinguish between areas closer to urban centers and more remote areas.

Figure 2: Business creation rate (rural regions close to the city VS remote) 2019.



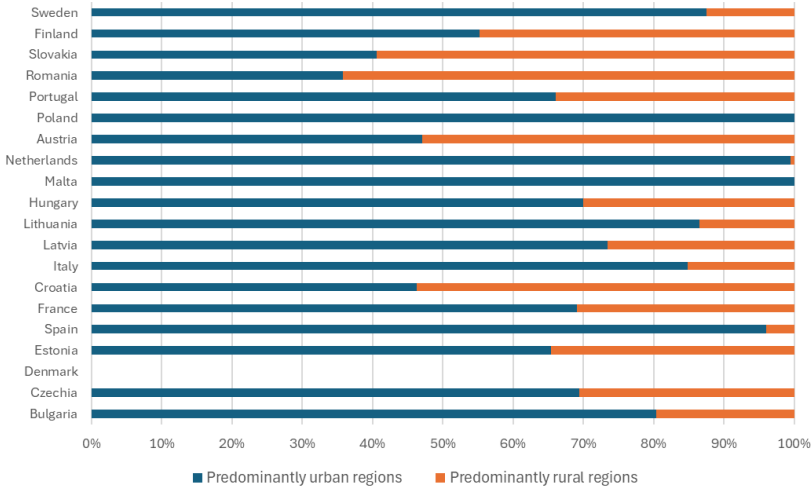
Source: Eurostat data

It can be observed that within rural entrepreneurial activity, most countries show greater entrepreneurial dynamism in areas closer to urban centers. However, some countries stand out for exhibiting more active entrepreneurial dynamics in remote rural regions namely Denmark, Croatia, Italy, Latvia, and Lithuania. Austria, Hungary, and Bulgaria also stand out for displaying very similar rates in both regional realities. Therefore, it is interesting to note that areas considered remote within rural regions do not necessarily present particularly limiting conditions for entrepreneurship. The aforementioned cases should be treated as references when implementing economic policies aimed at revitalizing rural environments.

Nevertheless, analyzing the absolute number of businesses created in the countries studied over time is an indicator that depends on each country's environmental factors (such as economic conditions, institutional frameworks, business financing conditions, or entrepreneurship-oriented culture, among others). However, relying solely on this indicator is insufficient, as it lacks sensitivity regarding the sustainability of entrepreneurial projects. Therefore, a more comprehensive indicator not only of entrepreneurial activity but also of its success is the number of companies that, having been created in year t , have survived over the following three years.

In this regard, Figure 3 provides insight into this information for both predominantly urban and predominantly rural regions in 2019. Although data is available for 2020, it must be remembered that this year displayed atypical behavior due to the impact of the pandemic. For this reason, and in the absence of post-pandemic data, the most recent data reflecting normal behavior unaffected by the COVID-19 pandemic shock has been used.

Figure 3: Companies born in t-3 that survived until t (urban vs. rural regions), 2019.



Source: Eurostat data

As shown in Figure 3, and as intended to be reflected, the quality of the data used still has room for improvement. For example, in the cases of Poland and Malta, there is no available data for predominantly rural areas, while in the case of Denmark, no information is available for this specific indicator. However, beyond the countries with missing information, very interesting conclusions can be drawn from the available data.

On the one hand, most countries show a higher number of businesses created (and demonstrating the ability to survive after three years) in urban areas compared to rural ones, with the Netherlands, Sweden, and Spain standing out in particular. However, although fewer in number, countries such as Slovakia, Romania, Croatia, and Austria stand out for showing the opposite pattern, where more than 50% of the businesses created and surviving during their first three years are located in predominantly rural regions.

When taking a closer look at the situation in predominantly rural regions, Figure 4 shows that in 2019, there are countries where more than 50% of the businesses created and surviving after three years

are located in areas far from cities such as Finland, Hungary, Latvia, Croatia, and Bulgaria.

Therefore, European countries show heterogeneous behaviors in terms of business creation dynamics from a regional perspective.

Furthermore, beyond the behavior of business creation dynamics in absolute terms, their survival and success rates should be analyzed, as this indicator helps understand the sustainability of entrepreneurial ventures.

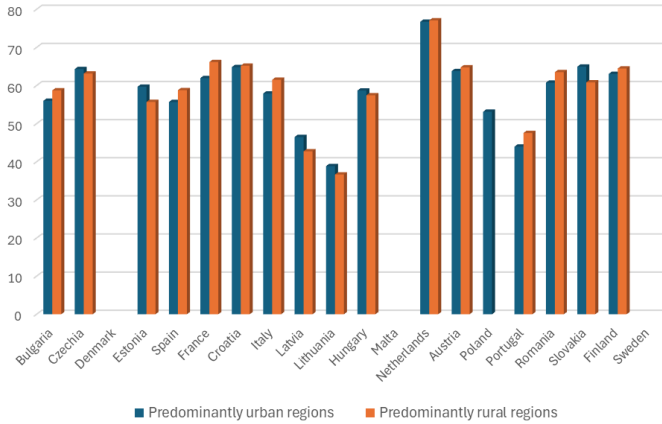
Figure 4: Companies born in t-3 that survived until t (rural regions close to cities vs. remote rural regions), 2019.



Source: Eurostat data

In this regard, Figure 5 allows us to appreciate the three-year survival rates of businesses in the analyzed countries, distinguishing between urban and rural areas.

Figure 5: Three-year business survival rate (%) (rural regions close to the city VS remote) 2019.



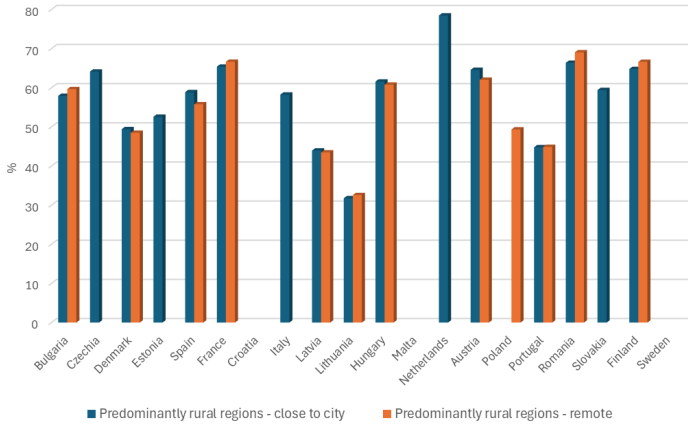
Source: Eurostat data

It can be seen that, in general terms, average three-year survival rates are close to 60%, although the Netherlands stands out with rates close to 75%, and, conversely, Portugal, Latvia, and Lithuania have the lowest rates, falling below 50% (not even 40% in Lithuania).

Likewise, higher survival rates are observed in rural areas in Bulgaria, Spain, France, Croatia, Italy, the Netherlands, Austria, Portugal, Romania, and Finland, which leads to greater resilience, either due to management and resources or due to the business model. On the other hand, in the other countries analyzed, greater survival capacity is observed in companies born in urban areas.

Looking more closely at rural areas, data is only available for 2020, which leads to their consideration with caution, given the pandemic environment that influenced business activity that year. However, in the absence of consistent data for 2019, this information remains invaluable for understanding the survival rate in different rural areas.

Figure 6: Three-year business survival rate (rural regions close to cities vs. remote ones) 2020.



Source: Eurostat data

A significant disparity in survival rates can be observed, with countries like France, Romania, and Finland showing three-year survival rates close to 70%, while others, such as Lithuania, barely exceed 30% in both segments. Moreover, no conclusive pattern emerges. Countries like Bulgaria, France, Lithuania, Romania, and Finland exhibit higher business survival rates in predominantly remote rural regions, whereas in the rest of the countries, entrepreneurial projects show higher three-year survival rates in rural areas closer to urban centers.

In summary, the analyses reveal differences in business dynamics, highlighting countries such as France, Italy, Portugal, Austria, Romania, Bulgaria, the Netherlands, and Finland. These countries not only exhibit significant rates of business creation in predominantly rural regions but also display distinctive medium-term survival patterns. This opens the opportunity to study the differential factors influencing this behavior and how they can be translated into economic policy recommendations.

4. Conclusions

The work presented provides a first approach to understanding the demographic behavior of European businesses from a perspective that remains uncommon in the business literature: the regional analysis of urban and rural areas. From this viewpoint, the study has aimed not only to understand the differences between both types of regions but also to delve deeper into the rural context by analyzing areas characterized by their proximity to or distance from urban centers.

The study highlights that most countries show relatively higher business creation rates in urban environments. However, it is important not to overlook the cases of Romania, Slovakia, Lithuania, and Latvia, where entrepreneurial activity is mainly located in rural areas. In fact, when analyzing predominantly rural territories more deeply, most countries show greater entrepreneurial activity in areas closer to cities. Yet, countries like Denmark, Croatia, Italy, Latvia, and Lithuania stand out for exhibiting more active entrepreneurial dynamics in remote rural regions.

From the perspective of entrepreneurial project survival, there is a higher survival rate in rural areas in countries such as Bulgaria, Spain, France, Croatia, Italy, the Netherlands, Austria, Portugal, Romania, and Finland. Within rural zones, countries like Bulgaria, France, Lithuania, Romania, and Finland show higher business survival rates in predominantly remote rural regions, while in the rest of the countries, three-year survival of entrepreneurial projects is higher in rural areas closer to urban centers.

As stated from the beginning, the analysis presented is a preliminary approach to the reality of business demography from the perspective of rural areas in Europe. However, a more in-depth analysis is required to understand this reality from a sectoral perspective and with greater analytical depth, also considering business size.

Therefore, this line of research will be pursued in future studies to obtain robust conclusions that can inform economic policy recommendations aimed at better understanding the business landscape in rural Europe and, ultimately, promoting economic development and repopulation of rural areas.

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