

Do we measure entrepreneurship correctly?

**Discussion paper on the measurement of entrepreneurship in
innovation driven countries.**

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Presented by:

Dr. Hartmut–Heinrich Meyer

Fachhochschule für Ökonomie und Management (FOM) Hamburg and Bremen

Linzer Strasse, Linzer Str. 7 - 28359 Bremen - Schäferkampsallee 16a, 20357 Hamburg

Email: hartmut.heinrich.meyer@fom-net.de

Abstract

1. Introduction: Research objectives/question

The current understanding of entrepreneurship suggest that a relationship between entrepreneurship and national economic development. Low entrepreneurial intentions and activities are associated with the risk for a nation of losing international competitiveness due to a lack of economic dynamics and adoption fundamental or incremental change. According to the GEM data sets, the entrepreneurial intensions and activities in innovation driven economies are low and propose the need for action to promote entrepreneurship. On the other hand, the G8 countries are classified as innovation driven economies and count for more than 80% of the world GDP. These economies are characterised as highly competitive and sophisticated markets. In these economies, the marriage of innovation and entrepreneurship is performed on a very high level due to an extensive knowledge development and the promotion of entrepreneurship demands particular efforts in terms of networking and collaboration by the entrepreneurial ecosystem. Following these first observations, one may conclude that the stated relationship cannot be supported in the case of innovation driven economies. On the other hand, one may also conclude whether there is a need to rethink the measurement of entrepreneurship in innovation driven economies. By looking closer to recorded figures in these countries, one finds further that in these economies the nature of entrepreneurship changed from necessity based to opportunity-based entrepreneurship. The current focus on measuring entrepreneurship appears dominated by the employment approach through entrepreneurship and to record business start-up activities in the sense of creating working places (GEM Statistics, EuroStat as European Statistical Office). Recent statistics show that the employment factor through entrepreneurship is decreasing in innovation driven economies as in knowledge-based start-ups create on average 2 working places instead in production orientated industries of 7 working places. This paper argues that the sole measurement of entrepreneurship by business start-ups does not reflect the

entrepreneurial situation in innovation driven countries. This measurement allows no conclusions of the entrepreneurial intensity within a nation as the entrepreneurial afford of existing enterprises are not evaluated sufficiently.

2. Conceptual background for the discourse

The conceptional background of the discussion goes back to the definition of entrepreneurship. There exist a common view that entrepreneurship is regarded as a socio-economic process where individuals undertake business activities in order to pursue their own business ideas for income generation (Brommer 2001, Freiling 2005, Shane/Venkataraman 2000). The term entrepreneurship is often used simultaneously with start-up activities, family business, “Mittelstand” and small and medium sized companies. On the other hand, entrepreneurship is often mentioned in a single breath with innovation as a creative process in order to develop new business opportunities and to gain a competitive edge. Hence the understanding of entrepreneurship appears more based on the task of entrepreneurship as to perform innovation and to use business opportunities at own risk. The need to perform these tasks are deeply rooted in strategic management in order to maintain a competitive edge to sustain in a market. Moreover, human behaviour follows the three points of interest – intentions – activities. Currently the start-up activities measured by GEM or national statistics and intentions are only measured by the GEM. Entrepreneurial interest and innovation activities are nevertheless one of a core feature of entrepreneurship and demand therefore further statistical operationalisation in order to measure entrepreneurial behaviour.

3. Approach and methodology

The approach to the discussions is led by the question: Do we really measure entrepreneurship correctly? According the definition of entrepreneurship, where are the blind spots in measuring entrepreneurship? Thereby the marriage of entrepreneurship and innovation has a central focus due to the implications towards the competitiveness of an economy. In order to structure the discussion in the first place, the question starts with the following issues: types of entrepreneurial employment situation, entrepreneurial stages within a business life-cycle, quality of innovations, changes in the business demographics.

4. Primary Results and knowledge

The primary results to be forwarded for discussion require a need for a critical reflection of the current measurement of entrepreneurship. The listing does not claim to be complete and are as follows:

1. Entrepreneurial behaviour and decisions follow a sequence of interest – intension -activities. In order to measure how entrepreneurship is valued within a society, measures must encounter also the interest given towards entrepreneurship. Moreover, also the delta between interest and intentions will allow to evaluate more closely the quality of the entrepreneurial eco-system.
2. Phases of succession in family businesses or cooperative entrepreneurship, intra entrepreneurship, etc. or employee entrepreneurship appear not completely in the current recording of entrepreneurship. Although one finds perhaps not always the personal risk element within the various forms of entrepreneurship, one certainly finds the element of performing change through innovations.
3. The current measurement of entrepreneurship based on business start-ups allows to measure the employment factor, however, does not include the grade of innovation associated with entrepreneurship. Hence, a core function of entrepreneurship is not reviewed correctly as start-ups take often also place through subsidiaries in various forms by using the same business idea.
4. In many countries' freelancer is not statistically registered a business starter. Self-employment is not always classified as entrepreneurship due to the missing task of organisational building. As in particular knowledge based services offered by freelancers, not all entrepreneurial activities are recorded.
5. Low entrepreneurial activities are not only a sign of a less entrepreneurial nation. Also the quality needs to be reviewed in the delta between opportunity and necessity based entrepreneurship. In particular the delta between interest, intentions and activities needs to be encountered as well as the fluctuations within the business demographics needs also be considered.
6. Innovation activities of SMEs and family business performed at a high personal risk in order to maintain competitiveness are not recorded at all. Patent registrations and other measures to safeguard knowledge and service innovations are not recorded.

5. Contributions to knowledge and policy

The forwarded discussions illustrates several blind spots in measuring entrepreneurship. The current recording of the entrepreneurship does not allow conclusions about the degree of how entrepreneurial a nation is. Hence, also the relationship between economic development and entrepreneurship cannot fully be supported by recording only start-up activities. There is a need to reform and to set up further ways to measure entrepreneurial behaviour. This need appears to be vital in order to enhance quality within entrepreneurial research and the recommendation to policy makers in order to create an entrepreneurship friendly environment.