

ICSB Gazette

The Global Leader Supporting Micro-, Small and Medium Enterprises

Monday, April 27, 2020. Issue 65

The Entrepreneurship Context

Written By: The Global Entrepreneurship Monitor (GEM)



INTRODUCTION

Previous chapters have detailed the rich tapestry of entrepreneurial activity across the globe in its many forms, shapes and sizes, by reporting the results of more than 150,000 nationally representative interviews in 50 economies. This level of detail has allowed the

estimation of a range of key entrepreneurship indicators, while the careful adoption of the same methodological approach in each economy has enabled comparisons across those economies.

However, any decision to start and run a new venture will be taken in a specific context, encompassing a wide range of local and national conditions that may facilitate or hinder that new venture. For example, a city or region may encourage entrepreneurial activity by providing quality education in schools and colleges, including entrepreneurship training, or may discourage that same activity by having exorbitant business registration fees or a heavy burden of local regulation and bureaucracy. Each national context is different, and while entrepreneurial activity can persist in the most difficult of circumstances, it can also fail to flourish even in the most favourable conditions. However, there is likely to be a positive relationship between the quality of entrepreneurship-specific conditions and the frequency and nature of entrepreneurial activity.

THE GEM ENTREPRENEURSHIP FRAMEWORK CONDITIONS

GEM assesses the environment for enterprise by defining a number of specific Entrepreneurship Framework Conditions, as set out in Table 8.1. These conditions, taken together, specify a local environment for enterprise that, for the person trying to start a new venture, will be supportive in some

ways and constraining in others. Individually and collectively, these conditions influence how easy, or how difficult, it is to start a new business and then develop that new venture into a sustainable established business.

No single person has a full understanding of the status of each of these conditions in any national economy. Instead, GEM identifies at least 36 national experts in each economy, carefully selected according to their knowledge and experience. These experts, of whom no more than a quarter participated in the same survey the previous year (to reduce bias and ensure objectivity), answer common questions about how they rate the sufficiency or otherwise of these framework conditions, in the GEM National Expert Survey (NES). By asking the same questions of all experts, responses can be compared between economies. Given that these are opinions and perceptions, care must be taken in making comparisons between what are effectively self-assessments within a particular economy. For example, the national expert's collective view of the sufficiency or otherwise of an economy's physical infrastructure may differ according to that economy's level of development.

For every economy in GEM, each of the 36 (or more) national experts scored the sufficiency of each framework condition.¹ The summarized variables are then averaged across all the experts. The Economy Profiles in Part 2 of this report

-
1. **ACCESS TO ENTREPRENEURIAL FINANCE.** Are there sufficient funds available to new startups, from informal investment and bank loans to government grants and venture capital?

 2. a) **GOVERNMENT POLICY: SUPPORT AND RELEVANCE.** Do government policies promote entrepreneurship and support those starting a new business venture?
 b) **GOVERNMENT POLICY: TAXES AND BUREAUCRACY.** Are business taxes and fees affordable for the new enterprise? Are rules and regulations easy to manage, or an undue burden on the new business?

 3. **GOVERNMENT ENTREPRENEURSHIP PROGRAMMES.** Are quality support programmes available to the new entrepreneur at local, regional and national levels?

 4. a) **ENTREPRENEURSHIP EDUCATION AT SCHOOL.** Are schools introducing ideas of entrepreneurship, and instilling students with entrepreneurial values such as enquiry, opportunity recognition and creativity?
 b) **ENTREPRENEURSHIP EDUCATION POST-SCHOOL.** Do colleges, universities and business schools offer effective courses in entrepreneurial subjects, alongside practical training in how to start a business?

 5. **RESEARCH AND DEVELOPMENT TRANSFERS.** To what extent can research findings, including from universities and research centres, be translated into commercial ventures?

 6. **COMMERCIAL AND PROFESSIONAL INFRASTRUCTURE.** Does access to affordable professional services such as lawyers and accountants support the new venture, within a framework of property rights?

 7. a) **EASE OF ENTRY: MARKET DYNAMICS.** Are there free, open and growing markets where no large businesses control entry or prices?
 b) **EASE OF ENTRY: MARKET BURDENS AND REGULATIONS.** Do regulations facilitate, rather than restrict, entry?

 8. **PHYSICAL INFRASTRUCTURE.** To what extent are physical infrastructures, such as roads, Internet access and speed, the cost and availability of physical spaces and such like, adequate and accessible to entrepreneurs?

 9. **SOCIAL AND CULTURAL NORMS.** Does national culture stifle or encourage and celebrate entrepreneurship, including through the provision of role models and mentors, as well as social support for risk-taking?

TABLE 8.1
 GEM's
 entrepreneurship
 context: national
 Entrepreneurship
 Framework
 Conditions

provide details of these scores for each individual economy.

Results show that Physical Infrastructure is widely regarded as supporting entrepreneurship, followed by Market Dynamics, Cultural Norms, and Access to Professional Services. Those framework conditions needing most attention or development are: Entrepreneurship Education at School level; R&D Transfers; and Government Policy: taxes and bureaucracy.

Latin America & Caribbean is a region where the state of entrepreneurial framework conditions implies a challenging environment in which to start a successful new venture. Yet this region hosts the highest levels of Total early-stage Entrepreneurial Activity (TEA) of all the 50 economies in the 2019 GEM research.

One of the key characteristics of the entrepreneur is the willingness (and ability) to find ways of overcoming barriers, perhaps by drawing on the support of social networks or by operating in the informal sector. However, this may also explain why levels of TEA are much higher than levels of Established Business Ownership (EBO) in many of these Latin America & Caribbean economies. In an unsupportive environment, starting a new business may be a much easier proposition than transitioning that new venture into a sustainable established business.

CONSTRAINTS, SUPPORTS AND RECOMMENDATIONS

Each national expert was asked to outline up to three factors that most constrain entrepreneurial activity in that economy, up to three factors that most support this activity, and to make up to three recommendations to enhance entrepreneurial activity. While details for each economy will be given in individual National Reports, some generalizations are possible. For example, the nature of government policies, or the lack thereof, was the most frequently mentioned constraint on the environment for entrepreneurship, while financial support was the most mentioned enabler in the Middle East & Africa economies.

There was some agreement among national experts from different economies about recommendations to enhance entrepreneurship, with more/better government policies to support enterprise being the most frequently mentioned across all economies. Some limited information of the policy environment in each economy is provided in the Economy Profiles of Part 2, but much more detail will be provided in the individual National Reports to be published during 2020, and made available on the GEM website (<http://www.gemconsortium.org>).

THE NATIONAL ENTREPRENEURSHIP CONTEXT INDEX (NECI)

The 2018 Global Report marked the introduction of the GEM National Entrepreneurship Context Index (NECI), a composite index representing in one figure the weighted average state of the set of national Entrepreneurship Framework Conditions. Last year, this composite index was derived from the ratings given to each framework condition by the national experts, as well as the relative importance they attached to each condition. However, for 2019, GEM implemented a refined methodological approach.² Table 8.4 gives the resultant overall NECI rankings and scores out of 10 points for this updated measure of the NECI, for the 54 economies³ completing the 2019 GEM National Expert Survey (NES).⁴

Of the top 10 ranked economies, four are from Europe & North America, four from Asia



& Pacific, and two from Middle East & Africa. While seven are in the high-income category, two are from the low-income group (India and Indonesia), and one from the middle-income group (China). Of the bottom 10, four are from Middle East & Africa, three from Latin America & Caribbean, two from Europe and North America, and one from Asia & Pacific. Four are from the middle-income group, and there are three each from the high-income and low-income groups.

It is clear that the efficacy of framework conditions is only partly determined by wealth levels, and some may be the focus of development efforts by governments and aid agencies. A similar picture emerges when the NECI rankings are compared to the level of TEA, set out for each economy in Chapter 3. Five of the top 10 economies ranked by NECI have levels of TEA below 10%, while six of the lowest 10 economies ranked by NECI have levels of TEA above 10%. These figures may reflect the overall business environment. Where conditions are good, there is competition for entrepreneurs, and better job options.

This complex relationship between NECI scores or rankings, income group and entrepreneurial activity may prove a fertile area for future business research. Low incomes can be both a cause and effect of high levels of entrepreneurial activity, whereby that activity may be little more than low-growth-oriented self-employment, typically informal, usually involving just buying and selling with little additional value-added. This can be referred to as subsistence entrepreneurship, motivated by little more than the lack of alternative income opportunities.

In these circumstances, an unsupportive environment for enterprise makes it even harder to transition informal entrepreneurial activity into business registration and development (i.e. the formal sector), paying taxes and employing others. Hence the entrepreneurial activity may make little contribution to the economy, so incomes stay low. Similarly, the owner of a new business venture in a high-income,

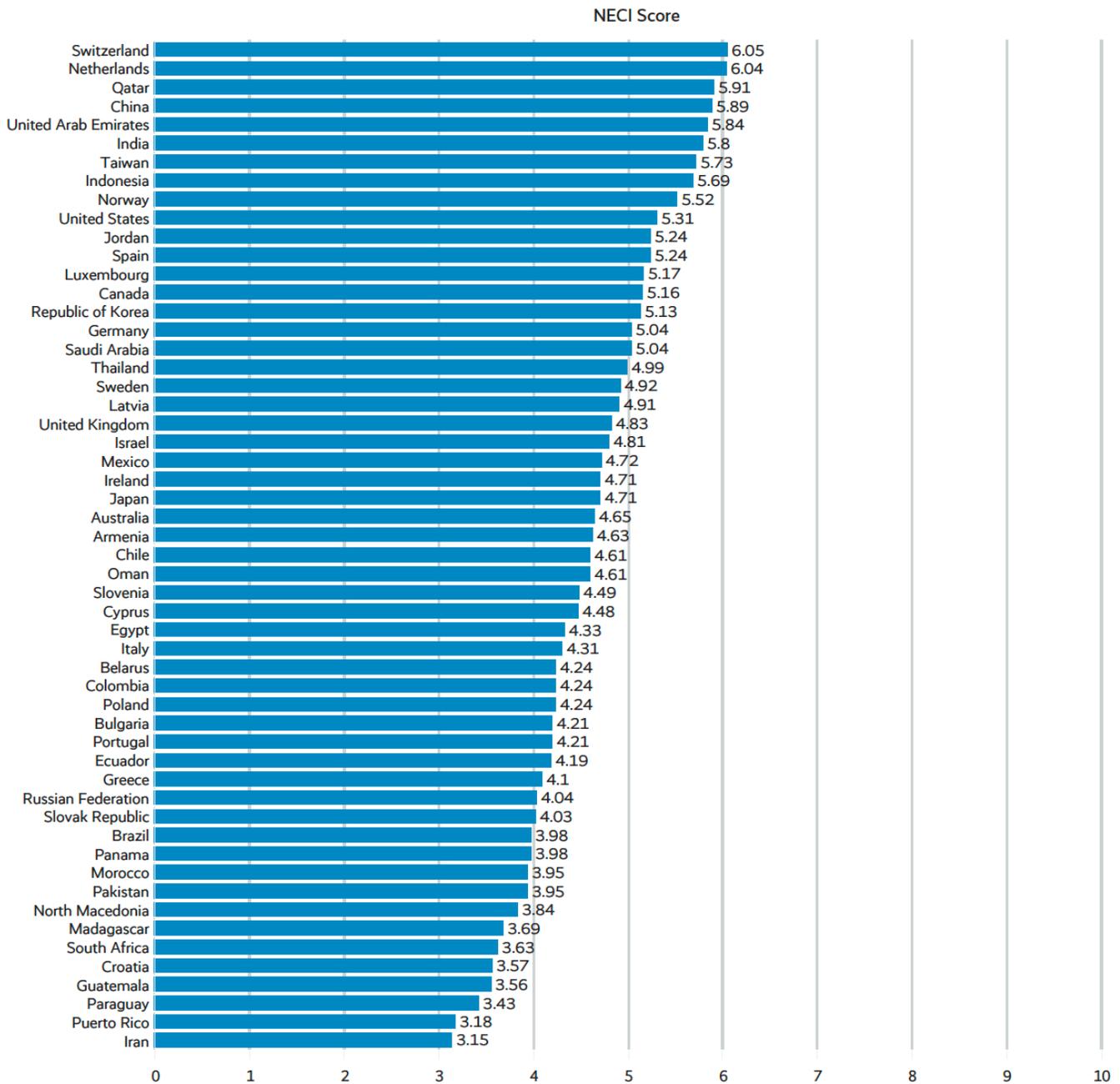


FIGURE 8.1
National Entrepreneurship Context Index (NECI) for 54 economies
Source: GEM Adult Population Survey, 2019

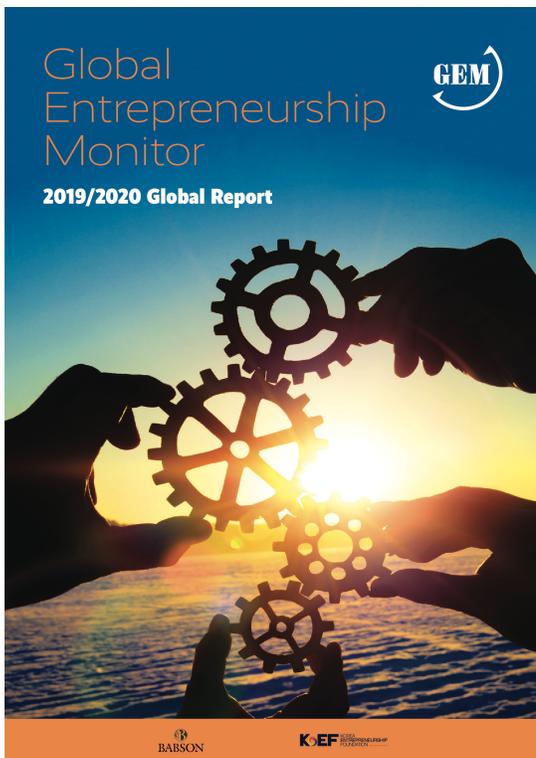
highly supportive environment for entrepreneurial activity may find it much easier to realize growth ambitions and transition into an established business.

Chapter 3 showed that 12 of the 50 economies participating in the 2019 GEM APS had levels of TEA that were lower than their level of EBO. Four of these economies (the Netherlands, Switzerland, Taiwan and China) are among the top 10 ranked in terms of the NECI. Four of the economies in the bottom 10 had ratios of levels of TEA that were around one-and-a-half or more times the corresponding levels of EBO, including Puerto Rico with more than 10 people starting or running a new business for every person running an established business. So good conditions may make it much easier to sustain a new venture into an established business, while in difficult conditions it may be easier to close a business and restart as a new venture than to sustain a new business over time.

This chapter has explored the importance of context in entrepreneurial activity: whether the entrepreneurial environment encourages or discourages entrepreneurship and its transition into established businesses. In an unsupportive environment, it may be easier to start a new business than to transition a business into sustained established business ownership. The results of the NES in each economy can be used to summarize the strengths and weaknesses of that economy in terms of defined entrepreneurial framework conditions — average scores for

each framework condition in each economy are set out in Table A8 of Part 3. These results are also used to construct the NECI, a composite number to measure and rank the ease of starting and developing a business in each economy. Switzerland is ranked strongest in terms of the NECI, or the ease of starting and developing a business, closely followed by the Netherlands and Qatar. The lowest NECI scores are for Iran, Puerto Rico and Paraguay.

About the Author:



The Global Entrepreneurship Monitor (GEM) has been keeping its finger on the pulse of the state of entrepreneurship since 1999, both in terms of the state of the entrepreneurial mind-set, motivations, activities and ambition, and the national framework conditions required to allow entrepreneurship to flourish in an economy. In this, GEM’s “coming of age” 21st year, entrepreneurship is in the spotlight as never before, with multiple governments increasingly focused on putting into place policy frameworks and mechanisms to drive and promote entrepreneurship. Fifty economies participated in the GEM 2019 Adult Population Survey (APS), including 11 from the Middle East & Africa, eight from Asia & Pacific, eight from Latin America & Caribbean, and 23 from Europe & North America. Five of these economies are classified as low-income level, 12 as middle-income and the rest as high-income. Over 150,000 individuals participated in extended interviews as part of the GEM research in 2019. This is the solid evidence base for the GEM findings that are presented in this report...[Read the full report here](#)



About the International Council for Small Business (ICSB)

The ICSB Gazette is a weekly edition of a key topic that ICSB will showcase. The content is varied from research, practice, policy, and education. The editors of the ICSB Gazette is Mr. Kyle Lyon, ICSB Junior Project Manager and Mr. Skye Blanks, ICSB Junior Project Manager He will be soliciting ideas and articles from ICSB members world-wide.



Skye Blanks

Editor, ICSB Gazette

Skye is the Junior Project Manager at the International Council for Small Business (ICSB) in Washington, D.C. and an Editor of the ICSB Gazette.

ICSB Executive Director

Comment:

This ICSB Gazette issue is featuring an article from The Global Entrepreneurship Monitor (GEM) 2019-2020 Report

Contribute:

Have a topic you would like to see or an article to share? Please submit for consideration to skye@icsb.org

ICSB Gazette