Entrepreneurship:
Concept and Measurement *

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Abstract:

We survey the concept of entrepreneurship and the different ways in which entrepreneurial activity might be measured and assessed. In the process we present the very diverse views of who the entrepreneur is, discuss how economic science has neglected the issue and explore different approaches to the measurement of entrepreneurial activity.

Keywords: entrepreneurship concept, measurement, entrepreneur.

Subject area: Entrepreneurship and Innovation

1. Introduction

Entrepreneurship is at the heart of output and productivity growth, exports and job creation. At a personal level, it is associated with personal autonomy and success. However, to date, economic theory has been at best mildly interested in the concept of entrepreneurship.[1] In the traditional neo-classical model, individuals have perfect information, economic objectives are clear and can be stated in rational terms, markets exist and are assumed to clear in equilibrium at one set of prices.[2] A person with special ability to deal with change and uncertainty, as detailed below, is not a necessary character; an able manager that deals with quantities and prices is all that is needed.[3] The development of economic theory in the last few decades, with the emphasis on imperfect markets, information theory, and game theory, has still not suggested the importance of the entrepreneur.[4] Baumol (1968) states that this model "is essentially an instrument of optimality analysis of well defined problems which need no entrepreneur for their solution". Real world problems are not, however, always well defined, especially if they are the important problems of starting a firm *ab initio*. According to Wennekers and Thurik (1999), as neo-classical economics became more formalized, references to the entrepreneur disappeared from the textbooks. The sad result is that almost all social sciences have a theory of the entrepreneur, with the possible lone and notorious exception of economics.[5]

Economists are increasingly uncomfortable with the glaring absence of the entrepreneur from economic theory. The entrepreneur is more difficult to ignore as small and new firms survive and compete proficiently with the large corporations and organizations that, at one point, were predicted to ultimately gain control of the whole

[1] Economic History and the History of Economic Thought are, to an extent, exceptions. This may result from the salient role of personalities in the history of development and of economic theory. Entrepreneurs, including scientists, innovators and business owners and managers have an eminent role and deserved attention in Economic History; major economic thinkers are, to a considerable extent, successful intellectual entrepreneurs that easily become aware of the role of individuals.

[2] An exception to the absence of the entrepreneur in economics is the work of Schumpeter who, though preoccupied with the aggregate economy, gives emphasis to the role of entrepreneurs and their personal traits in economic development at large. See, for example, Schumpeter (1934). The Schumpeterian approach however, is distant from mainstream economic theory.

[3] Baumol (1993b) states that "[i]t seems to be taken for granted in the literature that, even if entrepreneurs are not in complete control of our economic destiny, they influence its direction as few, if any others, are able to do. But having acknowledged this, implicitly or explicitly, normally no more is done to incorporate the entrepreneur's role into the mainstream models of value theory or the theory of the firm."

[4] Two theoretical developments brought entrepreneurship some attention: Leibenstein´s X-efficiency theory and institutional economics stemming from the work of Coase. X-efficiency refers to the degree of inefficiency within the firm. According to Leibenstein firms don´t necessarily realize their "theoretical " productive potential, there is a conflict between employer and employee over how hard the latter works and effort and alertness are required to change old routines and production techniques. Leibenstein proposes entrepreneurship as the creative response to X-efficiency, as in Leibenstein (1968; 1979). Coase (1937), on the other hand, who first suggested that firms exist precisely within the confines and the extent of "contracts" where the market does not work well, saw the entrepreneur as the coordinator of production within the firm, needed because the price mechanism is for the most part absent from the allocation of resources within the firm itself. Williamson (1975) furthered this idea suggesting that the firm´s task is economizing on transaction costs. An important and related question, according to Wennekers and Thurik (1999), is where entrepreneurs better appropriate the fruits of their important abilities: within the firm or or by starting a new firm?

[5] See Casson (1982).

economy.[6] Since the 1980s it became clear that firms of different size would continue to coexist and the flexibility of small firms was identified as a competitive advantage, some arguing that large mass-producers, working according to "Fordist" principles actually lost importance as the share of small firms expanded in several sectors ion many industrial countries .[7] Recognizing this, large firms have started to create room for entrepreneurial activity within its ranks.

In this paper we discuss the concepts of entrepreneurship and entrepreneur as they have been used in economics. We then propose a typology of entrepreneurial activity using as criteria the main motivation of entrepreneurs and suggest different indicators that can be understood as measures of entrepreneurial activity. Our contribution is thus to bring into light the core characteristics of entrepreneurship and their manifestation in economic activity.

2. Who Is the Entrepreneur?

The figure of the entrepreneur apparently made its first appearance in the texts of Richard Cantillon.[8] This eighteenth century thinker suggested the division of economic agents into three categories: landowners, entrepreneurs and employees. Cantillon´s division - updated by substituting property-owners or capitalists by landowners - is magnificently prescient as it recognizes the three main economic activities in relation to the characteristics and attitude of those exercising them. Cantillon's entrepreneur is that who exercises business engagements and combines production factors in the face of uncertainty. Without uncertainty, the role the entrepreneur would be redundant.[9] According to Wennekers and Thurik (1999) and Hébert and Link (1989), also Von Thünen and Menger distinguish clearly between the entrepreneur and the supplier of financial capital, similar to Cantillon's "landowner". Marshall, on the other hand, contrasts the entrepreneur, the "pioneer of new paths", and the "superintendent", who merely organizes the production.[10] See Marshall (1961). Baumol (1993b) point to two different meanings for entrepreneur: the organizer who culminates the process of organizing resources into a new productive venture, the firm; and the innovator who transforms ideas and inventions into "economically viable entities, whether or not these take the form of a business firm". Schumpeter (1934), on the other hand, focused his attention on the entrepreneur as innovator, though the degree of innovation varied, from business creation and expansion to the move to new markets and

[6] See Galbraith (1967) and Schumpeter (1942).

[7] See Piore and Sabel (1984).

[8] See Cantillon (1931). A completely different perspective is that of Stauss (1944), who considers that *the firm is the entrepreneur*, existing "apart from the individuals who compose its decision-making organization, but it does not function apart from them."

[9] The work of Frank Knight has proposed a distinction between risk and uncertainty that has been the norm in economic theory, where insurance is unique and uninsurable. One can view the entrepreneur as that who deals with uncertainty – both in the market or within firms -, while controlling risk – where insurance and other standard techniques are available – is a managerial task.

[10] Entrepreneurs themselves, according to Tuttle (1927), "have long distinguished, though in a loose and general manner, between employer and workman, between employer and capitalist, and between employer and landowner, on the one hand, and on the other, between profit and wages, between profit and interest on a money loan and between profit and the rent of instruments."

products. These entrepreneurial qualities would be present in only a small fraction of the population.

According to Hébert and Link (1989) and Wennekers, Uhlaner and Thurik (2000), three main traditions have tried to grapple with the meaning of entrepreneurship, all ultimately traced back to Cantillon (1931). In the German or Schumpeterian tradition, as in Schumpeter (1934) the entrepreneur is a creator of instability that changes the "rules of competition" for the industry. The Chicago tradition of Frank Knight, as in Knight (1921), where entrepreneurs lead markets to equilibrium. The role of entrepreneurs as agents of change or individuals with special ability to respond to change is not emphasized. The Austrian tradition of Ludwig von Mises and Israel Kirzner, as in Kirzner (1979,1997), emphasizes the role of the entrepreneur in identifying profit opportunities in the wake of aggregate changes, satisfying new needs and overcoming market inefficiencies. Wennekers and Thurik (1999) define entrepreneurship as "the perception and creation of new economic opportunities" combined with "decision-making on the (…) use of resources". The latter seems mostly related to the neoclassic perspective and the firm owner-manager, while the relation of the entrepreneurs to new opportunities connects back with the Schumpeterian and Austrian traditions.

Wennekers and Thurik (1999) enumerate several roles that have been associated with the entrepreneurs in the literature, which can be summarized as: person who **starts a new business;** person who **takes the risk, innovator; supplier of financial capital; owner** of the enterprise; **decision-maker; industry leader; manager** – or organizer, coordinator, contractor, allocator of economic resources among alternative uses; employer of factors of production; and, finally, even **arbitrageur**. Some of these definitions refer to tasks that the entrepreneur may undertake but that do not characterize her or him –the case of manager, owner, supplier of financial capital -, others point to characteristics that are possible among entrepreneurs but do not sum up his role – the case of innovator -, and still others are vague and may or may not be appropriate – industry leader and arbitrageur. We consider the entrepreneur a self-motivated high-achiever, a risk-taker and a non-specialist that intermediates between different functions to innovate within an organization or by creating a new organization.[11] The entrepreneur is an innovator that assumes the risk of new endeavours, often by starting a new firm or organization, and then making it grow and change to pursue objectives such as profit and, yes, but also personal or general human happiness, by combining resources such as ideas, techniques and inventions, workers and managers, and capital.[12] Entrepreneurial activity most often involves the creation of new organizations, like business firms, though this is not necessarily the case as there is entrepreneurial activity within firms.[13]

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[11] McClelland (1971) identified the need for achievement as the most distinguishable quality of entrepreneurs. not motivated by money per se; they are motivated by the desire to succeed; profitability in money terms is useful only insofar as it provide concrete knowledge of how well one is doing one's job. There is here a clear connection with the protestant notion of "predestination" as highlighted in the classic "The Protestant Ethic and the Spirit of Capitalism", by Max Weber. See Weber (…).

[12] Hébert and Link (1989, p. 47) proposed a definition of entrepreneur as : "someone who specializes in taking responsibility for and making judgmental decisions that affect the location, form, and the use of goods, resources, or institutions".

[13] Contrast Gartner and Carter (2004), who argue that "entrepreneurial behaviour involves the activities of individuals who are associated with creating new organizations rather than the activities of individuals who are involved with maintaining or changing the operations of ongoing established organizations." The frequent

3. The Motivations of the Entrepreneur

In this section we propose a taxonomy of the entrepreneur´s motivations, as made explicit in Figure 1 below, and then motivate it with recourse to the literature. Individuals become entrepreneurs for different reasons: because it corresponds to innate preference, and they yearn for the personal autonomy, risk taking, innovativeness and social prestige associated with creating new ventures; because economic need or other oblige it to start anew and take the risk of attempting a new activity; or because opportunity arises, either in the form of economic rents that are available to be taken by those who make the effort, or because an important innovation, technical or otherwise, to which the individual has easier access is present.[14] Some authors differentiate between "push" and "pull" factors as determinants of entrepreneurship, where pull factors are associated with the prospect (in expectation) of being better off as an entrepreneur (in material or other terms), and "push" factors are associated with some dissatisfaction with the current job or position. In our typology need would be the case of a "push" factor.

Rent-seeking cannot be neglected as a source of motivation for entrepreneurial activity. It can be associated to many activities, such as corrupting public officials to build in otherwise environmentally-protected areas to suppliers of high-demand illegal drugs where market power is enforced by continuous – but ultimately fallible – police persecution.[15] Naturally, rent-seeking can be associated with completely legal activities such as creating mechanisms to differentiate products and create market power privately or through the enactment of government laws that biases the productive process in favour of some, or inducing government intervention that favours own private interests at the expense of the interests of others. However, in general, rent-seeking activities are not productive for society as a whole and correspond to second-best situations, where a more efficient allocation would yield a larger amount of total resources.[16]

Different societies encourage different types of initiative. Baumol (1990a) suggests that weak and unstable formal institutions encourage unproductive entrepreneurship or destructive entrepreneurship, rendering unproductive activities more profitable than productive innovation-driven activities. Baumol (1990) goes as far as suggesting that while the total "supply of entrepreneurs" does vary among societies, more variation is associated with the mix of productive - such as innovation - and unproductive activities - such as rent seeking. Substitutability among types of entrepreneurship may thus more easily harm total output than the mere absence of entrepreneurial activity.[17]

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neglect of entrepreneurial activity that occurs within business firms is largely the consequence of the difficulty of measuring entrepreneurial-like activities that take place within existing organizations.

[14] An economic rent is an amount of resources that may be accessed in an environment with less than perfect competition, such as a competitor to a product theretofore supplied only by a monopolist. In a specific sense, privileged access to an innovation is a special case of economic rent.

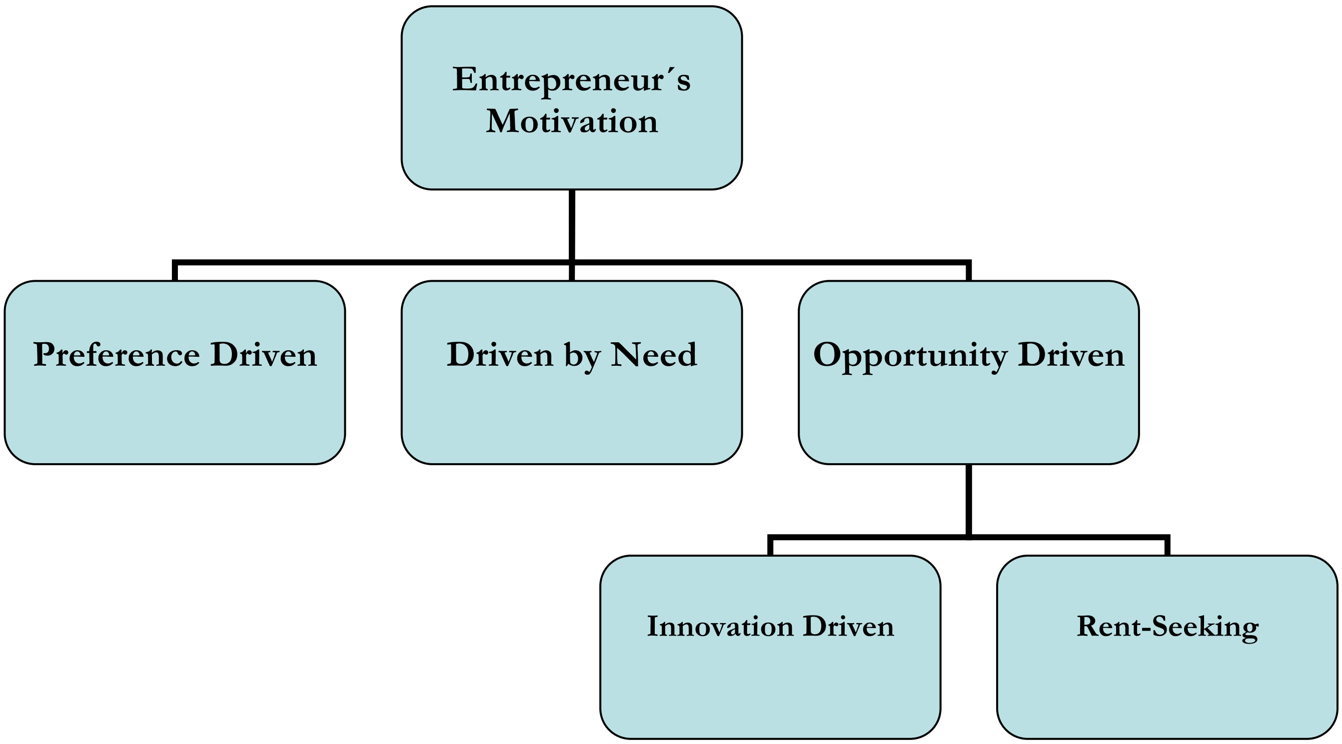
[15] Other possible forms are litigation, lobbying, takeovers, tax evasion and tax avoidance, illegal and shadow activities, as well as corruption.

[16] In contrast, what Baumol (1993a) calls "productive entrepreneurship" is any activity contributing directly or indirectly to an increase in the net output of the economy."

[17] In some cases the same firms engage in both in legal and illegal rent-seeking, as well as more generally productive activities, as has been shown by Smallbone and Welter (2001) for new and small firms in the

Figure 1

The Motivations of Entrepreneurs



4. Measuring Entrepreneurial Activity

Individuals who we labelled above as entrepreneurs can innovate and organize in different ways: by creating a new firm or organization,[18] a new product, perfecting or creating a new production or sales method, explore a new market, a new source of inputs or devise a new form of organization for a whole industry. Some of these manifestations of entrepreneurial activity are visible, explicit, and facilitate measurement, such as the creation of business firms. Others take place within existing organizations or have a qualitative element that makes them hard to measure. Here we will try to be inclusive, thus highlighting key dimensions of entrepreneurship that are tend to be neglected in empirical and theoretical studies.

context of transition from a socialist to a market economy. When the rules are unclear, incomplete and changing very fast, this "portfolio" of Entrepreneurial activity may be key to ensure firm survival and growth, as suggested in Smallbone and Welter (2006).

[18] Below we will use enterprise to mean any for of organization, business firm or otherwise, which is affected by the object of entrepreneurial activity.

In order to guide the description of the dimensions of entrepreneurial activity, we will build on Grilo and Thurik (2007) and their framework describing the typical **life cycle of an enterprise**, composed by the following stages:
(1) *outsider* - an agent with preference for self-employment but "who never thought about it".
(2)*conception* – when an idea has appeared or the opportunity identified and the agent starts "thinking about it".
(3) *gestation* - the agent starts "taking steps for starting up"
(4) *infancy* - a young firm, product, method, market, source or industry organization is born.
(5) *adolescence* - the enterprise grows at a fast pace
6) *maturity* - the growth rate of the enterprise slows down and its size stabilizes
(7) *decline* - negative growth
(8) *exit* - the enterprise exits the market
(9) *step out* - the agent gives up on entrepreneurial activity[19]

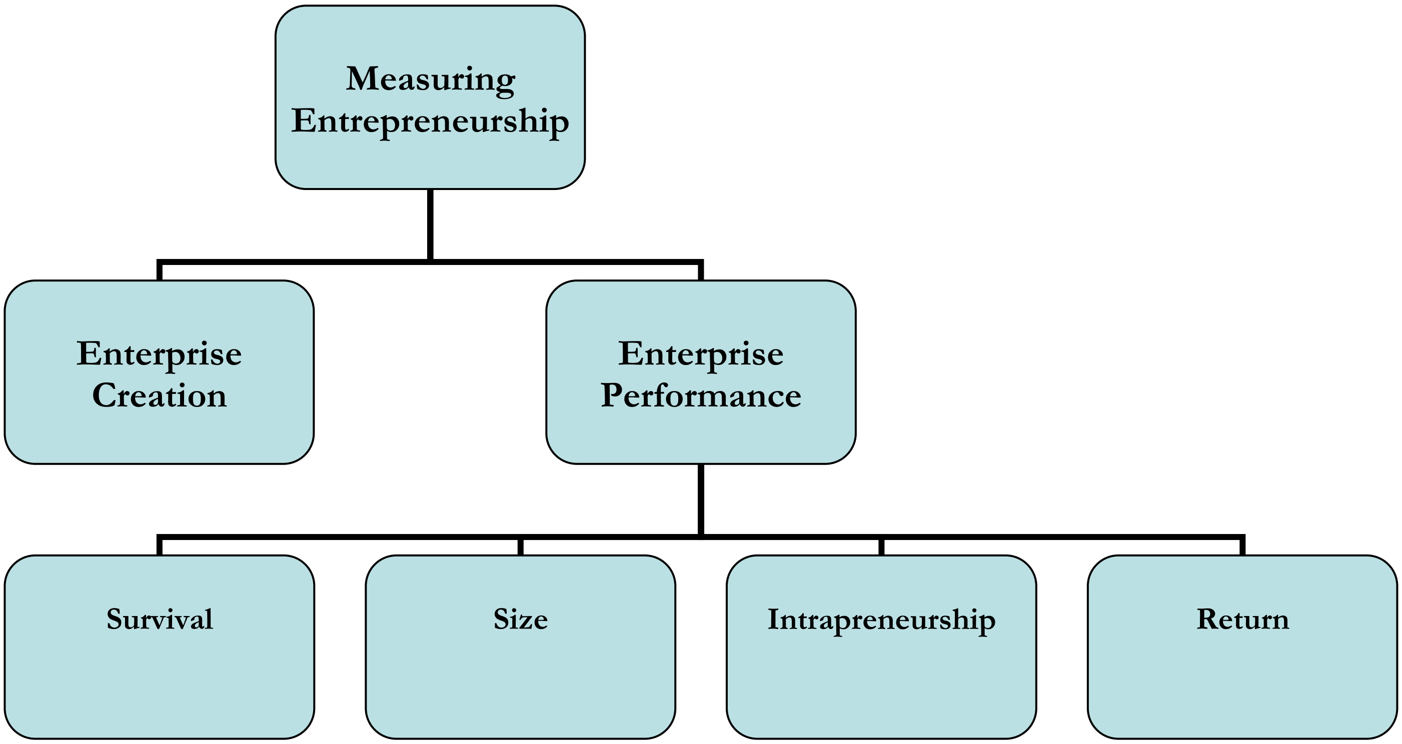
As in Thurik and Grilo (2005), we consider stages (1) to (3) as *Latent entrepreneurship*, and stages (4) to (7) as *Actual entrepreneurship.*[20] Moreover, stages (2)-(4) can be also labelled as *Nascent entrepreneurship.*[21]

One can see entrepreneurship in a static perspective, where the main indicator is the percentage of self-employed in the economy, and in a dynamic perspective, where entrepreneurs are agents of change who start new businesses, make them grow, change nature - new products or markets, new techniques or new organization – or increase their profitability.[22] In the dynamic perspective one can measure nascent entrepreneurs – who have made the decision to launch a firm -, gross and new entry of business start-ups, as well as the turbulence rate – the sum of entry and closures. Entrepreneurial activity that takes place within existing corporations - corporate entrepreneurship or "intrapreneurship" - are very extremely difficult to measure

In Figure 2 we present the **key dimensions of entrepreneurial activity** as we see them. The first stage, or *Enterprise Creation* considers all the activities between latent desire for entrepreneurial activity, idea selection and conception up to the formal creation of a new organization. In the framework above, steps (1) to (3) with the explicit addition of the moment of firm creation. The second possible moment of entrepreneurial activity is reflected in *Enterprise Performance*, either in the form of *Survival*, the very basic measure of performance, *Growth*, *Return* and internal change – qualitative or otherwise – which we group under the term *Intrapreneurship*.

[19] See also Reynolds and White (1997) and Reynolds (1997)
[20] These authors consider stages (8) and (9) as *Past entrepreneurship* and stages (7)-(9) as *Decadent entrepreneurship*. Here we will consider as outside the realm of entrepreneurship.
[21] See Reynolds et al., 2005
[22] See Wennekers, Uhlaner and Thurik (2000).

Figure 2
Measuring Entrepreneurship



4.1. Enterprise creation

As *Enterprise Creation*, we would ideally aim to measure the quantity and quality of ideas created in an economy. The complex nature of the creation of new enterprises must be considered, including the different stages through which an idea goes through until it materializes in a new organization. [23] As an example, a given country may have a substantial level of entrepreneurial activity that does not materialize in new firms. Through surveys, one can in principle break down the probability that a given individual is at any of the different stages of enterprise creation and break down those probabilities by different population subclasses (e.g. men *vs* women) or by countries. [24] Another possibility to measure activity before firm creation is the use of indicators that proxy *conception*, such as the number of patents.

[23] Grilo, Thurik (2007) characterize it as "the result of a long series of complex choices. It is a process rather than the result of a single binary choice (...)". The same idea is also recognized by: Low and MacMillan (1988); Bull and Willard (1993)
[24] Grilo and Thurik (2007), for instance, use multinomial choice model and data from two Entrepreneurship Flash Eurobarometer surveys (2002 and 2003), covering the 15 earlier European Union member states plus Norway, Iceland, Liechtenstein and US. They consider the stages of outsider, conception and gestation.

One can distinguish, in a first pass, gross and net entry. A high intensity of *exits* may be the result of a natural selection of good ideas, and a high number of *step outs* a sign of a generational cycle or a faulty materialization entrepreneurs ideas. Entry and performance are, necessarily, related. For instance, several studies have found a positive correlation between initial firm size and market share with subsequent survival and growth.[25] Size at death may also be analysed over time, as well as the pattern of size-growth-return-productivity and its evolution before *exit*.[26]

4.2. Enterprise Performance

After the emergence of a new enterprise in the market, the important issue to which entrepreneurs dedicate themselves is to maintain a high performance, first by ensuring survival, next by devoting their energies to increase its size, modify its scope as needed and, ultimately, ensure high returns.

In the case of firms, when measuring size, it is important to consider two dimensions: *absolute size*, usually measured through the level of inputs used - number of employees or level of capital assets - or through the output level – sales -, and *relative size*, assessed through the market share of each firm. The latter may also suggest market concentration analysis. In addition to the analysis of the evolution of size and growth over the life-cycle, it may be important to investigate the presence of a minimum scale of operation in each industry.

Intrapreneurship, as mentioned above, is hard to measure but may be approached through the persistence of a high market value in the case of business firms, possibly complemented by direct measurement of observables, such as the number of patents produced or resources devoted to R&D. Both, however, have the important limitation of measuring technology-based intrapreneurship only, as highlighted inGeroski, Machin and Walters (1997).

As to return, we can consider it at two different levels: *venture level*, concerning the return to shareholders or even stakeholders, and at *societal level*, when the impact of the enterprise in the economy or society as a whole are considered.[27] An obvious example of divergence between the two is the case of an enterprise that explores rents in the form of illegal and criminal activities. At the *venture level*, one can use objective variables - net sales profits, sales turnover, employment, investment, export share, return on equity or assets[28]-, as well as subjective variables - assessed through interviews and surveys that assess personal fulfilment.[29] As to the societal level, entrepreneurship not only is often associated with beneficent or social activities, but it may also involve substantial spillovers that should be taken into consideration. This is key in the case of knowledge creation that enlarges a general pool that is accessible to many companies without significant additional costs. Still, assessing the societal-level contribution of entrepreneurial activity is one of the

[25] See Caves (1998)
[26] Caves (1998) presents some patterns.
[27] Sauka (2008).
[28] Geroski, Machin and Walters (1997), for instance, use return on sales
[29] See Sauka (2008)

most challenging tasks in the entrepreneurship literature.[30]). Indicators such as employment generation and innovativeness are regarded as the most 19 appropriate for this purpose (e.g. Johnson et. al., 2000) as these are considered to be the main contribution of SMEs to economic development. Scholars have explored the empirical link between firm performance and the growth of an economy – see Thurik (1999), Audretsch et al. (2002).

5. Concluding Remarks

This paper will provide a systematic discussion of the characteristics of entrepreneurs in terms of motivation for entrepreneurial activity, as well as different measures of the latter. Our aim is to make progress in clarifying a very complex concept, whose many facets have often been neglected in the literature.

[30] Sauka and Weler (2007).

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