
Defining and Measuring Entrepreneurship

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Jens Iversen

*University of Aarhus
Denmark
jiv@cebr.dk*

Rasmus Jørgensen

*University of Copenhagen
Denmark*

Nikolaj Malchow-Møller

*University of Southern Denmark
Denmark*

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Defining and Measuring Entrepreneurship

Jens Iversen¹, Rasmus Jørgensen² and
Nikolaj Malchow-Møller³

¹ *Centre for Economic and Business Research (CEBR)
and University of Aarhus, Denmark, jiv@cebr.dk*

² *Centre for Economic and Business Research (CEBR)
and University of Copenhagen, Denmark*

³ *Centre for Economic and Business Research (CEBR)
and University of Southern Denmark, Denmark*

Abstract

Although entrepreneurship has become a buzzword in the public debate, a coherent definition of entrepreneurship has not yet emerged. In this paper, we review and compare the most common theoretical definitions of entrepreneurship in economics and discuss their connection to the various empirical measures in use. We argue that entrepreneurship is best considered a multifaceted concept, and that the different empirical measures reflect different aspects of entrepreneurship. The relevance of this exercise is illustrated by the fact that in a cross-country comparison of entrepreneurship, we find that the relative ranking of countries depends crucially on the indicator used.

Keywords: Entrepreneurship; definitions; measurement; cross-country comparison.

JEL code: B10, J2, M13, O3

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1

Introduction

“Entrepreneurship” has become a buzzword in the public debate in recent years. It is extensively referred to by policy-makers as one of the roads to future prosperity, and cross-country comparisons of entrepreneurial activity have become increasingly popular. However, the concept of entrepreneurship is often used without a precise definition, and it may not always be completely clear what the different measures are actually measuring.

In the economic literature, a number of authors have presented rather different definitions of the entrepreneur since the first ideas on entrepreneurship were formulated by Cantillon in the middle of the 18th century. Although 250 years have passed since then, a coherent definition has not yet been agreed upon. While this is bound to complicate theoretical discussions on these issues, the empirical studies also suffer from the lack of a clear theoretically founded definition. Thus, in the empirical literature, numerous different measures of entrepreneurial activity are used, and the relationships to the theoretical ideas are not always obvious.

The purpose of this paper is first to review the most common concepts of entrepreneurship from the theoretical economics

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literature, identifying common elements and pointing to important differences. Second, the purpose is to compare these theoretical ideas of entrepreneurship with the measures used in the empirical country-level studies. Since a coherent or unifying definition of entrepreneurship has not emerged, we argue that it is important to be precise about the relationship between the different theoretical aspects of entrepreneurship and the empirical measures. To show this, we compare entrepreneurial activity across the OECD countries using measures that reflect different theoretical aspects. Based on various data sources, we find that the relative ranking of countries is very sensitive to the empirical measure used.

The rest of the paper is structured as follows. In Chapter 2, we review and compare different theoretical definitions of entrepreneurship. In Chapter 3, we relate these to the empirical measures used. Chapter 4 compares the level of entrepreneurial activity across the OECD countries using the different measures and Chapter 5 concludes.

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