

National Factors Affecting Business Creation: A Global Assessment

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Business creation is a major source of:

- New job creation
- Economic sector productivity improvements
- Market innovations
- Economic adaptation and change

As well as an important option for the work careers of many, reflected in:

- World wide half a billion people trying to start over 250 million firms
- Half of US men have a period of self-employment over their lifetime work careers
- Immigrants often use business creation to create work careers in their new countries
- Business creation is a major route for upward social mobility

Most research on the benefits or contributions of entrepreneurship is based on studies of business creation. Assessing the national factors affecting the level of business creation requires a harmonized measure applied across all countries. Fortunately, one global project exists that systematically counts business creation. The Global Entrepreneurship Monitor [GEM] project was initiated in 1998; harmonized data on the prevalence of business creation is available in 76 countries. This can be used to explore the national factors affecting participation in business creation.

The research starts with surveys of the adult population in each country; over 1,100,000 have been interviewed in the past 10 years. A standardized procedure is used to determine which of these individuals are actively involved in business creation or the owner manager of a new firm, one reporting profits for up to 3.5 years. Individuals in these first two stages of the business life course are combined to create the Total Entrepreneurial Activity [TEA] index; about two-thirds are in the start-up process, about one-third are new business owner-managers. In addition, about two-thirds of the individuals indicate they are attempting to pursue a promising business opportunity; about one-third are involved in business creation because they “cannot find any better choices for work.” These necessity entrepreneurs are as much as one half of those involved in business creation in developing countries.

Across the 76 countries, representing all global regions, the prevalence rates range from 3 per 100 to 30 per 100 adults, those 18-64 years old. Three per 100 implies that one in 33 is involved in business creation, 30 per 100 implies that one in three is active; this provides a dramatically different milieu for young adults considering their work career options.

A number of national factors appear to have an impact of the prevalence of individuals engaged in business creation. Using multiple regression analysis it is possible to account for 78% of the variation in TEA prevalence rate across 76 countries with five factors, 72% of the

variation in TEA opportunity with 6 factors, and 70% of the variation in TEA necessity with three factors.

One of the two most important factors is the level of national wealth; countries with lower GDP per capita have a much higher rate of business creation, both responses to opportunity as well as necessity. Business creation is much lower in rich countries, particularly in Western Europe and Asia (Japan, Hong Kong, Singapore). The other is the prevalence, again the number per 100 in the population, of those that provide informal or personal investments to others starting new firms; about half of the investments are to relatives, about one-third to friends, neighbors and work colleagues, and the rest to “strangers with a good idea.” Regardless of who gets the money, over 80% of the informal investors expect to get it back—with interest.

Other factors that are important include the proportion of adults with a secondary (high school) education degree as well as a national focus on traditional, rather than secular-rational, values. Traditional values, as measured by the World Values Survey, include a strong emphasis on work, responsibility for taking care of one’s family, and respect for authority, which seems to be associated with an emphasis on self-reliance and not expecting national leaders to solve household economic challenges.

Also important in several models are the proportion of women involved in the labor force, the proportion of the population in the working years 18-64 years of age, greater income inequality (also higher in developing countries), and a cultural emphasis on self-expressive and self-development rather than survival (also measured in the World Values Survey).

Not included in these predictive models are male labor force participation (which does not vary much among countries), measures of an increase in demand (growth in population or GDP per capita), and measures of the cost of registering a new firm (from the World Bank Doing Business Surveys). The latter has little impact because most new businesses in developing countries cannot afford to cope with the challenges of becoming formally registered; they just ignore these rules and start their businesses.

Factors identified as important in these predictive models vary in terms of potential for policy intervention. Perhaps easiest for developing countries, although it would require resources, is increasing the proportion of the population that complete secondary school. Second on the list may be increasing the availability of financial support at the early stages of the start-up process; this is the essential function of informal investors. The rapid expansion of the micro-finance programs would suggest there is a ready market for this form of assistance. More difficult for some countries may be to increase the participation of women in the labor force, which is high in Latin America and developing Asia, but relative low in the MENA region countries. Other factors may be hard to change by any means, the national value structure or the age distribution of the population.

There is a major research opportunity in developing more precise information about the nature of the processes that lead to successful transitions of start-ups to profitable new firms. Different factors may affect entry into the start-up process and a successful outcome, the birth of a profitable new firm. Existing longitudinal studies of business creation have been completed in developed countries; little is known about this process in developing societies.