

Law and (Which?) Entrepreneurship

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Magnus Henrekson and Tino Sanandaji, [Measuring Entrepreneurship: Do Established Metrics Capture Schumpeterian Entrepreneurship?](#), 44 *Entrepreneurship Theory & Prac.* 733 (2020).

We often hear that entrepreneurship is important to the economy. But what exactly is “entrepreneurship”? There is a broad and growing literature connecting institutions with entrepreneurship in the fields of law, economics, finance, and business generally. Legal scholars in this field typically focus on the role of “law” and treat “entrepreneurship” as a taken-for-granted concept that does not need any discussion. Yet, it is important to recognize that researchers in the broader non-legal literature on the relationship between institutions and entrepreneurship have been struggling to define and measure “entrepreneurship.” Empirical research that measures entrepreneurship inaccurately may lead to flawed conclusions including legal policy recommendations.

In their article, [Measuring Entrepreneurship: Do Established Metrics Capture Schumpeterian Entrepreneurship?](#), Henrekson and Sanandaji evaluate different country-level measures of entrepreneurship and find that virtually all the widely-used metrics fail to capture high-impact Schumpeterian entrepreneurship – the kind of entrepreneurship that policymakers hope for.

The authors start by analyzing and applying the definition of Schumpeterian entrepreneurship. Schumpeter’s definition focuses on the revolutionary function of entrepreneurship, rather than the employment status, and does not include routine business activity. Based on this, the authors identify four categories of business activity: (1) routine and low impact (e.g. mom and pop shops); (2) routine and high impact (e.g. firms that grow large through routine activity in real estate); (3) Schumpeterian and low impact (e.g. recently created innovative startups); (4) Schumpeterian and high impact (e.g. entrepreneur-founded firms that have grown large through technological or business innovations).

The authors construct four measures of high-impact Schumpeterian entrepreneurship, including venture capital-funded IPOs, self-made billionaire entrepreneurs, unicorn startups, and young top global firms founded by individual entrepreneurs. They also compile six measures of entrepreneurship commonly used in the literature, including: number of new entities with limited liability per capita (source: World Bank), business ownership rate (source: Global Entrepreneurship Monitor (GEM)), low/high expectation total early-stage entrepreneurial activity (GEM), self-employment as a share of total employment, and self-employed with employees as a share of total employment.

Using data based on 64 countries, the authors find that their four independently constructed and manually collected measures of high-impact Schumpeterian entrepreneurship have a strong correlation with one another and share a consistent underlying pattern. The factor underlying the four measures is positively correlated with economic (e.g., GDP per capita, R&D spending as a share of GDP, education and human capital index) and institutional (e.g., international property rights index, corruption perception index) variables. Meanwhile, the six commonly used measures of entrepreneurship, except for the number of new limited liability entities per capita, are explained by a different underlying factor, which is related to small business activity and negatively correlated with the economic and institutional variables. According to the authors, the finding that the number of new limited liability entities per capita appears to capture Schumpeterian entrepreneurship may indicate that incorporated firms have higher growth potential than unincorporated ones.

This article offers insights for the study of law and entrepreneurship. It is important to distinguish different types of entrepreneurship and use relevant metrics. Different legal institutions may produce different kinds of entrepreneurial activity, and different types of entrepreneurship may need different legal infrastructure. Scholars of law and entrepreneurship should be aware that most existing cross-country empirical studies in the field measure entrepreneurship as small business activity, which is distinct from the Schumpeterian entrepreneurship that plays a critical role in innovation and economic transformation. This excellent article gives us interesting and useful metrics of Schumpeterian entrepreneurship with which we may conduct empirical research to further examine the relationship between law and innovative entrepreneurship.

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