American Entrepreneurship: Vastly Overrated?

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Salvatore Babones

American entrepreneurship rates are not that good right now. But is the picture as bleak as it is made out to be?

The US is a country of entrepreneurs, fearlessly risking everything to make a fortune by bringing new products and services to market. Global leaders like Microsoft, Apple, and HP were started in garages by university drop-outs. Google, Facebook, and many lesser-known internet start-ups carry on the tradition today.

At least, that's the story as it has been told and retold in a thousand business magazines. And it is true that America is the place where entrepreneurs can make a fortune. The US has a huge internal market and a fully-developed venture capital industry that knows how to reach that market.

But contrary to popular perceptions, real-life entrepreneurs are very rare in America. According to data from the Organisation for Economic Co-operation and Development (OECD), the US has one of the lowest rates of entrepreneurship in the world.

In fact, the OECD rates the US third from the bottom in a ranking of 25 countries in employer enterprise birth rate. Over 50% of Americans work for large companies of 250 employees or more. Only two other countries in the world have economies that are so dominated by large firms: Slovakia and Luxembourg.

A major new cross-national study seeks to clarify the situation. The Global Entrepreneurship Monitor (GEM) is a massive cross-national survey of entrepreneurship coordinated by Babson College and London Business School. It includes top-quality population sample-survey data for 69 countries plus expert interview data for many others.

In the GEM data the US ranks 27th of 69 countries in “Total early-stage Entrepreneurial Activity” (TEA), the GEM team’s preferred entrepreneurship metric. Perhaps surprisingly, at the top of the list are poor African countries like Cameroon, Uganda and Botswana, and poor Andean countries like Ecuador, Peru and Bolivia.

In fact this makes complete sense. In very poor countries, people have to be entrepreneurial to survive. Rates of entrepreneurship in these countries top 25% of the population compared with 14% in the US. Still, the US ranks higher than any other rich country.

Based on GEM data, China’s entrepreneurship rate is 15.5%, slightly above that in the US. Among GEM survey respondents between the ages of 25 and 34 the entrepreneurship rate in the US is 18%. GEM does not break out figures for China by age in its summary reports. But a separate survey from Chinese jobs website Zhaopin.com reported that 6.3% of 2015 Chinese university graduates plan to start their own businesses, up from 3.2% in 2014.
And here we get into trouble. Based on these figures a recent feature in The Wall Street Journal raised the concern that entrepreneurship rates among Chinese graduates are “only 6.3%—compared with around 20% in the US.” On a positive note, the article pointed out that the entrepreneurship rate among Chinese graduates had doubled in just one year. Not bad!

Leaving aside the somewhat questionable doubling of entrepreneurship rates among Chinese graduates, what about that “around 20%” figure for the US? The GEM survey figure of 18% applies to all young adults, not just graduates. But this figure is close to 20%, and it too is rising.

According to Donna Kelley, a professor at Babson College and lead US researcher on the GEM survey, American young adults are increasingly entrepreneurial. “In 2014, 18% of 25-34 year-olds were starting or running new businesses compared to 15% in 2013.”

Starting or running a new business? Really? If these figures seem incredible, it is because they are incredible. And I don’t mean “incredible” in the sense of “fantastic!” I mean “incredible” in the sense of “not credible”. They are so incredible as to skirt the boundaries of academic dishonesty.

The GEM survey defines entrepreneurship as “Any attempt at new business or new venture creation, such as self-employment, a new business organization, or the expansion of an existing business, by an individual, a team of individuals, or an established business.”

That’s a pretty broad definition of entrepreneurship. For example, if you are an employee who is involved in helping your global Fortune 500 company find new clients, open new locations or expand output in an existing plant, you are an entrepreneur. A checkout clerk at a fast food restaurant who asks “do you want fries with that?” is potentially an entrepreneur by GEM’s definition.

That hardly seems consistent with GEM’s press release hype that 18% of American youngsters are “starting or running new businesses”—the press release hype that was picked up by global media, including The Wall Street Journal and Forbes magazine.

But it gets worse—much worse. Drilling down into the GEM documentation reveals the exact procedure through which respondents are classified as entrepreneurs. People are classified as entrepreneurs if they answer “yes” to a series of questions about entrepreneurial activity. These questions identify as entrepreneurs people who engage in entrepreneurial activities, whether on their own behalf or on behalf of their employers.

So far, so good. But strangely, people are also classified as entrepreneurs if they answer “I don’t know” to those same activity questions. Thus people who don’t know whether or not their jobs include any entrepreneurial activities are included in the group of people exhibiting “early-stage entrepreneurial activity”. By sleight of hand and looseness of terminology they then end up being called “entrepreneurs”.

GEM respondents are only excluded from being categorized as entrepreneurs when they explicitly answer “no” to the series of questions about entrepreneurial activity. This is laughably bad research methodology. But it does serve the purpose of inflating entrepreneurship numbers—and perhaps justifying funding for future surveys.

The GEM project seems to have collected invaluable international data about entrepreneurial activities.
A proper analysis of GEM data could yield important insights into global entrepreneurship rates. But until someone entrepreneurial undertakes such an analysis, take GEM’s claims about entrepreneurship rates with a grain of salt.

The fact is that American entrepreneurship rates are low and declining, as official data from the US Census Bureau demonstrate. Jeff Clinton, CEO of the Gallup polling organization, gets it right when he asks if American entrepreneurship is “dead or alive?” The correct answer may be: “not dead–yet.”

The US is a venture capital and business development powerhouse, and many Americans (myself included) are proud to think of themselves as entrepreneurial. But most entrepreneurial Americans act entrepreneurially on behalf of large organizations. That may be the smartest way to be entrepreneurial, but it does not make you an entrepreneur.