1 Introduction

The entrepreneur is the single most important player in the modern economy.
(Lazear, 2005, p. 649)

Entrepreneurship is increasingly in the news. Governments all over the world extol its benefits and implement policies designed to promote it. There are several reasons for this interest in, and enthusiasm for, entrepreneurship. Entrepreneurs run the majority of businesses in most countries, producing one-half of output and accounting for over 40 per cent of total wealth. Their enterprises provide specialised goods and services that are ignored by the largest firms. Entrepreneurs generate productivity gains from dynamic entry and exit which spurs economic development. This comes about both from selection and competition. Selection involves incumbents who are inefficient or do not satisfy consumer demand being replaced by entrants who are more efficient or better meet demand by offering new or better quality products. Entrants also intensify competition and thereby discipline incumbents to provide cheaper or more innovative goods.

The most dynamic entrepreneurs pioneer new markets for innovative products, creating jobs and enhancing economic growth. As a striking example, in 2016 three of the most innovative and fast-growing US companies – Google, Amazon and Facebook – did not exist twenty-five years earlier; while Apple, the world's largest technology company by assets, started as an entrepreneurial venture forty years ago. These companies have changed the way we live, work and enjoy our leisure time. Like them, some of today's new start-ups will eventually grow to become tomorrow's corporate giants.

Even entrepreneurial ventures which grow less dramatically than these can create positive externalities. For example, they may develop supply chains that help attract inward investment; create wealth and facilitate social mobility; and even help people cope after natural disasters (Zissimopoulos and Karoly, 2010). Increasingly, corporate managers and employees, as well as high-school and university students and researchers, are being urged to become 'more entrepreneurial', to enhance efficiency and generate new ideas for our world.

As the wellspring of industrial dynamism, wealth creation and innovation, entrepreneurship is an integral part of economic change and growth. Yet entrepreneurship has only recently come to be regarded as a field. A complete view of it recognises its multidisciplinary academic underpinnings, drawing from economics, finance, business

studies, sociology, psychology and other fields. This heterogeneous provenance reflects the multidimensional nature of entrepreneurship.

1.1 What Economics Adds to the Study of Entrepreneurship

Today, the economics of entrepreneurship is a thriving research field. Although the 'business studies' approach to entrepreneurship research remains dominant in terms of field journals, conference activity and academic posts – in other words, in most practical respects in academe – the economics of entrepreneurship literature continues to develop rapidly, making a distinct contribution of its own. However, many non-economists continue to ignore the economics of entrepreneurship literature, while a minority even disparages economics, sometimes claiming that the discipline itself is intrinsically unsuited to the study of entrepreneurship.

One of the objectives of this book is to rebut the anti-economics arguments, by demonstrating constructively what the subject can and does say about entrepreneurship. It is the author's belief that anti-economics arguments mainly reflect ignorance about the current state of economics. Before going on to define what the economics of entrepreneurship is, and what it brings to the analysis of entrepreneurship as an academic field, it is worth briefly trying to understand these claims, which can be summarised as follows:

1. Economics (it is alleged) assumes that agents know prices and goods and, automaton-like, optimise resource usage via mathematical rules. But entrepreneurs cannot optimise because they cannot know the prices of goods or services which do not yet exist; they must therefore use heuristics and exercise idiosyncratic judgement.
2. Economics entails the analysis of equilibrium. But the essence of entrepreneurship is that entrepreneurs recognise disequilibrium opportunities and exploit them, destroying the status quo in a ceaseless progression of disequilibrium states.
3. Economics assumes perfect information and competition, so in equilibrium profits are eliminated. But without a profit motive there can be no entrepreneurship; and in the real world imperfect information and imperfect competition prevail, so even small entrepreneurial ventures can possess some market power.
4. Economists have chosen not to write the entrepreneur into their models. For this reason the entrepreneur is absent from economics textbooks. But the entrepreneur is central to economic growth, so neoclassical growth theory is at best incomplete and at worst misleading.

I will take these criticisms point by point. The first one is based on a simple misunderstanding about optimisation in economics. For example, Bayesian methods are ideally suited to modelling situations of entrepreneurial uncertainty (Alvarez and Parker, 2009); and economists have a long tradition of assuming that agents act on the basis of subjective probabilities about the future, even if subjective probabilities differ from objective probabilities. That is, it is recognised that individual agents can and do make mistakes. Although the 'rational expectations hypothesis' of neoclassical economics does not

allow agents to make systematic errors, this is far from being the only school of thought in modern economics. Economic models are increasingly beginning to incorporate persistent over-optimism, bounded rationality and other cognitive biases into individual behaviours and choices (Minniti and Lévesque, 2008). So nowadays the criticism of hyper-rationality in economics is wide of the mark.

The second criticism seems to be based on another misunderstanding, this time about the notion of equilibrium in economics. 'Equilibrium' describes a resting point which eventually obtains after some change occurs. Even if the economy never arrives at a predicted equilibrium, because it is disrupted by another event, it is still helpful to predict the eventual likely outcomes of a given change. As it happens, many economic models now analyse the behaviour of individuals in environments which undergo continual unpredictable change, and deal with equilibrium as a dynamic concept (captured, for example, by the notion of an 'equilibrium growth path'). A further example relates to innovation, where some economists model the dynamic processes that generate new knowledge and opportunities (e.g. King and Levine, 1993; Audretsch, 2003), rather than taking them to be exogenous as in much of the business studies entrepreneurship literature.

It is surprising to see some critics continuing to make the third point, which is now hopelessly out of date. As numerous examples in this book attest, imperfect information and imperfect competition play a central role in modern economic analysis, including applications to entrepreneurship. It is essential not to erroneously conflate 'normal' and 'supernormal' profits. The former is the return needed to keep factors of production employed in their present use. It is not competed away to zero. Economists merely claim that when markets are competitive or contestable, and products are homogeneous, 'supernormal profits' (i.e. profits in excess of normal profits) will eventually be competed away. It is a mistake to claim that this precludes exploitation of temporary or even ongoing entrepreneurial opportunities. Indeed, economists would say that one manifestation of entrepreneurship is precisely entry by new firms to compete for profits with incumbents. Other manifestations and definitions of entrepreneurship are also possible, including those based on innovation, managing uncertainty and owning a business; these fall well within economists' ambit too (Bianchi and Henrekson, 2005).

The first part of the fourth criticism states that economists do not write entrepreneurs into their models, firms or the broader economy. That might have been true when Baumol wrote that 'the theoretical firm is entrepreneur-less – the Prince of Denmark has been expunged from the discussion of Hamlet' (1968, p. 66); but with the development of new theories, perspectives and subject areas such as agency theory, personnel economics and game theoretic work on innovation, this is no longer the case. As this book will hopefully show, numerous economics journal articles now treat the entrepreneur as a distinctive economic actor, albeit (to use the terminology of Baumol, 1993b) usually as a 'firm-organising' rather than an 'innovating' entrepreneur. Baumol (1993b) pointed out that it is the innovating entrepreneur, and not the firm organiser entrepreneur, whose role is inherently difficult to describe and analyse systematically, and who is really absent from conventional economic models of the firm. As he wrote about published work in economics at an earlier time: 'one hears of no … brilliant innovations, of no charisma or

any of the other stuff of which entrepreneurship is made' (Baumol, 1968, p. 67). But this entrepreneur is doomed to be absent from *all* scientific theories, economic or otherwise. Criticising economics for this state of affairs is hardly fair.

The second part of the fourth criticism has greater substance, however. The terms 'entrepreneur' and 'entrepreneurship' are still missing from most leading economics textbooks in microeconomics, macroeconomics and industrial organisation (Rosen, 1997; Kent and Rushing, 1999). In my opinion these are unfortunate and unnecessary omissions and this criticism is a fair one.

In short, and allowing that economists can do more to incorporate the entrepreneur into mainstream textbooks, it is time for the anti-economists to stop caricaturing economics as a subject locked in a 1970s neoclassical time warp, where economies are characterised by perfect information, perfect foresight, perfect markets and perfect price flexibility. They should instead start to consider what economics can add to our understanding of entrepreneurship.

In essence, the economics of entrepreneurship analyses how economic incentives affect entrepreneurial behaviour, and how entrepreneurial behaviour in turn affects the broader economy.[1] This is clearly a broad definition and covers a wide variety of issues, as the various chapters of this book amply testify. Consider by way of example a corporate manager's decision problem of whether to retain employees who develop new innovations within the firm as 'intrapreneurs', or whether to let them quit and start up as independent entrepreneurs. In this problem, economic incentives are clearly of key importance. Of course, incentives also shape behaviour more generally. Individuals do not have to become entrepreneurs, but choose to do so when the incentives (not necessarily financial) are sufficiently favourable. Indeed, the whole idea of public policy towards entrepreneurship is premised on the notion that government interventions (through taxation, regulation, grants, etc.) affect entrepreneurs' incentives and thereby their behaviour.

One could in fact go further and argue that one cannot fully understand topics like female entrepreneurship, ethnic minority and immigrant entrepreneurship, or entrepreneurial effort without some knowledge of labour economics. Labour economics sits at the heart of participation choices and work participation decisions, as does the microeconomics of incentives. The latter in turn underpins much cutting-edge research on entrepreneurial finance, both debt finance and venture capital. And for their part, these issues cannot be understood without some knowledge of financial economics. Likewise, public economics informs the analysis of public policy towards entrepreneurship.

Finally, one can also point out some limitations in some non-economics approaches to entrepreneurship which the economics approach avoids. One is a lack of predictive

[1] The introduction to a 2008 special issue on the Economics of Entrepreneurship in the *Journal of Business Venturing* stated: 'Economics helps us understand how individuals make decisions, why and how they create and grow organisations, and what the intended and unintended consequences of these actions are at both the micro and macroeconomic levels. Economics further helps us analyse how entrepreneurship influences growth and development and how, in turn, the macro structure of a region or country influences the type and quantity of entrepreneurship. Economic analysis provides insights for scholars and road maps for practitioners and policymakers' (Minniti and Lévesque, 2008, p. 603).

theory, and *ad hoc* (or *post hoc*) hypothesis generation. For instance, it is not much of a theory which merely states that people lacking entrepreneurial intentions are less likely than others to become entrepreneurs; or that individuals who lack access to resources needed to start a business are less likely to actually start a business. This type of obvious reasoning, which is deemed uninteresting and therefore unpublishable by mainstream economics journals, can nevertheless be found frequently in other approaches to entrepreneurship. Nor does the economics approach to entrepreneurship content itself with merely listing descriptive and anecdotal evidence which lacks conceptual or causal interpretation and which is not obviously generalisable. By applying its armoury of sophisticated theoretical and econometric methods, the economics of entrepreneurship seeks to extend the understanding of all entrepreneurship scholars, whether they are economists or not. My hope is that this book will help to convince the sceptical reader of this potential.

1.2 Coverage and Structure of the Book

This book builds on my previous volumes (Parker, 2004, 2009a) by continuing to organise, extend and assess the current state of the branching, acquisitive and rapidly growing literature on the economics of entrepreneurship. The book is intended to serve as a comprehensive overview and guide to researchers and students of entrepreneurship in a variety of disciplines, not just in economics. For brevity and focus, some topics will be mentioned only in passing and will not be explored in depth. These include academic entrepreneurship (see Rothaermel, Agung and Jiang, 2007, for a review) and family firms (see Gedajlovic et al., 2012, for a review). These are examples of topics where the application of economic methods and reasoning has had only limited purchase to date. Some alternative disciplinary approaches will be acknowledged but will perforce also receive only fleeting attention. Such approaches include organisational, strategic and managerial decision-making by entrepreneurs; 'organisational ecology' and 'evolutionary economics' approaches to entrepreneurship; and practical advice ('how to' information) to entrepreneurs. Nor will I provide descriptive case studies of individual entrepreneurs, small firms or the industries in which they operate. These topics are ably covered in numerous business studies texts.

The book is organised in four parts. The first part deals with selection into entrepreneurship, analysing which people become entrepreneurs and why. Chapter 2 discusses prominent microeconomic theories in the economics of entrepreneurship while Chapter 3 treats regional and macroeconomic theories. Chapter 4 presents a consistent treatment of econometric techniques which are extensively deployed in applied entrepreneurship research. Chapters 5 and 6 are the empirical counterparts to Chapters 2 and 3, summarising evidence from prior studies at the individual, regional and macroeconomic levels. Chapters 7 and 8 focus on entrepreneurial selection for some particular demographic groups of interest: ethnic minorities, immigrants and women.

The second part of the book analyses the financing of entrepreneurial ventures. Chapter 9 deals with debt (bank) finance; Chapter 10 treats venture capital and business angel finance; and Chapter 11 covers other sources of finance, including microcredit schemes,

family finance, trade credit and crowdfunding. Chapter 12 provides an extended discussion of wealth and entrepreneurship, which bears on entrepreneurial finance and in particular on borrowing constraints which may prevent entry into entrepreneurship among impecunious individuals.

The third part of the book considers several aspects of entrepreneurial performance, from the standpoint of both individual entrepreneurs and the broader economy. Chapter 13 explores theories and evidence about the growth of entrepreneurial ventures. This is related to one of the topics covered in Chapter 14, namely job creation. Chapter 14 also deals with entrepreneurial effort, which bears on the types of entrepreneurship that people choose to practise, the effort they supply, and how long they supply it before they retire. Chapter 15 discusses entrepreneurial incomes and the returns to human capital, while Chapter 16 treats entrepreneurial innovation. Survival of entrepreneurial ventures is another, albeit subtle, metric of entrepreneurial performance: Chapter 17 presents theory and evidence on survival and exit at the venture level.

The final part of the book deals with public policy. There are four chapters here. Chapter 18 sets out some principles of entrepreneurship policy. Chapter 19 analyses finance and innovation policies towards entrepreneurship, while Chapter 20 discusses the impact of various kinds of government regulation on entrepreneurship. Chapter 21 draws the book to a close with a discussion of: various kinds of taxation that affect entrepreneurs; labour and product market policies towards entrepreneurship; and miscellaneous macro issues including the role of the welfare state, trade unions, the role of 'enterprise culture' and macroeconomic instability. The final section of Chapter 21 concludes the book with some final thoughts.

1.3 Defining and Measuring Entrepreneurship

The first and most pressing task is to define entrepreneurs and entrepreneurship. It should be said immediately that there is no general agreement about the meaning of these terms. Some researchers identify entrepreneurs with residual claimants, such as small business owners or the self-employed, while others restrict their definition of entrepreneurs to business owners who employ other workers. Others again take a Schumpeterian standpoint and argue that entrepreneurship entails the introduction of new paradigm-shifting innovations rather than engaging in a particular occupation. A popular definition of an entrepreneur in business studies is someone who 'perceives an opportunity and creates an organisation to pursue it' (Bygrave and Hofer, 1991, p. 14) – often without owning the resources necessary to do so. This definition implies that new venture creation is the essence of entrepreneurship.

Part of the divide between the economics and business studies approaches to entrepreneurship is attributable to the different definitions of entrepreneurship they utilise. Economists are often content to identify entrepreneurs with business owners (in industrial organisation and macroeconomics), the self-employed (in labour and microeconomics) and small firms (in industrial organisation). These practical definitions all rely implicitly on residual-claimant and risk-taking aspects of entrepreneurship, and

facilitate the analysis of incentives, investments, resource allocation decisions and occupational choices. In contrast, many business studies researchers feel there is nothing entrepreneurial about merely being an owner-manager of a small business. They usually prefer to study behaviours involved in starting a new business, and speculate about cognitive and perceptual constructs entailed with it. Economists tend to eschew this approach as overly subjective, insisting instead on inferring motives only from actual observed behaviour. This is the so-called 'revealed preference' principle.

In empirical work, researchers of all persuasions either have to gather their own data using their preferred definition of entrepreneurs, or are obliged to use whatever measure of entrepreneurship comes to hand. The present section presents three of the most commonly used empirical measures, and discusses their advantages and drawbacks. These are new venture creation, small firms, and self-employment/business ownership. We then go on to consider billionaires and habitual entrepreneurs. The final subsection concludes with a brief appraisal.

1.3.1 New Venture Creation and Nascent Entrepreneurs

Equating entrepreneurship with opportunity recognition and new venture creation is now standard practice in the business studies approach to entrepreneurship. It is operationalised empirically in the ongoing Global Entrepreneurship Monitor (GEM) data collection exercise (see Levie et al., 2014, for an historical overview). GEM defines an 'entrepreneur' as an adult who is engaged in setting up or operating a new venture which is less than 42 months old. The index of 'Total Entrepreneurial Activity' (TEA) is the proportion of the population who are entrepreneurs according to this definition. For example, the 2005 GEM reports that the TEAs of most industrialised countries lie in the 5–10 per cent range.

GEM data are comprehensive, including many informal ventures that are not recorded in government surveys. Also, its definitions and measurement constructs are largely comparable across countries. Two other internationally comparable datasets on entrepreneurship are the Global Entrepreneurship Index (www.thegedi.org) and the World Bank Entrepreneurship Survey, though the latter only measures registered companies. Seventy countries were represented in the 2013 GEM, involving interviews of nearly 200,000 adults.[2] GEM also compiles individual-level data.

However, the new venture creation conception of entrepreneurship suffers from several drawbacks. First, many new ventures are mundane, hobby businesses which generate little private or social value. In the terminology of Baumol, Schilling and Wolff (2009) and Baumol (2010), they are 'replicative' rather than 'innovative' in nature. Whereas innovative entrepreneurs create new products, ideas and processes, and fuel economic growth, replicative entrepreneurs simply respond to demand and growing populations by supplying more of the same products, and so are a symptom rather than a cause of economic growth. According to US Kauffman Firm Survey (KFS) data, only 15 per cent of new firms obtain patents, trademarks or copyrights during the first four

[2] See www.gemconsortium.org/docs/download/3106

years of their existence (Hurst and Pugsley, 2011). Yet they are all included in TEA, despite being far from 'entrepreneurial' in terms of innovative activity.

Second, by excluding businesses over forty-two months old, GEM implicitly categorises even dynamic, enterprising and fast-growing businesses as 'non-entrepreneurial'. This hardly chimes with popular views about entrepreneurs. Focusing only on new ventures excludes growth and exit as part of the entrepreneurship phenomenon, even though many people regard growth and strategic closure (e.g. 'harvesting') as essential aspects of entrepreneurship. While GEM does collect some data on established firms, these are much less commonly used than data on new ventures.

GEM also suffers from limited numbers of covariates and a short time-series, spawning numerous cross-country studies based on as few as twenty or thirty observations. It is unclear what can be learned from such small yet heterogeneous samples. There are simply too many omitted variables which could be correlated with determinants of entrepreneurship. Another problem is substantial year-to-year volatility in TEA as a result of excluding older firms. While annual movements of countries up and down the TEA 'league table' no doubt make for good headlines, it is questionable whether this measure fully reflects the true long-term impact of entrepreneurial activities. The TEA therefore gives a misleading impression of genuinely wealth-creating entrepreneurship.

A useful distinction operationalised within GEM is the difference between 'necessity' and 'opportunity' entrepreneurs. Necessity entrepreneurs are those who face no better alternative to work than entrepreneurship, while opportunity entrepreneurs are those who pursue an entrepreneurial opportunity even though attractive alternative ways of earning a living are open to them. Analysis of GEM data pooled over 2001–05 revealed that necessity entrepreneurs amounted to over 20 per cent of active entrepreneurs in OECD countries, but almost 50 per cent in non-OECD countries (Poschke, 2013a). Analysis of the same data indicated that necessity entrepreneurs are less-educated on average than opportunity entrepreneurs, run smaller firms and have slower growth rates; their survival rates are similar on average, though.

A different part of the GEM data collection effort specifically measures 'nascent entrepreneurs'. Someone is classified as a 'nascent entrepreneur' (NE) if they answer 'yes' to each of the following questions: (1) 'Are you, alone or with others, now trying to start a new business?', (2) 'Do you expect to be owner or part owner of the new firm?', (3) 'Have you been active in trying to start the new firm in the past 12 months?' and (4) 'Has your start-up not yet generated a positive monthly cash flow that covers expenses and the owner-manager' salary for more than 3 months?' (Gartner et al., 2004).[3]

There are two advantages of studying NEs when exploring the entry process. These are the avoidance of 'survival' and 'hindsight' biases. First, survival bias arises because only about one-half of all aspiring business founders ultimately succeed in creating new organisations which eventually appear in public records (Aldrich, 1999). Firms which ultimately start up are not generally representative of all those which originally tried, and relatively few of them are the smallest and youngest start-up efforts. So inferring

[3] Other work distinguishes between for-profit and 'social' nascent entrepreneurs (Estrin, Mickiewicz and Stephan, 2013), and between independent and corporate nascent entrepreneurs (Parker, 2011).

aspects of NEs from data sets of established firms is arguably akin to 'studying gamblers by exclusively investigating winners' (Davidsson, 2006, p. 3). Yang and Aldrich (2012) used a large representative sample of NEs (see below) to put some numbers on the different mortality rates of new ventures measured from the first activity as an NE compared with new ventures registered either with Dunn & Bradstreet, government agencies or trade associations. Simple life table estimates revealed that after two years the latter had survival rates that were 100–500 per cent higher than the former.

Second, 'hindsight bias' occurs when established entrepreneurs misreport events which occurred prior to start-up, perhaps because of memory loss or selective reinterpretation of the past. Comparing expectations with outcomes, Cassar (2007) showed that NEs are prone to substantial recall bias. This problem is avoided by interviewing NEs at the time they start up.

Two major types of dataset focus explicitly on NEs. Both types of dataset screen large random samples of households or individuals and use the definition of NE given above. GEM is one; the other is the Panel Study of Entrepreneurial Dynamics (PSED) (Gartner et al., 2004; Reynolds et al., 2004). The PSED originated in the USA with the so-called 'PSED I'; but versions are now available in many other countries too, as well as a new version ('PSED II') in the USA. The original PSED I identified American NEs from 64,622 random telephone interviews conducted between July 1998 and January 2000. PSED II identified NEs from 31,845 random telephone interviews conducted between October 2005 and January 2006.

Both GEM and PSED have advantages and drawbacks with respect to measuring nascent entrepreneurship. GEM data on dependent and independent variables are comparable across countries. While similar to each other, the various versions of PSED are not similarly comparable across countries. On the other hand, unlike PSED, GEM lacks rich information about individual-level variables. This, together with its limited sophistication of measurement, makes GEM less useful than PSED for micro-level analysis (Davidsson, 2006). Arguably, both data sets are vulnerable to the charge that, despite their emphasis on individual-level factors, their conceptualisations of NE and measurement instruments refer to the venture rather than the person. As many as one-fifth of NEs are starting a new venture for the second or subsequent time (Alsos and Kolvereid, 1998). Another problem is that both datasets probably underestimate entrepreneurial activities by failing to register 'spontaneous' starts. Henley (2007) reported that the majority of actual transitions observed in Britain were *not* preceded by declarations of NE status to survey interviewers a year earlier. This might mean that the majority of start-ups are 'hastily conceived', having less than a year of preparation. Lack of preparation might in turn explain the high closure rates of many new ventures (see Chapter 17).

Let us now turn to evidence about the prevalence of nascent entrepreneurship. Using PSED I data, Reynolds et al. (2004) calculated that 6.2 per cent of American adults were NEs, corresponding to over 10 million people and 5.6 million new firms. Over the period 1993–2006, Reynolds (2009) estimated that the rate of American NEs was stable at around 5–6 per cent, taking account of different wording of survey questions used to screen random samples of the US population. Wagner (2006b) calculated NE rates

Table 1.1 International rates of nascent entrepreneurship

Venezuela	0.192	Finland	0.041
Chile	0.109	Germany	0.035
New Zealand	0.093	UK	0.034
USA	0.081	Singapore	0.030
Australia	0.066	South Africa	0.027
Brazil	0.065	Italy	0.020
Ireland	0.051	Netherlands	0.017
Canada	0.051	Hong Kong	0.017
Spain	0.044	Japan	0.014
China	0.043	France	0.009

Source: GEM 2003. Nascent entrepreneurship rates by country, extracted from Wagner (2006b, Table 2.1).

for all 31 countries participating in the 2003 GEM; an abstract of these data appears in Table 1.1. Note the higher estimate of US nascent entrepreneurship in this table compared with the PSED I.

A robust finding both for the USA and many other countries is that men are about twice as likely to be an NE as women (see Delmar and Davidsson, 2000; Davidsson and Honig, 2003; Reynolds et al., 2004; Wagner and Sternberg, 2004; Arenius and Minniti, 2005; Rotefoss and Kolvereid, 2005; Wagner, 2006b). But there seem to be few gender differences in emerging venture organisation structures and early performance outcomes once NEs are actually engaged in the process (Davidsson, 2006). Another important feature of nascent entrepreneurship is team starts, which involve just over one-half of American NEs. 74 per cent of NE teams comprise two members, followed by 17, 7 and 5 per cent for three, four, and five or more members, respectively (Aldrich, Carter and Ruef, 2004). Most team members are spouses, with non-spouse teams usually comprising people who are similar to each other ('homophilious') in terms of ethnicity, gender and occupational background (Ruef, Aldrich and Carter, 2003). 'Homophily' is most pronounced along ethnic and occupational lines, and is especially strong in large teams. Among non-spousal teams, homophily also has a strong gender aspect. Ruef, Aldrich and Carter (2003) conjectured that homophily is valued because it embodies familiarity and makes trust easier to establish. This issue is explored further in Section 5.3.

Despite the relatively recent emergence of this topic, there is already a vast business studies literature devoted to nascent entrepreneurship. Davidsson (2006) reviewed some of the early literature; another useful review, with more of an economics emphasis, is Wagner (2006b). Johnson, Parker and Wijbenga (2006) introduced a special interdisciplinary issue of *Small Business Economics* on the topic. Evidence about the characteristics of NEs and their venture development paths are discussed further in Section 5.7.

1.3.2 Small Firms

A longer established measure of entrepreneurship, which predates the 1980s, is the number (or share) of Small and Medium-sized Enterprises (SMEs) in the economy.