Book Review: The Global Entrepreneurship and Development Index


The Global Entrepreneurship and Development Index (GEDI) is a unique measure of entrepreneurship and its supporting conditions worldwide – and a key source of policy-relevant information for all those working in private sector development (PSD). In addition to providing detailed statistics for 71 countries, this book explains the index, synthesises key results and gives new insights into the relationship between entrepreneurship and economic development.

Creating jobs in the developing world requires adequate measures of entrepreneurship

The authors start out with a strong argument for PSD: In the next 40 years the world’s labour force will grow by 1.3 billion in developing countries, but development approaches in the past “have generally not been effective” in creating productive jobs, in their view. The “one solution” that could provide jobs at scale, they argue “lies in a combination of innovation and the creation of new enterprises”. However, to devise country-specific entrepreneurship development policies, it is necessary to find ways to determine and measure the conditions that favour entrepreneurship.

The added value of the GEDI in measuring entrepreneurship

What is the added value of the GEDI compared to other measures of entrepreneurship? Ahmad and Hoffman (2007) emphasise that while previous efforts to measure entrepreneurship, such as by the World Bank or the Global Entrepreneurship Monitor (GEM), all recognise that entrepreneurship is a multifaceted phenomenon, they measure only “one or some aspects” of it. In contrast, as Zoltán and Szerb stress, the GEDI is “the first and presently the only complex measure of entrepreneurship” that attempts to reflect its multidimensional nature.

Construction of the index

The index is composed of three sub-indexes: entrepreneurial attitudes, entrepreneurial activity and entrepreneurial aspiration. The unique construction of these sub-indexes combines 4-5 sets of both institutional and individual indicators (“pillars”). The individual variables are based on data from the GEM; the institutional variables have various sources, including the Global Competitiveness Index, Doing Business Index, and Index of Economic Freedom. Another innovation is that the GEDI, instead of calculating mere arithmetic averages, links the value of each indicator of a sub-index to the value of the indicator with the weakest performance. This reflects the concept that by improving the weakest indicator, the whole GEDI would improve.
The GEDI ranking and its correlation with other major indexes
In the ranking, Scandinavian countries, the US and Canada are among the top performers, the most populous EU countries like the UK, Germany and France are in the upper middle ranks, while factor-driven countries with a low GDP figure at the bottom. While the individual rankings may vary from other indexes (Global Competitiveness, Doing Business, Economic Freedom, Corruption perception), the authors find that there is a good correlation among all of them, and with GDP per capita.

New insights into the relationship between entrepreneurship and economic development
Indeed, one of the most interesting findings of the authors is the relationship between the GEDI and GDP per capita: While other measures of entrepreneurship have found an L-shaped (self-employment) or U-shaped (GEM Total Entrepreneurial Activity index) relationship with economic development, the relationship between the GEDI and development is a linear increase, with a mild S-shape. This, as the authors stress, “fits more accurately with present knowledge about the nature of economic development”, and shows that the GEDI may be a more adequate measure than other, simpler indexes.

Building on the economic theory of Michael Porter (The Competitive Advantage of Nations), the authors divide the S-curved relationship between entrepreneurship and economic development into three stages: the factor-driven, efficiency-driven and innovation-driven stage. Supported by the GEDI data, they argue that policies to strengthen entrepreneurial attitudes (institutional development) need to be the focus in low-income, factor-driven-economies; support to entrepreneurial activities (balanced institutional and individual development) the focus in middle-income, efficiency-driven economies; and fostering entrepreneurial aspiration (individual capability enhancement) the focus in high-income, innovation-driven economies.

Looking ahead, the fact that the GEDI is planned to be available for almost all countries in the world by 2015 will be particularly useful to compare and identify constraints to entrepreneurship in developing countries, thereby helping to inform PSD programme design and evaluation.

Melina Heinrich, 20 January 2011

References:


The Global Competitiveness Index: http://gcr.weforum.org/gcr2010

The Index of Economic Freedom: http://www.heritage.org/index/ranking
