

Global Entrepreneurship Monitor 2012 United States Report

BABSON COLLEGE 
Founding and Sponsoring Institution **BABSON**

BARUCH COLLEGE  
Sponsoring Partner Institution **Zicklin School of Business**
THE LAWRENCE N. FIELD
CENTER FOR ENTREPRENEURSHIP

This report was sponsored in part by a generous gift from
JOHN H. MULLER, JR. H'96 P'79 AND TAFFY MULLER P'79
Babson College

The Global Entrepreneurship Monitor and the authors thank the individuals in the United States who took the time to answer survey questions.

This report would not be possible without the Consortium of GEM National Teams who participated in 2012: Algeria, Angola, Argentina, Austria, Barbados, Belgium, Bosnia and Herzegovina, Botswana, Brazil, Chile, China, Colombia, Costa Rica, Croatia, Czech Republic, Denmark, Ecuador, Egypt, El Salvador, Estonia, Ethiopia, Finland, France, Germany, Ghana, Greece, Hungary, India, Iran, Ireland, Israel, Italy, Jamaica, Japan, Republic of Korea, Latvia, Lithuania, Macedonia, Malawi, Malaysia, Mexico, Namibia, Netherlands, Nigeria, Norway, Pakistan, Palestine, Panama, Peru, Poland, Portugal, Romania, Russia, Singapore, Slovakia, Slovenia, South Africa, Spain, Sweden, Switzerland, Taiwan, Thailand, Trinidad and Tobago, Tunisia, Turkey, United Kingdom, United States, Uruguay and Zambia

Although GEM data were used in the preparation of this report, their interpretation and use are the sole responsibility of the authors

Table of Contents

| | |
|---|----|
| List of Figures | 3 |
| Executive Summary | 6 |
| Introduction | 9 |
| Chapter 1 Entrepreneurial Attitudes and Activity In The United States: A Global and Longitudinal Comparison..... | 14 |
| Chapter 2 Business Profile and Impact Indicators | 19 |
| Chapter 3 Financing Entrepreneurship | 23 |
| Chapter 4 Women's Entrepreneurship..... | 26 |
| Chapter 5 Age-Related Aspects of Entrepreneurship | 32 |
| Chapter 6 Immigrant Entrepreneurship | 36 |
| Chapter 7 Entrepreneurship in Three States | 40 |
| Conclusions and Implications | 46 |
| Sponsors..... | 50 |
| About The Authors | 51 |
| Contacts | 52 |

LIST OF FIGURES AND TABLE

| | | |
|-----------|--|----|
| Figure 1 | Quarterly Real Growth Rate in the United States (Seasonally Adjusted Annual Rates) | 9 |
| Figure 2 | National Unemployment Rate in the United States, 2006-2012..... | 10 |
| Figure 3 | The GEM Model of Entrepreneurial Attitudes, Phases, and Profile..... | 11 |
| Figure 4 | The Ecosystem and Role of Entrepreneurship in Society | 13 |
| Figure 5 | Entrepreneurial Attitudes in the United States from 2008 to 2012..... | 15 |
| Figure 6 | Total Entrepreneurial Activity (TEA) in the Adult Population (18-64 years) for 69 Economies in 2012, by Economic Development Level..... | 16 |
| Figure 7 | Entrepreneurial Activity by Phase in the United States from 2008 to 2012 | 17 |
| Figure 8 | Distribution of Total Entrepreneurial Activity (TEA) Across Industry Sectors in the United States in 2012..... | 19 |
| Figure 9 | Percentage of Total Entrepreneurial Activity with Growth Expectations (expect to add more than five employees in the next five years) in the United States, 2008-2012..... | 20 |
| Figure 10 | Percentage of Total Entrepreneurial Activity with Innovative Products and Services in the United States, 2008-2012..... | 21 |
| Figure 11 | Percentage of Total Entrepreneurial Activity in the United States with 25% or More International Customers, 2008–2012 | 22 |
| Figure 12 | Main Source of Funding for Nascent and New Businesses in the United States, 2012..... | 23 |
| Figure 13 | Investors' Relationships to Entrepreneurs They Funded, 2012..... | 24 |
| Figure 14 | Age of Those Investing in Entrepreneurs, 2012..... | 25 |
| Figure 15 | Entrepreneurial Intentions in the Non-Entrepreneur Population by Age for Men and Women, 2012 | 26 |

LIST OF FIGURES AND TABLE

| | | |
|-----------|--|----|
| Figure 16 | Opportunity Perception Rates in the U.S Population by Age for Men and Women, 2012 | 27 |
| Figure 17 | Capability Perceptions in the U.S. Population by Age for Men and Women, 2012 | 27 |
| Figure 18 | Fear of Failure Among Those Seeing Opportunities for Entrepreneurship by Age for Men and Women, 2012 | 28 |
| Figure 19 | Use of Family, Unpaid, and Part-time Employees Among Men and Women Entrepreneurs (TEA) in the United States, 2012 | 29 |
| Figure 20 | Reasons for Discontinuance for Men and Women in the United States, 2012 | 30 |
| Figure 21 | Percentage of Men and Women Entrepreneurs (TEA) with Growth Expectations (expect to add more than five employees in the next five years) in the United States, 2012 | 30 |
| Figure 22 | Entrepreneurial Attitudes by Age in the United States from 2008 to 2012 | 32 |
| Figure 23 | Participation Across Phases of Entrepreneurial Activity by Age in the United States, Adjusted for Workforce Participation Rates, 2012 | 33 |
| Figure 24 | Sources of Training in Starting a Business for Total Entrepreneurial Activity in the United States, 2012 | 34 |
| Figure 25 | Median Amount of Capital Required to Start a Business by Age Group in the United States, 2012 | 35 |
| Figure 26 | Total Entrepreneurial Activity (TEA) Among Immigrants and Non-Immigrants in the United States, 2012 | 36 |
| Figure 27 | Entrepreneurial Attitudes for Immigrants and Non-Immigrants in the United States, 2012 | 37 |
| Figure 28 | Proportion of Total Entrepreneurial Activity with Necessity- vs. Improvement-Driven Opportunity Motives Among Immigrants and Non-Immigrants in the United States, 2012 | 38 |
| Figure 29 | Distribution of Total Entrepreneurial Activity Across Household Income Categories Among Immigrants and Non-Immigrants in the United States, 2012 | 39 |
| Figure 30 | Entrepreneurial Attitudes in Three States and National, GEM United States 2012 | 42 |

LIST OF FIGURES AND TABLE

Figure 31 Entrepreneurial Activity by Phase in Three States and National,
GEM United States 201242

Figure 32 Total Entrepreneurial Activity for Men and Women in Three States
and National, GEM United States 201243

Figure 33 Total Entrepreneurial Activity by Age Group for Three States and
National, GEM United States 201243

Figure 34 Distribution of Total Entrepreneurial Activity (TEA) Across Industry
Sectors for Three States and National, GEM United States 2012.....44

Table 1 Select Population and Economic Statistics for the United States,
Florida, Ohio and Texas41

Executive Summary

The year 2012 was marked by entrepreneurial optimism in the United States. An increasing proportion of the U.S. population believed there were good opportunities for starting businesses, and Total Entrepreneurial Activity (TEA) hit its highest level since the GEM survey started in 1999. Entrepreneurship in the United States exhibited diversity in age, gender, immigrant status and other characteristics, presenting distinct profiles across individual states. While many entrepreneurs endeavored to grow their businesses, they also displayed various examples of closeness, such as operating at home, raising money from personal, family, and friend sources, employing relatives, and rarely selling outside United States borders.

America is often described as a land where people can live their dreams. In 2012, that dream was entrepreneurship.



“My entrepreneurial dream is to use wisdom and dedication to provide, sow, and be the seed that people need to believe that—no matter their background or current capacity—they are capable of getting out on skinny branches to achieve their dreams.”

Psyche Terry
President and CEO,
Urban Intimates

KEY FINDINGS

- **Opportunity Perceptions.** More than 43% of Americans believed there were good opportunities for entrepreneurship around them. This figure represents a jump of more than 20% from 2011 and the highest level recorded since GEM began in 1999. Additionally, the U.S. level is one-third higher than the average of the 24 developed (innovation-driven) economies that participated in GEM in 2012.
- **Fear of Failure.** This measure continued to inch upward. While one-fourth of those who saw opportunities felt constrained by fear of failure in 2008, one-third felt this way in 2012. The U.S. rate, however, remains below the average among the 24 innovation-driven economies.
- **Capabilities Perceptions.** In 2012, 56% of Americans believed they had the capabilities to start a business. That measure has remained remarkably stable despite severe economic volatility during the past five years. It stands at one-third higher than the average among the 24 innovation-driven economies.
- **Entrepreneurial Activity.** The jump to high TEA levels in 2011 was followed by a slight tick upward to 13% in 2012, the highest level recorded in the United States since the survey started in 1999. This represents the highest TEA level among the 24 innovation-driven economies. Entrepreneurial intentions also continued to increase, more than doubling the 2009 rate, when this indicator, along with many others, plummeted during the recession. While the ratio of discontinuances to business starts and ownership matched those in other innovation-driven economies, the United States displayed twice the proportion of stops stemming from difficulties obtaining finance.
- **Business Profile.** U.S. entrepreneurs participate in the business services sector to a higher degree than those in other economies, but the majority of entrepreneurs nonetheless operate in the consumer sector. More than two-thirds start at home, yet many established business owners also continue to operate out of their homes (59%). More than one-fifth of the entrepreneurs stated they employed at least one of the following types of employees: family, unpaid/volunteer, and part-time. Thirty percent outsource some of their business activities.
- **Impact.** Compared to its development level peers, the United States exhibits above-average growth expectations, average innovativeness, and below-average internationalization. All of these measures have changed little since 2011. In 2012, 37% of entrepreneurs projected they would add more than five employees in the next five years, 34% stated they had introduced innovative products or services, and just 12% reported 25% or more international customers.
- **Financing.** Entrepreneurs needed a median level of \$15,000 to start their businesses, and 82% of this funding came from personal, family, and friend sources. On the supply side, slightly more than 5% of the population provided funds to entrepreneurs; half of them funded relatives and another 36% funded friend or colleagues. Funding came almost evenly from all age groups, with a median level of \$5,000.
- **Women's Entrepreneurship.** Women continue to report lower levels of entrepreneurship in the United States than men, a ratio of 7:10. Accompanying this are lower levels of intentions, less positive attitudes and lower growth aspirations. The greatest disparities between genders can be seen in the younger age groups. In addition, women were more likely to run consumer businesses, operate at home, use family members, and start with less funding that more often came from personal and family sources. At the established business phase, they were less likely than men to be profitable. Women that have discontinued businesses were nearly twice as likely as men to cite inadequate financing as the reason they stopped their businesses.
- **Youth and Seniors.** When TEA was adjusted for workforce participation, little variation emerged—about 15-20% of adults in each age group engaged in entrepreneurship. Intentions were highest among youth, while established business ownership was highest among seniors. Opportunity perceptions were relatively uniform across age groups, but youth and seniors had lower beliefs about their capabilities. On the other hand, those groups also expressed a lower fear of failure. Youth in particular, as well as seniors, started businesses with less money.

EXECUTIVE SUMMARY

- **Immigrant Entrepreneurs.** First-generation immigrants expressed more positive attitudes about entrepreneurship than the second-generation and they were more likely to be entrepreneurs. More than 16% of first-generation immigrants started and ran new business, while only 9% of the second-generation and 13% of non-immigrants did so. First-generation immigrant entrepreneurs were highly opportunity-driven, educated and wealthy.
- **Entrepreneurship in Florida, Ohio, and Texas.** Compared to the national TEA rate of 13%, Ohio exhibited a lower rate (11%), while Florida (17%) and Texas (16%) show higher rates. Entrepreneurs in Florida displayed higher capability perceptions and risk taking; they were more often male, necessity-motivated, and low income, and had above-average levels of internationalization. Ohio entrepreneurs included fewer women and a greater than average number in manufacturing. Texas reported high opportunity perceptions and high entrepreneurship levels among women and youth.

KEY CONCLUSIONS

1. Opportunity perceptions can serve as key indicators of societal confidence in the external environment.
2. Capability perceptions are a relatively stable indicator of entrepreneurial readiness in the United States.
3. Entrepreneurship can benefit people who need it as well as those who desire it and see this as a path to a better life.
4. More starts may mean more stops, but also more successes—either now or in the future.
5. Innovative entrepreneurs in the United States may be missing opportunities for growth and globalization.
6. Entrepreneurial finance still depends on bootstrapping and close circles.
7. Women, especially young women, may benefit from thinking big with their entrepreneurial dreams.
8. Entrepreneurship is not age-specific; it attracts everyone from youth to seniors.
9. First-generation immigrants bring their entrepreneurial dreams to America.
10. Entrepreneurship can be both a consequence and contributor to the health of state economies.

Introduction

UNITED STATES ECONOMY IN 2012

2012 was a year of ups and downs in the United States and world economy. The American economy grew by about 2.2 percent overall.¹ Despite relatively strong growth in the first three quarters (2, 1.3, and 3.1 percent respectively), however, it grew by only 0.1 percent in the last quarter. Figure 1 shows the quarterly real growth rate since 2010. Uncertainty about the fiscal cliff, the presidential election, and increased complications from the European debt crisis provided the biggest constraints on entrepreneurs and businesses in terms of investment, hiring, and expansion, especially at the end of the year.

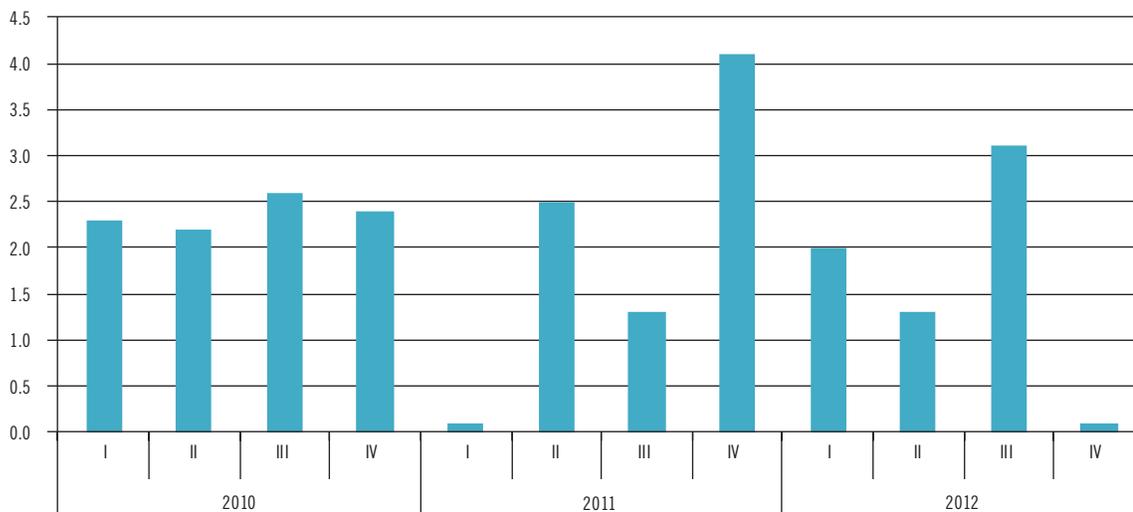


FIGURE 1
Quarterly Real Growth Rate in the United States, 2010-2012 (Seasonally Adjusted Annual Rates)

Despite overall growth in GDP, economic recovery in the United States has been slow. The economy created about 2,170,000 non-farm jobs in 2012.² As a result, the unemployment rate in the working population (above age 16) fell from 8.3 percent at the beginning of the year to below 8 percent. The rate dipped to about 7.8 percent in September, where it remained until the end of the year. GEM conducted its 2012 survey during the summer, as uncertainties about the future started to loom over business decisions (particularly toward the end of the third quarter). Throughout 2012, the unemployment rate for women remained about 0.2 percentage points lower than the overall average. Figure 2 shows the unemployment rate since 2005.

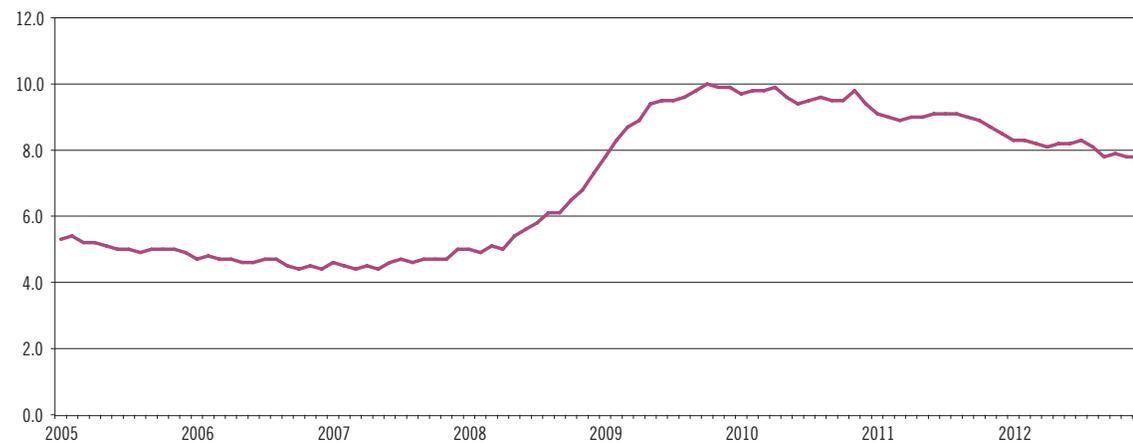


FIGURE 2
National Unemployment Rate in the United States, 2006-2012

¹Bureau of Economic Analysis press release on February 28, 2013; Retrieved from: http://www.bea.gov/newsreleases/national/gdp/2013/gdp4q12_2nd.htm.

²Current Employment Survey, Bureau of Labor Statistics.

INTRODUCTION

U.S. monetary and fiscal policies provide the government with two primary macroeconomic mechanisms to stabilize the economy and recover from recession. Monetary policy is determined by the Federal Reserve, while fiscal policy is set by the executive branch, particularly the Treasury.

THE FEDERAL RESERVE

Since the federal funds rate is near zero, the Federal Reserve cannot use traditional monetary policy to stimulate the economy. As a result, the Federal Reserve has pursued an unconventional form of monetary policy called quantitative easing to stimulate economic growth. To execute this policy, the Fed buys a predetermined quantity of assets from banks and other financial institutions, increasing the money supply. The Fed implemented two rounds of quantitative easing beginning in November 2008. In September 2012, it announced a third round, where it planned to purchase \$40 billion of mortgage-backed securities (MBS) per month. The program aimed to ease financial markets, increasing incentives for banks to give credit.

In addition to quantitative easing, the Federal Reserve has pursued other monetary policies to encourage economic growth. The Federal Open Market Committee (FOMC) announced that it would likely maintain the federal funds rate near zero “at least through mid-2015.” Moreover, on December 29, 2011, the Fed decreased reserve requirements for banks, lowering the total required reserves by an estimated \$1.33 billion in an effort to free up funds for banks so that they could increase lending. The goal of all these interventions was to hasten recovery and avoid falling back to recession.

THE U.S. GOVERNMENT AND FISCAL POLICY

The last time the United States had a balanced budget was in 2001. Between 2001 and 2011, government spending grew by 5.9% of GDP, but revenues decreased by 4.1%. The outcome was a deficit that reached 8.7% of GDP in 2011. Tax cuts, spending increases, and the economic downturn of the previous few years constituted the main causes of this change. Moreover, the United States at the end of 2012 faced a “fiscal cliff,” which represented the contractionary potential of both across-the-board tax increases and general cuts in discretionary spending. The main consequence of this “cliff” was economic uncertainty. Since the business community was not sure how the negotiations over tax rates would conclude, business owners and managers were wary of new investment and new hiring, slowing growth and recovery.

Overall, the U.S. economy showed uneven growth in 2012. Employment recovered at a slow pace and uncertainty about the future remained high. While the economy still had room to improve, especially in areas related to entrepreneurship, the GEM survey demonstrates sustained optimism and confidence in the entrepreneurial beliefs and activities of Americans during 2012.

THE GLOBAL ENTREPRENEURSHIP MONITOR

Since 1999, the Global Entrepreneurship Monitor has conducted annual adult population surveys (APS) in economies across the globe. National teams in each participating economy administer these surveys and the GEM coordination team provides central oversight. The GEM United States team is based at Babson College in Massachusetts, in partnership with New York’s Baruch College.

GEM was founded on the belief that, despite growing recognition about the importance of entrepreneurship to economic development, too little understanding existed about the individuals that start businesses around the world. GEM surveys include individuals who run both formal and informal businesses, avoiding the problems faced by studies focusing narrowly on firm registrations. It also tracks entrepreneurship through a range of stages and assesses societal attitudes about entrepreneurial activity. In addition, this research examines the characteristics of entrepreneurs, such as their demographic profile, their motivations, and their potential economic and societal impact.

Additionally, with 14 years of data, GEM can display longitudinal changes in the rate and nature of entrepreneurship in many economies. GEM’s harmonization processes permit comparisons with other participating economies, providing a comprehensive look at entrepreneurship around the world and over time. As a result, GEM generates valuable insights for academics, policy makers, educators, and practitioners.

GEM MEASURES

Figure 3 displays GEM’s entrepreneurship indicators. These include societal attitudes toward entrepreneurship, participation in multiple phases of the entrepreneurship process, and profile and impact indicators. This figure contains a key GEM measure: total early-stage entrepreneurial activity (TEA), which comprises nascent entrepreneurs in the process of starting a business as well as new business owners.

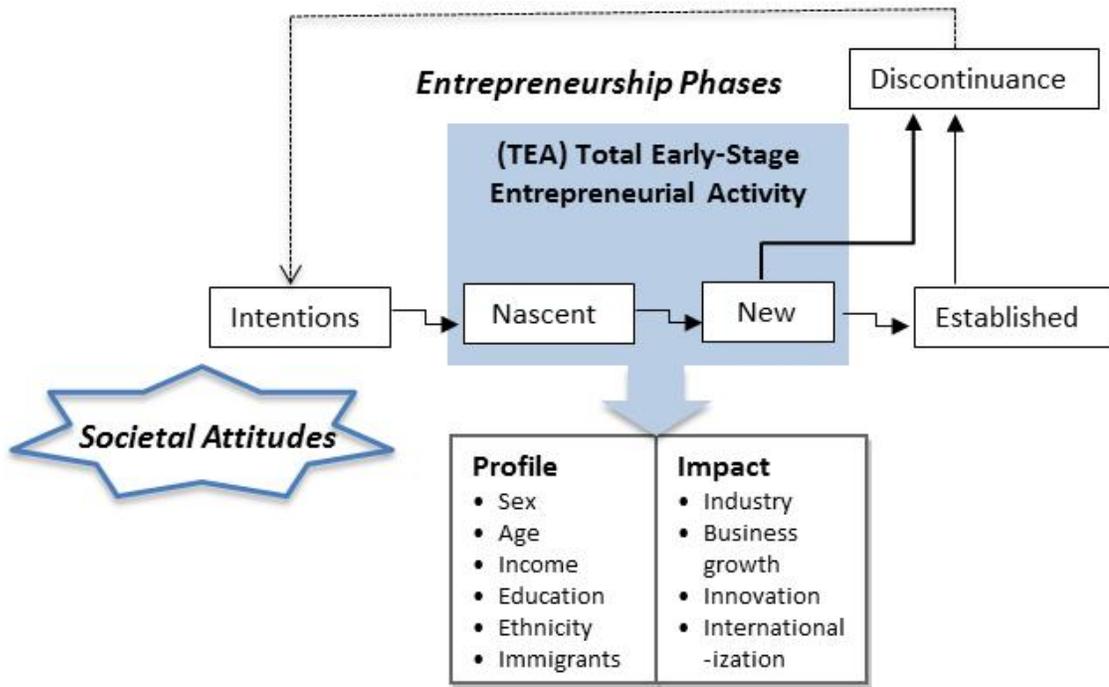


FIGURE 3
The GEM Model of Entrepreneurship Attitudes, Phases, and Profile

A healthy entrepreneurial society requires individuals participating at multiple phases in the process. In order to have entrepreneurs, for instance, a society needs people willing to venture into this activity. In time, successful nascent entrepreneurs become new business owners. Established entrepreneurs are also necessary, since society must contain some element of sustainability to encourage others and allow these once-start-ups to create ongoing value for current and new stakeholders.

The arrows connecting different phases (intentions, nascent, new, etc.) in Figure 3 are uneven, reminding us that, although successive phases draw on those who graduate from earlier phases, not everyone progresses from one phase to the next. For example, not everyone who starts a business will become a new business owner, and some new businesses will fail to become established.

Two main characteristics provide additional details about the individuals who participate in total entrepreneurial activity (TEA). First, indicators relating to profile tell us who participates in entrepreneurship in the United States, allowing us to discern whether all groups in society engage in that activity. Second, GEM recognizes that all entrepreneurs are important, but that they can impact their societies to differing degrees. Factors like industry participation, growth ambitions, innovation, and internationalization show the contribution entrepreneurs can make toward job creation and national competitiveness.

Finally, Figure 3 includes societal attitudes, which indicate a society’s supply of potential entrepreneurs and like-minded stakeholders who can support their efforts. These indicators exhibit the degree to which people see opportunities, believe they are capable of starting a business, and are willing to take risks, as well as their personal acquaintance with entrepreneurs. Such societal-level views about entrepreneurship thus provide key measures of an economy’s entrepreneurial potential and support.

ECONOMIC DEVELOPMENT LEVELS

When examining the rate and nature of entrepreneurship globally, it is useful to acknowledge differences across levels of economic development and to examine economies within a particular development stage. GEM groups participating economies based on GDP per capita and the share of exports comprising primary goods, following the World Economic Forum’s (WEF) Global Competitiveness Report.³

The United States is grouped with the advanced countries in the innovation-driven phase of development. Businesses at this development stage are more likely knowledge intensive, with an expanding service sector. In 2012, 24 innovation-driven economies participated in GEM; in addition to the United States, those economies came from Europe and the Asia-Pacific region, and also included Israel.

³According to the WEF classification, the factor-driven phase is dominated by subsistence agriculture and extraction businesses, which rely heavily on labor and natural resources. The efficiency-driven phase is accompanied by industrialization and an increased reliance on economies of scale, and capital-intensive large organizations are more dominant. In the innovation-driven phase, businesses are increasingly knowledge intensive, and the service sector is expanding.

INTRODUCTION

UNIQUE COMPONENTS OF THE 2012 REPORT

This report reveals United States results for 2012 along the range of traditional entrepreneurship measures GEM tracks. It compares these findings to other economies that participated in the 2012 survey, particularly the averages for the 24 innovation-driven economies. In addition, analyses of findings relative to prior years highlight current trends and stability or volatility characteristics.

This report devotes entire chapters to the subjects of women's entrepreneurship (Chapter 4) and age (Chapter 5); the latter provides particular insights on youth and seniors. Chapter 3 discusses financing from both a demand and supply side: the amount and source of financing used to start a business, as well as the funding people have provided to entrepreneurs. The chapters also contain insights about home-based businesses, profitability, employee characteristics (family, unpaid, part-time), outsourcing and training.

The GEM consortium chose immigration as the special topic for 2012. Chapter 6 provides detailed insights about immigrant entrepreneurship in the United States. In addition, Chapter 7 highlights the unique aspects of entrepreneurship in three states: Florida, Ohio and Texas.

HOW TO USE THIS REPORT

Since 1999, GEM has served as a distinctive and valuable source of data on entrepreneurship for a variety of audiences. GEM has provided the basis for innumerable academic studies, including publications in peer-reviewed journals, books, and other research outlets. The study has garnered the interest of journalists around the world and has appeared in prestigious publications like *The Wall Street Journal*, *Economist*, *Financial Times*, *The Huffington Post*, and *Businessweek*.

Educators around the world use GEM reports and data in their classes. Policymakers draw on GEM data to take the pulse of entrepreneurship in their districts and inform policy discussions and decisions. GEM is a frequent and popular topic of presentations around the world; in the United States, GEM has been presented at forums organized by the U.S. State Department, the World Bank, and the National Governor's Association.

This report marks the second year in which the GEM United States team has studied entrepreneurship at the state level. The team oversampled two states (California and New York) in 2011, showing detailed results in the 2011 GEM U.S. National Report (Kelley et al., 2012). In 2012, the team oversampled three states (Florida, Ohio, and Texas), enabling a view of the rate and nature of entrepreneurship with a more finely grained lens and allowing for comparisons with other states and national averages. GEM U.S. intends to eventually survey every state.

Much of the focus on enhancing entrepreneurship targets the environment in which entrepreneurs operate. Such an ecosystem includes a mix of factors that directly or indirectly clear a path for entrepreneurs to carry out their ambitions (or, more negatively, throw obstacles in this path). The determinants of entrepreneurship are complex and not well understood; it is difficult to tie specific variables to the rate or profile of entrepreneurship in a particular economy. The entrepreneurial ecosystem, however, is critically important to the study of entrepreneurship because it represents conditions that entrepreneurs must navigate and levers that policymakers can address.

Figure 4 illustrates how particular ecosystem factors influence entrepreneurship in a society and, in turn, affect economic development. These factors include basic requirements, efficiency enhancers and innovation and entrepreneurship factors. GEM has adopted and modified them from the World Economic Forum's (WEF) Global Competitiveness Report.⁴ These innovation and entrepreneurship conditions more specifically represent those with potential impact on the GEM entrepreneurship measures: societal attitudes toward entrepreneurship, how many and which people participate in various phases of this process, and the impact of entrepreneurs on their economies.

Policymakers might consider the health of their entrepreneurship ecosystem and the extent to which certain conditions might affect people's willingness to start businesses, their ambitions for such ventures, and their ability to grow and sustain their businesses. Discussions of GEM results within and across states, regions, and economies, as well as over time, can provide insights into what may or may not work to stimulate entrepreneurship in a given area.

One of GEM's key aims is to inform academics, educators, policymakers, and practitioners about the frequency and nature of entrepreneurship in and across economies around the world in order to provide better understanding, support, and conditions that allow entrepreneurship to thrive.

⁴Schwab, Klaus, ed. *The Global Competitiveness Report 2011–2012*. Geneva: World Economic Forum, 2011.

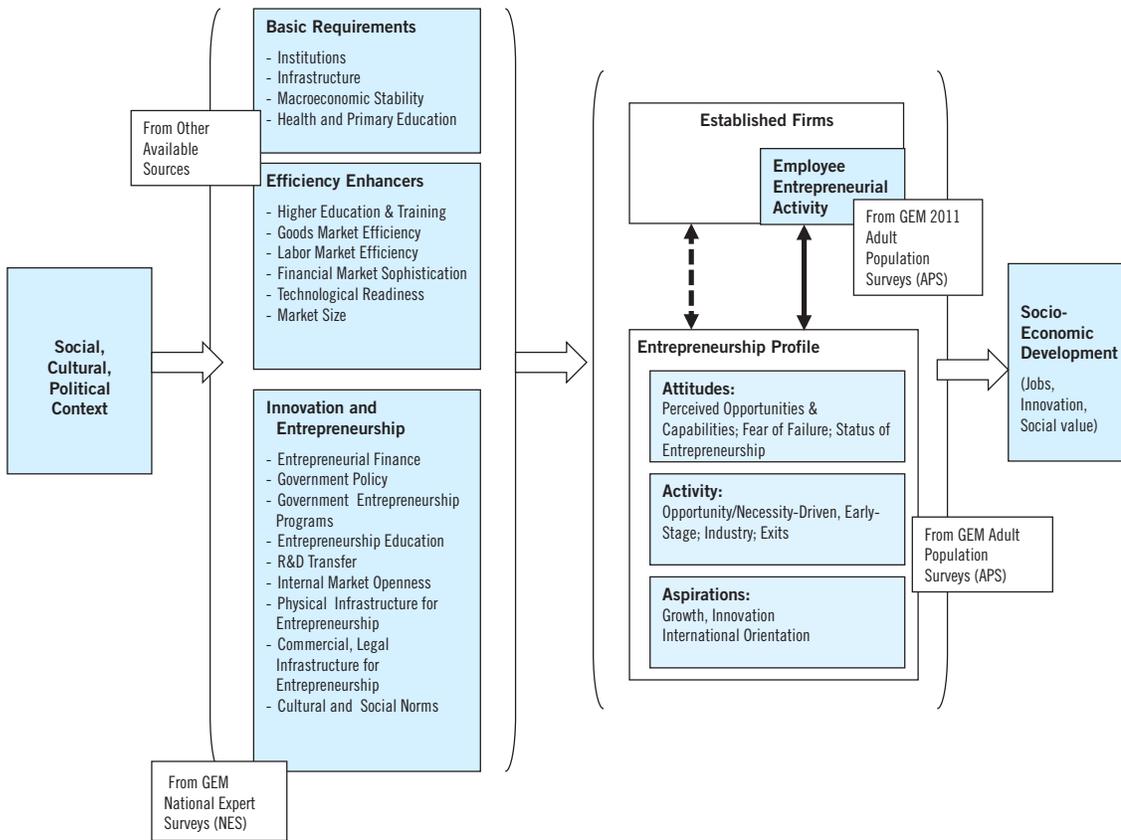


FIGURE 4
The Ecosystem
and Role of
Entrepreneurship
in Society

Chapter 1

Entrepreneurial Attitudes and Activity in the United States: A Global and Longitudinal Comparison

ENTREPRENEURIAL ATTITUDES

The United States distinguished itself among the innovation-driven economies in 2012 for its relatively positive attitudes toward entrepreneurship, particularly whether people think good opportunities exist for starting businesses, whether they believe they personally have the capabilities to start a business, and whether fear of failure would prevent them from pursuing an entrepreneurial opportunity. Opportunity perceptions can be considered a judgment about the external environment. Attitudes about capabilities and fear of failure, on the other hand, can be influenced by environmental factors, but primarily represent self-perceptions.

Over time, measurements of attitudes exhibit different patterns. As Figure 5 shows, opportunity perceptions exhibit relatively greater volatility—declining in 2009 and then recovering in the next two years to return to their 2008 level. Given that the 2008 survey was conducted in mid-year, before many people felt the greatest impact from the recession and financial crisis, the drop in 2009 indicates some reaction to the economic downturn.

The results in 2012, however, suggest a high level of optimism in the United States. In both 2010 and 2011, opportunity perceptions, despite increasing year-over-year, did not rise much higher than the average among innovation-driven economies. But in 2012, opportunity perceptions jumped more than 20% from the previous year in the United States, while they generally languished in other innovation-driven economies. In fact, opportunity perceptions in 2012 reached their highest recorded level in this country since GEM started in 1999.

The capabilities measure shows that Americans are a confident group; more than half stated they had the capabilities to start a business—almost 50% more than the innovation-driven group average. Even more remarkable, however, is this measure's stability. In four of the five years between 2008 and 2012, despite huge swings in the economy, exactly 56% of adults stated they had the skills to start a business.

While opportunity perceptions fluctuated and capabilities remained stable, fear of failure followed a different pattern, creeping gradually upward from 2008 to 2012. Perhaps the economic shock had a lingering effect on people's propensities for risk taking, despite their generally positive feelings about conditions in the external environment. In addition, economic uncertainty and the impending election may also have influenced this measure.

Collectively, this assessment of attitudes suggests that Americans see entrepreneurial opportunities in light of current economic conditions, but assess their own abilities as distinct from external shifts. Nonetheless, environmental shocks may certainly reduce their willingness to take risks.

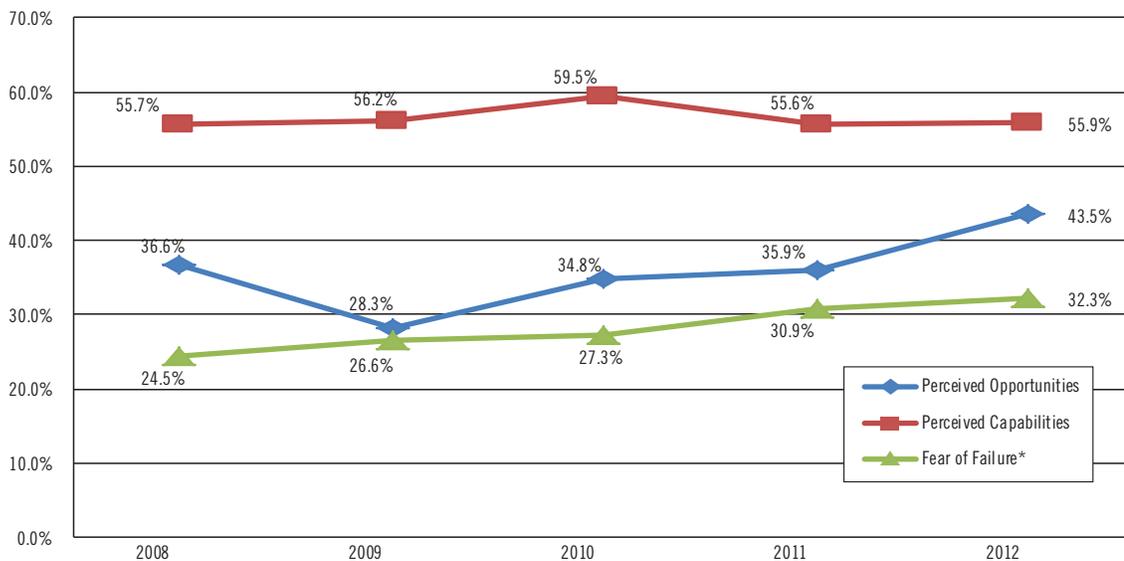


FIGURE 5
Entrepreneurial
Attitudes in the
United States from
2008 to 2012

*Fear of failure assessed for those seeing opportunities
 Note: Calculated for the adult U.S. population aged 18 to 64. Source: Global Entrepreneurship Monitor United States 2012 Adult Population Survey.

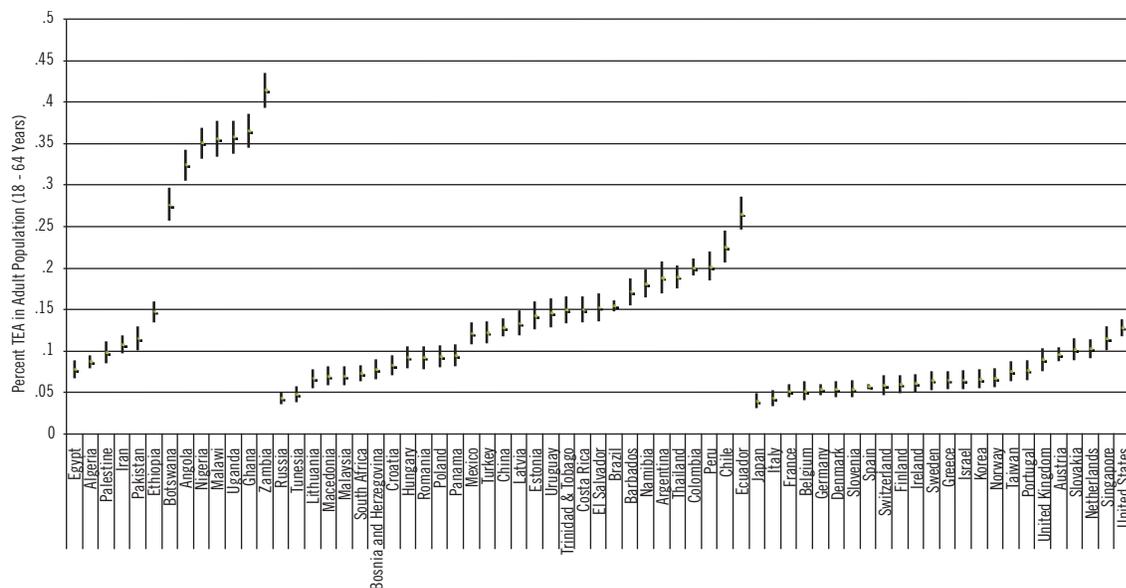
ENTREPRENEURIAL ACTIVITY

Figure 6 shows TEA rates for all economies participating in GEM. As this chart shows, entrepreneurship rates for the innovation-driven economies are comparatively low. Contributors to this result include such factors as the presence and attractiveness of other income-generating opportunities that provide work as employees; additionally, a higher level of wealth reduces motives based on necessity. While these economies exhibit well-developed economic, political and institutional environments, factors such as job protection and social security may provide little incentive to start businesses. Additionally, conditions like conservative financial systems and inadequate bankruptcy laws pose entry and exit barriers.

Cultural factors can also play an important role. Where careers with government or well-known companies evoke high social status, individuals (and their parents) value those jobs more highly. When people take on debt for mortgages and expensive colleges for their children, they generally become more reliant on stable incomes to make regular payments. Moreover, the social, as well as legal, costs of failure can influence the extent to which a society offers a safety net. These elements can be reflected in GEM's attitude measures and influence whether people see opportunities and have a favorable orientation toward entrepreneurship.

The United States exhibits a high level of entrepreneurship given its development level. Whether enabled by institutions or culture, Americans show a propensity to jump into this activity. The digital generation has grown up entrepreneurial, a fact reflected in the boom in entrepreneurship among young people. Additionally, amid the economic cycle of the previous years, the data indicate that the appeal of entrepreneurship has returned to the United States earlier than in many innovation-driven economies.

FIGURE 6
Total Entrepreneurial Activity (TEA) in the Adult Population (18-64 years) for 69 Economies in 2012, by Economic Development Level



Note: Calculated for the adult U.S. population aged 18 to 64
 Source: Global Entrepreneurship Monitor United States 2012 Adult Population Survey

During the five-year period from 2008 to 2012, the United States exhibited a higher TEA rate than the average among the innovation-driven economies, but this spread narrowed in 2010. While the innovation-driven economies, on average, showed declining rates of entrepreneurship, the effect was more pronounced in the United States. TEA rates in America were more than 50% higher than the innovation-driven average in 2009, but slightly more than 25% higher in 2010.

This all changed in 2011. Average TEA rates in the innovation-driven world returned to their 2008 levels. The United States exceeded that trend, however, showing over 75% more entrepreneurs than the innovation-driven average. Then in 2012, average TEA rates in the innovation-driven economies stayed relatively the same, while the U.S. rate increased to nearly 13%, an all-time high for entrepreneurship rates since GEM began measuring them in 1999.

As Figure 7 shows, entrepreneurial intentions in the United States stagnated in 2009, dipping below the innovation-driven group average. It crept upward in 2010, yet remained below the average for its development level until 2011 and 2012, when it experienced resurgence.

Figure 7 breaks down TEA into its separate components: nascent and new entrepreneurship. This chart demonstrates that these two phases experienced decreases in 2009, along with established business ownership. The latter recovered the next year, but nascent and new activity levels took another year to bounce back. All three phases showed little change after the surge in 2011, although nascent activity increased slightly. More markedly, the rate of nascent activity in the United States was more than double the innovation-driven group average. In 2012, that is, the proportion of people starting businesses in the United States was more than twice as high as in other wealthy economies.

People who start businesses because they have few or no other options for earning an income are called “necessity-based” entrepreneurs, while those who start businesses primarily to exploit an opportunity are “opportunity-motivated” entrepreneurs. The latter category may include those who aim to maintain or improve their income, or to enhance their independence. Opportunity-motivated entrepreneurs who seek to improve their income or independence are called “improvement-driven opportunity” entrepreneurs.

Opportunity-motivated entrepreneurs are important because they are more likely associated with expansive characteristics like growth ambitions and innovation. Yet necessity-motivated entrepreneurship is also critical, particularly in less developed economies and economies experiencing economic downturns; it indicates people’s capacity to fill in job gaps by creating their own income-generating opportunities and potentially employing others.

When U.S. TEA rates reached their low point in 2010, necessity motives (as a percentage of TEA) were much higher than the innovation-driven average. Improvement-driven opportunity motives were consequently lower in the United States than its development-level average. This result shows that, while fewer entrepreneurs started businesses in the United States, those that did were more likely motivated by a need for a source of income. People who left the entrepreneurship rosters tended to be those who would otherwise be motivated to pursue an opportunity and who wished to increase their independence or income.

In 2011 and 2012, entrepreneurship rose due to a dual effect of necessity and improvement-driven opportunity. Some residual necessity motives still lingered: this measure remained higher than the innovation-driven average in both years. At the same time, the results indicated a return of improvement-driven opportunity-motivated entrepreneurs, not only compared to 2010 but also relative to the innovation-driven average.

The innovation-driven economies displayed a rise in opportunity motives not accompanied by anticipated improvements in one's circumstances. In other words, people started businesses to pursue opportunities, but not necessarily to increase their income or independence. In contrast, opportunity motives in the United States were more often connected with

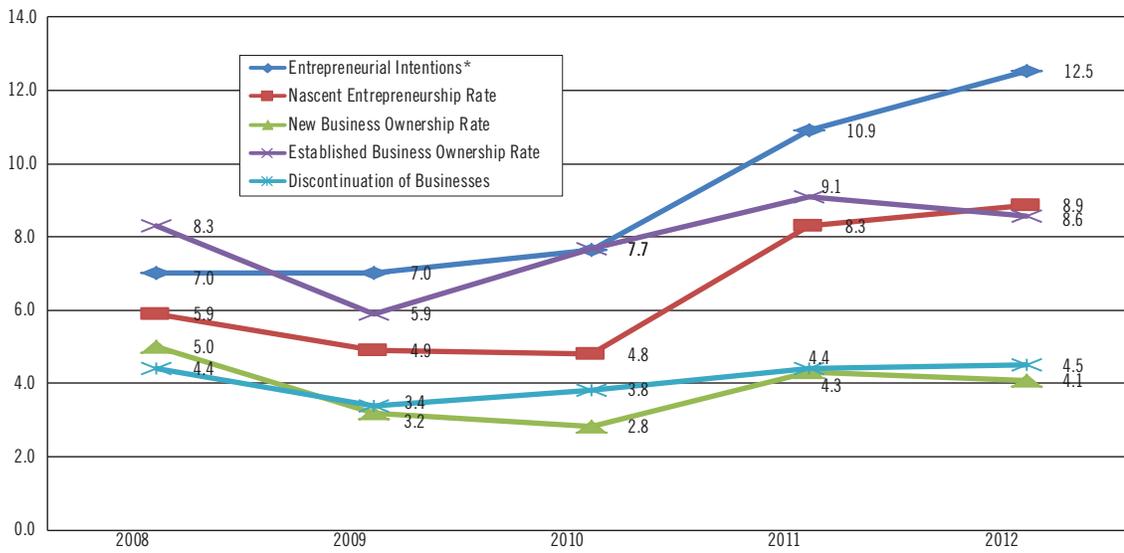


FIGURE 7
Entrepreneurial Activity by Phase in the United States from 2008 to 2012

*Intentions assessed among nonentrepreneur population
 Note: Calculated for the adult U.S. population aged 18 to 64
 Source: Global Entrepreneurship Monitor United States 2012 Adult Population Survey

improvement-driven aspirations. Overall, the U.S. results indicated the prevalence of both entrepreneurs who needed to start businesses and those who saw opportunity and an accompanying route toward enhanced lifestyles and/or prosperity.

Along with higher activity rates, the United States also demonstrated a slightly higher discontinuance rate than the average for its development group. Such a trend, however, follows logically; an increase in the number of businesses started creates a larger base from which some will fail. In fact, the ratio of total business activity (TEA plus established) to discontinuance in the United States roughly matches the innovation-driven average, where five people started and/or operated businesses for every person who closed one in the previous year.

Potential entrepreneurs must weigh the fruits of success against the costs of failure. The U.S. results suggest that people are willing to risk failure, despite increasingly claiming to be risk-averse (measured by their fear of failure). Americans seem to be attracted by the proliferation of opportunities and confident enough about their abilities, though, to follow through on their ambitions.

The reasons for discontinuing a business reveal some unique findings about the United States, including some potential concerns. Discontinuance due to lack of profitability in the United States matches the average among innovation-driven economies. Surprisingly, however, while an average of 11% of those discontinuing businesses in innovation-driven economies cite problems with finance, more than 18% of Americans point to that cause. This result may be a holdover from the tightened credit and contraction of equities markets during the recession.

While the United States' reputation for venture capital implies that financing is easy to obtain in this country, the chance that entrepreneurs will actually receive funding from that source is very small. As Bygrave pointed out in the GEM Global 2009 Report (Bosma and Levie, 2009), only about one in a thousand entrepreneurs receive venture capital in the United States. This finding suggests a need for further inquiry into the nature of discontinuances due to a lack of finance. To what extent do these result from investors finding businesses unattractive as opposed to a lack of funding sources themselves?

Discontinuance due to retirement is generally considered a positive explanation. The proportion of stops due to retirement in the innovation-driven economies was seven times higher than in the United States. Less than 1% of discontinuances reported in the United States in 2012 cited this cause. This suggests that American business owners can't or don't want to retire from running their businesses, or that other factors are responsible for these stops.

CHAPTER 1

Overall, Americans demonstrated quite positive attitudes about entrepreneurship in 2012. Opportunity perceptions reached their highest levels since the GEM survey started in 1999, after diving downward in 2009 and recovering in the subsequent two years. Capabilities perceptions remained high, staying stable through five years of economic flux. Nonetheless, the fear of failure measure, which has steadily crept upward since 2008, demonstrated the lingering effects of the economic past.

Yet, positive opportunity perceptions were accompanied by bold actions. Americans started or intended to start at the highest levels since GEM began in 1999. This trend sprang from two sources: lingering necessity entrepreneurs from the recession and opportunity-motivated entrepreneurs who jumped back into entrepreneurship after holding back in 2009 and 2010. The relatively high rate of finance-related discontinuances may be a holdover from the reluctant lending and investment climate of the preceding years or a more persistent structural issue for the United States.



“My entrepreneurial dream is to allow the ones I love to be able to also follow their dreams by leading and opening up new opportunities.”

John Goscha
CEO and Founder,
IdeaPaint; lucidity

Chapter 2

Business Profile and Impact Indicators

BUSINESS PROFILE

Across all economic development levels, entrepreneurs participate most frequently in the consumer sector. These are businesses that serve consumers directly through retail or services. Examples include product sales through retail outlets or the Internet, and services like hotels, restaurants, and real estate. Such industries generally have low barriers to entry but high competition, and they are more often associated with smaller businesses.

Extractive businesses are based on natural resources and can include farming, forestry, and mining. Transforming involves the manufacturing of goods and is generally capital intensive, but it can also be labor intensive. Business services target the business customer and generally rely on greater knowledge intensity.

According to the 2012 GEM survey, industry sector participation in the United States was unchanged from 2011 (Figure 8). Consumer-oriented businesses remained the most popular. Business services activity was also high, though, outpacing the innovation-driven group average. Participation in this sector is the hallmark of later-stage development economies, displacing the dominance of consumer businesses, which otherwise characterize the majority of entrepreneurship activity in most factor- and efficiency-driven economies.

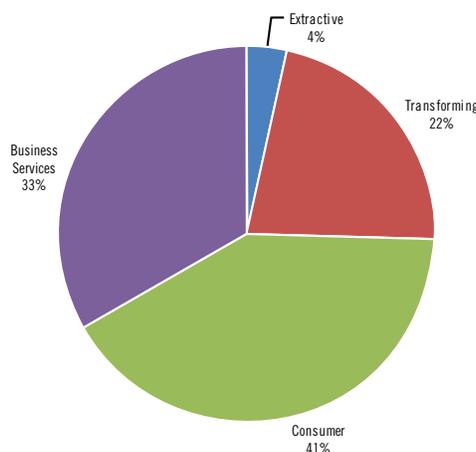


FIGURE 8
Distribution of Total Entrepreneurial Activity (TEA) Across Industry Sectors in the United States in 2012

Note: Calculated for the adult U.S. population aged 18 to 64
Source: Global Entrepreneurship Monitor United States 2012 Adult Population Survey

The 2012 survey asked entrepreneurs and business owners whether they conducted their business activities at home. That 69% of nascent entrepreneurs did so is perhaps not surprising; many businesses get started at home, reflecting the notion of garage businesses and the lore of Silicon Valley. In this manner, budding entrepreneurs can keep their costs down. Additionally, certain businesses, like those focused on the Internet, can start at home with relative ease and low cost.

By the time these businesses are up and running, and even mature, however, many entrepreneurs might expect to operate outside their homes. Yet the results show that many entrepreneurs continue to run home-based businesses beyond the start-up phases; 55% of new businesses and 59% of established businesses operate in that manner.

Home-based businesses may evoke an image of the sole entrepreneur working out of a spare bedroom or garage, perhaps with one or several cofounders. Somewhat surprisingly, though, only one-fourth of the entrepreneurs surveyed stated they had no employees working for their businesses. Given the high prevalence of entrepreneurs operating at home (two-thirds of TEA), this finding suggests that many actually had employees in their home-based businesses.

CHAPTER 2

The 2012 survey also asked about employees that were family members, unpaid, or part-time. More than one-quarter of the entrepreneurs surveyed had one or more part-time employees; 10% had three or more. Such factors are relevant because part-time employees generally do not receive health care and other benefits. Employing part-time workers may thus help entrepreneurs circumvent costly regulations and reduce costs as they get started, allowing them to use their scarce resources to establish and grow their businesses.

Many entrepreneurs also used unpaid workers to reduce costs in these early phases—23% stated they relied on at least one unpaid family member and 21% had one or more unpaid nonfamily worker. This data show the extent to which entrepreneurs rely on others who are willing to sacrifice income, at least in the short term, to help them get started. Family members also assist entrepreneurs as paid employees, however; 21% count one or more paid relatives among their compensated workers.

Another new survey item in 2012 assessed the percentage of entrepreneurs that outsourced any business activities, rather than running them in-house. Thirty percent of entrepreneurs outsourced some business activities. This trend demonstrates that entrepreneurship can create jobs, not only internally, as the next section discusses, but also outside the company.

IMPACT

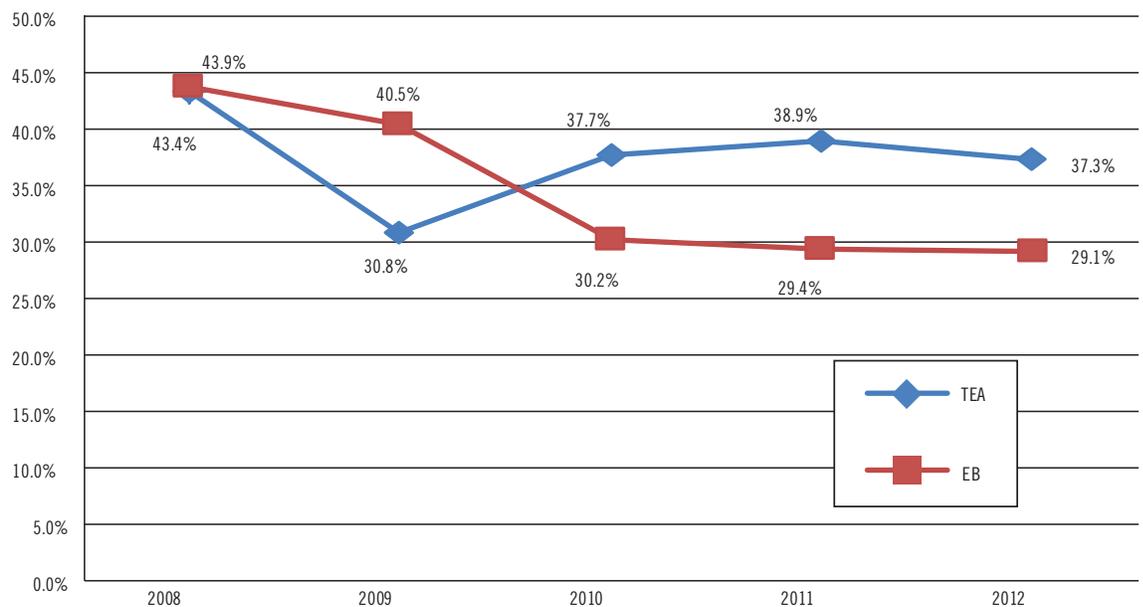
Growth expectations reflect job creation potential and the extent to which entrepreneurs retain positive outlooks about growing their businesses. Without a doubt, many of these entrepreneurs won't achieve their job creation projections; some will even fail. Nonetheless, entrepreneurs with growth ambitions are more likely to pursue and achieve growth than those without this outlook. This indicator can thus represent the optimism of entrepreneurs as well as the prospects underlying their opportunities.

The United States exhibits an above-average growth orientation relative to the innovation-driven group average. It is important to note, however, that the United States also shows a high TEA rate, indicating that entrepreneurship contributes to the U.S. economy not only through the presence of entrepreneurs, but also through their high growth expectations.

Although the United States reported above-average growth expectations in 2012, this measure remained relatively stagnant over the previous two years. As Figure 9 illustrates, growth projections plummeted along with TEA rates in 2009 and only partially recovered during the subsequent three years. The surge in TEA in 2011 and 2012, however, means that the absolute number of growth entrepreneurs still increased. Nevertheless, given that many people jumped into entrepreneurship during the past two years; entrepreneurship may exhibit less selectivity than at other times or compared to other regions that have fewer entrepreneurs but proportionately more with higher impact.

The dual effect mentioned earlier includes both the lingering of necessity entrepreneurs from the recession years and the entry of improvement-driven opportunity entrepreneurs that accounted for more of the increase in TEA. These dual motives may cancel each other out—necessity motives tend to be associated with lower potential than improvement-driven opportunity motives.

FIGURE 9
Percentage of Total Entrepreneurial Activity with Growth Expectations (expect to add more than five employees in the next five years) in the United States, 2008-2012



Note: Calculated for the adult U.S. population aged 18 to 64

Source: Global Entrepreneurship Monitor United States 2012 Adult Population Survey

In 2008, established business owners and entrepreneurs exhibited an equal propensity for growth. In 2009, entrepreneurs showed a dramatic drop in this measure. Established business owners took this same plunge, but over a two-year period, then maintaining this low level during the next two years. This trend may signal greater caution on the part of business owners, since growth is an option that, for many people, carries higher risks than incremental growth or maintaining the status quo. At the same time, one could also speculate that entrepreneurs who jumped back in after the recession were optimistic (some might say blindly so). Established business owners may be more skeptical and, some might say, more realistic.

The GEM Global 2011 Report showed an average level of innovativeness for the United States relative to its development level. (This measure was not reported in the GEM Global 2012 Report.) Figure 10 shows the percentage of entrepreneurs that introduced products that were new to all or some of their customers and/or have few or no competitors, from 2008 to 2012. As this figure shows, the level of innovativeness grew during that period, reaching a high point in 2011 and 2012 that represented an increase of more than 25% since 2008.

Not surprisingly, established business owners displayed a lower level of innovativeness, measuring little more than half the level of TEA entrepreneurs in 2012. This measure fluctuated somewhat but increased in 2012 from the previous year and reached a higher level than in 2008.

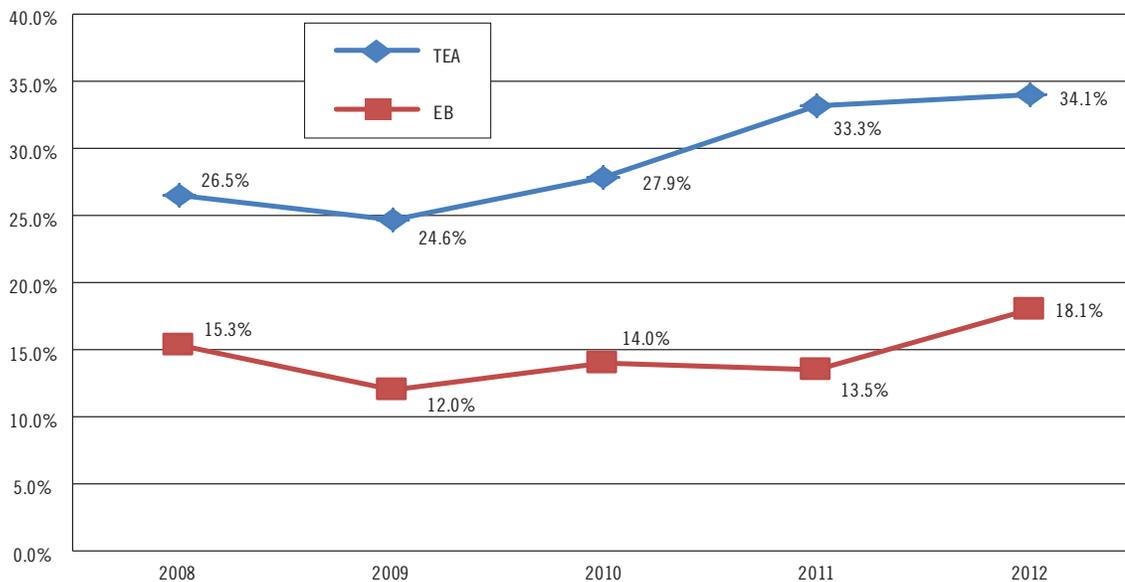


FIGURE 10
Percentage of Total Entrepreneurial Activity with Innovative Products and Services in the United States, 2008-2012

Note: Calculated for the adult U.S. population aged 18 to 64
 Source: Global Entrepreneurship Monitor United States 2012 Adult Population Survey

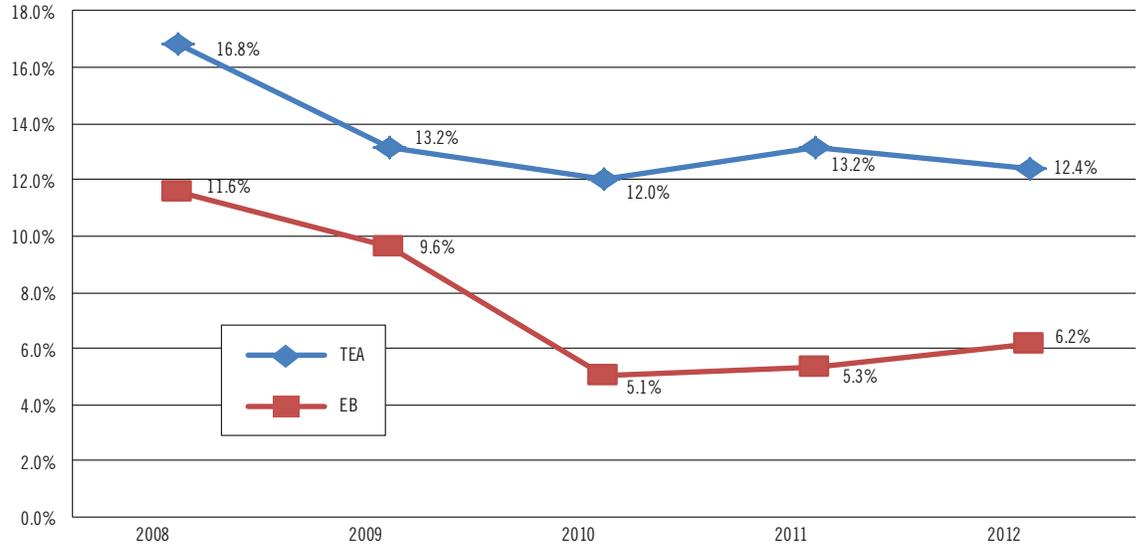
The GEM Global 2011 Report (Kelley et al., 2011) showed a low rate of internationalization in the United States relative to its development-level peers. (This measure was not assessed in the GEM Global 2012 Report.) As Figure 11 shows, this rate changed little since dipping downward in 2009. For the four years ending in 2012, only 12-13% of entrepreneurs had more than 25% international customers. Additionally, business owners showed a consistently lower level of international sales than entrepreneurs. By 2012, internationalization among established business owners declined to little more than half the level exhibited in 2008.

The large and diverse population of the United States contains many market segments, many of which bottomed out during the depths of the recession, but are now displaying improved conditions. Conversely, market demand in some economies, like those in Southern Europe, remain depressed or highly uncertain.

For the time being, entrepreneurs and business owners appear to have many opportunities to do business within the United States. Many naturally find selling domestically to be easier because they understand the institutional environment and markets very well. Most entrepreneurs, by contrast, face difficulties selling in unfamiliar regions, particularly where languages and customs differ and where they face different, and perhaps less favorable, institutional environments. For example, intellectual property protection is well-developed in the United States, but comparable laws are either nonexistent or poorly enforced in some places, deterring entrepreneurs from entering such economies.

Competing globally, however, can improve the quality and global competitiveness of U.S. entrepreneurs, providing both opportunities for expanding their reach and a defense against those venturing onto American soil.

FIGURE 11
Percentage of Total Entrepreneurial Activity in the United States With 25% or More International Customers, 2008-2012



Note: Calculated for the adult U.S. population aged 18 to 64

Source: Global Entrepreneurship Monitor United States 2012 Adult Population Survey

This assessment of business profile and impact shows that entrepreneurs participate in the business services sector at relatively high rates, a tendency generally associated with higher development-level economies and indicative of greater knowledge intensity. The majority of entrepreneurs (two-thirds) operate out of their homes, and many employ family members, unpaid workers and part-timers. American entrepreneurs have healthy levels of growth ambitions and exhibit confidence in their business prospects, although this indicator has declined since 2008. Nonetheless, while they are comfortable in the domestic market, few venture to other lands. Additionally, innovativeness among American entrepreneurs is only average for its development level, although this measure has increased recently.

Chapter 3

Financing Entrepreneurship

Over the past few decades, globalization and technology have helped usher in an era of relative free capital flows across borders. Some argue that financial capital (as opposed to human, intellectual, or other types of capital) has led this charge. Both investors looking to provide capital and entrepreneurs looking to receive it are able to invest with greater ease. The past few years have also seen the explosion of crowd-funding sources like Kickstarter, Indiegogo and scores of others dedicated to particular industries, technologies, or social causes. These shifts in the level and type of funding could suggest radical changes in how start-ups solicit and receive financing.

The results of the GEM 2012 survey suggest otherwise, however, and given the study's focus on early-stage business, this evidence should not be completely surprising. The free flow of finance capital from professional investors is likely to affect only a small portion of the business starts in the United States. While venture capital and other forms of professional investment focus on fast- and high-growth firms, most entrepreneurs will never be good matches for this form of investing. The GEM data displayed in Figure 12 clearly demonstrates that American entrepreneurs still find financing primarily through personal and family sources.

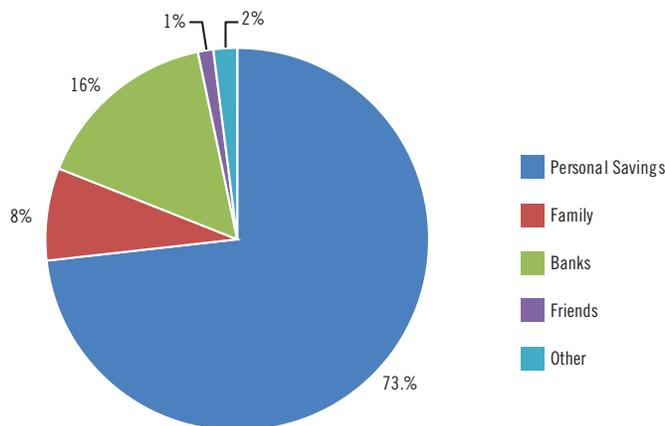
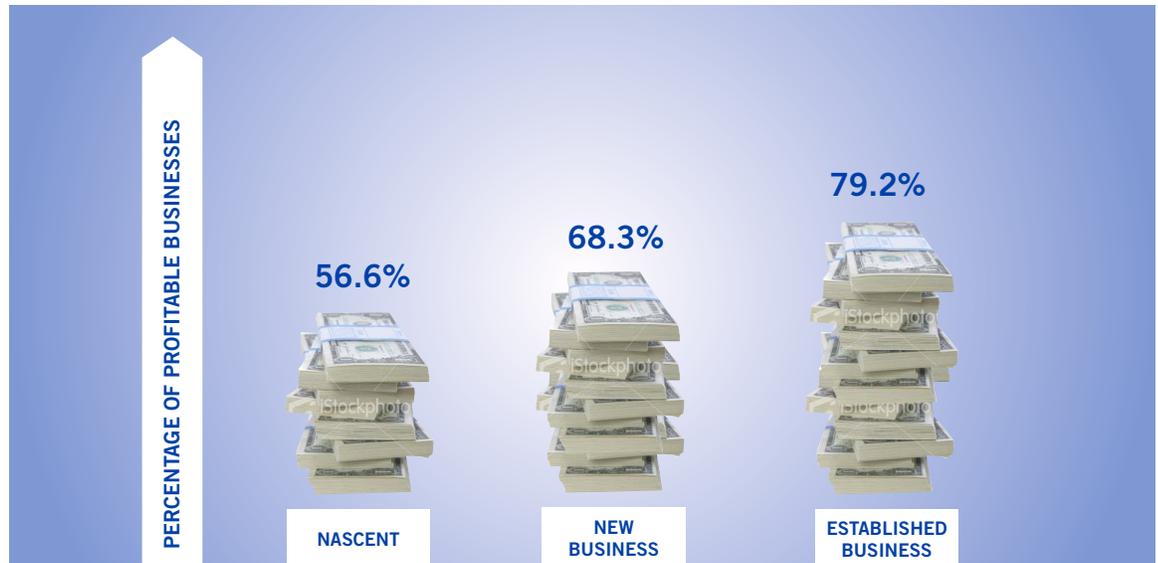


FIGURE 12
Main Source of
Funding for Nascent
and New Businesses
in the United States,
2012

Note: Calculated for the adult U.S. population aged 18 to 64
Source: Global Entrepreneurship Monitor United States 2012 Adult Population Survey

Nascent entrepreneurs stated they needed a median level of \$15,000 to start their businesses, while those in the new business stage reportedly needed \$31,000 (median). While some of these operations may scale to a large size someday, most will not. (The U.S. Small Business Administration classifies all firms with fewer than 500 employees as small business.) As such, professional investors focus their dollars on the relatively small number of businesses that display greater potential for fast employee growth and large revenues. Investors seek such high levels of growth in order to offset losses from those failing to live up to their lofty expectations and to provide high overall returns to justify the risks they take.

Friends and family members, however, do not hold the same bottom-line concerns as professional investors, so most entrepreneurs turn to personal networks for financing along with tapping their own savings. As Figure 12 shows, four out of every five entrepreneurs draw funding from some combination of personal savings and cash from friends and family members.



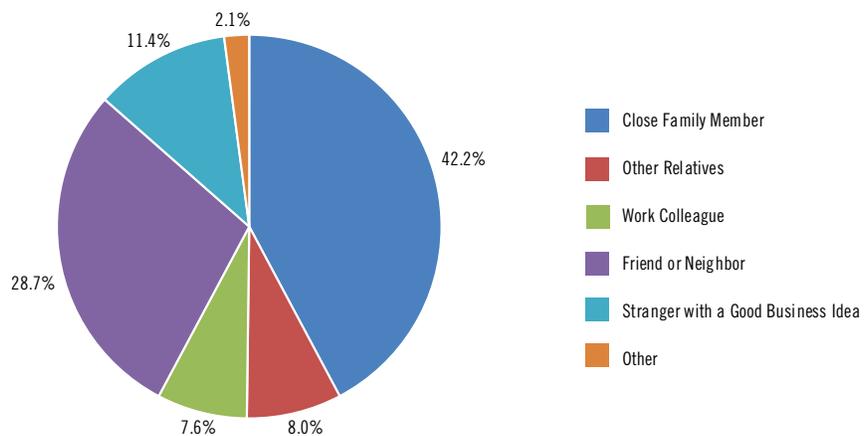
Note: Calculated for the adult U.S. population aged 18 to 64
 Source: Global Entrepreneurship Monitor United States 2012 Adult Population Survey

Profitability trends help explain why investors act the way they do—slightly more than half of the nascents, two-thirds of new business owners, and almost 80% of established businesses state they will be profitable in 2012. In most cases, professional investors and banks are not likely to invest in businesses until they see a strong path to profitability. Many young firms are just starting to generate revenue; profitability is somewhere in the future. Many nascent and new businesses need to invest in systems, infrastructure, staff, marketing and other uses of capital, all while getting a foothold in the market and ramping up their sales. Thus, a lack of profits does not necessarily mean that the business has not survived or that it will not survive.

As entrepreneurs try to move toward profitability, they rely on their savings, friends, and family members to finance their dreams. In addition, they bootstrap. As Chapter 2 reported, many entrepreneurs operate out of their homes and some receive free labor from family or non-family sources. In this manner, entrepreneurs save money by not paying rent for their businesses and getting family members and friends to work for free.

From the investor perspective, financial support follows a similar pattern, as Figure 13 shows. The GEM 2012 survey revealed that 5.3% of Americans have invested in an entrepreneur; half of those people funded an immediate family member or other relative. These findings further support the conclusion that entrepreneurial finance in America depends heavily on close-knit family relations. They also reinforce the importance of networks: Only 13.5% of investors provided money to someone who was not a family member, friend, neighbor, or work colleague.

FIGURE 13
Investors'
Relationships to
Entrepreneurs They
Funded, 2012



Note: Calculated for the adult U.S. population aged 18 to 64
 Source: Global Entrepreneurship Monitor United States 2012 Adult Population Survey

The survey shows that investors provide a median amount of \$5,000 in funding. These amounts vary considerably however, from micro-funding of less than \$100 to some investments totaling in the millions of dollars. Figure 14 illustrates that those who invest in entrepreneurship come from all age groups in the United States. There is a relatively even split across the five age categories, with somewhat greater representation among 25–34 year olds. Members of that age group are more likely to know an entrepreneur than those of other ages, and men in this range are most likely to have entrepreneurial intentions.

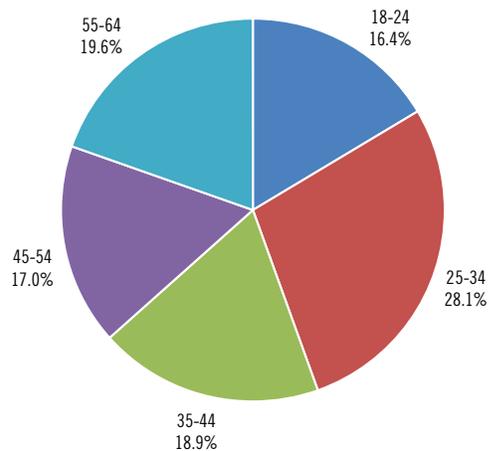


FIGURE 14
Age of Those Investing in Entrepreneurs, 2012

Note: Calculated for the adult U.S. population aged 18 to 64
Source: Global Entrepreneurship Monitor United States 2012 Adult Population Survey

In sum, the data on financing seems to reinforce two very broad points about the U.S. business and economic climate. First, entrepreneurs use both bootstrapping mechanisms and personal and close sources quite readily to get their businesses started. Second, regardless of age, Americans are broadly investing in entrepreneurs, and these entrepreneurs are overwhelmingly people they know. Whether this represents loyalty to friends and family or confidence in their abilities, Americans are contributing to the entrepreneurial spirit of this country.

“My entrepreneurial dream is to be an international lifestyle brand that inspires the world to connect with our global community through innovative design.”

Malene Bramwell
Principal and Creative Director,
malene b



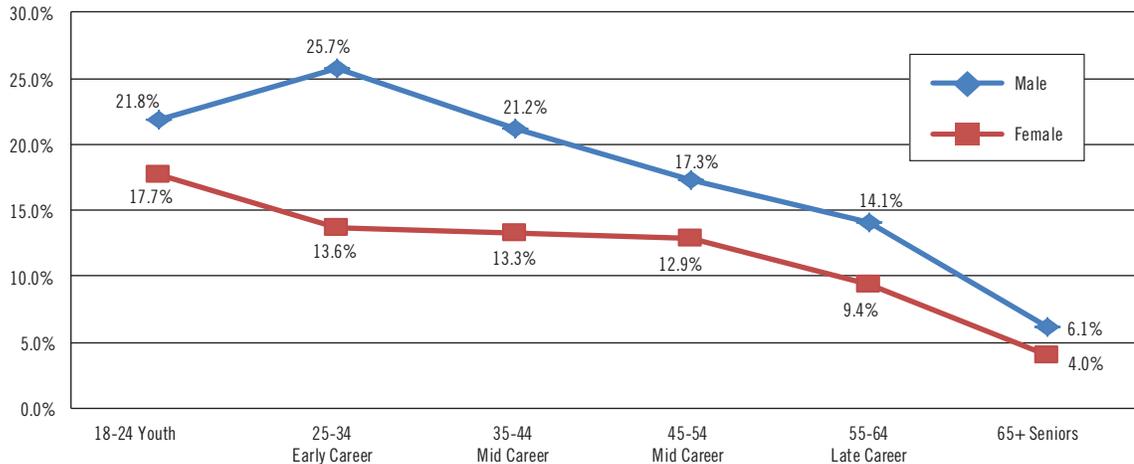
Chapter 4

Women's Entrepreneurship

Overall, the ratio of women's participation in entrepreneurship relative to men declined slightly in 2012. While there were eight women involved in entrepreneurship for every 10 men in 2011, this ratio fell to just seven to 10 in 2012. TEA rates for men increased slightly (from 13% in 2011 to 15% in 2012), while they held relatively steady for women at around 11%. In addition, more than one and a half times as many men were established business owners as women (11% versus 7%).

In 2012, one in five men intended to start a business in the next three years, while only one in 13 women expressed intent. As Figure 15 shows, men were more likely than women to express entrepreneurial intentions at all ages. The gap was widest during the early career years (ages 25 to 34), which could arguably relate to women's prime childbearing years. The difference is comparatively narrow in youth, and then again among the older age groups.

FIGURE 15
Entrepreneurial Intentions in the Non-Entrepreneur Population by Age for Men and Women, 2012



Note: Calculated for the adult U.S. population aged 18 to 64

Source: Global Entrepreneurship Monitor United States 2012 Adult Population Survey

ENTREPRENEURIAL ATTITUDE DIFFERENCES AMONG MALES AND FEMALES

An examination of the attitudes and motives underlying the decision to start a business can partially explain the differences in participation rates between men and women at various phases of activity. While motives differ little between the sexes, attitudes tell a much different story. About three-quarters of both male and female entrepreneurs start businesses to pursue an opportunity (rather than out of necessity), but men show more positive perceptions about opportunities and their own capabilities, as well as lower fear of failure.

Before starting a business, would-be entrepreneurs must seek or recognize opportunities, or at least see possibilities in the marketplace. According to the GEM data, both sexes were more likely to perceive opportunities in 2012 than in 2011, reflecting an improved economy. Nonetheless, women lagged behind men, particularly among the earlier age groups. The gap narrowed with increased age, particularly because opportunity perceptions declined among older males (see Figure 16). Unsurprisingly, the gap was widest during the years in which women were most likely raising children.

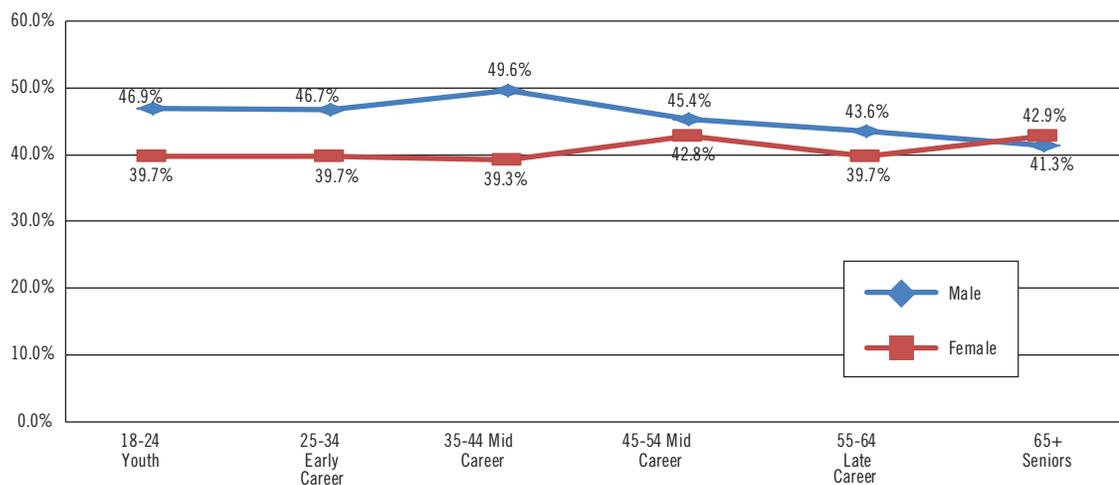


FIGURE 16
Opportunity Perception Rates in the U.S. Population by Age for Men and Women, 2012

Note: Calculated for the adult U.S. population aged 18 to 64
Source: Global Entrepreneurship Monitor United States 2012 Adult Population Survey

Another area where women lagged men is in their perceptions of their abilities for starting businesses. Nearly two-thirds of men surveyed believe they have ability to start a business, while less than half of women share those perceptions. The percentages are nearly the same as in 2011, suggesting that capabilities, as well as the gender gap observed in this measure, has not changed despite an improved economy. This trend demonstrates the relatively stable nature of men's and women's beliefs about their entrepreneurial abilities. But notably, confidence in capabilities varies widely by age group, as Figure 17 demonstrates.

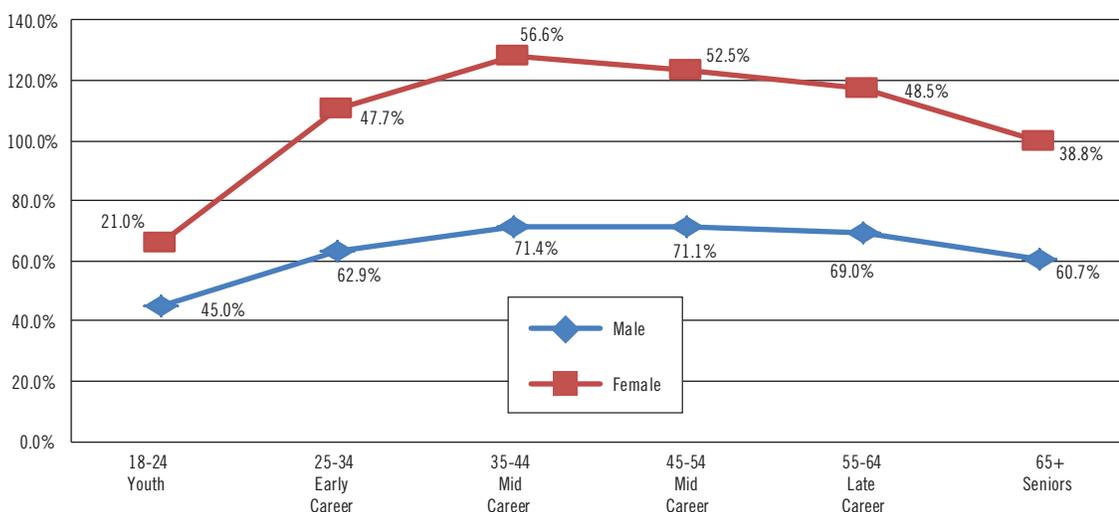


FIGURE 17
Capability Perceptions in the U.S. Population by Age for Men and Women, 2012

Note: Calculated for the adult U.S. population aged 18 to 64
Source: Global Entrepreneurship Monitor United States 2012 Adult Population Survey

The gap in perceived capabilities is widest for youth and seniors and narrowest among those in early and mid-career (those between 25 and 44 years of age). At mid-career, women are more likely to be actively employed and therefore hold stronger beliefs in their capabilities and skills. Across all age groups, however, the disparity was fairly consistent and arguably affected men's and women's respective likelihood of starting a business. This trend persisted despite equivalent education levels among women and men, as more than two-thirds of survey respondents of both sexes had post-secondary or higher levels of education. Moreover, women were equally likely to have received training in starting a business (63% versus 62% for men).

CHAPTER 4

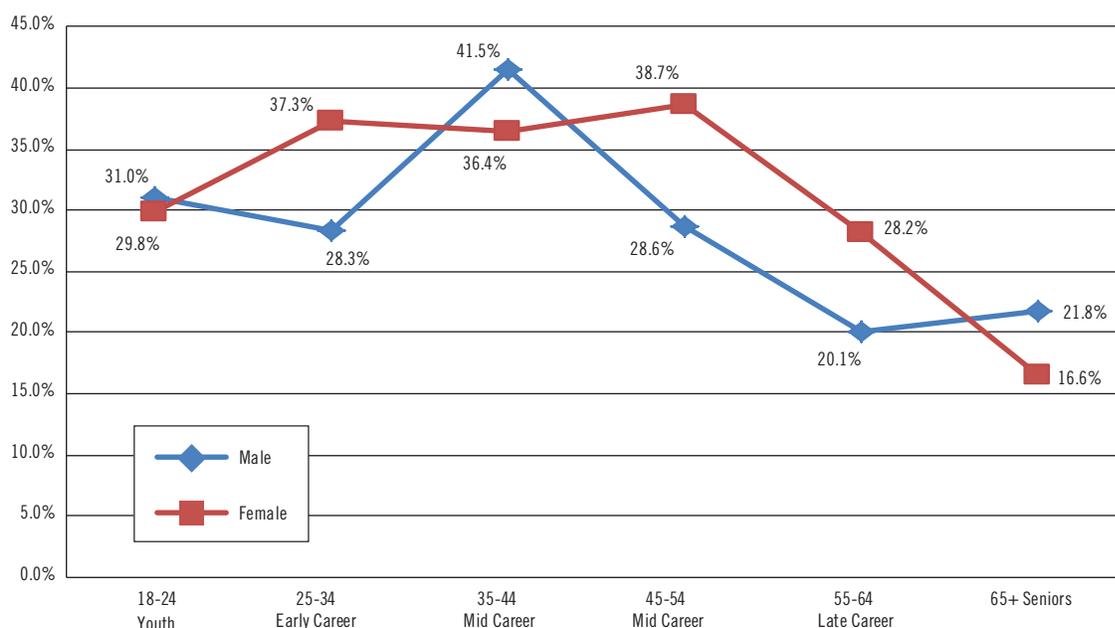
Given similar levels of education and training, women's lower perceptions of capabilities may indicate a shortage of business-educated women and lower confidence in their capabilities for entrepreneurship. Alternatively, capabilities perceptions may be linked to prior jobs or interrupted careers. Women's work experiences typically differ from those of men and they are more likely to move in and out of the workforce. Such experiences can diminish their perceptions about their capabilities.

Men were also more likely than women to know an entrepreneur (33% vs. 26% for women). Notably, this measure increased in 2012 for men while remaining the same for women. To the extent entrepreneurs create role models for other potential and current entrepreneurs, these data suggest women may have fewer role models than men.

The most recent GEM Global Women's Report (Kelley et al., 2012) shows that women entrepreneurs have different networks than men. Men are more likely to have broader networks that contain more business connections, while women are more likely to have fewer connections that more often involve their families and social communities. These results show the extent to which men and women have differential opportunities to learn from others and gain social support for their endeavors.

Fear of failure has many components, such as fear of losing money, psychic risk, fear of losing social support, and fear of reputational loss. Although the GEM survey does not capture such individual components in detail, any or all of these may underlie the risks entrepreneurs consider when starting up. Although fear of failure is generally higher for women, the difference narrowed in 2012 due to a slight rise in such fears among men.

FIGURE 18
Fear of Failure Among Those Seeing Opportunities for Entrepreneurship by Age for Men and Women, 2012



Note: Calculated for the adult U.S. population aged 18 to 64

Source: Global Entrepreneurship Monitor United States 2012 Adult Population Survey

Figure 18 shows distinct differences by gender across age groups, mirroring a similar pattern in the 2011 data. Men and women in the youth age group share a roughly equal fear of failure. The difference then widens during early career, as the rate for women rises and remains steady until declining in late career. Once again, this divide occurs when women generally have families; they may perceive they have the most to lose at this point by starting a business, particularly if they would have to forego more stable income sources or risk their savings.

The highest rate of perceived fear of failure for men occurs during mid-career (35-44), where the rate exceeds that of women. This could indicate a more narrow window of time when career security and family concerns dominate men's perceptions. For women, the elevated risk perceptions appear to persist throughout most of their working lives.

PROFILE AND PERFORMANCE INDICATORS FOR WOMEN ENTREPRENEURS

Men and women entrepreneurs show distinct differences in the relative mix of industries they compete in. Nearly half of the women entrepreneurs operated in the consumer industries, while this sector characterized the activities of slightly more than one-third of the male entrepreneurs. Very few of either sex compete in extractive businesses, and there is not a significant difference between the number of men and women in transforming industries (24% for men versus 20% for women). However, men are clearly more likely to start businesses in business services: 37% compared to 28% for women.

Additionally, women are more likely to both start and own home-based businesses, a finding possibly connected with the greater presence of women in direct-to-consumer products and services. Among entrepreneurs, 72% of women operate at home, compared to 61% of men. Among established business owners, 68% of women are located at home versus 53% of men.

Men and women entrepreneurs are equally likely (59%) to state they will reach profitability during 2012. Among established business owners, however, men outpace women by more than 10 percentage points (83% versus 72%) in that claim. That discrepancy indicates that women entrepreneurs may underperform their male counterparts over time, although other factors may need to be taken into account. For example, the comparative emphasis on business services in men versus consumer products/services for women could partially explain this disparity, since the latter tend to be less sustainable. It may also indicate that women may more often continue running businesses with lower financial prospects.

Male entrepreneurs started their businesses with a median amount of \$30,000; for women, this number is less than \$8,000. Women therefore start businesses with little more than one-fourth the funding level of men. Both men and women used primarily personal and family savings to start their businesses, and women used a slightly higher percentage of both (84% for women versus 78% for men). Men, on the other hand, were more likely to use bank funding (18% for men versus 13% for women).

Women are more likely to engage family members, both paid and unpaid, to work in their businesses, while men are more likely to have unpaid non-family employees and part-time workers (see Figure 19). Women’s greater propensity to bring family members into their ventures coincides with their family-oriented networks, while men show more diverse networks. Along the same lines, one-third of male entrepreneurs outsource some part of their operations, while only one-quarter of female entrepreneurs do. Differences in the use of family, unpaid, and part-time employees, as well as contracted work, may also be connected to characteristics such as industry sector, business size and other aspects.

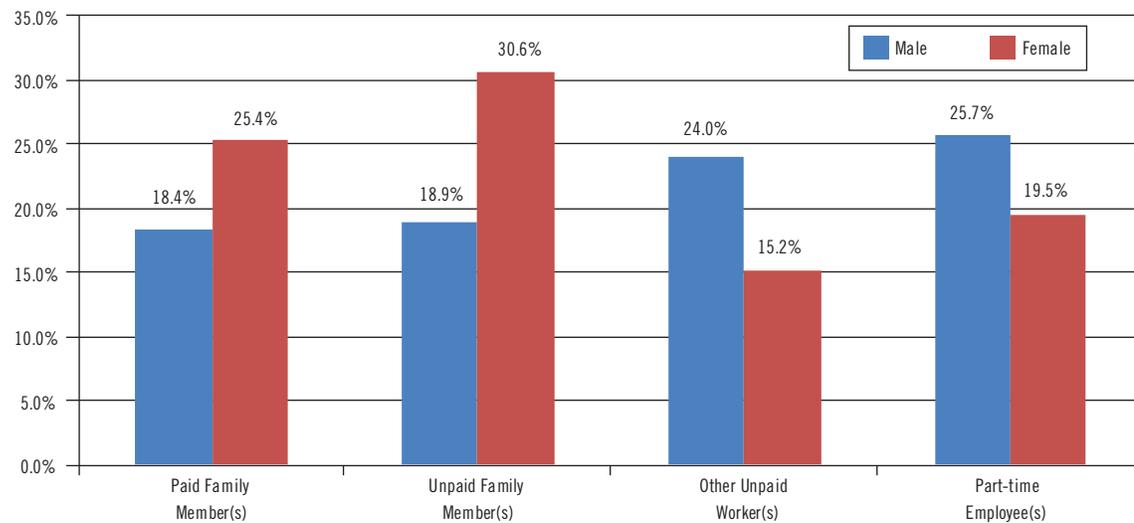


FIGURE 19
Use of Family, Unpaid, and Part-time Employees Among Men and Women Entrepreneurs (TEA) in the United States, 2012

Note: Calculated for the adult U.S. population aged 18 to 64
Source: Global Entrepreneurship Monitor United States 2012 Adult Population Survey

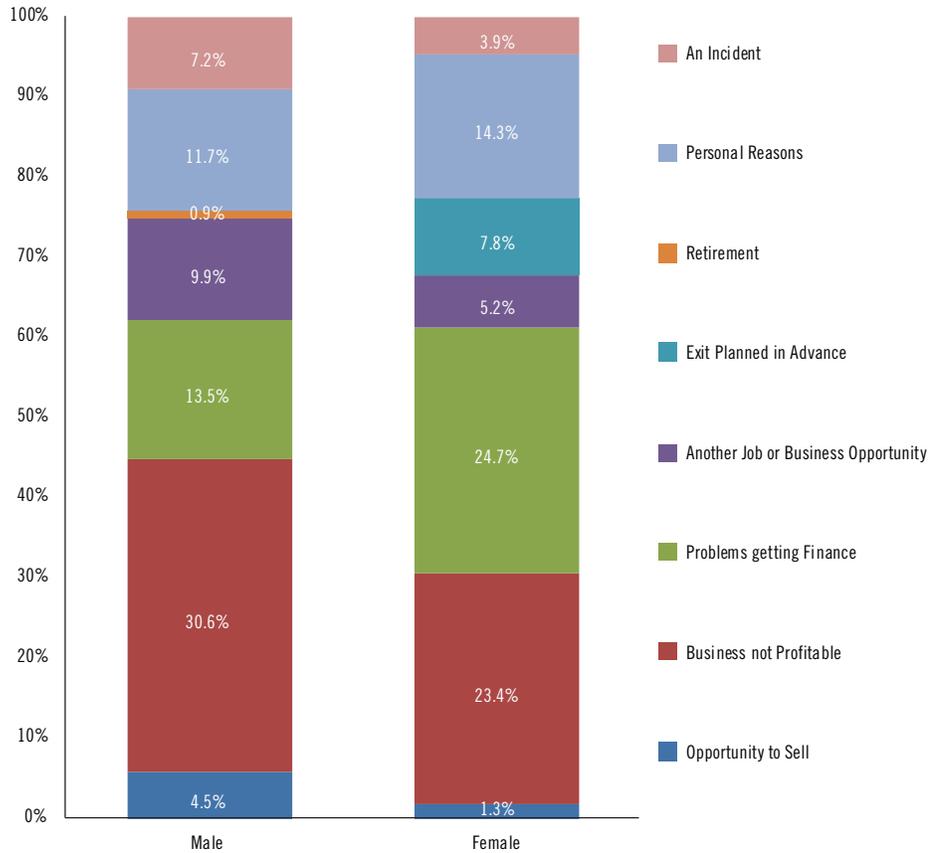
The rate of discontinuance for men is higher than for women on an absolute level (5.3% versus 3.6%). At the same time, men start more businesses, creating a bigger pool of those that could be stopped. For both men and women, nearly three entrepreneurs persist for every person discontinuing a business during the past year.

Further investigation into the reasons for discontinuance reveals that women are almost twice as likely as men to discontinue because they are unable to secure financing. This is the most frequently cited reason for business discontinuance among women, bolstering Chapter 1’s observation that a higher percentage of U.S. entrepreneurs discontinue due to lack of finance than the average among its development group.

As the first chapter detailed, an average of 11% of those people who discontinued businesses in innovation-driven economies cited problems with finance, while 18% of Americans did so. As Figure 20 shows, 13.5% of discontinuing males identified lack of finance as the main reason, closer to the innovation-driven group average. The high proportion of women who cited this issue (24.7%), however, raised the overall U.S. rate. This trend thus suggests that a key problem underlying discontinuance in the United States relates to gender-specific problems with finance.

For men, the number one cited reason for discontinuance is lack of profitability; women also mention that cause frequently, but to a lesser degree. Two of the more positive reasons for discontinuance include selling the business and taking another job or business opportunity. Together, these reasons account for 14.4% of discontinuances for men, but only 6.5% for women. This finding indicates that fewer exit plans exist among women.

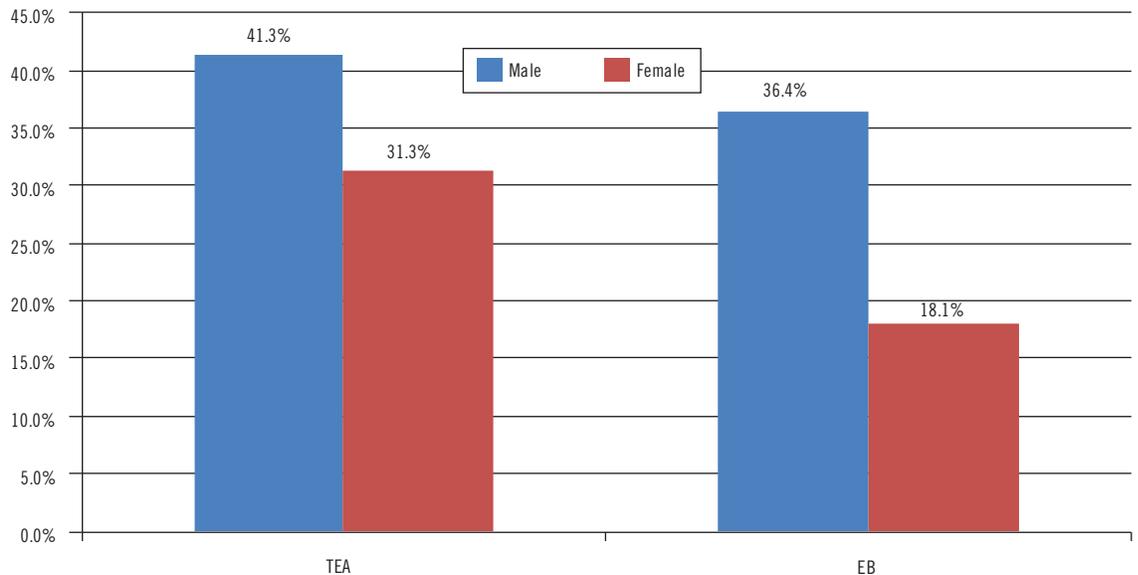
FIGURE 20
Reasons for
Discontinuance for
Men and Women in the
United States, 2012



Note: Calculated for the adult U.S. population aged 18 to 64
Source: Global Entrepreneurship Monitor United States 2012 Adult Population Survey

As Figure 21 shows, women entrepreneurs and business owners have lower growth aspirations than their male peers. Among entrepreneurs, men are more than 30% more likely than women to state they expect to add more than five employees over the next five years. Male business owners are twice as likely as their female counterparts to project this level of growth. Given the high percentage of women entrepreneurs who run consumer businesses, a relationship might exist between sector and likelihood of growth. On the other hand, the lower growth expectations for women may reflect a variety of other reasons, such as a desire to maintain control rather than grow the business, a need to balance work and family, and environmental constraints like lack of access to finance.

FIGURE 21
Percentage of
Men and Women
Entrepreneurs
(TEA) with Growth
Expectations (expect
to add more than
five employees in the
next five years) in the
United States, 2012



Note: Calculated for the adult U.S. population aged 18 to 64
Source: Global Entrepreneurship Monitor United States 2012 Adult Population Survey

Overall, women show less positive attitudes about entrepreneurship compared to men and this is reflected in lower entrepreneurship rates, particularly at younger ages. Women that venture into entrepreneurship use less money to start and rely more on personal and family funds. This may indicate that women entrepreneurs have less expansive ambitions, which could additionally be seen in lower growth ambitions. In addition, this finding may suggest that women have less access to other sources like bank lending, which may contribute toward discontinuances due to finance problems.

“My entrepreneurial dream is to educate and empower people to use food as a source of both wellness and happiness.”

Sara Gagnolati
CEO and Founder,
Cocomama



Chapter 5

Age-Related Aspects of Entrepreneurship

Mark Twain famously said, “Age is an issue of mind over matter. If you don’t mind, it doesn’t matter.” Apparently, Twain was not thinking about entrepreneurship, since GEM data has consistently shown that patterns of entrepreneurship vary greatly by age. There are many reasons for this. Entrepreneurship requires financial and human resources that generally differ with age, including personal capital, a network to draw upon, and skills, abilities, and experience. In addition, motivation to participate in entrepreneurship varies across age groups because it is influenced by such factors as one’s financial needs, the availability and attractiveness of traditional employment opportunities, and access to the resources needed to start and operate a business. All of these factors are evident in the examination of the GEM data by age group.

Figure 22 shows that attitudes about entrepreneurship follow a distinct lifecycle pattern. Measures relating to beliefs about the existence of entrepreneurial opportunities in one’s area, perceptions about capabilities, fear of failure, and whether one knows an entrepreneur all begin at low levels during the younger ages (18-34 years of age). These indicators increase during the next decade and then decline beyond 45 years of age. A few specifics are noteworthy, however.

Clearly, perceptions of capabilities show large increases toward mid-career. While less than half of 18-34 year olds believe they have the capabilities for starting businesses, nearly two-thirds of 35-44 year olds hold that belief. This measure stays roughly steady during the next decade before declining to slightly more than half for the 55+ group. The data suggest that the combination of formal training through school and other programs, along with early work and entrepreneurship experiences, creates capable and confident entrepreneurs as they move into mid-career. Older groups, particularly during this age of rapid technological change, may perceive themselves to be less capable because they begin to feel out of touch with current technologies and trends, and perhaps also for health reasons.

Opportunity perceptions exhibit a surprisingly stable pattern throughout the age ranges. Reflecting the dynamic economy of the United States, more than four in 10 people of all ages see good business opportunities. Nonetheless, approximately one-third of those who believed there were good opportunities also admitted that fear of failure would constrain them from starting a business. The percentages, however, vary by age. Less than one-third in the youth category expressed fear of failure, but the rate jumped to nearly 40% for the younger mid-career group before declining again among the older age groups. Only about one-fifth of those in their late career and senior years felt constrained by the prospect of failure, possibly reflecting their greater personal resources to withstand business problems. At the same time, the experience and ability to strategically manage risk can, in all likelihood, give older entrepreneurs greater confidence in their ventures.

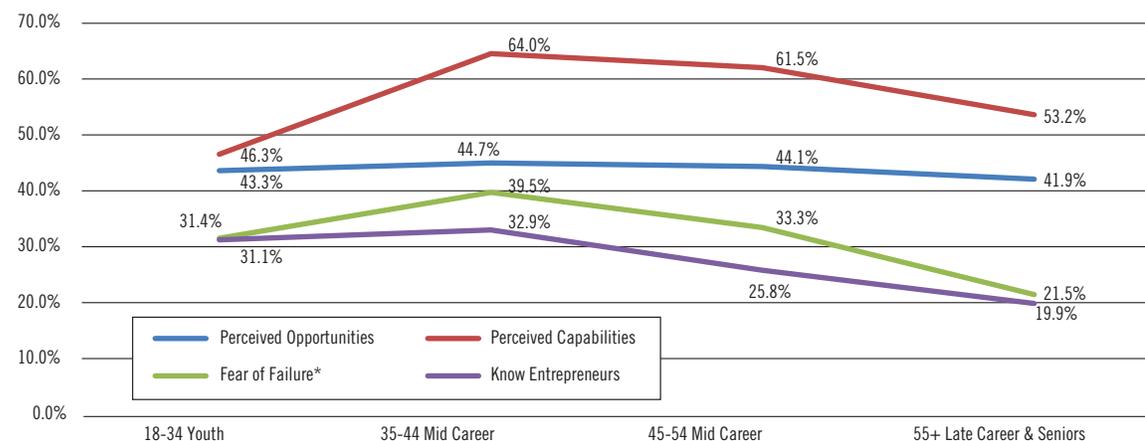
According to Figure 22, a higher percentage of younger people report that they know an entrepreneur. This measure peaks at about one-third for 35-44 year olds. One would expect that people tend to know entrepreneurs through family relationships when they are young, then through business and social connections during their careers. Perhaps the decline among the 45+ groups is a function of declining business activity beyond a certain age.

FIGURE 22
Entrepreneurial
Attitudes by Age
in the United
States from 2008
to 2012

*Fear of failure assessed for those seeing opportunities

Note: Calculated for the adult U.S. population aged 18 to 64

Source: Global Entrepreneurship Monitor United States 2012 Adult Population Survey



More than 4 in 10 people of all ages see good business opportunities



All age groups displayed declines in entrepreneurship in 2009 and 2010, and, with the exception of 18-24 year olds, all showed increases in 2011. In 2012, entrepreneurial intentions and new business starts increased substantially among the youngest and oldest groups, while 25-54 year olds maintained their previous year's levels. As one would expect, intentions and nascent entrepreneurship are generally greatest among younger groups, while the prevalence of established business ownership increases with age. In short, the young have fewer financial and family commitments and possess the energy and freedom to pursue their entrepreneurial dreams. Older groups may continue to run the businesses they built during their lifetimes. These overall trends make sense, since younger people are typically making plans and getting started, while older people are operating businesses that were generally formed when they were younger.

One critical point to consider, however, is that both younger and older demographic groups have lower workforce participation rates than mid-career groups. The reasons for such differences are obvious. Younger people find themselves in school and in military service in much greater numbers than older people. Many people over the age of 65 have left the workforce due to retirement or health issues. Workforce participation rates for people in the 25-54 year age range reach approximately 81%, whereas only about 65% of 18-24 and 55-64 year olds participate. After 65 years of age, participation in the workforce declines substantially to around 18.5%. The following analysis of entrepreneurship rates will adjust for these workforce participation rates in order to better reflect entrepreneurship levels among those available for employment.

Figure 23 reveals rates of involvement in the entrepreneurship process by age, adjusted for workforce participation levels. This figure also breaks out the younger group into 18-24 year olds and 25-34 year olds to better reflect the youngest group's lower participation in the workforce. For example, because 35% of 18-24 year olds are not in the workforce, this increases the raw finding by 35%.

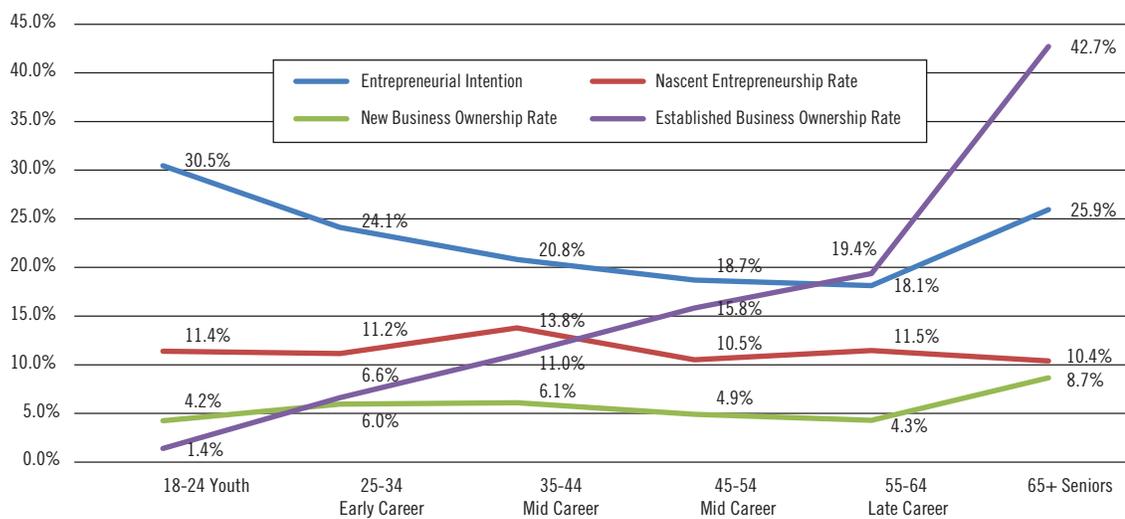


FIGURE 23
Participation Across Phases of Entrepreneurial Activity by Age in the United States, Adjusted for Workforce Participation Rates, 2012

*Intentions assessed among nonentrepreneur population
Note: Calculated for the adult U.S. population aged 18 to 64
Source: Global Entrepreneurship Monitor United States 2012 Adult Population Survey

Figure 23 clearly shows that, with the exceptions of seniors, entrepreneurial intentions are highest for the youngest group and decline with age, probably because people either see their intentions clouded by perceptions of reality or choose non-entrepreneurial careers. The high levels of intentions among youth may reflect both a lack of traditional employment opportunities in a still-recovering economy and a desire to pursue entrepreneurial dreams. However, given that 83% of youth entrepreneurs report being opportunity-driven (as opposed to 80% of early career entrepreneurs and 77% beyond that), it appears more likely that the high rate of entrepreneurial intentions reflects the latter explanation. Such attitudes among youth provide a counterargument to those who believe that young people do not view entrepreneurship as a viable career path.

CHAPTER 5

Measures of nascent and new entrepreneurship stay surprisingly steady with age, varying only a few percentage points across all groups, with the exception of seniors (whom will be discussed shortly). These findings show the prevalence of entrepreneurship in the United States. Approximately one person in 20 has a new business and one person in 10 has a nascent business—almost regardless of age.

Established business ownership displays a different pattern, where age and ownership highly correlate. As one would expect, the chances that youth will be running businesses more than three and half years old are quite slim. That probability, however, increases as entrepreneurs age; by 55 years old nearly one workforce participant in five owns a business.

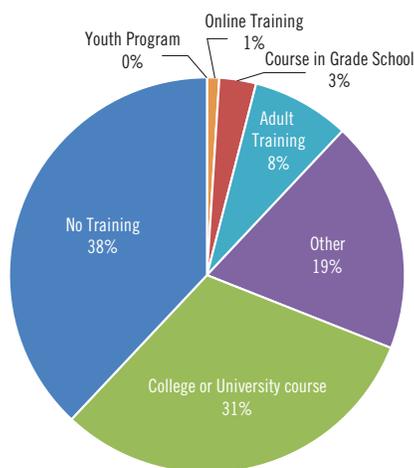
Figure 23 reveals quite dramatic results among seniors, in large part due to their low participation in the workforce. The majority of seniors are retired or otherwise not working. Those who remain in the workforce, however, display a high level of entrepreneurial activity. More than 42% of working seniors run established businesses. Around one-tenth are starting or running new businesses. Fully one-quarter intend to start a business in the next three years. These trends may reflect an absence of jobs as employees for this age group, a lack of readiness for retirement or a fundamental interest in running a business.

Despite age-old beliefs that people don't learn to be entrepreneurs in a classroom, it is now common knowledge that many aspects of entrepreneurship can, in fact, be taught. The GEM results show that slightly more than two-thirds of U.S. entrepreneurs received at least some college or university education. More specifically, 31% of entrepreneurs received training in starting a business from a university or college-level course. This suggests that somewhat less than half of the entrepreneurs with post-secondary education took entrepreneurship or business courses. Since entrepreneurship education at the undergraduate and graduate level has only become widespread in the United States during the last decade, though, many entrepreneurs may not have had the opportunity to receive this education when they were in college. Nonetheless, opportunities to receive such training are likely to increase in the future.

While some entrepreneurs have received training through adult programs, grade school courses and youth programs are nearly nonexistent (see Figure 24). This finding is consistent with the GEM Global 2012 Report (Xavier et. al., 2013), which indicates that nearly every one of the 69 participating economies identified entrepreneurship education in primary and secondary schools as the least adequate factor among those believed to influence entrepreneurship in an economy. Given that not only skills but also attitudes can best be shaped during childhood, youth entrepreneurship training may represent a promising opportunity for policy and practice.

Additionally, 38% of entrepreneurs reported that they received no formal entrepreneurship training. Furthermore, online training was rarely mentioned. To the extent that training can improve one's skills and perceptions about entrepreneurship, it is not unreasonable to assume that training can inspire people to be entrepreneurs at some point in their careers, perhaps when needed or when they see a promising opportunity. Training may also enhance their chances of success and their ability to expand their ventures. These findings evoke questions about the availability of entrepreneurship training in the United States and reveal opportunities to enhance such services in this country.

FIGURE 24
Sources of Training in Starting a Business for Total Entrepreneurial Activity in the United States, 2012



Note: Calculated for the adult U.S. population aged 18 to 64

Source: Global Entrepreneurship Monitor United States 2012 Adult Population Survey

Figure 25 shows the median amount of capital entrepreneurs in the different age groups used to start their businesses. The youngest groups started with the least funding: as low as \$2,000 for 18-24 year olds. Median funding levels increased with age to a high of \$35,000 among 45-54 year olds, and then declined to around \$20,000 for the two age groups after that.

This pattern of increased funding with age may reflect the availability of personal capital or the means to raise capital (collateral, connections, good credit, etc.). At the same time, youth may be starting smaller businesses that require less capital; they may grow these more slowly, using funds generated internally to fund future growth and capital investments.

The drop in start-up funding among older entrepreneurs may reflect a business with revenue in place. For example, an engineer who starts his or her own firm may start with a preexisting client or two. Similarly, a distributor of gym equipment may, given his or her experience and network of contacts in the industry, already have retail clients ready to place orders and perhaps suppliers offering good payment terms. Such strategies minimize risk and lower the amount of capital required. Like youth, though, older entrepreneurs may find themselves building less risky lifestyle businesses that require lower start-up capital.

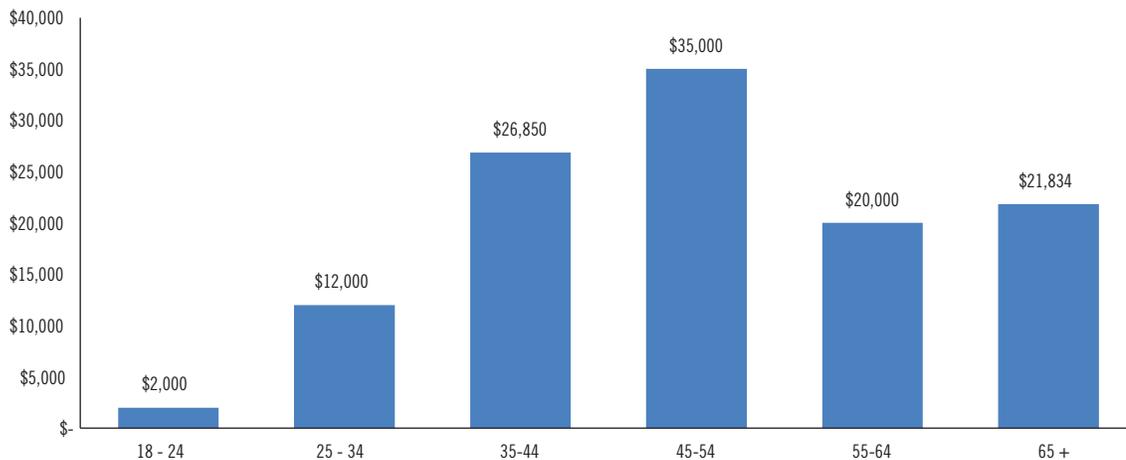


FIGURE 25
Median Amount of Capital Required to Start a Business by Age Group in the United States, 2012

Note: Calculated for the adult U.S. population aged 18 to 64

Source: Global Entrepreneurship Monitor United States 2012 Adult Population Survey

The vast majority of the funds entrepreneurs used to start their businesses came from personal savings and family. On average, the middle age groups, from 25-64 years of age, reported that less than 80% of their funding came from such sources. At either end of the age spectrum, though, 90% or more of financing came from personal and family savings. Youth likely face a limited ability to borrow and thus rely on comparatively small amounts to get started. Seniors, on the other hand, can tap their high personal net worth and savings. Across all groups, however, less than 20% of funding came from banks; youth and seniors were especially less apt to use this source.

Just shy of 60% of the entrepreneurs reported that they expected to show a profit in the current year. Only the youth showed a higher profit expectation than the other age groups (68%). This finding likely reflects the shorter-term orientation of their businesses and their low capital requirements. Overall, youth entrepreneurship paints a general picture of small ventures begun with personal and family funds and with a good chance of being profitable quickly.

In sum, entrepreneurship shows particular lifecycle patterns. Younger entrepreneurs pursue opportunities by starting businesses with small amounts of funding. Through middle age, entrepreneurs have more confidence and greater capabilities and they start larger businesses that require more funding. By the time entrepreneurs become older, they have, in very large numbers, grown established businesses, and they start businesses mostly with their own financial resources. This view into the age patterns of entrepreneurship clearly shows the different needs, capabilities and behaviors of entrepreneurs at different points in their lives. But most importantly, it shows that entrepreneurship is central to economic life at all ages.

Chapter 6

Immigrant Entrepreneurship

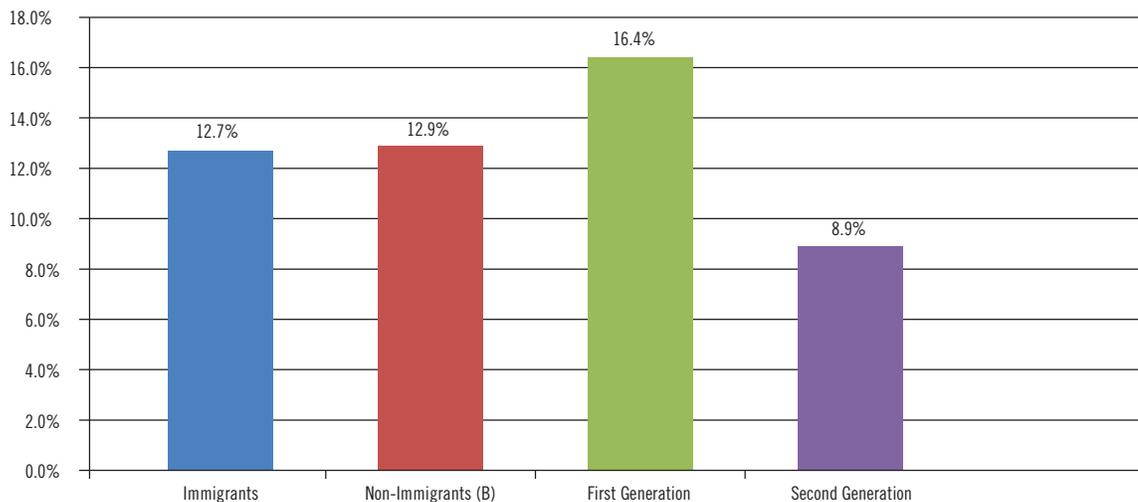
The United States, as John F. Kennedy famously wrote, is a nation of immigrants. America has been a beacon for those venturing onto its soil throughout its history. Every day, immigrants create new start-ups in various industries across the United States. More importantly, this country has attracted entrepreneurs of all kinds, from local community-based small businesses to large high-growth enterprises. First-generation immigrants, for example, cofounded technology giants like Google, Yahoo, Sun Microsystems and eBay.

Immigration reform received a lot of attention during the 2012 election. In February 2013, the bipartisan Startup Act 3.0 was introduced in Congress to propose granting 75,000 new “entrepreneur visas” every year to founders who raise \$100,000 for new ventures and hire at least two full-time non-family employees within a year, and at least five more in the following three years. The bill also modifies the tax code to boost investment in start-ups, accelerate commercialization of university research, and bring about improvements in the regulatory process for new business. Although immigration reform extends beyond promoting entrepreneurial ambitions, it is clear that officials at the highest levels of the U.S. government recognize the importance of entrepreneurial instincts.

The GEM 2012 survey defined first-generation immigrants as those who were born outside the United States and then later moved to this country. Second-generation immigrants are people born in the United States, but with at least one parent who was born abroad.

Interestingly, there is no difference in TEA rates between immigrants and non-immigrants in the U.S. population. This finding, at first glance, appears inconsistent with the expectation that immigrants are more entrepreneurial than the rest of the population. However, a closer look at first- and second-generation immigrants shows a clearer picture that is consistent with this general perception.

FIGURE 26
Total
Entrepreneurial
Activity (TEA)
Among Immigrants
and Non-Immigrants
in the United
States, 2012



Note: Calculated for the adult U.S. population aged 18 to 64

Source: Global Entrepreneurship Monitor United States 2012 Adult Population Survey

Figure 26 shows almost twice the proportion of entrepreneurs among first-generation immigrants than in the second generation. Nascent entrepreneurial activity is even more pronounced in the first-generation population: 11% are in the process of starting a business, compared to 5% for the second generation and 9% for non-immigrants. Furthermore, a significantly higher proportion of first-generation immigrants intend to start a business compared to the second generation (27% versus 17%); the intent level for the latter does not differ significantly from the rate among non-immigrants (15%).

Several factors may explain these findings. By virtue of having journeyed to the United States, first-generation immigrants have by definition revealed their venturesome spirit. Additionally, they may also view their new environment from a different lens, seeing gaps or unique possibilities that others do not. Moreover, they may lack the country-specific training

or connections to gain employment in the formal job market. The second generation, however, does not have the same experiences, and may even be encouraged by their immigrant parents to embrace a different dream, including perhaps one involving a more stable job.

Nonetheless, fewer first-generation immigrants run established businesses (5%) compared to non-immigrants (9%) and second-generation immigrants (7%). An investigation of the nature of immigrant businesses in a longitudinal study may provide greater insights into this finding. For example, do certain conditions in the U.S. environment make these businesses difficult to sustain? Do immigrants tend to start less sustainable businesses? Do they have less training or access to resources to sustain them? Or do they simply leave the United States after some time, providing insufficient time for establishing and growing their businesses?

With regard to attitudes, Figure 28 shows that first-generation immigrants see more opportunities than both second-generation immigrants and non-immigrants. Interestingly, second-generation immigrants have a greater fear of failure compared to the first generation. It seems that second-generation immigrants are not only acculturated to the general non-immigrant population in terms of the TEA rates and opportunity perceptions, but also show greater risk aversion compared to the first generation. In addition, they are slightly less likely to know an entrepreneur than members of the first generation.

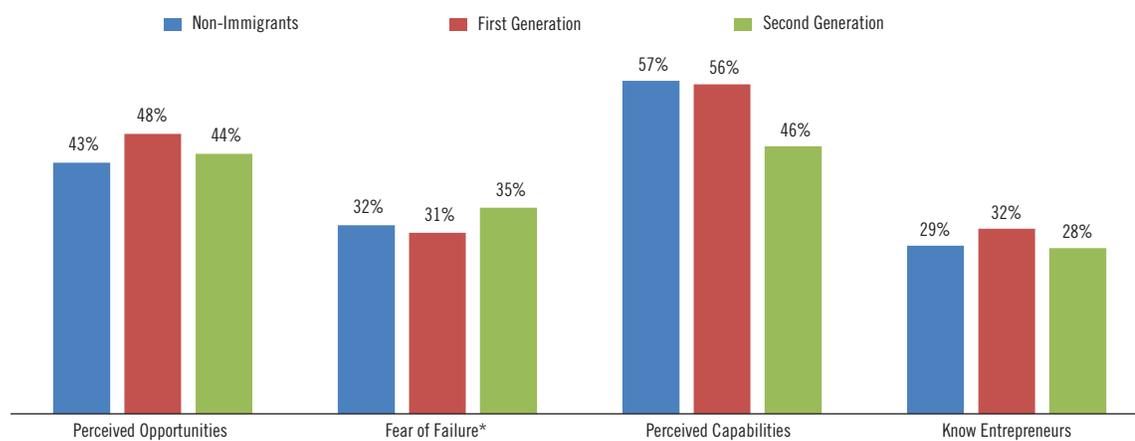
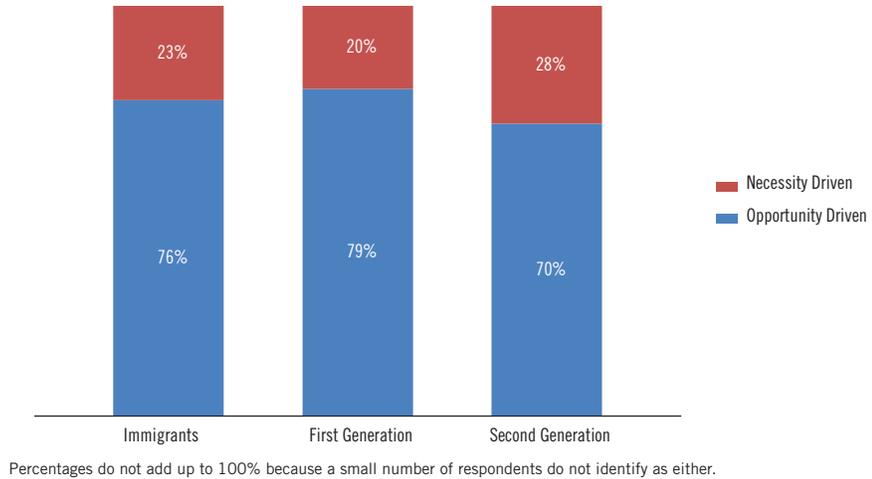


FIGURE 27
Entrepreneurial
Attitudes for
Immigrants and Non-
Immigrants in the
United States, 2012

*Fear of failure assessed for those seeing opportunities
 Note: Calculated for the adult U.S. population aged 18 to 64
 Source: Global Entrepreneurship Monitor United States 2012 Adult Population Survey

Second-generation immigrants perceive themselves as less capable of starting a business than the non-immigrants and first-generation immigrants, both of which show the same level on this attitude measure. This result could reflect a different typical business each group has in mind. An examination of the distribution of businesses across industries shows that 41% of first-generation immigrant businesses are consumer-oriented, compared to only 16% of businesses started by second-generation immigrants. Moreover, only 42% of first-generation immigrant businesses are classified as business services, while 62% of second-generation immigrant businesses are. A strong focus on business services rather than consumer businesses, as displayed in the second generation, is generally associated with a higher level of knowledge intensity and more common in developed economies. The capabilities required to start and run these businesses are therefore likely different from those in other sectors.

FIGURE 28
Proportion of Total Entrepreneurial Activity with Necessity- vs. Improvement-Driven Opportunity Motives Among Immigrants and Non-Immigrants in the United States, 2012



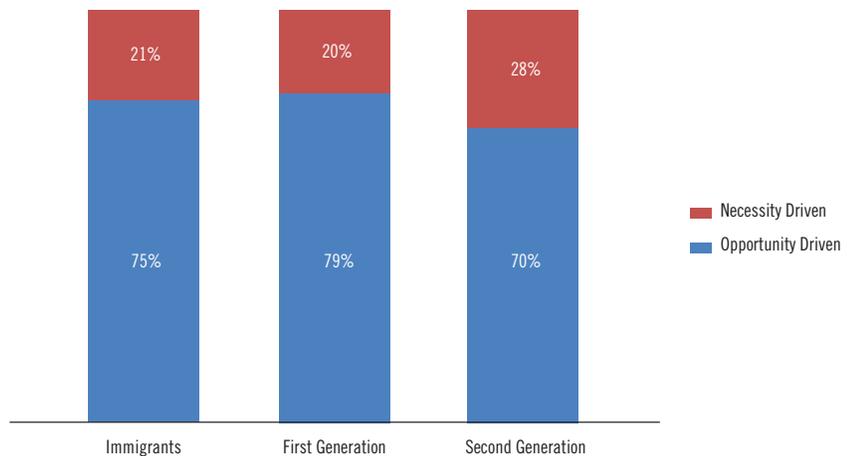
Note: Calculated for the adult U.S. population aged 18 to 64
 Source: Global Entrepreneurship Monitor United States 2012 Adult Population Survey

While there are seven female entrepreneurs for every ten male entrepreneurs in the non-immigrant population, there are fewer than six women for every ten men involved in entrepreneurial activity among the immigrant population. While both genders participate to a greater extent in the first generation than in the second generation, the differences among males is large and statistically significant. More than one-fifth of first-generation male immigrants are starting and running new businesses, while slightly more than one-tenth of second-generation immigrants do so. The decline in the entrepreneurship rate from first- to second-generation immigrants may further demonstrate the acculturation of second-generation immigrants into the mainstream population, with the effect magnified to some extent among men.

With regard to the education profile of entrepreneurs, 57% of the entrepreneurs among first-generation immigrants have a bachelor degree or higher, compared to 45% of the non-immigrant entrepreneurs and 32% of second-generation immigrants. This would appear consistent with the notion that many immigrants enter the United States as students. Second-generation entrepreneurs, on the other hand, are not only less likely to be entrepreneurs, but those who do follow that path are more often necessity-driven. At the same time, they are also more likely to operate in business services. This may suggest a dual effect: the second-generation may typically prefer other forms of employment but enter entrepreneurship out of necessity or to pursue higher potential opportunities.

Figure 29 shows the distribution of entrepreneurs across three groups based on household income: the upper 33% (the richest), the middle 33%, and the lower 33%. There is no significant difference between the non-immigrant and second-generation entrepreneurs. However, 63% of first-generation entrepreneurs occupy the upper 33% income levels, which is statistically different from the non-immigrant entrepreneurs. This is quite interesting because it shows that first-generation immigrant entrepreneurs are more educated and wealthier than the rest of the population of entrepreneurs, yet they more often start and run consumer types of businesses.

FIGURE 29
Distribution of Total Entrepreneurial Activity Across Household Income Categories Among Immigrants and Non-Immigrants in the United States, 2012



Note: Calculated for the adult U.S. population aged 18 to 64
 Source: Global Entrepreneurship Monitor United States 2012 Adult Population Survey

All in all, immigrant entrepreneurship in the United States is driven by the first generation. This group starts and runs new businesses at twice the rate of the second generation. They are more likely than the second generation to believe there are good opportunities for starting businesses and to intend to start in the future. First-generation entrepreneurs are highly educated and wealthy. They are also more likely to be male and more typically operate in the consumer industries. It is notable that the high entrepreneurial activity in the first generation does not extend into the established business phase, suggesting further inquiry into why this is the case.

The second generation, on the other hand, displays lower entrepreneurship rates. Those rates are accompanied by a higher fear of failure and lower perceptions about capabilities than among either first-generation or non-immigrant entrepreneurs. When second-generation immigrants do enter entrepreneurship, however, they are more likely to do so out of necessity and are more likely to start in the business services sector. This finding suggests they are more often pushed into entrepreneurial activity, but they also demonstrate a preference for knowledge-intensive businesses.

“My entrepreneurial dream is to bankrupt polluting business models by pioneering cleaner AND cheaper technologies.”

**James A. Poss,
Founder and President,
BigBelly Solar**



Chapter 7

Entrepreneurship in Three States

The GEM United States 2011 National Report provided a detailed examination of entrepreneurship in California and New York, based on oversamples of these two states. The results showed similar attitudes about the presence of opportunities and capabilities, which were consistent with national levels. TEA rates were also equivalent and matched overall levels in the United States.

California had distinctly high levels of intent and showed some future positive outlook for entrepreneurship. Entrepreneurs in that state were more likely than the national average to be innovative, opportunity-motivated and from high-income households, yet their growth projections were only average.

New York showed low growth projections and low levels of international trade. On the other hand, entrepreneurs there were slightly more innovative than the national average. One striking result was a low participation rate for women; for every 10 male entrepreneurs in New York, only four women participated in the activity, little more than half the national average.

In 2012, the GEM U.S. survey included an oversample of three states: Florida, Ohio and Texas. These states represent different regions: Florida in the southeast, Ohio in the Great Lakes region, and Texas in south central. As Table 1 shows, these states exhibit diversity in population, income, gross domestic product (GDP), state taxes, and employment levels. Such factors influence the economic climate more generally and may also be reflected in entrepreneurship indicators.

Median household income in Florida was lower than the national average in 2012, and GDP levels were relatively low and stagnating. The state was hit hard by a large number of foreclosures and bad loans during the recession. Unemployment levels in Florida approximately matched national levels, but three cities—Fort Lauderdale, West Palm Beach, and Miami—ranked among the top metropolitan areas with the largest loss in employment since the recession.

On the positive side, Florida experienced high population growth in the first decade of this century and its residents do not pay a state income tax. The state government has taken action to improve the business environment, reducing regulations and corporate taxes. The Florida High-Tech Corridor Council has designed a portal, called the “Virtual Entrepreneur Center,” in which entrepreneurs can find all the resources they need to start or grow their businesses. The state also has programs to encourage the space industry in the private sector; progress could be seen in the launch of the first private delivery capsule to the International Space Station in May 2012.

Like Florida, Ohio had a low median household income and low GDP per capita in 2012, although GDP growth was a little higher than in Florida. Population growth has been marginal, however, and residents pay a state income tax. The state relies comparatively heavily on manufacturing. Ohio’s unemployment rate has improved quickly in the last three years and is now below the national average.

Ohio’s economic recovery is not complete, though, and the state has taken novel steps to speed up the process. For example, Ohio hired a full-time employee whose only responsibility was to shift jobs to the state from California. Additionally, former governor Ted Strickland supported entrepreneurs by providing seed money. In another step, the state privatized its economic development agency in the hopes of attracting greater investments and new residents, as well as reducing spending.

Texas has seen a substantial increase in its population in recent years and reports high GDP per capita and faster GDP growth than the other two states. In addition, residents don’t pay state income taxes and unemployment is low. In fact, four of the top 10 U.S. metropolitan areas that have seen the largest gains in employment since the recession are in Texas: Austin, Houston, San Antonio, and Dallas. Median household income, however, is a little lower than national levels.

The energy sector has flourished in Texas which boosted the state’s economy. Labor and housing costs are relatively low. Additionally, Texas’s strict mortgage rules prevented the state from experiencing many sudden foreclosures. The state’s rapidly growing public school system, including at the tertiary level, is highly regarded and analysts predict a bright future for education in the state. The government provides capital and grants through a \$250 million Enterprise Fund that directs capital to start-ups promising to create a significant number of jobs. An Emerging Tech Fund gives grant funding to high-tech start-ups who agree to partner with a Texas university for R&D development.

| | UNITED STATES | FLORIDA | OHIO | TEXAS | |
|---|---------------|---------|------------|--------|---------------------------|
| Population, 2010, in millions | 309 | 19 | 12 | 25 | Source: census.gov |
| Change in population, 2000-2010 | 9.7% | 17.6% | 1.6% | 20.6% | Source: census.gov |
| Median Household Income, 2001 | 50,054 | 45,105 | 44,648 | 49,047 | Source: census.gov |
| Per capita real GDP per state, 2011 | 42,070 | 35,689 | 36,283 | 44,788 | Source: bea.gov |
| Increase in GDP per capita, 2011 | 1.5% | 0.5% | 1.1% | 3.3% | Source: bea.gov |
| Percentage of workforce employed in manufacturing | 9.0% | 4.3% | 12.3% | 7.3% | Source: nam.org |
| State Income Tax Rate | | none | up to 5.9% | none | Source: taxadmin.org |
| State Business Tax Climate Score | | 6.9 | 4.56 | 6.08 | Source: TaxFoundation.org |
| State Business Tax Climate Rank | | 5 | 39 | 9 | Source: TaxFoundation.org |
| Unemployment rate, December 2012 | 7.9% | 8.0% | 6.7% | 6.1% | Source: bls.gov |
| Employment rank | | 35 | 22 | 16 | Source: bls.gov |

TABLE 1
Select Population and Economic Statistics for the United States, Florida, Ohio and Texas

ENTREPRENEURIAL ATTITUDES

Texas stands out for its high level of opportunity perceptions, while the other two states are about on par with the national average. As noted in Chapter 1, opportunity perceptions assess one's external environment, and the results in Texas would seem consistent with the positive indicators reviewed in Table 1. In addition, Texans, as well as Floridians, are slightly more likely to know entrepreneurs than the national average.

Florida is also distinguished by its positive assessment of capabilities, combined with lower than average fear of failure. These two measures reflect self-perceptions: one's readiness, confidence and spirit for entrepreneurship. However, as this chapter will later reveal, entrepreneurship in Florida is characterized by high necessity motives, higher participation by lower income groups, low involvement in business services, and lower innovation than the national average. Self-perceptions may be influenced by the types of business activity one has in mind, and typical Florida businesses may be different than in other parts of the country. Figure 30 illustrates the differences in attitude measures among the three states compared with the national average.

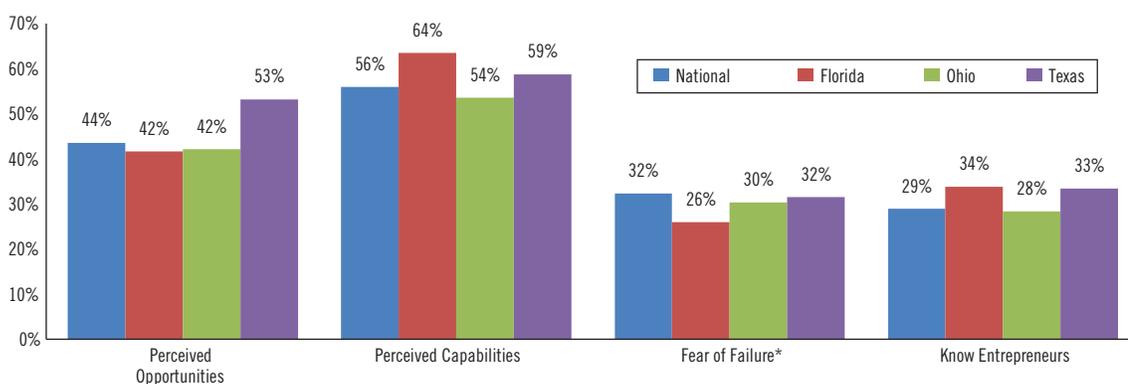


FIGURE 30
Entrepreneurial Attitudes in Three States and National, GEM United States 2012

*Fear of failure assessed for those seeing opportunities
Note: Calculated for the adult U.S. population aged 18 to 64
Source: Global Entrepreneurship Monitor United States 2012 Adult Population Survey

CHAPTER 7

ENTREPRENEURIAL ACTIVITY

For the most part, nascent, new, and established business activity levels fluctuate just above or below the national average in the three states. Compared to the national TEA rate of 13%, Ohio exhibits a lower rate (11%), while Florida (17%) and Texas (16%) show higher rates.

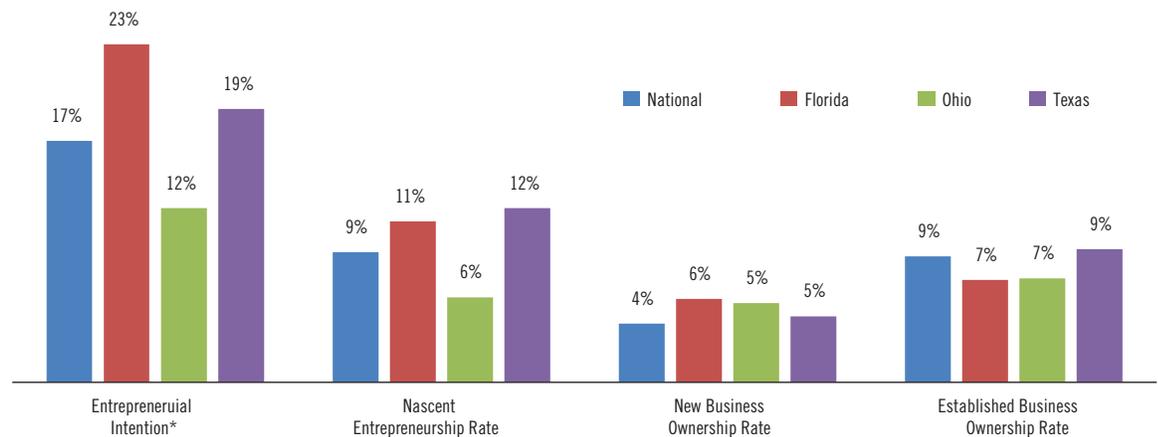
The combination of intent and nascent activity, however, reveals some notable differences (Figure 31). Those two indicators exhibit the most current propensity for entrepreneurial entry, indicating how many people are ready to jump in or have just taken the plunge. Given that the recession is still quite recent and perhaps lingering in many people's minds, these two measures may reveal different trends around the country at present. On the other hand, they could equally represent more lasting indications of the differences in levels of intent and nascent activity around the United States, suggesting the value of tracking these measures over time.

Intention and nascent rates in Texas and Florida exceed the national average. Ohio, on the other hand, exhibits lower than average results on these measures. Again, this could indicate a recent occurrence—a boom in entrepreneurship in Florida and Texas—or it could suggest that people in these states are simply more willing to try their hand at entrepreneurship.

The picture becomes more intriguing, though, with an examination of necessity and opportunity motives and income levels. Ohio matches the national average for necessity entrepreneurship: 21% of entrepreneurs state they entered entrepreneurship out of necessity, while 76% chose to start a business to pursue an opportunity. Florida and Texas, on the other hand, differ in opposing ways. Florida has a higher level of necessity entrepreneurship (26%), while Texas has a lower rate (14%).

Nationally, entrepreneurship tends to be more prominent among high income people; 42% of entrepreneurs fall into the highest third of household income. This pattern generally holds in Texas and Ohio, but not in Florida, where only 31% of the entrepreneurs reported this income level. Instead, more entrepreneurs in Florida fall in the lowest income category than the national average (37% versus 30%).

FIGURE 31
Entrepreneurial
Activity by Phase
in Three States and
National, GEM United
States 2012



*Intentions assessed among nonentrepreneur population

Note: Calculated for the adult U.S. population aged 18 to 64

Source: Global Entrepreneurship Monitor United States 2012 Adult Population Survey

GENDER DIFFERENCES

Differences in TEA rates among males and females show stark differences. Florida men are more than twice as likely to engage in entrepreneurial activity as women, and Ohio reported a similar ratio. As Figure 32 shows, the percentage of females engaged in entrepreneurship in Florida is on par with the national average, while high male activity gives the state an elevated overall TEA rate. Conversely, male activity in Ohio matches the national average, while low participation among women pulls the overall rate downward.

In Texas, on the other hand, both males and females show above average TEA rates, so both sexes contribute to high levels of entrepreneurship in that state. Texas's ratio of female to male participation is also above the national average. Nationally, there are seven women for every 10 men engaged in entrepreneurship; in Texas, the ratio is eight to 10.

Nationally, entrepreneurship is most prevalent in mid-career (specifically, among the 35-44 age group). People in their mid-careers may, in fact, be well-positioned for entrepreneurial activity; they can leverage their experience, education and networks and likely have access to resources. At the same time, they may also be secure in their current positions and content with their salaries, thus facing disincentives for entering entrepreneurship. Other concerns, such as mortgage payments or kids in college, may lead mid-career people to prefer a more stable income.

In the United States, participation in entrepreneurship is high among youth, increases slightly through mid-career and then tapers off, as Figure 33 illustrates. Texas shows a similar distribution by age group, but at higher than average levels of activity from youth through mid-career, then falling off beyond that to match national rates.

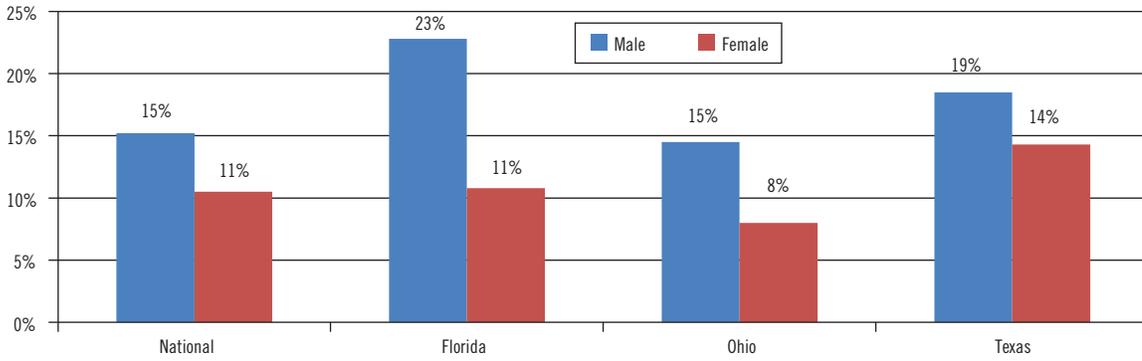


FIGURE 32
Total Entrepreneurial Activity for Men and Women in Three States and National, GEM United States 2012

Note: Calculated for the adult U.S. population aged 18 to 64
Source: Global Entrepreneurship Monitor United States 2012 Adult Population Survey

Compared with Texas, Florida shows a lower rate of entrepreneurship among youth but a slightly higher level at mid-career. Both Texas and Florida have higher than average rates across all age groups. Entrepreneurship rates in Ohio, on the other hand, do not exceed national levels for any of the three age categories.

Low participation among youth may be a concern for Ohio, but it also may prove disquieting for Florida. Even though Florida shows high entrepreneurship rates at all ages, it also demonstrates a greater disparity between youth and mid-career than reported nationally and in Texas. Florida youth may participate more often in other activities that typically occupy this age group, such as college, military service, or particular occupations. Alternatively, Florida may face ecosystem constraints, for instance, difficulties attracting stakeholders that would otherwise support and participate in youth entrepreneurial activities, such as investors, customers, or suppliers.

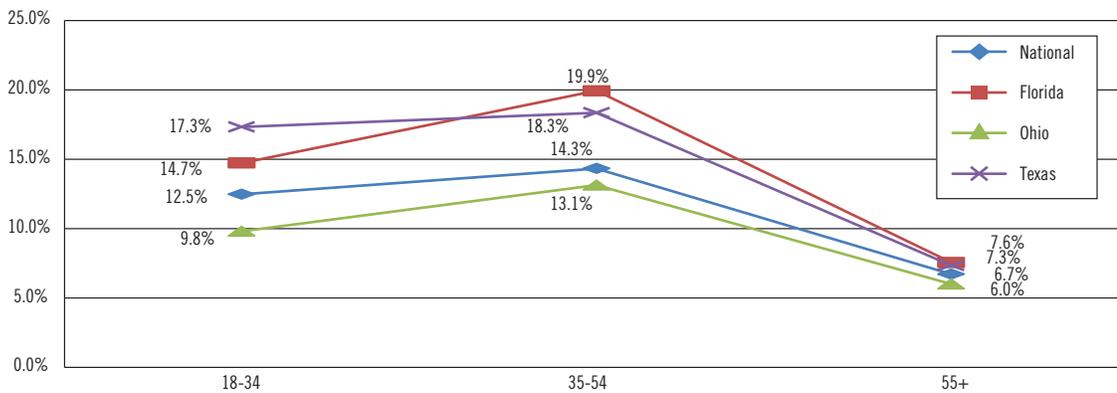
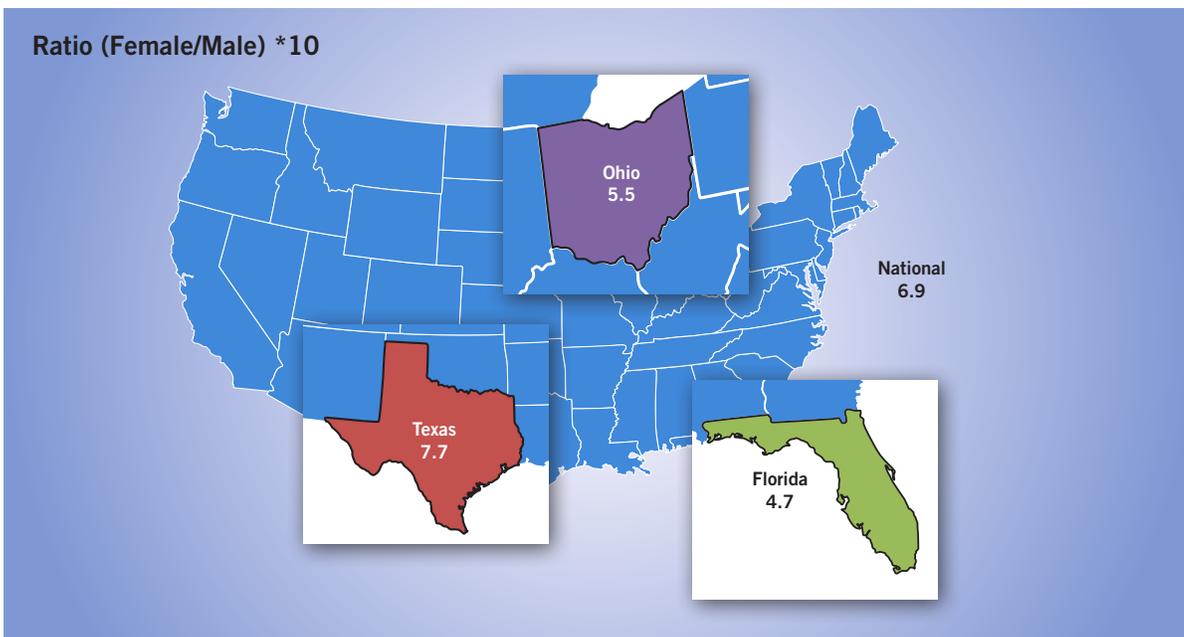


FIGURE 33
Total Entrepreneurial Activity by Age Group for Three States, and National, GEM United States 2012

Note: Calculated for the adult U.S. population aged 18 to 64
Source: Global Entrepreneurship Monitor United States 2012 Adult Population Survey

INDUSTRY

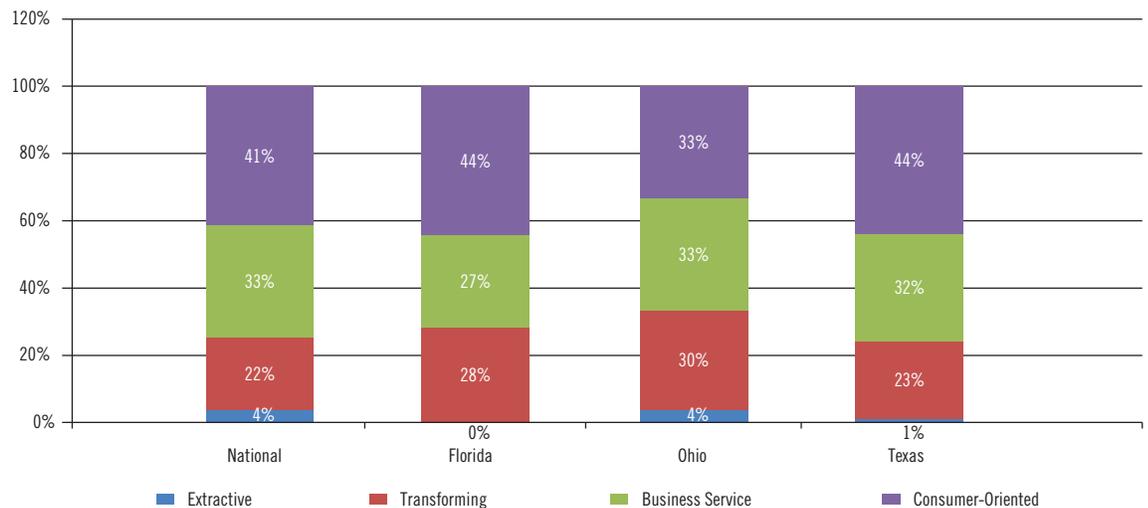
The industry breakdown for entrepreneurship in Texas is very similar to the national-level profile, as Figure 34 shows. Florida and Ohio, on the other hand, show higher involvement in the transforming sector. For Ohio, this finding is consistent with the state’s reliance on manufacturing. (See Table 1 at beginning of this chapter for the percentage of the workforce engaged in manufacturing.) This state-level industry focus can provide opportunities for entrepreneurs to participate as value chain players. Entrepreneurs may also benefit from ecosystem elements that support manufacturing in this state, such as transportation infrastructure, specialized service providers, facilities, and a skilled workforce.

Florida, on the other hand, has among the lowest levels of workforce engagement in manufacturing, yet it reports a higher than average level of transforming entrepreneurs. While Ohio’s results may reflect a longer-standing state characteristic, Florida may be seeing a current trend toward attracting manufacturing sector entrepreneurs.

The emphasis on manufacturing in the two states to some extent comes at the expense of business services in Florida and consumer-oriented businesses in Ohio. The innovation-driven economies, and the United States more specifically, are characterized by more entrepreneurial activity in business services and less in consumer-oriented sectors. Florida’s sector characteristics may be a function of the state’s unique nature. For example, Florida has a high tourist trade, second only to New York in attracting overseas travelers in 2010 (source: census.gov). This fact may contribute to a still-high level of direct-to-consumer business activity, with comparatively fewer opportunities for more knowledge-intensive business services.

FIGURE 34
Distribution of Total Entrepreneurial Activity (TEA) Across Industry Sectors for Three States and National, GEM United States 2012

Note: Calculated for the adult U.S. population aged 18 to 64
Source: Global Entrepreneurship Monitor United States 2012 Adult Population Survey



ENTREPRENEURIAL AMBITIONS

Entrepreneurial ambitions can include entrepreneurs’ pursuit of growth, international sales, and the development of innovative products and services. Nationally, 37% of entrepreneurs project adding more than five employees over the next five years. Florida and Ohio fall around this average, but Texas, at 47%, exhibits a higher level of growth orientation.

While growth projections offer little guarantee that these estimates will actually be achieved, their presence can serve as indicators of entrepreneurial optimism and ambition as well as beliefs about the potential of the opportunities being pursued. Societal attitudes may fuel this optimism. For example, Figure 31 shows that an above-average number of Texans believe there are good opportunities for entrepreneurship. This optimism may, in turn, stem from external factors such as population growth, high and growing GDP, and favorable tax and employment rates. Also, compared with national averages, Texas exhibits a high ratio of improvement-driven opportunity entrepreneurship, which is generally associated with higher ambitions.

When it comes to selling outside national borders, however, Florida stands out as an internationally focused state, while the other two report low international sales. Nationally, only 12.4% of entrepreneurs in the United States report that more than one-fourth of their customers come from outside the country. While this percentage is already low compared with other innovation-driven economies, Ohio (9%) and Texas (8%) report even fewer internationally focused entrepreneurs.

Florida, on the other hand, reports that nearly 19% of its entrepreneurs have this level of international intensity. Immigrants may fuel this expansiveness, since many typically maintain ties with their homelands and extend those contacts into their

business endeavors. Florida reports more than 40% more immigrants than the national average and, as the GEM global report indicates, immigrants are more likely to be entrepreneurs and seek international markets (Xavier et al., 2013).

Immigrants don't tell the whole story though. The proportion of immigrants in Ohio is less than half the national average, while Texas has about 50% more immigrants than are reported nationally. Yet both show low international sales. Other factors, like the types of businesses started and the specific markets in which those business operate, may also contribute to differences in international sales. Florida's tourism emphasis may also help explain this result, since many tourists in this state come from other countries. In general, though, this dynamic suggests entrepreneurs' need to adopt a global orientation in order to optimize the prospects for their businesses and enhance the global competitiveness of the United States overall.

Florida entrepreneurs also show a high tendency (39%) to outsource parts of their businesses—more than twice the levels of Ohio and Texas (both 19%). Outsourcing can indicate job- or income-creating potential beyond one's internal operations. Thus, even though Florida's growth projections match national levels, entrepreneurs in the state may be creating work for others outside their companies. In addition, Florida entrepreneurs are less likely to run their businesses at home—53% of Florida entrepreneurs operate from home, versus 73% for Texas (Ohio falls in between). This finding may suggest that the particular mix of businesses common in Florida are perhaps not the types of businesses one can easily start and run at home.

The three states all show tepid results on innovation. Nationally, the United States exhibited above-average levels of innovation compared to its development group, continuing a pattern of increases in prior years. More than one-third of American entrepreneurs stated they were introducing new product-market combinations with their businesses in 2012. This number is as low as one-fourth in Ohio, and not much higher in the other two states. This low level of innovation in states that are geographically, economically, demographically and otherwise diverse suggests that innovation may be a region-specific measure that varies around the country. The results on California and New York in 2011, for example, showed higher than average levels of innovation.

The proportion of entrepreneurs who state they will be profitable in the current year in Texas (58%) nearly matches the national level (59%). In Florida (49%) and Ohio (51%), however, fewer entrepreneurs expected to be profitable, and this contrast carries both negative and positive connotations. Businesses that are unable to achieve or sustain profitability will most certainly fail in the short or long term. However, many entrepreneurs are investing in building their businesses and, even if they are making sales, they may not become profitable early in their lives. In fact, if a business truly has high potential, it is likely that profitability will occur in the longer—rather than shorter—term.

SUMMARY OF STATE PROFILES

The results in Florida suggest that people in this state have high perceptions of their capabilities for entrepreneurship and are willing to take risks. This finding is consistent with Florida's high propensity of start-up activity and intentions, which could be either a more recent trend or more typically characteristic of this state. Women in Florida participated in entrepreneurship at about the same rate as females nationally, but the rate among men was very high, pulling up the overall TEA rate.

Florida-based entrepreneurs are more likely to have been pushed into this activity and to have come from lower income households. This may be consistent with factors such as high unemployment and low GDP growth, as shown in Table 1. The bulk of entrepreneurs come from the mid-career age groups. In addition, Florida has a higher proportion of manufacturing-focused entrepreneurs, posing an apparent contradiction with the low level of manufacturing activity in this state. This finding may mark an emerging trend or it could be more characteristic of the activities of entrepreneurs than, for example, that of large established companies. Finally, Florida entrepreneurs conduct a higher than average degree of international sales.

In Ohio, male participation in entrepreneurship is equal to the national average, but women enter this activity at lower than average levels, bringing down TEA rates in this state. Compared to national rates, Ohio shows lower levels of entrepreneurship across all age groups. Ohio entrepreneurs also show an above-average focus on manufacturing, consistent with the general manufacturing intensity of this state, as Table 1 illustrates. International sales are lower in Ohio than in the United States overall.

Texas exhibits high perceptions about opportunities for entrepreneurship, reflected in high TEA rates. Women and youth participate at high levels. Entrepreneurs are less likely to have entered out of necessity and looking forward, they are more likely to project high growth potential for their businesses. Yet they are less apt to venture outside the United States for customers, compared to national levels. Additionally, like those in the other two states, Texas entrepreneurs are less innovative than the United States average.

Conclusions and Implications

The GEM United States 2012 Report has revealed a range of insights about entrepreneurship in the United States in 2012. A key intention is to provide a broad audience—educators, researchers, policymakers, practitioners—with information and analysis that can enhance understanding, decision-making, and actions with regard to entrepreneurship. As such, this report closes with 10 key conclusions that are intended to provoke further reflection and dialogue.

1. OPPORTUNITY PERCEPTIONS CAN SERVE AS KEY INDICATORS OF SOCIETAL CONFIDENCE IN THE EXTERNAL ENVIRONMENT.

Perceptions about opportunities in a society can measure the extent to which there are many prospects for starting businesses in the environment and the degree to which people tune in to potential entrepreneurial possibilities. The volatility this indicator exhibited during the five-year period from 2008 to 2012 serves as evidence of both reactivity to the economic situation and some tracking with entrepreneurship rates.

Previous GEM reports have similarly highlighted the volatility of opportunity perceptions around recessionary periods (Bosma and Levie, 2009; Kelley, Bosma, and Amoros, 2010). This may suggest that opportunity perceptions can serve as key indicators of current confidence in the external environment's ability to support new business activity, as well as people's corresponding reluctance or willingness to jump into this activity.

The continued and incremental upward creep of fear of failure may, like opportunity perceptions, reflect reactions to the economy. However, this measure appears to exhibit a sustained reaction to the economic shock, rather than the more reactive volatility of opportunity perceptions. In addition, fear of failure does not track as cleanly with TEA rates. Although people were more afraid of failing in 2011 than in the previous year, 60% more people were nonetheless starting and running businesses. As fear of failure continued to rise in 2012, TEA inched upward to its highest level since GEM began in 1999. Fear of failure should be a concern, however, when it affects certain groups, like women or different age groups, as the GEM results indicate.

2. PERCEPTIONS OF CAPABILITIES ARE A RELATIVELY STABLE INDICATOR OF ENTREPRENEURIAL READINESS IN THE UNITED STATES.

Perceptions of capabilities appear to be a relatively stable measure, exhibiting the same level in four of the five years from 2008 to 2012. Although this belief grows with age and experience, it also may reflect confidence in oneself that can be shaped by training and inspiration (such as media attention and direct contact with entrepreneurs). The high level of capabilities perceptions in the United States reflects a confident and capable supply of potential entrepreneurs. Whether they jump in, however, is more likely to depend on opportunity perceptions.

3. ENTREPRENEURSHIP CAN BENEFIT PEOPLE WHO NEED IT AS WELL AS THOSE WHO DESIRE IT AND SEE THIS AS A PATH TO A BETTER LIFE.

The highest TEA rate in the United States over the 14 years of GEM's history was likely enabled by the dual effect of lingering necessity entrepreneurs and an increase in opportunity entrepreneurs. Necessity entrepreneurs have played a key role in the United States during the past five years; while opportunity entrepreneurs were scarce in 2009 and 2010, others still needed to create their own jobs.

When the opportunity entrepreneurs returned in the next two years, they brought with them high expectations. Compared to other innovation-driven economies, American opportunity-motivated entrepreneurs were more likely to pursue higher income and independence (with fewer expecting to maintain income). It appears that opportunity itself may compel people in the United States to jump into entrepreneurship, but they want to see a personal benefit as well.

4. MORE STARTS MAY MEAN MORE STOPS, BUT ALSO MORE SUCCESSES—EITHER NOW OR IN THE FUTURE.

The ratio of business starts to discontinuance in the United States was similar to the innovation-driven group average. The difference was that the United States had a high TEA rate as well as more stops, suggesting that higher levels of experimentation and risk taking are taking place (given the lower—albeit increasing—fear of failure in the United States compared to other innovation-driven economies). To the extent discontinuance can create learning experiences that are channeled into future benefits, this experimentation is worthwhile. Most entrepreneurs have not, or will not, limit their ventures to one experience.

What may need more attention, however, is the high proportion of stops due to difficulties with finance. This situation could reflect a holdover from the recession and may not solely reflect the state of bank lending. The bulk of the funds entrepreneurs raised comes from personal and family sources. A lack of finance could indicate a shortage of discretionary cash on hand, and perhaps a reluctance to part with one's money, particularly for a risky venture, when the economic future was uncertain. Yet to the extent financing poses a more persistent problem, it signals a need for more attention toward the availability and practices of entrepreneurial finance in the United States, particularly since venture capital does not represent a viable source for the entrepreneurial masses.

5. INNOVATIVE ENTREPRENEURS IN THE UNITED STATES MAY BE MISSING OPPORTUNITIES FOR GROWTH AND GLOBALIZATION.

While the proportion of innovative entrepreneurship has increased in the past several years, both growth expectations and internationalization have languished at low levels after experiencing declines. Entrepreneurs in many cases choose how much to grow their businesses and whether to expand beyond their familiar homelands. That they didn't collectively take these steps while becoming more innovative might suggest that they deem the home market sufficient and do not perceive the tradeoffs that come from expanding and venturing out to be worthwhile.

At a societal level, however, growth leads to job creation and, along with internationalization, taps the full potential of an opportunity. These ambitions also defend against insularity, which, if ignored, could make the American innovation engine vulnerable to outside attacks in the future.

6. ENTREPRENEURIAL FINANCE STILL DEPENDS ON BOOTSTRAPPING AND CLOSE CIRCLES.

Despite the introduction of new financial mechanisms and technologies that allow entrepreneurs to solicit and receive funding through various online sources, the financing of start-ups is still primarily a face-to-face and "who you know" activity. In addition, entrepreneurs saved money by operating at home, even into the new and established phases, and even when they had employees. They also saved by employing family, unpaid workers, and part-timers.

People of all ages invest in entrepreneurs. The 25-34 early career age group was a little more active in investing, however, and this group also more frequently saw opportunities, knew other entrepreneurs, and participated in entrepreneurial activity. Investing may thus be less a function of who has the most money than who has the excitement and positive beliefs about this activity.

The close-knit nature of entrepreneurial finance, however, conjures images of strained relationships when money changes hands and is tied to unrealistic or misaligned expectations. As such, the entrepreneur and the investor need to have clear written expectations about how the investment will be returned and when, as well as the risk inherent in the arrangement.

CONCLUSIONS AND IMPLICATIONS

7. WOMEN, ESPECIALLY YOUNG WOMEN, MAY BENEFIT FROM THINKING BIG WITH THEIR ENTREPRENEURIAL DREAMS.

Women start businesses with less money and rely more on personal and family funds. They are less likely to use bank lending, either because they do not seek it out or because they have difficulty securing it. They are twice as likely as men to discontinue their business because of a lack of financing, an indication that their current means of obtaining finance are not sufficient. Those that progress to the established business phase are less likely to be profitable.

At the same time, women more frequently start consumer-oriented businesses, often running these from home. They use family employees to a larger extent than men do, and at all phases they have collectively lower growth aspirations. This presents a type of conundrum associated with reaching near and small. Whatever the causes may be, it becomes a constraint for women.

The GEM data show a gutsiness among young men in particular in terms of entrepreneurial attitudes and activities. Among the younger age groups, the gap between men and women is largest in such measures as opportunity perceptions, fear of failure, intentions to start, and TEA. Often these indicators change little among women across a wide age range. The aspects of entrepreneurship that inspire young men in particular seem to be eluding young women.

8. ENTREPRENEURSHIP IS NOT AGE SPECIFIC; IT ATTRACTS EVERYONE FROM YOUTH TO SENIORS.

Taking into account workforce participation rates, entrepreneurship levels are quite uniform—from 15-20% across all ages. On either end of this range, though, some interesting aspects emerge among both youth and seniors.

Youth see lots of opportunities, want to start businesses, and aren't deterred by the prospects of failure. While many don't believe they possess sufficient capabilities, they are nonetheless starting small, using few funds but generating profits early. While this may provide experiential learning for future efforts, the survey also revealed that few entrepreneurs received training in starting a business in grade school or through youth programs. Given the positive indicators young people exhibit, it may be worthwhile to inspire them and develop their skills when they are most open to this.

The majority of seniors, on the other hand, are retired or otherwise not working. For those who remain in the workforce, however, many are running established businesses and a not-insignificant number are starting or running new businesses or intend to do so in the next three years. Relative to its development-level peers, the United States in general has few discontinuances due to retirement. This all may reflect an absence of jobs as employees for this age group, a lack of readiness for retirement or a fundamental interest in running a business regardless of one's age.

9. FIRST-GENERATION IMMIGRANTS BRING THEIR ENTREPRENEURIAL DREAMS TO AMERICA.

First-generation entrepreneurs have a particular orientation toward entrepreneurship—rooted perhaps in their experiences in their home country or in the opportunities or challenges they face when they arrive in the United States. They see more opportunities than non-immigrants and second-generation immigrants; their fear of failure and beliefs about capabilities are equal to those of non-immigrants but more positive than among second-generation immigrants. They are twice as likely to start businesses and are more likely to have opportunity motives than members of the second generation. Finally, they are wealthier and more educated than the second generation and non-immigrant entrepreneurs.

10. ENTREPRENEURSHIP CAN BE BOTH A CONSEQUENCE AND CONTRIBUTOR TO THE HEALTH OF STATE ECONOMIES.

The higher rate of entrepreneurship in Florida is driven by males. Entrepreneurs in this state are more often necessity-based and from lower income households compared with the other states and national levels. Moreover, there are fewer youth entrepreneurs. Finally, the level of international sales may be explained by Florida's popularity as a tourist destination.

Given low median household income levels and stagnating GDP, entrepreneurship can contribute to the Florida economy in many ways. Previous efforts regarding taxes and promoting entrepreneurship may go a long way to make use of the growing population, but more specific programs aimed at youth and women, as well as growth businesses, might benefit this state.

CONCLUSIONS AND IMPLICATIONS

Entrepreneurial activity in Ohio is low across all age groups and among women, pulling down overall TEA rates. The state's manufacturing emphasis is reflected in its entrepreneurs, who might benefit from the supporting infrastructure and industry cluster advantages. Yet manufacturing entrepreneurs will also suffer from any regional downturns in that sector, and entrepreneurs in Ohio rarely reach out to international markets. The state seems to be maintaining its productivity and bringing its employment levels up. Yet marginal population growth, low household income and state taxes can weigh down the state's efforts to encourage entrepreneurship.

Texas has moved positively toward improving education and targeting growth entrepreneurs and technology development. The state has also made gains in employment and productivity. These positive conditions, along with the absence of state taxes, have attracted people to move there for work. People, including women and youth, are also starting businesses, motivated by their belief in opportunities for entrepreneurship. Their efforts, they believe, will lead to high growth, yet that growth is not generally based on innovation or international sales.

With this report, GEM has taken the pulse of entrepreneurship in the United States for 14 years running. The 2012 survey has revealed positive progress along a wide range of entrepreneurial attitude and activity indicators. The results demonstrate that this endeavor attracts all ages, both genders, immigrants and many others, painting a diverse picture of the American entrepreneur. Much remains to be done, however, and these results can guide initiatives and policies that can promote the creative ambitions of our entrepreneurs, as well as enhance our understanding of the energy and value they bring to our societies.

“My entrepreneurial dream is to make it easier for the new generation of Chinese consumers to approach, understand and enjoy fine wines and beverages that they will one day come to love”

Vincent Kobler
CEO, Vince Wine Group
formerly MD of
EmporioAsia Leo Burnett



Sponsors



GERA AND GEM

The Global Entrepreneurship Research Association (GERA) is, for formal constitutional and regulatory purposes, the umbrella organization that hosts the GEM project. GERA is an association formed of Babson College, London Business School and representatives of the Association of GEM national teams.

The GEM program is a major initiative aimed at describing and analyzing entrepreneurial processes within a wide range of countries. The program has three main objectives:

- To measure differences in the level of entrepreneurial activity between countries
- To uncover factors leading to appropriate levels of entrepreneurship
- To suggest policies that may enhance the national level of entrepreneurial activity

New developments—and all global, national and special topic reports—can be found at www.gemconsortium.org

BABSON COLLEGE



Babson College is a founding institution and lead sponsor of the Global Entrepreneurship Monitor (GEM). Located in Wellesley, Massachusetts, USA, Babson is recognized internationally as a leader in entrepreneurial management education. *U.S. News & World Report* has ranked Babson #1 in entrepreneurship education for 18 years in a row. Babson grants B.S. degrees through its innovative undergraduate program, and offers M.B.A. and M.S. degrees through its F. W. Olin Graduate School of Business. The School of Executive Education offers executive development programs to experienced managers worldwide. Babson's student body is globally diverse, hailing from 45 U.S. states and 57 countries (non-U.S. students comprise more than 20% of undergraduates and 40% of full-time MBA students). Students can choose from over 100 entrepreneurship courses offered each year, taught by 17 tenure or tenure-track faculty, all with entrepreneurship experience, 7 faculty from other divisions around the college, and highly accomplished business leaders serving as adjunct faculty.

BARUCH COLLEGE



Baruch College has a 160-year history of excellence in public higher education with an emphasis on business. A senior college in the City University of New York system, Baruch College offers undergraduate and graduate programs of study through its three schools: the Zicklin School of Business, the Weissman School of Arts and Sciences and the School of Public Affairs. Housed at the Zicklin School is the Lawrence N. Field Center for Entrepreneurship, a model of entrepreneurship education built around the collaboration of an institution of higher education, government and the private sector. For information, visit www.baruch.cuny.edu

About the Authors

DONNA J. KELLEY, PH.D.

Donna J. Kelley, Ph.D. is an Associate Professor of Entrepreneurship at Babson College and holds the Frederic C. Hamilton Chair of Free Enterprise. She has taught and conducted research extensively in the United States, China and Korea, and worked in Indonesia as a Fulbright Specialist. Her research has been published in leading entrepreneurship and innovation management journals. Prof. Kelley is a board member of the Global Entrepreneurship Research Association and leader of the GEM U.S. team. She co-authored the GEM 2008 Korea Report, the GEM 2008 Education and Training Report, the GEM 2010 Global Women's Report, and the GEM 2010 and 2011 Global Reports and co-authored the Global Report.

ABDUL ALI, PH.D.

Abdul Ali, Ph.D. is an Associate Professor of Marketing and Entrepreneurship at Babson College. Earlier, he served as Chair of the Marketing Division from 2000 to 2006 at Babson College. Dr. Ali's research, teaching and consulting focus on entrepreneurial marketing, new product management, marketing analytics, marketing strategy and marketing high-tech products. His work has appeared in leading innovation management and marketing journals. Dr. Ali has been Area Editor of Marketing and Entrepreneurship for the *Journal of Asia Business Studies* since 2006.

CANDIDA BRUSH, PH.D.

Candida Brush, Ph.D. is Professor of Entrepreneurship, Chair of the Entrepreneurship Division, holds the Franklin W. Olin Chair in Entrepreneurship and serves as Director of the Arthur M. Blank Center at Babson College. She holds an honorary doctorate from Jonkoping University, in Sweden and is a Visiting Adjunct Professor at Nordlands University, in Bodo, Norway. Dr. Brush is a founding member of the Diana Project International and winner of the 2007 Global Award for Outstanding Research in Entrepreneurship. Her research investigates women's growth businesses, angel investing and strategies of emerging ventures. She has authored nine books, 120 journal articles and other publications. She serves as an Editor for Entrepreneurship Theory and Practice, is an angel investor and board member for several companies and organizations.

ANDREW C. CORBETT, PH.D.

Andrew C. Corbett, Ph.D. is an Associate Professor of Entrepreneurship at Babson College. He is the General Editor of the *Journal of Management Studies* and serves on the editorial board of other entrepreneurship journals. His research on entrepreneurship has been published in leading outlets around the globe including the *Harvard Business Review*, the *Journal of Business Venturing*, and *Entrepreneurship: Theory & Practice*.

MAHDI MAJBOURI, PH.D.

Mahdi Majbourni, Ph.D. has been an Assistant Professor of Economics at Babson College since August 2010, when he received his Ph.D. from University of Southern California. He has a B.S. in Mechanical Engineering and an M.B.A. from Sharif University of Technology in Tehran, Iran. Development Entrepreneurship and Labor Economics are his main areas of research, but his past work covers topics in finance, real-estate economics, and microeconomic theory as well. His work has been published in *The Journal of Real Estate Economics* and *The Quarterly Review of Economics and Finance*.

EDWARD G. ROGOFF, PH.D.

Edward G. Rogoff, Ph.D. is the Lawrence N. Field Professor of Entrepreneurship in the Department of Management of the Zicklin School of Business at Baruch College, The City University of New York. He is Chair of the Department of Management where he teaches and conducts research in entrepreneurship, particularly relative to minority and later-life issues. Dr. Rogoff has been named the 2010 Outstanding Entrepreneurship Educator of the Year by the United States Association of Small Business and Entrepreneurship. He is the author of *Bankable Business Plans*, co-author of both *The Entrepreneurial Conversation*, and *The Second Chance Revolution: Working for Yourself After 50*. He has published in such journals as *The Journal of Business and Entrepreneurship*, *The Journal of Developmental Entrepreneurship*, *Family Business Review*, and *Journal of Small Business Management*.

Contacts

For more information on the Global Entrepreneurship Monitor 2012 United States Report contact:

Donna J. Kelley
dkelley@babson.edu

GEM global reports, national team reports, public datasets (and Google Data Explorer), events information, etc., are available on the GEM website: **www.gemconsortium.org**

Researchers from economies not currently represented in the GEM Consortium may inquire about joining and request information by e-mailing GEM Executive Director Mike Herrington at **MHerrington@gemconsortium.org**