Business startup attempts drop in wealthiest countries

The number of people trying to start businesses with the potential to boost the economy and create new jobs declined 10 percent in the wealthiest nations during the recent global slowdown, according to the newly-released results of the Global Entrepreneurship Monitor (GEM).

The study of 54 countries, co-authored by Professor Mark Hart, is based on more than 180,000 detailed interviews with working age adults.

"Throughout the world, would-be entrepreneurs are having greater difficulty in obtaining financial backing for their start-up activities, especially from informal investors-- families, friends, and strangers," said Professor Bill Bygrave of Babson College, one of the founders of GEM. "This pool of money declined from $400 billion to $350 billion, a 12.5 percent drop." This comparison is for 33 countries that participated in both the 2008 and the 2009 GEM surveys.

In 2009, even as the number of people trying to start businesses in wealthy countries declined, a quarter of new entrepreneurs felt the prospects for their businesses are rosier than a year earlier. New entrepreneurs tended to be more optimistic than established business owners.

"Clearly, the slowdown has led to changes in the environment for entrepreneurs with investors holding back financing and consumers buying less," said Dr Kristie Seawright, Executive Director of GEM. "What is needed is for entrepreneurs to feel comfortable venturing out again, because they are the real engine for creating new jobs. Unfortunately, there is not a silver bullet for entrepreneurs. Each country needs to develop the right formula to encourage business startups."

The GEM data suggests countries with strict employment protection regulations have fewer entrepreneurs who have a high potential to create jobs.

"While it may seem counter-intuitive to call for a reduction in employment protection at a time when people are losing jobs, strict employment protection legislation makes it risky for entrepreneurs to create jobs and more risky for experienced people to quit their job and help build new businesses," said Dr Seawright.

In the wealthiest nations, GEM finds huge country variations with declines in new startup activity in nine countries and increases in four nations. No change in five countries.

When comparing estimates on pre-recession results of 2006-2007 with 2008-2009, individuals trying to start new businesses dropped 23 percent in the United States, 22 percent in Germany, 18 percent in Denmark, 15 percent in Italy, 12 percent in Spain, 11 percent in Belgium, and 8 percent in the UK.

France, Iceland, Japan, Netherlands, and Slovenia showed no change.

In the same time period, the country with the highest increase in new startup activity was the United Arab Emirates with a 41 percent rise.

Comparing 2006-2007 results to those in 2008-2009 in 16 middle-income nations, GEM finds declines in new startup activity attempts in five countries and increases in four nations. Individuals starting up businesses declined in Serbia by 35 percent; Croatia, 27 percent; Peru, 20 percent and Russia, 22 percent.

They increased 54 percent in Latvia and Colombia, 34 percent in Chile and 34 percent on Hungary.

China and South Africa showed no change.

In the world’s least developed, or "factor driven," countries, new businesses typically are extractive—farming, fishing, forestry, mining—with many started as a way to earn a living with little prospect for growth.

The GEM report shows that the recession has changed the mix of reasons for starting a business in many countries.

"We saw a rise in necessity-driven entrepreneurship in 2009 in many countries because people were losing jobs, but for some it may turn out to be a blessing in disguise," explained Dr Niels Bosma, GEM’s director of research and a researcher at Utrecht University, The Netherlands.

"Sometimes it drives people who are creative and visionary to pursue their dream; sometimes it inspires people who have thought about starting a business, but for some reason have not done anything about it – possibly because they felt more secure working for someone else."

In 2009, necessity-driven entrepreneurship as a proportion of all early-stage entrepreneurship in the wealthiest countries increased by about twenty-five percent in comparison to 2008. In the U.S., that rate jumped from an estimated 12 percent to 23 percent in 2009. Iceland and Latvia, two other countries hit hard by the recession, saw similar increases in necessity-driven entrepreneurship.

"Of course, the finding that entrepreneurial activity declined in many countries was not a surprise," said Dr Bosma. "What surprised me was that as much as one in four new entrepreneurs in wealthy countries believed that the global slowdown had created more opportunities for their business, not less.

"This is a significant and interesting group. They are more likely to be young, well-educated and expect to create a lot of jobs for others. They represent a sign that we can emerge from recession by creating new businesses, products, and services."

In many of the poorest countries or factor-driven economies, the working age population perceives good opportunities to start businesses; they may have different kinds of businesses in mind as compared to adults in wealthier countries.

In Uganda, 75 percent of the working age population saw good startup opportunities; 67 percent in Saudi Arabia; 58 percent in Guatemala; and 58 percent in Lebanon.

In contrast, only 4 percent of Hungarian inhabitants perceived good opportunities for starting a business; 9 percent in Japan; 13 percent in Korea; 14 percent in Tunisia; 16 percent in Hong Kong; 17 percent in Belgium and Spain.

Another key factor is fear of failure. In the United States, fear of failure has been rising since 2006, while the number of people trying to start new businesses has been declining,

The highest fear of failure rates in 2009 were in Malaysia and Tonga with 64 percent, Yemen-61 percent, Romania-51 percent, Russia-50 percent, Japan-49 percent, France-47 percent and Spain-43 percent.

The lowest fear of failure rates were found in Lebanon-18 percent, Norway, Chile and Korea-21 percent, Morocco-22 percent, Finland-23 percent and the U.S.-24 percent.

Venture Capital

The United States still leads the world with $27.9 billion in committed venture capital investment in 2008, despite the sharp slump.

China is rapidly overtaking Europe for second place. "The combination of investment and high expectation entrepreneurship may produce some global businesses out of China that we haven't seen coming out of Europe recently," said Professor Bygrave.

Overall, venture capitalists have supported only a select few new enterprises. Since the early 1970s, approximately $456 billion of venture capital has backed 27,000 companies in the U.S. In 2008, those companies employed more than 12 million people, or 11 percent of private sector employment, and generated $2.9 trillion in revenues, or 21 percent of the U.S. GDP, according to data compiled by the National Venture Capital Association.

Patterns in entrepreneurial activity

By tracking entrepreneurial attitudes, activity and aspirations over the economic cycle, GEM may be able to predict likely changes. For example: a recession in Argentina started in

2000. By 2002, necessity-driven business in that country began to decline, as aspirations and opportunities for starting new business ventures began to increase.

"Data gathered over the next few years may show similar patterns to Argentina and help with future predictions," Dr Seawright said.

Entrepreneurial requirements

GEM researchers have identified a number of factors needed to support entrepreneurship, including financial support, supportive government policies and programs, education and training, and supportive commercial, professional, physical infrastructures and social and cultural norms.

Countries in different stages of development have different needs. "We're not saying all entrepreneurship is great, so the more the better," said co-author Dr Jonathan Levie, a reader at the University of Strathclyde Business School.

"It is a matter of relative importance. Governments in factor-driven countries may be disappointed at the returns from, say, subsidies for entrepreneurship if the basic building blocks for growth are not in place. It would make more sense for them to invest in infrastructure first so that entrepreneurs can get their goods and services to market."

The findings also suggest flexibility in the labor market may help entrepreneurs to recruit the best people. "If good people feel it is unsafe to leave their current employment because jobs are hard to come by, it is difficult to put good new teams together to exploit new opportunities," said Dr Levie. "On the other hand, if there is considerable churn in the job market, good people know they can always get a job, so they will be more willing to take the higher risk route with a new high potential business."

First-ever global comparison of social entrepreneurship

For the first time, this year's GEM data includes social entrepreneurship: individuals engaged in entrepreneurial activities with a social goal, whether profit or non-profit, public or private.

Socially oriented entrepreneurs are found in a variety of areas--education, health, culture, economic development, and the environment, among them--though specific issues differed across economic groups. For example, many social entrepreneurs in factor driven economies provide basic health services, sanitation, and fresh water, while many of those in innovation driven countries focus on recycling, nature protection, and providing services for disabled persons.

In some countries, usually factor-driven countries, GEM researchers identified an overlap between business and social entrepreneurship, where businesses were started to meet a social need—often health or educational—by individuals who needed to make a living.

"Rates of social entrepreneurship may reflect what the state is doing," Dr Levie says. "A lot of social entrepreneurial activity starts because people see needs that aren't being met by the state or by private industry, or around issues that may not seem profitable for private industry."

Countries with the highest prevalence of social entrepreneurs in the 2009 GEM sample include United Arab Emirates, the U.S., Iceland and Argentina. Countries where fewer social entrepreneurs were found include Guatemala, Saudi Arabia, and Malaysia.

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