



2017 United States Report

GLOBAL ENTREPRENEURSHIP MONITOR
National Entrepreneurial Assessment for the United States of America



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Global Entrepreneurship Monitor

United States Report 2017



Babson College
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The authors are grateful to Doug Scibeck for his invaluable contributions as Project Manager of the U.S. GEM Team.

Thanks also to Martha Lanning, Research Associate at Babson College, for her tremendous efforts in proof-reading and copy-editing; to Marcia Cole for her able assistance in the transition to the new U.S. GEM Team; to Michael Chmura, Director of Public Relations, and his staff at Babson College for their insightful input and wise counsel; to the Elemental and Qualtrics Teams for their expertise in preparing and conducting the U.S. GEM surveys; and to Rick Sands, President and CEO of the Fenway Group, and Alison Paddock, Graphic Designer, for their thoughtful and creative contributions to the design, layout, typesetting, and printing of this report.

This report would not be possible without the Consortium of GEM National Teams who participated in 2017: Argentina, Australia, Bosnia and Herzegovina, Brazil, Bulgaria, Canada, Chile, China, Colombia, Croatia, Cyprus, Ecuador, Egypt, Estonia, France, Germany, Greece, Guatemala, India, Indonesia, Iran, Ireland, Israel, Italy, Japan, Kazakhstan, Republic of Korea, Latvia, Lebanon, Luxembourg, Madagascar, Malaysia, Mexico, Morocco, Netherlands, Panama, Peru, Poland, Puerto Rico, Qatar, Saudi Arabia, Slovakia, Slovenia, South Africa, Spain, Sweden, Switzerland, Taiwan, Thailand, United Arab Emirates, United Kingdom, United States of America, Uruguay, Vietnam.

Except as otherwise noted, GEM data were used in the preparation of this report. Their interpretation and use are the sole responsibility of the authors.

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Lives change as entrepreneurs gain experience, confidence, and wealth. Communities grow as residents gain employment and existing businesses thrive due to new spending. Societies benefit as new and improved products come to market.

GEM Terminology¹

DISCONTINUATION OF BUSINESSES Percentage of the adult population aged between 18 and 64 years that have discontinued a business in the past 12 months, either by selling, shutting down or otherwise discontinuing an owner/management relationship with the business.

EFFICIENCY-DRIVEN ECONOMIES Under the GEM classification system of economies adapted from the World Economic Forum, efficiency-driven economies have become more competitive with more efficient production processes and increased product quality.

ENTREPRENEURIAL EMPLOYEE ACTIVITY (EEA) Percentage of the adult population aged 18 to 64 years who as employees have been involved in entrepreneurial activities such as developing or launching new goods or services, or setting up a new business unit, a new establishment or subsidiary.

ENTREPRENEURIAL INTENTIONS Percentage of the population aged between 18 and 64 years (individuals involved in any stage of entrepreneurial activity excluded) who are latent entrepreneurs and who intend to start a business within three years.

ESTABLISHED BUSINESS OWNERSHIP RATE Percentage of the adult population aged between 18 and 64 years who are currently an owner-manager of an established business, i.e., owning and managing a running business that has paid salaries, wages or any other payments to the owners for more than 42 months.

FACTOR-DRIVEN ECONOMIES Under the GEM classification system of economies adapted from the World Economic Forum, factor-driven economies are the least developed economies and are dominated by subsistence agriculture and extraction businesses with heavy reliance on unskilled labor and natural resources.

FEAR OF FAILURE Percentage of the population aged between 18 and 64 years perceiving good opportunities to start a business who indicate that fear of failure would prevent them from setting up a business.

INNOVATION Product is new to all or some customers AND few/no businesses offer the same product.

INNOVATION-DRIVEN ECONOMIES Under the GEM classification system of economies adapted from the World Economic Forum, innovation-driven economies are characterized by more knowledge-intensive businesses and an expanded service sector.

NASCENT ENTREPRENEURSHIP RATE Percentage of the adult population aged between 18 and 64 years that have started a business that is less than 4 months old and that has not paid salaries or wages.

NECESSITY-DRIVEN Percentage of TEA of the adult population aged 18–64 years old who have started a business out of necessity because they have no other option.

NEW BUSINESS OWNERSHIP RATE Percentage of the adult population between 18 and 64 years that have started a business that is between 4 and 42 months old and is paying salaries or wages.

OPPORTUNITY-DRIVEN Percentage of TEA of the adult population aged 18–64 years old who have started a business out of an opportunity.

PERCEIVED CAPABILITIES Percentage of the population aged between 18 and 64 years who believe they have the required skills and knowledge to start a business.

PERCEIVED OPPORTUNITIES Percentage of the population aged between 18 and 64 years who see good opportunities to start a firm in the area where they live.

TOTAL EARLY-STAGE ENTREPRENEURIAL ACTIVITY (TEA) Percentage of the adult population between the ages of 18 and 64 years who are in the process of starting a business or already started a business (a nascent entrepreneur or owner-manager of a new business) which is less than 42 months old.

¹ Source: GEM Global Report 2017/2018, pp. 20, 105, 107, 113, 117.

Please note: the 65–74 year old age group is included when this report makes U.S. longitudinal comparisons.

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Executive Summary & Key Findings

EXECUTIVE SUMMARY

In 1999, Babson College and the London Business School launched the Global Entrepreneurship Monitor (GEM). GEM was the first and remains the only organization to measure annually the entrepreneurial ecosystem worldwide. Launching GEM underlined recognition that entrepreneurship and the entrepreneurs behind this phenomenon are not only reflections of economic and social conditions worldwide but also drivers of world economies and architects of societies.

How can entrepreneurship be credited with so much influence? Over many years gathering data, GEM has turned conjecture into knowledge. GEM has demonstrated that entrepreneurs provide jobs, create new products, advance technology, and increase prospects for those who start, grow, financially support, or work in new ventures. Lives change as entrepreneurs gain experience, confidence, and wealth. Communities grow as residents gain employment and existing businesses thrive due to new spending. Societies benefit as new and improved products come to market.

The methodology employed by GEM is twofold. First, adults engaged in entrepreneurial ventures are interviewed through the Adult Population Survey (APS). Questions about attitudes across age ranges, income levels, ethnicities, and other measures are answered by thousands of entrepreneurs around the world. Many additional topics are included, such as industry sector participation, technology and innovation, job creation expectations, and internationalization. Data gathered in all areas augment understanding of entrepreneurial activity globally.

Second, experts such as academicians, policy makers, government officials, and others who have deep knowledge of the entrepreneurial ecosystem are interviewed through the National Expert Survey (NES). Since its inception, GEM has proposed that certain elements in the environment enhance or hinder new business creation, and the NES attempts to uncover information about those elements. The elements include Entrepreneurial Finance, Government Policy, Government Entrepreneurship Programs, Entrepreneurship Education, R&D Transfer, Commercial and Legal Infrastructure, Entry Regulation, Physical Infrastructure, and Cultural and Social Norms.

Together the APS and NES provide the largest sample of entrepreneurial data in the world. These data collections serve as the basis for the annual GEM Global Report, this year based on APS and NES data from the 54 countries listed on the acknowledgements page of this Report. Each participating country may use the worldwide data along with country-specific data to publish its own report. In the United States, the U.S. GEM Team produces an annual report.

GEM classifies all participating countries according to economic development levels adapted from the World Economic Forum classification system. *Factor-driven* economies are defined as economies dominated by subsistence agriculture and extraction businesses with heavy reliance on unskilled labor and natural resources. *Efficiency-driven* economies are defined as economies that have become more competitive with more efficient production processes and increased product quality. *Innovation-driven* economies are defined as those where businesses are more knowledge-intensive and the service sector expands. (As quoted in the GEM 2017/2018 Global Report, page 20, <http://weforum.org>.) The United States is considered an innovation-driven economy. The complete list of innovation-driven economies is found in the 2017/2018 Global GEM Report. When the 2017 GEM United States Report refers to the average of the 23 innovation-driven economies, it excludes U.S. data for purposes of comparison with the United States.

EXECUTIVE SUMMARY & KEY FINDINGS

The 2017 GEM United States Report generates in-depth insights about entrepreneurship in the United States. The first chapter summarizes the economic conditions that served as the backdrop for U.S. entrepreneurial activity in 2017. The chapters that follow examine multiple phases of the entrepreneurial process from new venture creation through established business activity. Among many other things, they provide data on technology, innovation, job creation, internationalization, and societal attitudes that support or obstruct potential entrepreneurs and their activity. Global and longitudinal analyses enable comparisons with other economies around the world and within the United States over time. Particular attention focuses on the participation and characteristics of women, younger and older entrepreneurs, and people of different ethnicities. New to the United States Report is a full chapter devoted to established business ownership in the United States.

Notably, the 2017 United States Report examines entrepreneurial activity for the 18–74 age group while the corresponding Global GEM Report details entrepreneurial activity for those in the 18–64 age group. The U.S. GEM Team included the older age group (65–74) because it has become common for individuals over age 64 in the United States to continue or begin entrepreneurial activity. Consequently, an expanded picture of entrepreneurial activity in the United States emerges with inclusion of the 65–74 age group. This report uses data from the 18–64 age group when comparing the United States with other countries around the world.

The 2017 United States Report is particularly important because it describes entrepreneurial activity during a prosperous and calm year for the U.S. economy. As opposed to the years immediately following 2007 when the economic crisis began, almost all U.S. economic indices performed well throughout 2017. The markets responded with excitement and continuously closed at record highs. In addition, 2017 was a year of global growth that benefited the U.S. economy in return. In this environment, where a growing economy created hopes about the future for U.S. entrepreneurs, the following key findings emerged.

KEY FINDINGS

Attitudes

Among the U.S. adult population, 75% believe that entrepreneurs receive high status in society, a higher figure than the average of the 23 innovation-driven economies; and almost 75% think media attention for entrepreneurs is positive, a figure also higher than the average of the 23 innovation-driven economies. Positive societal attitudes such as these contribute to a culture that celebrates and supports entrepreneurs.

Among Americans, 64% believe there are good opportunities for starting a business near where they live, the highest level reported since GEM's first survey in 1999. Adults age 18–64 in the United States are more likely to perceive opportunities than their peers across societies at a similar development level.

Among Americans, 63% believe that entrepreneurship is a good career choice. While this is greater than the average of the innovation-driven economies, nine economies show higher levels than the United States on this indicator. Still it is especially significant that the majority of Americans consider entrepreneurship a viable or attractive career since the 2017 economy was prosperous, and Americans had a variety of alternative job choices.

Perceived capability among the adult population age 18–64 in the United States is higher than the average of the 23 innovation-driven economies. More than half (54%) have high capability perceptions, and only one-third (33%) of those perceiving opportunities cite fear of failure as a limiting factor in pursuing opportunities.

One-third of Americans state they personally know an entrepreneur. The abundance of entrepreneurs provides visibility and also inspiration in terms of serving as role models and advisors and other supportive functions.

Activity

U.S. entrepreneurship rates in 2017 continued the relatively high and stable rates reported over the past seven years. At nearly 14%, early stage entrepreneurial activity (TEA) in the United States is 50% higher than the average of the 23 innovation-driven economies.

While most entrepreneurs globally cite opportunity rather than necessity as their main motivator even in less-developed economies, opportunity-driven entrepreneurship is more prevalent in the developed world.

Across the 23 innovation-driven economies, 78% of entrepreneurs start businesses to pursue an opportunity. The United States tops this figure with 86% of entrepreneurial activity motivated by opportunity.

The TEA rate of all non-White-Caucasian ethnicities together adds up to approximately one-third of entrepreneurs in the United States. From 2016 to 2017, the TEA rate of each of these groups - African/African American, Hispanic American, Asian American, and Others - increased by 1% or 2%. Although the majority ethnicity involved in TEA in the United States remains the White Caucasian population, there was a decrease in the TEA rate from 2016 to 2017 for this ethnicity from 69% to 64%.

In the United States, 7.6% of working-age adults start a new business for their employers, demonstrating that entrepreneurs can have a broad impact in the United States operating across many domains.

The most common reason why U.S. entrepreneurs exit a business is to pursue another opportunity (30% for the United States vs. 12% for the average of the 23 innovation-driven economies). This circumstance could reflect the high level of opportunities perceived in U.S. society, and a willingness of entrepreneurs to leave any one venture to pursue something that may represent a more promising opportunity.

Impact

Entrepreneurs in all innovation and service-based countries are moving toward knowledge and technology opportunities, and U.S. entrepreneurs exhibit this trend. Personal/Consumer, Professional and Administrative Services combined with Health, Education, and Government opportunities together account for 40% of all opportunities in the United States and 39% in the peer group of similar economies.

Wholesale/Retail still accounts for the highest proportion of TEA in the United States (21%), which is dramatically lower than the average of the 23 innovation-driven economies (31%).

As the developed world shifts toward a creativity economy that combines elements of the information and knowledge economy with today's creative class, the United States continues to shift toward start-ups that rely on technology and creativity for competitive advantage. Information Technology and Finance make up over 18% of opportunities pursued by entrepreneurs in the United States, more than 7% higher than the 10.6% average of the 23 innovation-driven economies.

Technology drives entrepreneurship. The percent of nascent firms leveraging technology to produce an offering and/or to deliver a product or service has remained constant for several years at about 10%. The rate of TEA firms that compete within the technology sector with technology as a primary driver of business has grown from 0% in 2010 to 10% in 2017.

U. S. entrepreneurs are among the world's leaders in offerings of new technology and innovation with 36% of entrepreneurs developing and delivering an innovative product or service as their base offering, compared with 31% on average for the 23 innovation-driven economies.

In 2017, almost 44% of U.S. entrepreneurs expected to employ six or more people in the next five years, the second highest rate in nearly two decades, and 85% of nascent entrepreneurs expected to create jobs for others. Additionally, 20% of entrepreneurs expected to employ 20 or more people in their new ventures.

With a large and willing national market, U.S. entrepreneurs are not "born global" as they do not necessarily need to pursue sales outside their own borders to break even. However, exports from U.S. entrepreneurs are rising. In 2016, only 10.4% of entrepreneurs expected 25% or more of their sales to come from customers living outside the United States. In 2017, this number increased to 17%.

Age

While intentions rates and TEA rates are strong overall by age group, one outlier is the 65–74 age group. For this age group, the intentions rate increased from 2016 to 2017 from 5.0% to 6.6%, but the TEA rate decreased from 4.0% to 2.1%. While the decrease in TEA rate may reflect a voluntary shift in this age group, it is possible that gains from the booming economy were not experienced equally by the oldest entrepreneurs.

The younger and older segments of the U.S. population display higher TEA rates relative to the average of the 23 innovation-driven economies.

EXECUTIVE SUMMARY & KEY FINDINGS

When all forms and stages of entrepreneurship are taken into account (TEA, EEA, and Established Business Ownership), U.S. entrepreneurs aged 35–44 turn out to be the most entrepreneurially active. This age group also experiences the highest level of business discontinuation, with the primary reasons being pursuit of other opportunities (30.2%), personal reasons (21.1%), or bureaucracy (20.0%). In other countries, the biggest reason for discontinuation is unprofitability. In contrast, unprofitability and lack of finance together account for only 13% of U.S. exits compared to 38% on average for peer economies.

In 2017, necessity-driven entrepreneurship in the United States is highest among the 18–24 age group at 15%, perhaps because of fewer opportunities in the job market due to lack of credentials or experience. The next highest level of necessity-driven entrepreneurship is age 55–64 at 13%, followed by age 45–54 at 12%. Necessity-driven entrepreneurship in the 45–64 age group may indicate that age bias in the job market and/or lack of up-to-date technology skills have narrowed the options.

Over 50% of adults across the entire spectrum of age groups perceive opportunity. The 18–24 age group perceives itself less likely to have the skills necessary to take advantage of opportunities than other age groups. Among the 65–74 age group, skills confidence is lower than among some other age groups, but is still high at 49%. Adults age 25–44 who perceive opportunity are most likely to know an entrepreneur (39%). For those perceiving opportunity, the fear of failure rate vacillates in the relatively high range of 32% to 37% among those 18–54, and the oldest group 65–74 has the lowest fear of failure rate at 18%.

In every age category, the TEA rate for men is higher than the TEA rate for women, except for the 65–74 age group, where the TEA rate for men is 1% and the TEA rate for women is higher at 3%. Among those age 35–44, TEA rates are almost equal, 17% for men and 16% for women. The youngest group age 18–24 maintains a substantial gender gap, with fewer women at younger ages (7%) engaging in early stage entrepreneurial activity than men (15%). The biggest gender gap in early stage entrepreneurial activity is among those age 25–34 with women at 12% and men at 23%, resulting in an 11% gender gap.

Gender

TEA rates have risen for men and women entrepreneurs with a slight widening of the gender gap. For early stage entrepreneurship, which combines nascent and new entrepreneurial activity, the rate for men is 16.7% in 2017. The rate for women is 10.7%, resulting in a gap of 6% between men and women.

The rate of perception of opportunity for women is 59% in 2017. This is the highest rate ever reflected in the U.S. GEM study and a 15% increase for women since 2015. Although the number of women perceiving opportunity has increased, the rate of perception of opportunity among men is rising even faster, with a current gender gap of 10%. This raises a question about the types of opportunities available. The top opportunities may be in areas less associated with female businesses.

There has been a distinct, persistent gap between men and women relative to their perceived capabilities to start a business. The rate of capability perception has fluctuated since 2011 from 61% to 65% for men and from 46% to 50% for women. This rate of capability perception is consistent with data from other innovation-driven economies.

Women have a greater fear of failure than men, following a trend consistent over the past several years. From 2016 to 2017, women's perceived fear of failure rose but men's declined, resulting in a 7% gender gap. This trend is consistent with greater perceived fear of failure for women in other innovation-driven economies.

The data for 2017 show a surprising increase in men's entrepreneurial intentions from 13% to 19% with women's entrepreneurial intentions remaining constant at 11% over the past two years, resulting in a gender gap of 8%, which is the highest in the history of the GEM study.

In 2017, only 3.9% of women started information and communications technology businesses, compared to 11.5% for men. Only 3.2% of women considered their businesses to be in medium or high technology sectors compared to 8.2% of men. However, women were almost as likely to use new technology in their businesses: 8.9% compared to 10.3% for men.

In 2015, 8.3% of women reported more than 25% of their sales from customers living outside the United States. In 2016, the percentage rose slightly to 8.6%. In 2017, it nearly doubled to 14.1%. For men, the figure was 14% in 2015, 11.3% in 2016, and 18.5% in 2017. While growth has not been steady in one direction, the overall trend shows more internationalization for start-up businesses.

In 2017, a slightly higher percentage of both men and women discontinued businesses in the past year: 4.7% for men and 3.3% for women. This represents about a 0.6% increase over the previous year for both men and women. The trend was consistently low for both men and women, but women showed an overall lower rate of discontinuance than men.

For both men and women entrepreneurs, the rate of profitability increased dramatically between 2015 and 2016 by more than 25%. However, in 2017 the rate of profitability declined for both men and women although the decline for men was greater, 21% for men vs. 9% for women. This represents a narrowing of the gender gap to less than 5%, suggesting women are performing almost as well as their male counterparts.

Established Business Ownership

The GEM 2017 survey shows that 85% of established business owners in the United States expected to be profitable in the current year and that 76% were employers, suggesting the value of start-ups that become ongoing businesses.

Established business ownership activity levels are highest among those 55–64 in the United States, with substantial activity continuing among those 65–74. This finding highlights the role of older Americans in established business ownership.

GEM reports that White Caucasian Americans are starting and running new businesses at the rate of 12% and running established businesses at the rate of 9%. African/African Americans are starting and running new businesses at the rate of 20% and running established businesses at the rate of 4%. Hispanic Americans are starting and running new businesses at the rate of 12% and running established businesses at the rate of 5%. Asian Americans are starting and running new businesses at the rate of 17% and running established businesses at the rate of 7%. Further study may be warranted to determine what factors influence patterns of each ethnic group in the United States.

The most popular industry sector for mature business owners is construction and mining. Construction and mining as a single sector accounts for 22% of established business but only 6% of total early stage entrepreneurial activity.

Established business owners have impact beyond their own businesses. A full 10% of established business owners report starting or running a new business, and 12% report that in the past three years they have invested in other entrepreneurs. Established business owners provided a median amount of \$10,000 in their last investment, lower than that of early stage entrepreneur investors who provided a median amount of \$23,653 but higher than non-entrepreneurs/non-business owners who invested a median amount of \$3,000.

CONCLUSION

A key aim of GEM is to inform academics, educators, policy makers, and practitioners about the frequency and nature of entrepreneurship in and across economies around the world in order to foster understanding, support, and conditions that allow entrepreneurship to thrive. This report more specifically seeks to advance knowledge about the multidimensional nature of entrepreneurship in the United States, with comparisons to other economies and insights on longitudinal changes over time.

In this spirit and with the generous sponsorship of Babson College, GERA and GEM, this year's U.S. GEM Team has produced the report in the pages that follow. It is hoped that the information provided here will advance the understanding of entrepreneurship and the entrepreneurial ecosystem for all who strive to make communities the best they can possibly be.



Chapter 1

The United States Economy in 2017

ECONOMIC CONDITIONS IN 2017

Entrepreneurship is complex as it is affected by many environmental factors. Probably the most important factors that significantly affect entrepreneurship are economic conditions. The current status and future prospects of the economy, such as growth rates, unemployment, inflation, and monetary and fiscal policies, can influence entrepreneurship incentives, perceived opportunities, and eventually entrepreneurial activity. Therefore, it is essential to examine the U.S. economy in 2017.

The year 2017 was prosperous and calm for the U.S. economy. Almost all economic indices performed well. The average annual growth rate was 2.27%, and the seasonally adjusted annualized growth rate surpassed 2% in all but one quarter of the year (Figure 1.1). Meanwhile, inflation remained low at 2.11%². Furthermore, the U.S. economy was not the only economy among OECD countries that performed well. The year 2017 was a year of global growth that benefited the United States economy in return.

As a result of the favorable environment, the U.S. economy added almost 2.19 million non-farm jobs in 2017. Although this number was lower than the net number of jobs created every year since 2012, it reduced the unemployment rate from 4.8% at the beginning of the year to 4.1% by the end of the year (Figure 1.2). This was the lowest level of unemployment since 2000 and signified 94 consecutive months of non-farm employment growth. American businesses created 17.9 million jobs since March 2010 when the number of private sector jobs started to increase. Labor force participation rose by 0.5% from December 2016 to December 2017, meaning that some who had been out of the labor market joined the labor force. At the same time, real wages for blue-collar workers continued to increase in 2017. See Figure 1.3 for unemployment rates by state.

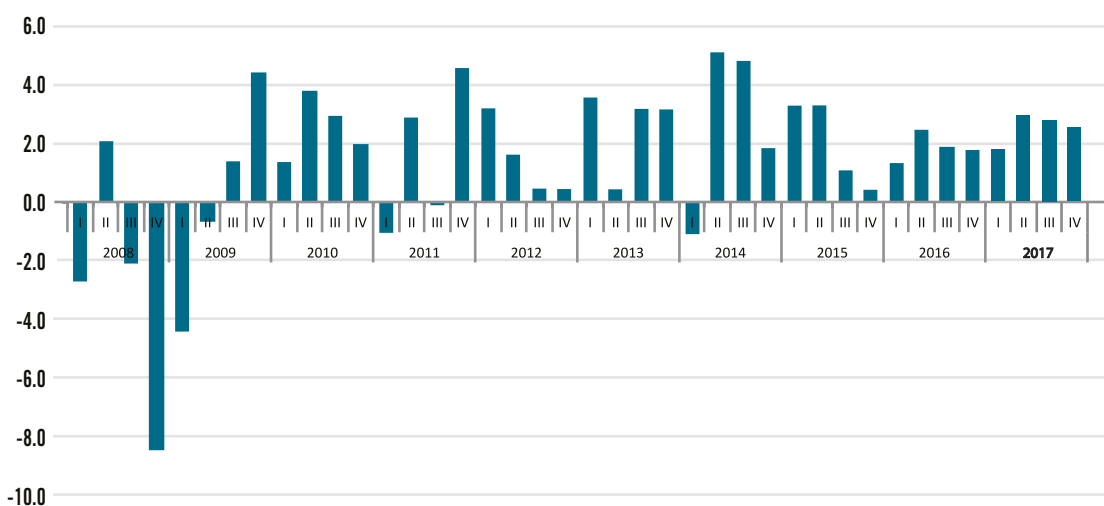


FIGURE 1.1
Percentage Change in Real GDP from Previous Quarter, Seasonally Adjusted Annual Rates

SOURCE OF DATA:
U.S. Bureau of Economic Analysis of the United States Department of Commerce. Accessed on July 27, 2018. <https://www.bea.gov/data/gdp/gross-domestic-product>

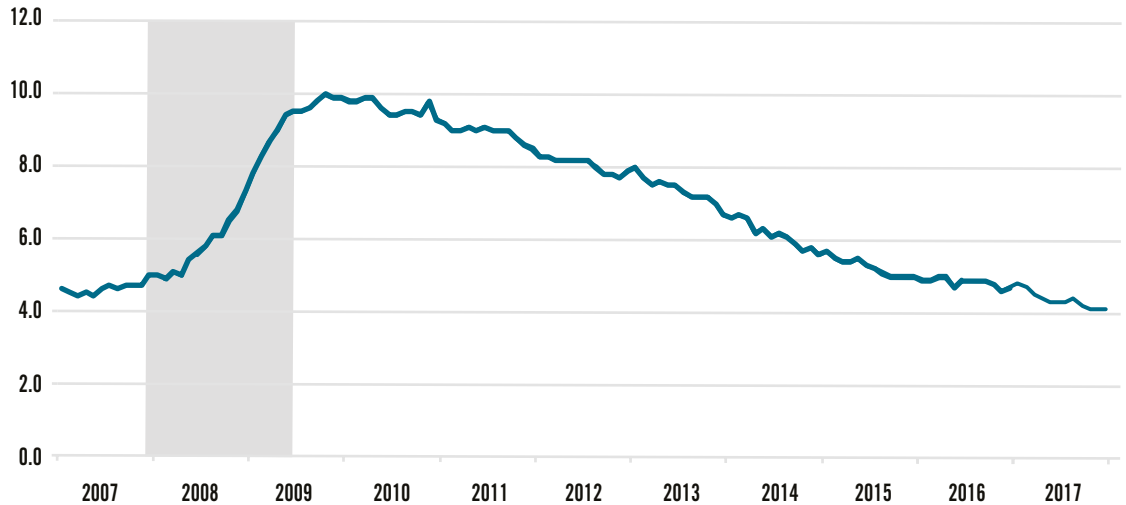
The markets responded with excitement to these developments and closed at record highs continuously throughout the year. The Dow Jones Industrial Average (DJIA, known as *the Dow*) and the Nasdaq Composite (known as *the Nasdaq*) broke records 71 and 72 times respectively.

² Calculated based on Consumer Price Index for all urban consumers, reported by the U.S. Bureau of Labor Statistics. Accessed on July 26, 2018. <https://www.bls.gov/cpi/tables/seasonal-adjustment/home.htm>.

The Standard and Poor's 500 Index (known as *the S&P 500*) passed its historical record 62 times. The Dow gained 25%, the Nasdaq 28%, and the S&P 500 19%. In addition, market volatility was comparatively low. This was the best performance since 2013, showing an excited market hopeful about the near-term future.

FIGURE 1.2
National
Unemployment Rate,
Seasonally Adjusted
in Percent

SOURCE OF DATA:
U.S. Department of Labor,
Bureau of Labor Statistics.
Accessed on July 27, 2018.
[https://data.bls.gov/
timeseries/LNS14000000](https://data.bls.gov/timeseries/LNS14000000)



Note: The gray bar shows the recession period. Each tick mark on the horizontal axis shows the beginning of the year.

In late December, Congress passed a new tax bill that was the biggest revamp of the U.S. tax code in three decades. There were good reasons for a tax overhaul, although the tax bill could not achieve all of them. For example, U.S. corporate marginal tax rates had been among the highest compared to the other OECD countries. Such high corporate tax rates had reduced U.S. competitiveness in global markets. Additionally, the rates had encouraged large corporations to take advantage of loopholes in order to pay lower taxes. The new tax code, which substantially reduced marginal tax rates for corporations and households, acted as a stimulus to the U.S. economy, with results especially in 2018.

A few days after the tax bill had been approved, several big corporations announced they would increase employee bonuses or raise corporate investments. While the tax bill arguably would help U.S. entrepreneurs invest more in start-ups and established businesses, hire more employees, and expand in 2018, some believed the stimulus from the tax bill was unnecessary when markets were already hopeful and excited about future prosperity. They worried the stimulus might over-heat the economy, lay the groundwork for a recession, and increase deficits not compensated by rising growth rates, thus hurting the economy in the long run. Total tax revenue lost due to the new tax policy was estimated at \$1.5 trillion over a decade, before accounting for the effect on economic growth.

The year 2017 was also one of deregulation. The new administration stopped writing new rules. The Environmental Protection Agency announced a rollback of the Obama administration's flagship environmental regulation, the Clean Power Plan. The Federal Communications Commission repealed net neutrality.³ The new administration did not support the Obama administration's proposed mandatory overtime pay rule. Many smaller rules, such as new regulations on retirement advice, were postponed, delayed, or weakened.

In the first few days of 2018, the markets responded positively as all three major stock indices (the Dow, the S&P 500, and the Nasdaq) closed at record highs. Part of the good performance of the U.S. economy was due to global economic growth that had lifted confidence, growth and stock markets worldwide. Later in 2018, however, stock market indices seemed to flatten. The prospect of a trade war due to significant changes in U.S. tariffs was looming over the global economy.

Since the recession, monetary and fiscal policies have been used to lift the economy out of recession. The U.S. monetary policy is determined by the Federal Reserve, and the fiscal policy is designed by Congress and the executive branch of the government. A summary of these policies in 2017 follows.

³ Net neutrality is the idea that Internet service providers should treat all content flowing through their cables and cell towers equally. Source: <https://www.wired.com/story/guide-net-neutrality>, The Wired Guide to Net Neutrality, Clint Finley, May 9, 2018.

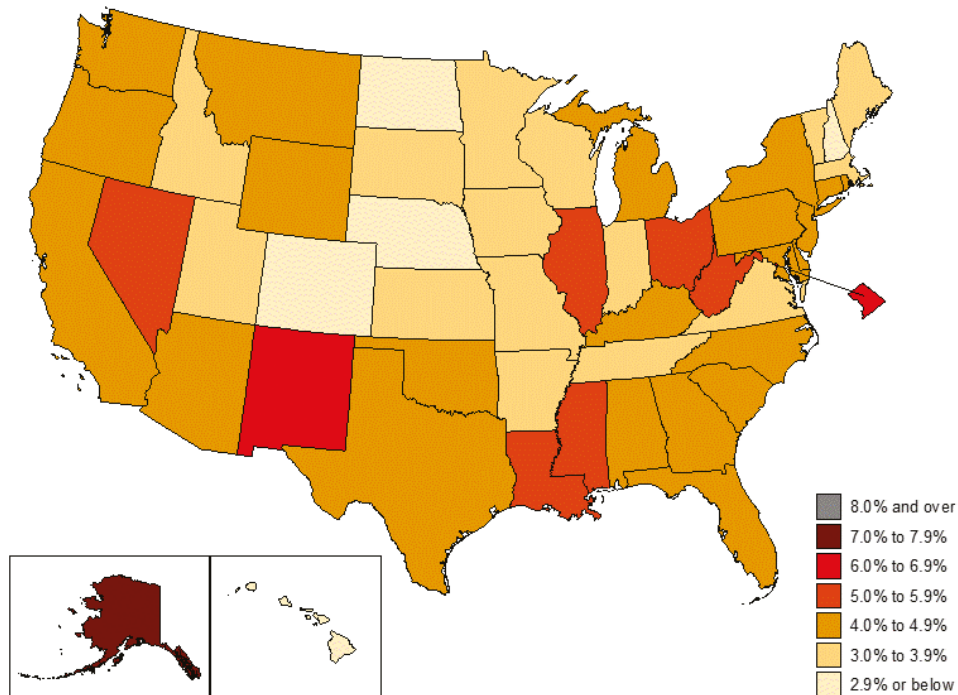


FIGURE 1.3
Unemployment Rates
by State, 2017
Annual Averages
(U.S. rate = 4.4 %)

SOURCE OF DATA:
 U.S. Department of Labor,
 Bureau of Labor Statistics.
 Accessed on July 27, 2018.
<http://www.bls.gov/lau/maps/aastrate.gif>

MONETARY POLICY IN 2017

The Federal Reserve (*the Fed*) moved steadily forward on its path to normalizing interest rates. It raised the overnight rate three times during 2017, each time by 25 basis points. This was the first year since 2006 that the Fed raised rates and at such a pace. But the markets expected the rate hikes, as they were communicated well by the Fed. Some analysts, however, had expected four rather than three rate hikes. The inflation rate remained low during 2017, making it harder for the Fed to tighten monetary policy more aggressively.

After the Great Recession, when the federal funds rate was lowered to virtually zero, the Fed had to employ an unconventional instrument known as Quantitative Easing (QE). By this policy, the Fed bought a large amount of mortgage-backed securities and treasury bonds, thereby increasing money supply every month. In this way, the banks would be encouraged to lend more, especially in the mortgage market, which would have the effect of easing the financial markets and the credit crunch. By the end of 2014, the large-scale asset purchases made pursuant to the QE policy had increased the Fed's balance statement to \$4.45 trillion, more than five times its size at the end of 2006.

But the Fed started reversing Quantitative Easing in October 2017. With the economy fully recovered and unemployment at its record low since the Great Recession, in a unanimous decision the Fed started normalizing its balance sheet by letting its acquired assets gradually mature each month. More tightening of monetary policy was expected in 2018.

FISCAL POLICY IN 2017

U.S. government spending grew in fiscal year 2017⁴ by 3% while revenues rose by 1%. The budget deficit climbed to \$666 billion, an increase of \$80 billion over the previous year. As expected, higher spending on Social Security, Medicare, and Medicaid, plus a rise in interest paid on government debt, contributed to this increased deficit. In addition, unanticipated natural events such as hurricanes increased government spending. However, expected government spending on infrastructure investments did not materialize.

Overall, 2017 was a prosperous year for the United States and the global economy that created hopes about the future for U.S. entrepreneurs.

⁴The government fiscal year starts in October and ends in September of the following year.



Chapter 2

Entrepreneurship in the United States: A Cross-National and Longitudinal Comparison

SOCIETAL ATTITUDES

The United States is well-known for its entrepreneurial energy and drive. The respect for individuals with these characteristics starting businesses can be seen across American society. In the United States, 75% of working-age adults believe that entrepreneurs receive high status in society. This is higher than the average of the 23 innovation-driven economies⁵ participating in the GEM 2017 survey, although not as high as some economies, such as the United Arab Emirates (UAE), Israel and Ireland.

Almost 75% of Americans also believe entrepreneurs receive positive media attention. Again, this is higher than the innovation-driven economy average but lower than several economies including the UAE, Taiwan and Puerto Rico. These two results show that entrepreneurs are both highly visible and well regarded. Positive societal attitudes such as these contribute toward a culture that celebrates and supports entrepreneurs, and these attitudes help explain the high entrepreneurship levels in the United States.

However, fewer Americans (63%) believe that entrepreneurship is a good career choice. While this is still greater than the average of the innovation-driven economies, nine economies show higher levels than the United States on this indicator. One explanation may lie in opportunity costs associated with alternative career choices. Unemployment in 2017 dropped below pre-recession levels, indicating a prevalence of job choices attracting those who could otherwise venture into entrepreneurship. In addition, necessity-driven entrepreneurship in the United States is very low, as will be discussed later. This means few people need to start their own business due to a dearth of job options. Still, it must be recognized that the majority of Americans consider entrepreneurship a viable or attractive career.

Figure 2.1 shows the previously discussed societal attitudes, as well as three personal perceptions. The biggest gap between the United States and its development level peers can be seen in Perceived Opportunities, with only the Netherlands showing a higher rate. These perceptions jumped from 57% in 2016 to 64% in 2017, the highest level reported by GEM in the United States. This is nearly twice the 2001 number. The visibility and high regard shown in the indicators on media attention and status likely contribute to opportunity awareness. In addition, one-third of Americans state they personally know an entrepreneur. The abundance of entrepreneurs provides visibility and also inspiration in terms of serving as role models and advisors and other supportive functions.

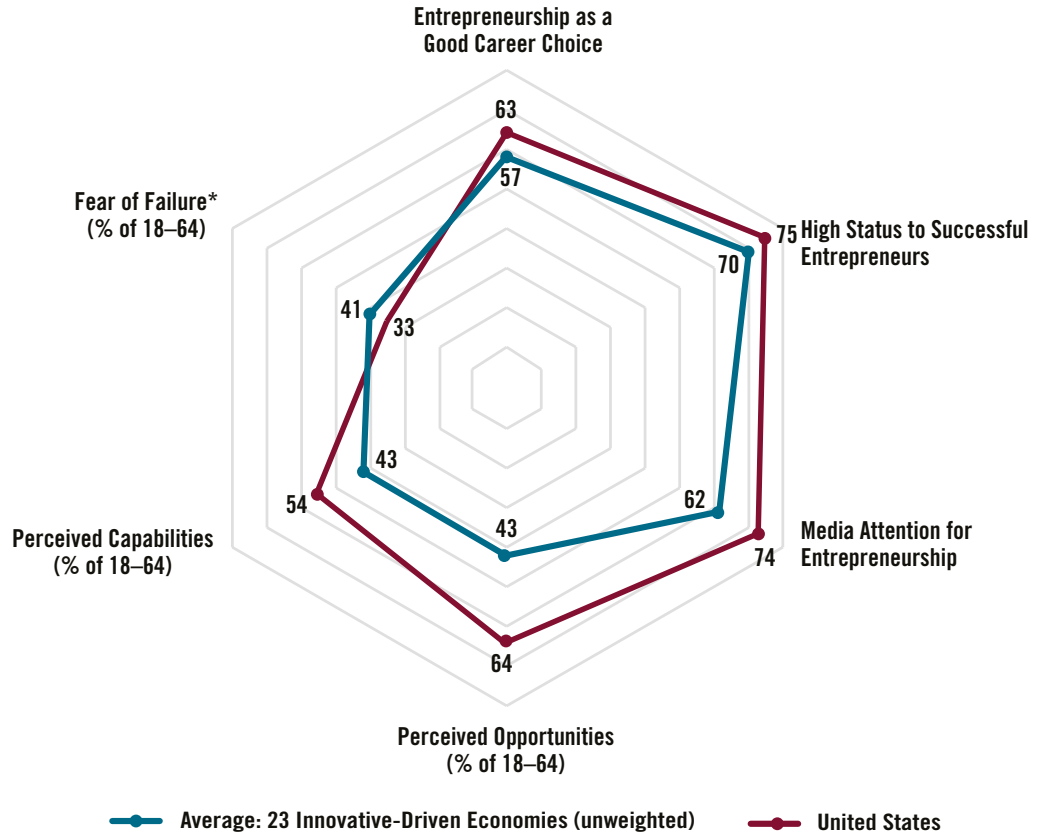
Among those perceiving opportunities, only 33% cited fear of failure as a limiting factor in pursuing opportunities, lower than the average of the innovation-driven economies, but repeating the highest level reached for this indicator in 2016. High opportunity costs, in aspects such as available job options, could make entrepreneurship seem riskier if one must forgo a good job in order to pursue a start-up. The difficulty and risks of entrepreneurship may seem greater depending on factors such as highly competitive industry conditions, complex or novel offerings, the ambitions of entrepreneurs themselves, and ecosystem factors such as access to finance, value chain partners, or talent. Social stigma around failure could also be a contributor, although it is generally assumed that failure is accepted in the United States.

High capability perceptions in the United States continue the steady level exhibited on this indicator over the past 10 years. With most colleges now offering entrepreneurship courses, and with training and assistance programs cropping up around the country, one could question why this indicator has not risen, or if it has reached its upper limit. All in all, the majority of Americans remain confident of their entrepreneurial abilities.

⁵The World Economic Forum classifies the United States as an innovation-driven economy, representing the highest level of economic development (www.weforum.org). For more information on classifications, see section entitled GEM Terminology at the beginning of this report.

FIGURE 2.1
Entrepreneurial
Attitudes and Self-
Perceptions in the
United States and
the Average of the
23 Innovation-Driven
Economies,
GEM 2017

SOURCE OF DATA:
 GEM 2017

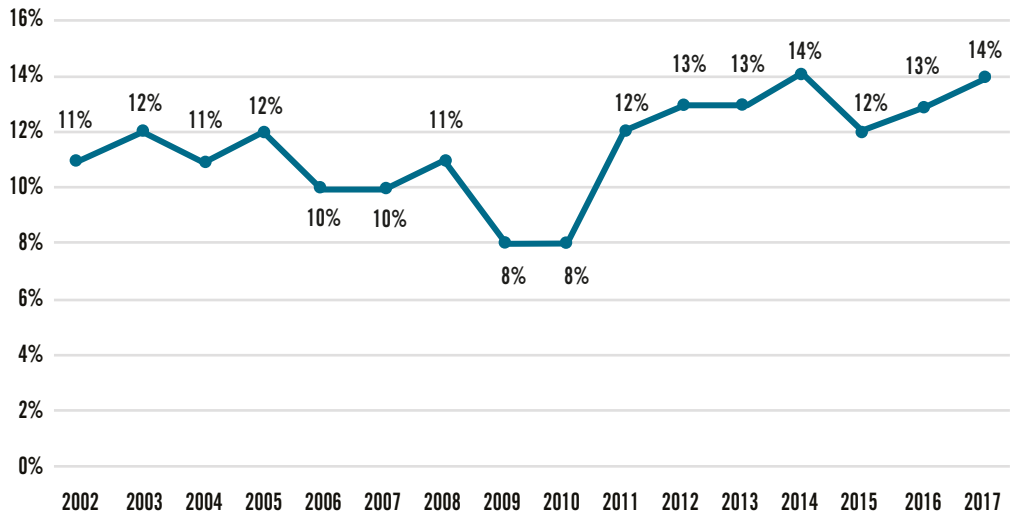


ENTREPRENEURIAL ACTIVITY

Total Entrepreneurial Activity (TEA) rates at just below 14% are back up to the 2014 peak after dipping slightly in the two subsequent years. As Figure 2.2 shows, the past seven years following a post-recession slide show relatively stable TEA rates, fluctuating less than two percentage points. The U.S. TEA rate represents a 50% higher level than the average of the 23 innovation-driven economies, with only Estonia and Canada showing higher levels.

FIGURE 2.2
Total Entrepreneurial
Activity (TEA) Rates
in the United States,
GEM 2002-2017

SOURCE OF DATA:
 GEM 2017



While most entrepreneurs around the world cite opportunity as their main motivator even in less-developed economies, this motivator is more prevalent in the developed world. The presence of job options reduces the push to generate income out of necessity. Necessity motives can lead to viable and promising businesses, but it can also be the case that necessity-driven entrepreneurs would otherwise prefer to work as employees. Across the 23 innovation-driven economies, 78% of entrepreneurs start businesses to pursue an opportunity, while 86% of entrepreneurs in the United States do so, similar to 2016 results. A higher level of opportunity motives has continued in the United States since 2010, at which time the recession had caused opportunity-motivated entrepreneurship to drop to 68%, with necessity accounting for a higher proportion of business starts.

The majority of entrepreneurs in the United States (64%) are White Caucasian Americans. This is generally consistent with the demographics of the general population where 61% of Americans identify as White non-Hispanic. As Figure 2.3 demonstrates, the level of entrepreneurship pursued by other ethnic groups was slightly higher in 2017 compared to 2016. The media widely report that non-White-Caucasian ethnic groups will increasingly account for a greater percentage of the future U.S. population. Perhaps the increased entrepreneurial activity among non-White-Caucasian ethnic groups reflects this population shift. If so, it may be expected that entrepreneurship will reflect future U.S. demographics and will consequently look more ethnically diverse.

Ethnic Makeup of Entrepreneurs

	2016	2017
White Caucasian American	69%	64%
African/African American	12%	13%
Hispanic American	8%	9%
Asian American	2%	3%
Other / Not Reported	9%	11%

FIGURE 2.3
Breakdown
of Total
Entrepreneurial
Activity (TEA) in
the United States
by Ethnicity,
GEM 2016
and 2017

SOURCE OF DATA:
GEM 2017

Entrepreneurship among non-White-Caucasian ethnicities will be important, not only for job creation but also for introduction of unique business concepts and connections to new markets, including international ones. Entrepreneurship may represent the most viable career alternative for some ethnic groups. For example, 20% of African/African Americans are starting or running new businesses, higher than the overall U.S. TEA rate and up from 15.5% in 2016.

Separate chapters in this Report will cover gender and age demographics.

ENTREPRENEURIAL EMPLOYEE ACTIVITY (EEA)

Recognizing that entrepreneurship can occur in established organizations, GEM also measures Entrepreneurial Employee Activity (EEA). Some economies exhibit tradeoffs between TEA and EEA. The Republic of Korea, for example, shows higher TEA rates than its development level average but low EEA, while Germany exhibits the opposite result.

The United States, however, is among those economies where both forms are above average. Among working-age adults, 7.6% are starting a new business for their employers. It is likely that some people prefer working as employees but still may have entrepreneurial tendencies, while others choose to venture out on their own. Perhaps some have the ability to operate in both environments. The main point to draw from this result is that entrepreneurs may have broad impact in the United States, operating across many domains.

BUSINESS EXITS

Entrepreneurship takes place across multiple phases. Established Business Activity is treated separately in this report, but business exits represent a final phase that, hopefully, leads to another attempt at entrepreneurship or participation in this activity in some other way (for example, as an investor or mentor). An entrepreneur's experience can provide useful learning that benefits the next opportunity.

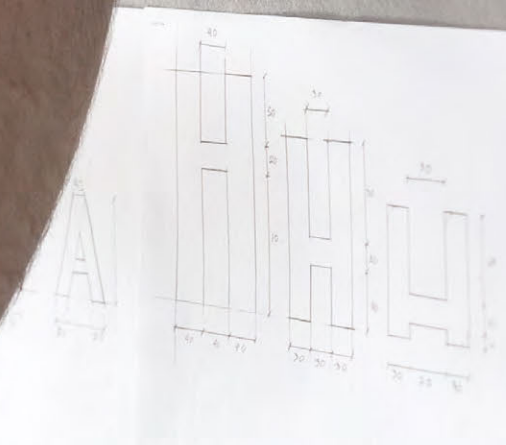
While the United States shows high levels of entrepreneurship, business exits are nevertheless slightly higher than its peer group average. An interesting aspect of the business exit phase in the United States is that the most common reason for exiting a business is to pursue another opportunity (30% for the United States compared to 12% on average for the 23 innovation-driven economies). The more problematic exit reasons of unprofitability or lack of finance taken together account for only 13% of U.S. exits, compared to the 38% average of peer group economies. The relatively high rate of business exits for the purpose of pursuing an opportunity could reflect a plethora of opportunities in the United States and a willingness of entrepreneurs to leave one venture to pursue something better. Opportunity-driven business exits are beneficial to the extent that they contribute to multiple entrepreneurial efforts and optimal career choices.

High capability perceptions in the United States continue the steady level exhibited on this indicator over the past 10 years... All in all, the majority of Americans remain confident of their entrepreneurial abilities.





Project 1
Individual portfolio presentation



Chapter 3

Impact Characteristics of Entrepreneurship in the United States

INDUSTRY SECTOR PARTICIPATION

Total Entrepreneurial Activity (TEA) rates viewed across different industry sectors provide an interesting glimpse into the minds of nascent entrepreneurs and where they believe future opportunities lie. With the objective of exploiting natural resources or building on past national advantages, some economies champion specific industries. Other economies take a broad approach by pursuing entrepreneurship across all sectors. Highly developed economies such as the United States have moved in the past few decades to focus on knowledge-intensive industries and service industries. As the developed world shifts toward a creativity economy that combines elements of the information and knowledge economy with today's creative class, the United States continues a shift to start-ups that rely on technology and creativity for competitive advantage.

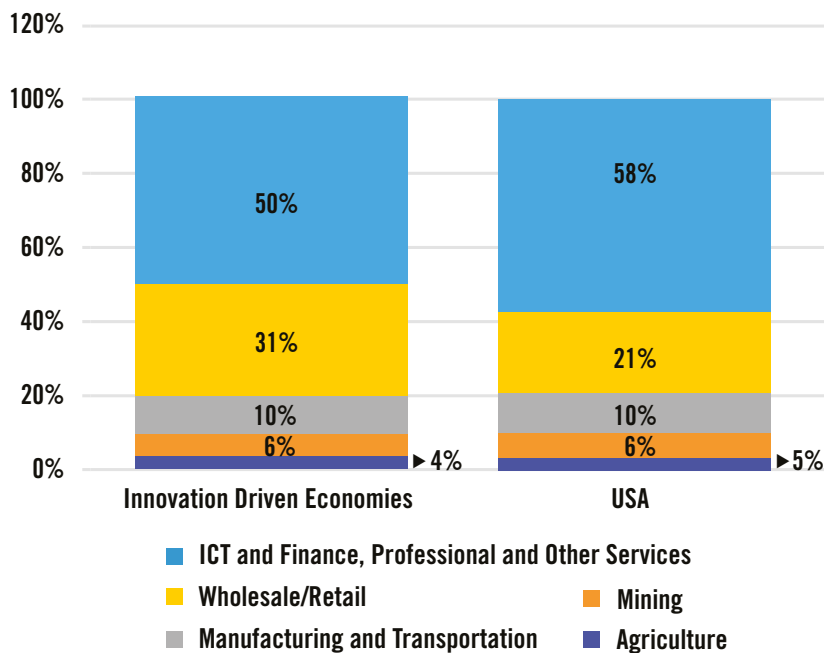


FIGURE 3.1
Industry Participation for TEA in the United States Compared with the Average of the 23 Innovation-Driven Economies, GEM 2017

SOURCE OF DATA:
GEM 2017

Figure 3.1 shows industry participation for TEA in the United States compared with the average of the 23 innovation-driven economies. Not surprisingly, rates across most industries are comparable, as each of these economies competes at the same level. Wholesale/Retail still accounts for the highest proportion of TEA in the United States (21%), essentially the same as last year. This figure remains dramatically lower than the average of the 23 innovation-driven economies (31%). Entrepreneurs in the United States increasingly capitalize on technological advances, away from traditional wholesale/retail toward entrepreneurial opportunities with potentially lower costs and greater upside in the knowledge and service spaces.

While entrepreneurs in all innovation and service-based countries are moving toward knowledge and technology opportunities, U.S. entrepreneurs outpace the average in almost all of these sectors. Among all U.S. opportunities, 40% are in Personal/Consumer, Professional and Administrative Services, along with Health, Education, and Government; 39% of opportunities in other similar economies are in these sectors.

CHAPTER 3

However, compared to this peer group, U.S. entrepreneurs are still twice as likely to compete in the Finance sector. Information Technology and Finance make up over 18% of opportunities entrepreneurs pursue in the United States, compared with only 10% in other innovation and service-based economies.

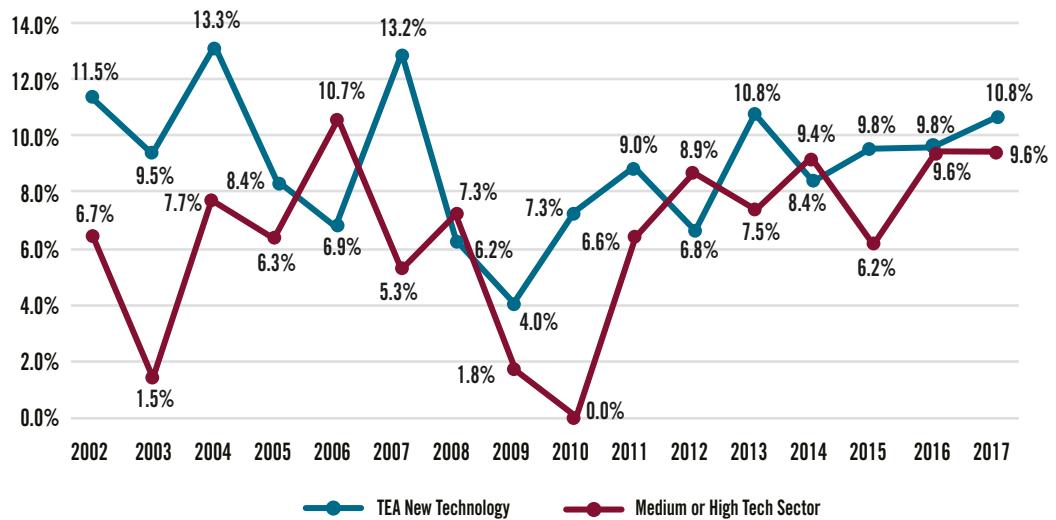
TECHNOLOGY AND INNOVATION

Technology drives entrepreneurship but not just as an industry of choice for nascent entrepreneurs.

Entrepreneurs leverage technology to create value by using it to produce an offering, to deliver a product or service, or both.

FIGURE 3.2
Longitudinal Trends
in the Use of New
Technology and
Technology Sector
Participation among
Entrepreneurs in the
United States, GEM
2002–2017

SOURCE OF DATA:
GEM 2017



As Figure 3.2 shows, the percentage of nascent firms using the latest technology has been constant for several years at about 10%. Rare exceptions are likely due to effects of economic downturns.

Similar patterns emerge for the percentage of TEA firms that compete using technology as a primary driver of their business. GEM identified few entrepreneurs in the technology sectors in 2009 and none in 2010. By 2017, however, this rate had climbed to 10%, consistent with the high rate of Information/Communication/Technology (ICT) business activity in the United States compared to the average of the 23 innovation-driven economies.

U.S. entrepreneurs are among world leaders in new technology and innovation offerings. GEM data support this assertion with 36% of all entrepreneurs in the United States developing and delivering an innovative product or service as their base offering. This compares favorably with an average of 31% for all innovation-driven economies.

As Figure 3.3 shows, this rate dipped during and just after the recession but jumped up in 2011, inching to an overall high in the past few years.

JOB EXPECTATIONS

The anticipated number of jobs an entrepreneur will create is an important metric. First, founders with high job creation expectations signal their belief that they are developing a high-potential opportunity that will require significant human resources. Second, they believe that they can find, hire, and develop employees to help them successfully grow their opportunity. These are both positives because new opportunities that create scores of jobs are the businesses that significantly grow economies.

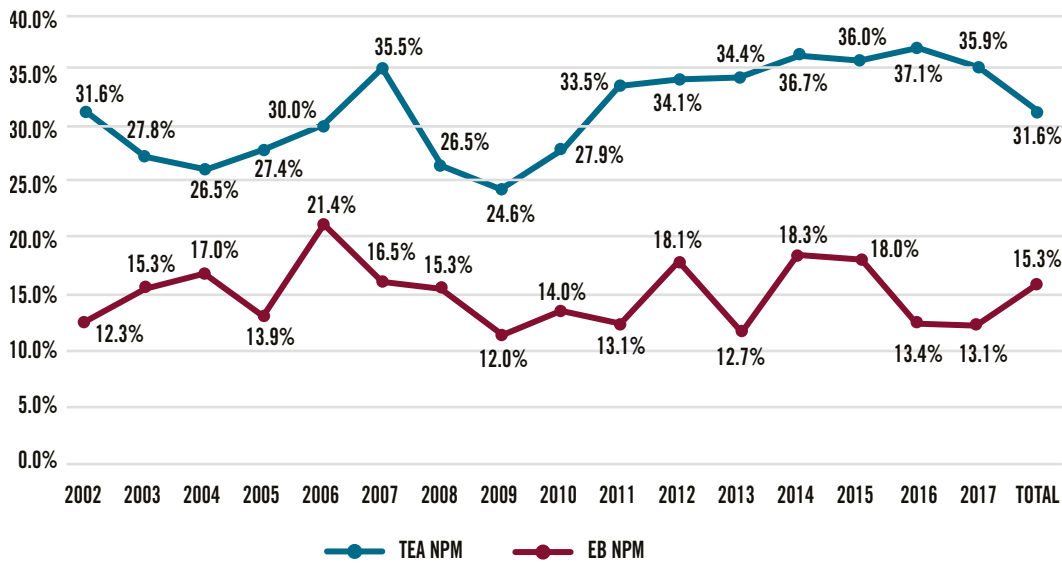


FIGURE 3.3
Longitudinal Trends
in Innovation Levels
among
Entrepreneurs in the
United States,
GEM 2002–2017

SOURCE OF DATA:
GEM 2017

There are two methods by which job expectations are reported in this chapter. The first method, illustrated by Figure 3.4, reports the **total number of jobs** measured at a given moment in the life of an entrepreneurial venture. This **total number of jobs** includes both existing jobs and jobs newly created during the period leading up to that moment in the life of an entrepreneurial venture. Unfortunately, new businesses around the globe do not create substantial employment. However, as Figure 3.4 shows, U.S. entrepreneurs do not follow this norm. In 2017, almost 44% of all U.S. entrepreneurs expected to employ six or more people in the next five years, the second highest rate in nearly two decades. For most years since 2002, over a third of entrepreneurs expected to employ people at this rate. Furthermore, GEM research shows that only 15% of U.S. nascent entrepreneurs see themselves as single-person entities with no creation of jobs for others. The other 85% expect to create jobs for others, driving overall economic growth. Additionally, a full 20% of entrepreneurs expect to employ 20 or more people in their new venture.

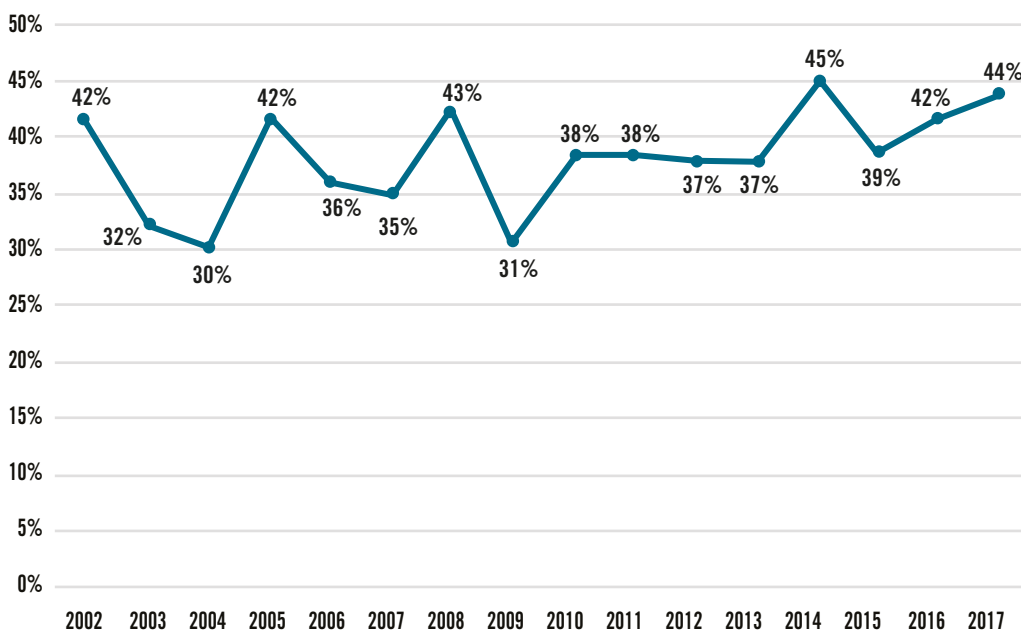


FIGURE 3.4
Percent of
Entrepreneurs
Expecting to
Employ Six or More
in Five Years,
GEM 2002–2017

SOURCE OF DATA:
GEM 2017

The second method of noting job expectations is reporting the **total number of new jobs that have been created** as of a given time in the life of an entrepreneurial venture. Comparing innovation-driven economies with respect to the total number of new jobs created, the GEM Global Report indicates that the share of entrepreneurs who did not expect to create any new jobs in the United States was 29.3%, whereas this share was 45.9% on average for the innovation-driven economies. The share of U.S. entrepreneurs expecting to create one to five new jobs was 32.1%, compared to 32.5% on average in the innovation-driven economies. The share of U.S. entrepreneurs expecting to create six or more new jobs was 38.6% compared to 21.5% on average in the innovation-driven economies. Clearly, the belief of U.S. entrepreneurs about their impact on the size of their firm and the number of new employees they will have in five years is significantly stronger than that of the average entrepreneur in innovation-driven economies.

INTERNATIONALIZATION

The dynamic markets in the United States consistently offer nascent entrepreneurs and established business owners avenues to pursue new opportunities within their own borders. Typically, this results in relatively low rates of international sales for U.S. entrepreneurs. With such a large and willing U.S. market, it is not surprising to find that most U.S. entrepreneurs are not “born global” as they do not necessarily need to pursue sales outside their own borders to break even. However, exports from U.S. entrepreneurs are rising. While 2016 saw only 10.4% of entrepreneurs expecting 25% or more of their sales to come from customers living outside the United States, this number has increased to 17% in 2017. This represents a significant increase over the past few years.

As the developed world shifts toward a creativity economy that combines elements of the information and knowledge economy with today's creative class, the United States continues a shift to start-ups that rely on technology and creativity for competitive advantage.





Chapter 4

Age and Entrepreneurship

ACTIVITY BY AGE GROUP

Results of the U.S. GEM Adult Population Survey indicate that in 2017 a substantial number of people age 18–74 were thinking of starting a new business, growing an established entrepreneurial venture, or engaging in entrepreneurial employee activity.⁶ Entrepreneurial intentions and activity were alive and well across the age spectrum, as shown in Figure 4.1, although the rate of entrepreneurial intentions, activity, confidence, and concerns varied among age groups.

GEM defines the term *entrepreneurial intentions* as the percentage of the non-entrepreneurial population between ages 18 and 74 (excluding individuals involved in entrepreneurial activity) who are latent entrepreneurs and who intend to start a business within three years. In 2017, entrepreneurial intentions were higher than in 2016 among all age groups, except those 55–64 whose intention rate dropped from 9.4% in 2016 to 7.4% in 2017. Nevertheless, the same 55–64 cohort actually engaged in early stage entrepreneurial ventures at a rate of 7.6%, up from 7.3% the year before. Furthermore, the Total Early Stage Entrepreneurial Activity rate (TEA), which measures the percentage of adults 18–74 who are in the process of starting a business, or who already started a business (a nascent entrepreneur or owner-manager of a new business) less than 42 months old, increased overall, including in the 18–24, 25–34, and 45–54 age groups. Although TEA decreased in the 35–44 age group, the decrease was slight, dropping from 16.8% in 2016 to 16.4% in 2017. The biggest dip in TEA occurred in the 65–74 age group where the TEA rate decreased from 4.0% in 2016 to 2.1% in 2017.

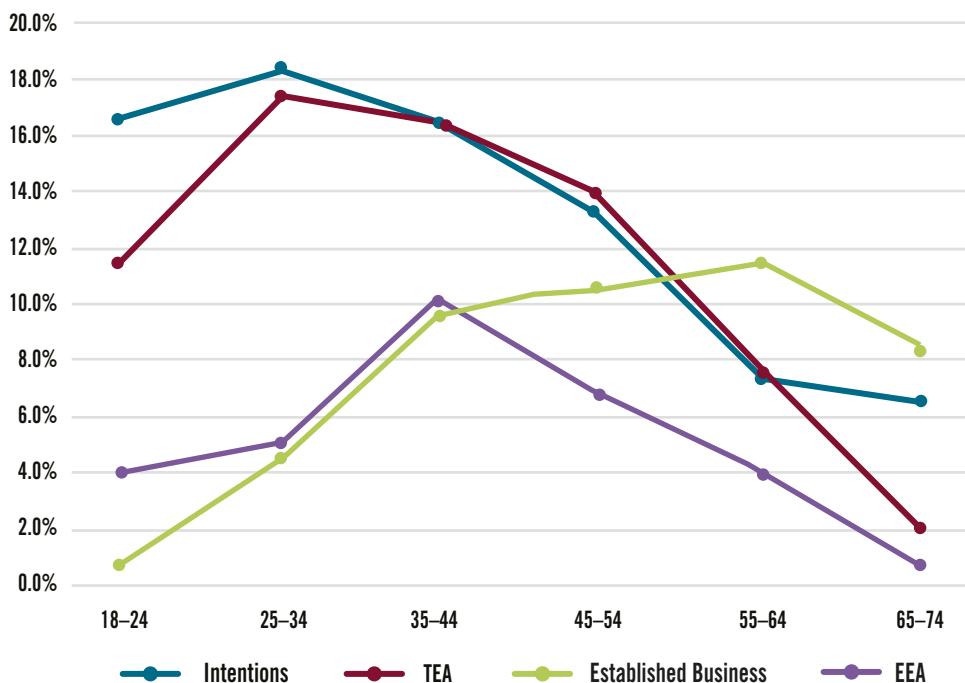


FIGURE 4.1
Age Distribution of Phases and Types of Entrepreneurial Activity in the U.S. Adult Population, GEM 2017

SOURCE OF DATA:
GEM 2017

⁶The GEM 2017 United States Report examines entrepreneurial activity for the 18–74 age group while the corresponding Global GEM Report details entrepreneurial activity for adults in the 18–64 age group. This report uses data from the 18–64 age group when comparing the United States with other countries around the world. In this chapter where reference is made to U.S. data alone, GEM definitions have been expanded to include the 65–74 age group.

Compared to 2016, both intentions and TEA rates in 2017 appeared strong overall. It is likely that economic prosperity inspired strong levels of entrepreneurial creativity and activity. One outlier age group was 65–74. Intentions increased in this age group from 5.0% in 2016 to 6.6% in 2017, but yet TEA decreased from 4.0% to 2.1%. On one hand, it is possible that people in this age group had intentions to start businesses but voluntarily turned away from those intentions and actively chose other paths more appealing to them, such as partial or full-time employment, partial or full-time retirement, spending more time with friends and family including grandchildren, or increasing other leisure activities such as travel. On the other hand, it is possible that gains from the booming economy were not equally experienced by all age groups. The oldest might have more successfully realized entrepreneurial aspirations if the entrepreneurial ecosystem had more fully recognized the value of their experience and talents and had offered greater support in terms of contacts, opportunities to renew skills, financial investment, and other resources.

In 2017, Global GEM reported an 11.4% TEA in the United States for the 18–24 cohort and a 7.5% TEA average of the 23 innovation-driven economies. This percentage difference highlights the fact that the youngest U.S. cohort is among the most active entrepreneurially, compared with the youngest in the other innovation-driven economies except Canada, Estonia, and Luxembourg, which report higher TEA for this age group than the United States. Furthermore, Global GEM reported that the highest TEA rate in the United States tracks with the highest of the average of the 23 innovation-driven economies in terms of age groups. In 2017, the United States TEA rate for age 25–34 rose to 17.4%, and the average rate for age 25–34 in the 23 innovation-driven economies rose to 11.6%. Across all innovation-driven economies in 2017, from there the trend declines as age increases. Among those 55–64, which is the oldest cohort surveyed by Global GEM, 7.6% is the U.S. TEA and 5.8% is the average TEA of the 23 innovation-driven economies. This finding indicates that U.S. TEA is higher in the oldest age cohort surveyed by Global GEM as compared to the average of the 23 innovation-driven economies.

The oldest [sector] might have more successfully realized entrepreneurial aspirations if the entrepreneurial ecosystem had more fully recognized the value of their experience and talents and had offered greater support in terms of contacts, opportunities to renew skills, financial investment, and other resources.

While it indicates that individuals are still involved in entrepreneurship in the 55–64 age group worldwide, this lower rate relative to the other age groups reinforces the fact that policy makers, educators, and others worldwide should perhaps address the reasons for this drop at the later ages. The U.S. boomer generation, currently included in the 55–64 age group, has historically been a distinctive group of people who have “broken the mold” in all areas of life. Because of their experience, motivation, determination, will to improve society, and emphasis on maintaining good health in what is expected to be longer than usual lives, they remain a resource that if properly incentivized can build value not just for themselves but for society as a whole.

EEA is the Entrepreneurial Employee Activity rate, the percentage of the adult population aged 18–74 who as employees have been involved in entrepreneurial activities such as developing or launching new goods or services or setting up a new business unit, a new establishment or subsidiary. EEA rates in the United States in 2017 were lower than the TEA rates across all age groups, peaking among those aged 35–44. However, when both TEA and EEA statistics are combined, a more complete view of ongoing entrepreneurial activity becomes clear for all age segments. The most active segment is 35–44 in which almost 27% are involved in some form of entrepreneurship. The Established Business Ownership Rate is the percentage of the adult population 18–74 who currently own or manage an established business that has paid salaries, wages or any other payments to the owners for more than 42 months. When the rate of established business is considered, the 35–44 group remains most active at 36.4%. (Chapter 6 provides information on Established Business Ownership in the United States.)

Interestingly, the 35–44 age group, which is the most entrepreneurially active, is the same age group that experienced highest discontinuation rates (nearly 6%). According to Global GEM, most entrepreneurs outside the United States discontinue businesses primarily because of unprofitability. However, primary reasons for discontinuation among U.S. entrepreneurs are the pursuit of another opportunity (30.2%), personal reasons (21.1%), and bureaucracy (20.0%). This last reason should serve as a cautionary note for regulatory bodies and policy makers whose job it is to keep the U.S. economic engine well-oiled. Notably, Global GEM bases its results on surveys of the population between ages 18 and 64.

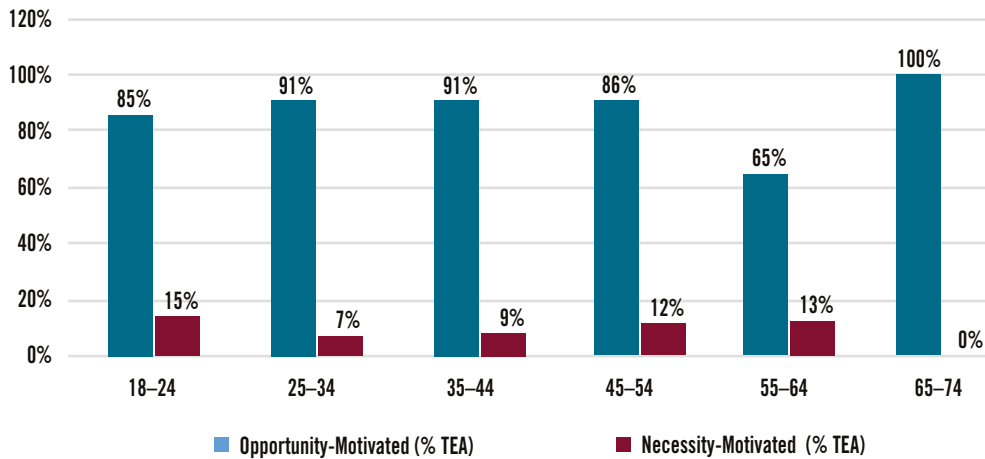


FIGURE 4.2
Age Distribution of
Total Entrepreneurial
Activity in the U.S.
Adult Population
Showing Opportunity
and Necessity Motives,
GEM 2017

SOURCE OF DATA:
GEM 2017

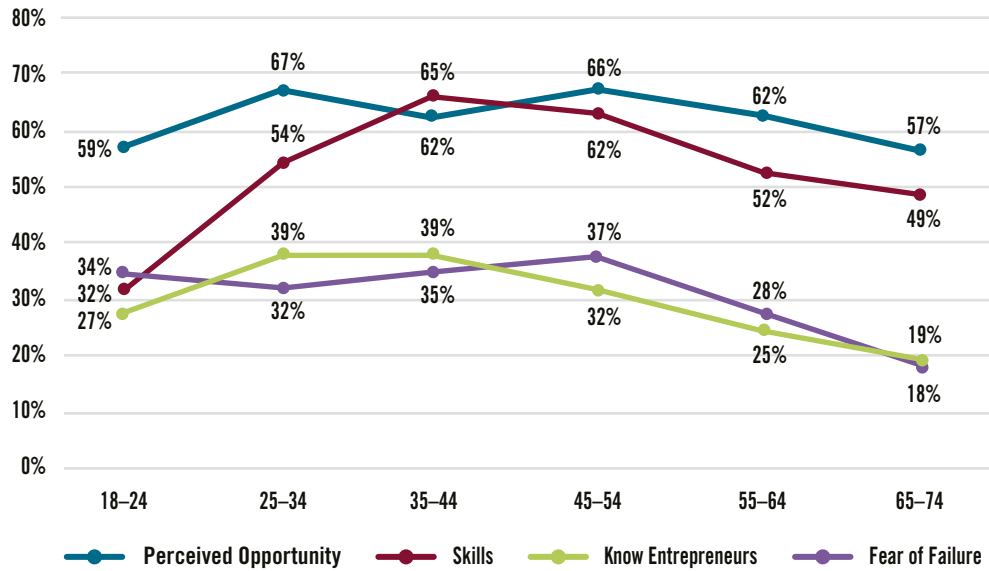
Figure 4.2 shows opportunity-driven and necessity-driven entrepreneurship by age group. Across all age groups, more entrepreneurs start because they see an opportunity to form a new venture. In 2017, the highest level of necessity-driven entrepreneurship at 15% occurred in the youngest group, age 18–24. Reasons for this may include lack of suitable employment opportunities because of lack of credentials or experience, and a greater appetite for risk due to fewer responsibilities and assets than in older age groups. The next highest necessity-driven entrepreneurship rate of 13% is found in the 55–64 age group, followed by a 12% rate in the 45–54 age group. Necessity-driven entrepreneurship among these two groups combined (age 45 to 64) may be caused by age bias narrowing options for work as employees, or by a lack of up-to-date skills, particularly because of expanding technology expertise needed across industries.

The 45–64 age group is often burdened with financial and family responsibilities, supporting children and parents or both. They may have debts, such as car, mortgage, education and other loans. Although such burdens may be seen as reasons to prefer steady employment, this age group may calculate that financial and other rewards of entrepreneurial ventures outweigh what they can expect to gain from remaining on the job as employees.

The U.S. boomer generation, currently included in the 55–64 age group, has historically been a distinctive group of people who have “broken the mold” in all areas of life they remain a resource that ... can build value ... for society as a whole.

FIGURE 4.3
Age Distribution
of Entrepreneurial
Attitudes and
Affiliations in
the U.S. Adult
Population,
GEM 2017

SOURCE OF DATA:
GEM 2017



ATTITUDES BY AGE GROUP

Figure 4.3 illustrates self-perceptions across age groups of the U.S. adult population. The categories in the illustration are: (1) perceived opportunities, (2) perception of having the necessary skills to start a business, (3) knowing entrepreneurs, and (4) attitudes toward fear of failure among those seeing opportunities. Particularly apparent in this illustration is the finding that well over 50% of adults across the entire spectrum of age groups perceive opportunity. Also apparent is the finding that the 18–24 age group perceives itself much less likely than other age groups to have the skills necessary to take advantage of opportunities, a reasonable perception given their lack of experience and training. The perception of skill level peaks among the 35–44 age group at 65%, declining from there to 49% in the 65–74 age group. Notably, 49% is a substantial indicator of skills confidence and suggests that the low TEA rate among the 65–74 age group may be due less to a lack of skills and more to a business environment that is currently less welcoming to older adults.

The third category in Figure 4.3, knowing an entrepreneur, has been shown to have a positive influence on one’s own entrepreneurial ambitions by offering examples, role models, advisors and collaborators to inspire and support. Higher scores occur among two age groups, 25 to 34 and 35 to 44, both at 39%. These two age groups also report the highest entrepreneurship activity levels. A lifetime of work and personal relationships may leave the oldest adults with a rolodex full of contacts including entrepreneurs and professionals who work with them. On the other hand, this age group reports a relatively low 19% rate of knowing entrepreneurs. This may support the theory suggested previously that the business environment may be less welcoming to older adults, thereby separating them from entrepreneurs at a time when they see opportunity and feel they have the skills to succeed. Alternatively, the results may suggest that the 65–74 age group needs to make an effort to participate more in business activities and networks that could help them with future professional activities.

The last category in Figure 4.3, attitudes toward fear of failure among those seeing opportunities, shows the fear of failure rate vacillating in a relatively high range of 32% to 37% among the 18–54 age group and declining thereafter. The 55–64 age group reported a 28% fear of failure rate. The oldest segment 65–74 reported a very low fear of failure rate at 18%. Why do older adults exhibit the most confidence? The fact that they are experienced and have survived many challenges may have left them with a resulting can-do attitude. Perhaps some older adults perceive they have less to lose. Others may have a financial cushion to absorb risk and consequently may be less fearful of failing financially. While younger people may have many years ahead to make up losses from business failures, they may also feel less sure of their ability to do so. Additionally, they may have acquired debt obligations and high current expenses or have accumulated insufficient earnings, all of which could leave them fearful of any potential business reverse.

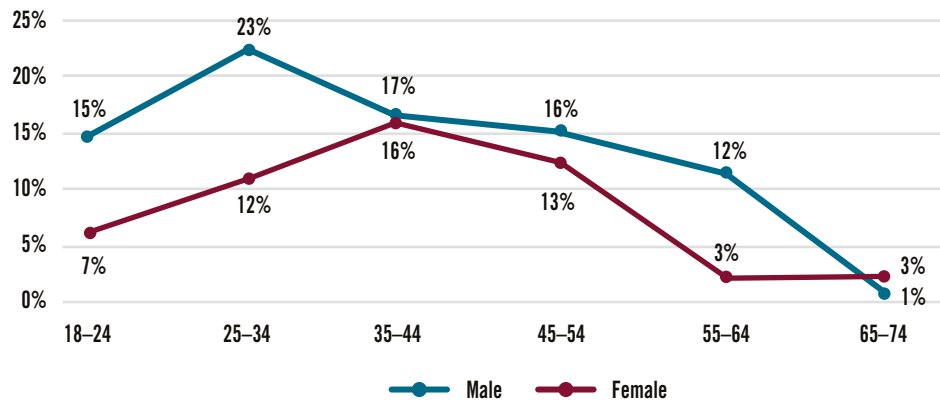


FIGURE 4.4
Total Entrepreneurial Activity Rates for Women and Men by Age Group in the U.S. Adult Population, GEM 2017

SOURCE OF DATA:
GEM 2017

WOMEN BY AGE GROUP

While the data show more men than women engaged in early stage entrepreneurial activity, comparison of 2017 TEA rates between men and women reveals surprising results. As shown in Figure 4.4, in every age category the TEA rate for men was higher than for women, except for the 65–74 age group, where the TEA rate for men was 1% and for women was 3%. For the 35–44 age group, TEA rates were almost equal, 17% for men and 16% for women. The youngest age groups maintained a substantial gender gap, the biggest of 11% in the 25–34 age group. In older age groups, despite a notable 9% gender gap in the 55–64 age group, the data suggested a trend toward narrowing of the gender gap.

Probable explanations for lower entrepreneurial activity rates among younger women include lower participation rates in the workforce during peak childbearing years, greater difficulty raising funds for start-ups, less societal support, and fewer networking opportunities for entrepreneurial careers. Probable explanations for a lower gap in the 35–44 age group include fewer child-rearing responsibilities, and more time to form networks and set about the tasks necessary for successful start-ups, such as gathering teams and raising funds.

Perhaps the reversed gender gap for the 65–74 age group, with women leading men by 2% in TEA, may be explained by several factors. First, the women themselves may have taken action to achieve goals they had been unable to pursue previously due to commitments to children and parents. Second, over the years there have been changes in society accomplished by other women entrepreneurs who have served as role models and helped to open doors to more women. Finally, older women may have achieved a certain level of financial security that has empowered them to take a chance on entrepreneurial activity as a new chapter in their lives. To support gender parity in entrepreneurial activity, policy makers can continue to address affordable child care, accessible funding for female-led start-ups, and social attitudes conducive for women entrepreneurs. (Please see Chapter 5 for more information about Women’s Entrepreneurship.)

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Chapter 5

Women's Entrepreneurship

INTRODUCTION

Women entrepreneurs continue to make significant contributions to economies worldwide. In 2016, an estimated 163 million women were starting or running new businesses in 74 economies around the world. In addition, an estimated 111 million were running established businesses. This is more impressive considering that from 2016 to 2017, the ratio of women's to men's entrepreneurship increased by 6% across the 48 economies which participated in the GEM survey both years.

Nevertheless, men are still more likely to be engaged in the start-up process in most economies, even though there are substantial variations in women's TEA rates across the 54 economies that participated in the Global GEM Study in 2017. Women's TEA rates range from a low of 2.4% in France and Italy, 2.7% in Bosnia and Herzegovina and 3.9% in Germany and Greece to a high of 30.6% in Ecuador and 24.8% in Vietnam. In three economies – Ecuador, Vietnam, and Brazil – women entrepreneurs report equal or higher entrepreneurship rates than men. The region boasting the highest average rate of female TEA is Latin America (16.7%), and the lowest female TEA rate is in Europe (6.1%).

In the United States, there are approximately 30 million businesses. Women, as majority owners of 51% or more of a given business, own 39% or 11.6 million of these businesses. Women-led firms generate more than \$1.7 trillion in receipts.⁷ Since 2007, the total number of women-owned businesses has risen by 3.8 million, an increase of 49%. In other words, women entrepreneurs are significant contributors to the U.S. economy.

All successful economies benefit from new venture creation. Starting a business is not only a way to pursue a business opportunity or realize a dream of being one's own boss, but also a way to create wealth or solve a social problem. When women start businesses, they provide income for their families and employment for their communities. They also create products and services that deliver value to the world around them.⁸ Women entrepreneurs start businesses to create economic and social value. Insight into women's entrepreneurship in the United States begins with a better understanding of their participation, attitudes, business characteristics and contributions. The 2017 United States GEM Report includes important data on all these dimensions.

TEA RATES AND ENTREPRENEURIAL ACTIVITY IN THE UNITED STATES

Over the past 16 years, a gender gap has continued in the start-up rates of men and women. (See Figure 5.1.) The TEA rates of men and women entrepreneurs since 2001 show the smallest gender gap in 2010. The gap has remained about 6% for the past few years. In 2017, the gap widened from 5% to 6%. While the TEA rate increased by 2% for men, it increased by only 1% for women. Other developed economies show varying gender gaps. For example, Canada shows a 22.6% TEA rate for men compared to 15% for women, resulting in a slightly higher 7.6% gender gap than the U.S. gender gap. The United Kingdom shows an 11.5% TEA rate for men and 5.3% for women, resulting in a very comparable 6.2% gender gap.

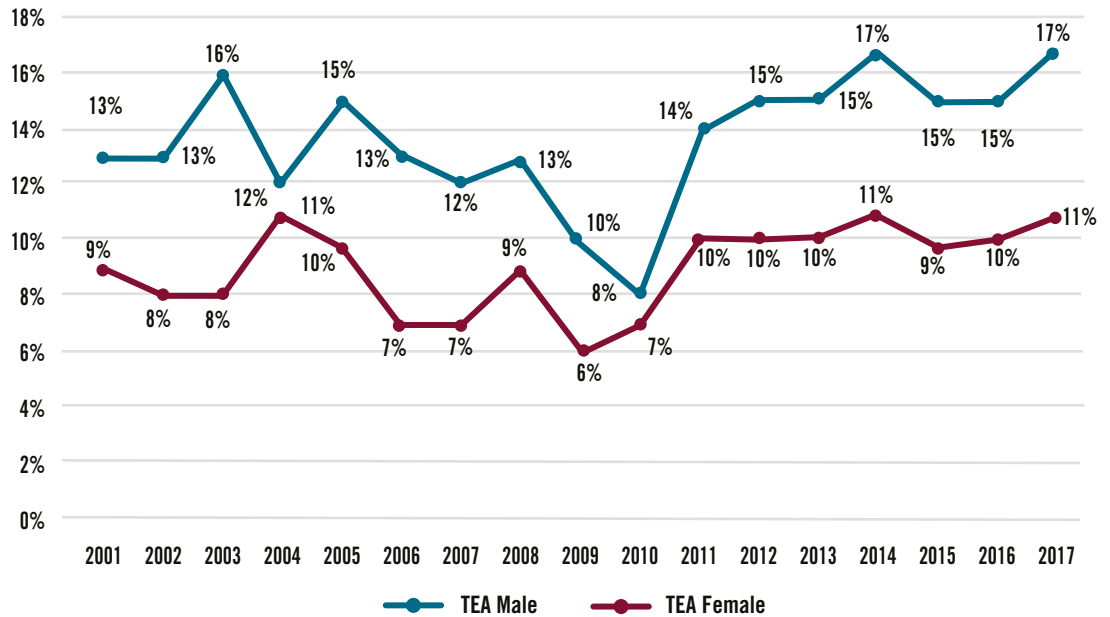
⁷ <https://www.nawbo.org/resources/women-business-owner-statistics>.

⁸ Brush, C.G. and Greene, P.G., 2016. *Closing the Gender Gap in Entrepreneurship: A New Perspective on Policies and Practices*. Report commissioned by OECD, Paris, France.

CHAPTER 5

FIGURE 5.1
TEA Rates of
Male and Female
Entrepreneurs,
GEM 2001–2017

SOURCE OF DATA:
GEM 2017



All stages of business activity (nascent, new business, established and corporate) display the same pattern in terms of gender gaps and entrepreneurial rates. For early stage entrepreneurship, which combines nascent and new activity, the rate for men was 16.7%, higher than the 2015 rate (14.8%) and slightly higher than the 2014 rate (16.5%). For women, early stage was 10.7% in 2017 compared to 10.5% in 2016. The 2017 gap between men and women was 6%.

The 2017 gap between men and women entrepreneurs in the nascent portion of TEA is 4.2%, and this represents an increase in this gender gap since 2016 when the gap was only 1.8%. The rate of new businesses remained similar to past years (5.2% for men and 3.4% for women), but this represents a slight increase for both males and females from 2016. For established businesses, the rate for women declined from 7.6% to 6.6%, and the rate for men decreased from 10.9% to 8.9%. Employee entrepreneurship rates for women remained steady over the past two years at 3.7%. For men, employee entrepreneurship rates rose from 7.2% in 2016 to 9.1% in 2017.

Analysis of the age of entrepreneurs and of start-up rates shows slightly different trends than in the past. Generally, the highest start-up rates are for those age 25–44, but TEA rates of male entrepreneurs have shifted with a higher percentage of age 18–24 (15%) and 25–34 (23%) than in 2016. In contrast, TEA rates for women are much lower in these groups with 7% in the 18–24 age group and 12% in the 25–34 age group. Similarly, TEA rates for males and females are nearly equal for the 35–44 age group, 17% and 16% respectively. The rate of female TEA declined for the 55–64 age group from 7% to 3%, and the rate of male TEA increased from 7% to 12%. The patterns for female TEA more closely follow the patterns for 2015. Data for 2017 suggest that the rise in female TEA for the middle age groups might be evidence of women deciding to launch businesses after they have had a career and/or raised families. The rise in TEA rates for men in younger age groups may suggest they are starting businesses right after completing education and/or as a first form of employment. (Chapter 4 provides more information on Age.)

Start-up rates are driven by different motivations. The Global GEM Report captures the extent to which entrepreneurs start out based on necessity or because they perceive an opportunity. In the United States, 86.2% of TEA is opportunity-driven compared to 10.6% necessity-driven. As in most industrialized economies, opportunity motivation predominates in the United States with 85% of men being opportunity-motivated and 88% of women, a shift from 2016 when the opportunity motivation rate was 88% for men and 87% for women.

In summary, TEA rates have risen for men and women entrepreneurs with a slight widening of the gender gap in 2017. The gender gap is smallest for established and new venture TEA (2.3% and 1.8%) and highest for early stage (6%) and employee entrepreneurship (5.4%). There was a shift in TEA rate by age group with fewer women at younger ages engaging in entrepreneurship and more men starting businesses. Slightly more women than men are motivated by opportunity, a change from previous years.

ENTREPRENEURIAL ATTITUDES

Starting a new venture is directly linked to human capital resources, which include education, experience, attitudes, beliefs and perceptions.⁹ Although education provides knowledge and skills and may assist in the accumulation of explicit knowledge leading to useful skills for entrepreneurs, attitudes and perceptions may influence confidence in one’s ability to pursue entrepreneurial action.¹⁰ In particular, perceptions of capabilities derived from education are associated with beliefs about the attractiveness of an opportunity, and these beliefs motivate an entrepreneur to pursue an opportunity.¹¹

GEM’s attitude measures include perception of opportunities, perceived capabilities to start a business, fear of failure and intentions. Opportunities are generally defined as potential to create economic value through something new or innovative. Opportunities can be perceived either through active or passive search, whereby someone is receptive and alert to a new product/market opportunity.¹² Two important trends appear from the examination of perceived opportunities. (See Figure 5.2.)

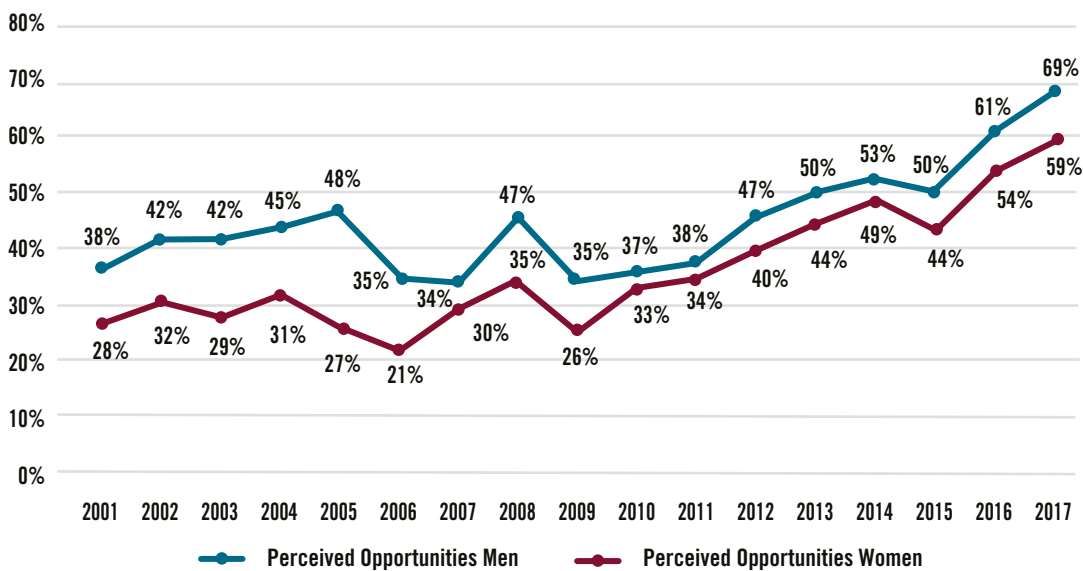


FIGURE 5.2
Perceived Opportunities of Men and Women Entrepreneurs, GEM 2001–2017

SOURCE OF DATA:
GEM 2017

One trend is the rising perception of opportunities among both men and women. Both men and women perceived more opportunities in 2017 than in 2016. For women, the rate of opportunity perception rose by 5% from 54% to 59% while for men it rose by 8% from 61% to 69%. The 59% perception of opportunity for women is the highest rate ever reflected in the U.S. GEM study. These increases suggest a positive trend over the past few years where the increase has been 15% for women and 19% for men since 2015. When entrepreneurs perceive opportunities, they are generally more motivated to consider starting a new business. The steady increase since 2015 is likely related to support and growth in programs at colleges and universities, and also to venture accelerators and local ecosystem incentives to start businesses across the United States.

⁹ Becker, G.S., *Human capital: A theoretical and empirical analysis, with special reference to education*. Chicago: University of Chicago Press, 1964. See also Brush, C. G., Greene, P.G., Hart, M. M., *From initial idea to unique advantage: The entrepreneurial challenge of constructing a resource base*. *Academy of Management Executive* 15:1, pp. 64–78, 2001.
¹⁰ Krueger, N., Reilly, M., Carsrud, A., *Competing models of entrepreneurial intentions*. *Journal of Business Venturing*. 15:5–6, 411–432, 2000.
¹¹ Corbett, A., *Learning asymmetries and the discovery of entrepreneurial opportunities*. *Journal of Business Venturing*. 22:1. 97–118, 2007.
¹² Baron, R., *Opportunity recognition as pattern recognition: How entrepreneurs “connect the dots” to identify new business opportunities*. *Academy of Management Perspectives*. 20:1. 104–119, 2006.

The second trend that emerges from an examination of perceived opportunities is that there remains a gap between women’s and men’s perception of opportunities. Since 2015, this gap has increased from 6% to 10%, which is significant. Even though there is a rise in the number of women perceiving opportunities, the number of men perceiving opportunities is rising faster. The 10% gender gap is the largest since 2009. This raises a question about the types of opportunities perceived. Although GEM does not capture this data, other data sources suggest that the top opportunities may be in areas less associated with female businesses (e.g., virtual reality, software engineering and development, skilled trades, and home contracting).¹³

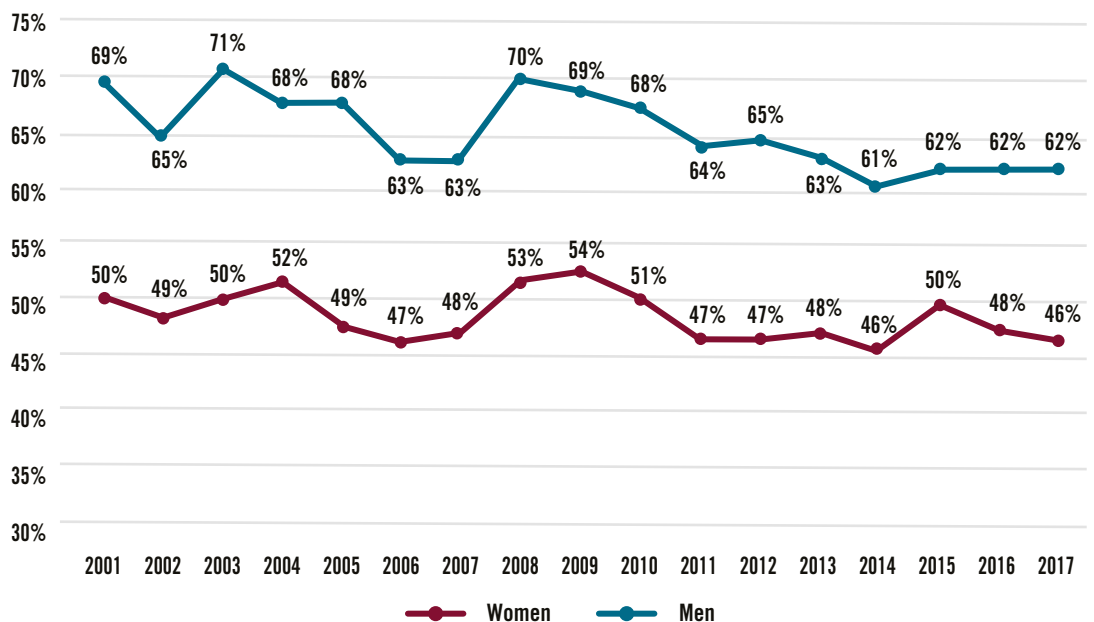
Another key factor associated with business start-up is perception of capabilities. Capability perceptions refer to a belief that one is prepared and has what it takes to start a business. This is related to perceived self-efficacy and how one thinks about competence to control outcomes and processes in a situation, especially where persistence is required.¹⁴ Figure 5.3 shows capability perceptions of men and women entrepreneurs in the United States since 2001.

This analysis reveals a distinct gap between men and women in their perceived capabilities to start a business. While rates have fluctuated slightly over the past 20 years, since 2011 both men and women have reported relatively steady rates of perception of capabilities to start a business, with men during this time period at the higher rates of 61% to 65% and women at the lower rates of 46% to 50%. These differing rates of capability perceptions in the United States between men and women are consistent with data from innovation-driven economies such as those in Western Europe. Further, the gap in perceived capabilities between men and women is greater with higher levels of economic development.

In the United States, where the population is generally well educated and acceptance of entrepreneurial activities is widespread, it is a bit surprising that the capability perception gap is so large between men and women and that it increased by 2% since 2016. One possible explanation is that the media representation of successful entrepreneurs continues to be the heroic male figure, for example, Bill Gates, Elon Musk, Mark Zuckerberg or Steve Jobs. This may influence the perception of what it takes to be successful as an entrepreneur. There is evidence that women may overcome stereotypes when exposed to outstanding attainable role models.¹⁵

FIGURE 5.3
Perceived Capabilities of Men and Women Entrepreneurs, GEM 2001–2017

SOURCE OF DATA:
GEM 2017



¹³ <https://www.thebalancesmb.com/best-small-businesses-opportunities-4111809>.

¹⁴ Krueger, N. and Dickson, P., 1994. How believing in ourselves increases risk taking: Perceived self-efficacy and opportunity recognition. *Decision Sciences*. 25:3. 385–400.

¹⁵ Ridgeway, C. and Correll, S., 2004. Unpacking the gender system: A theoretical perspective on gender beliefs and social relations. *Gender & Society*. 18:4. 510–531.

The third attitude relating to business start-up is perceived fear of failure. Entrepreneurial start-up is inherently characterized by risk and uncertainty, which relates to how one defines and orients to experiences in an achievement situation.¹⁶ The data from this survey show that women still have a greater fear of failure than do men, following a trend consistent over the past several years. (See Figure 5.4.) Between 2016 and 2017, women’s perceived fear of failure rose from 36% to 37%; but men’s perceived fear of failure declined from 31% to 30%, resulting in a slight increase in the gender gap to 7%. This trend is also consistent with greater perceived fear of failure for women in other innovation-driven economies. One explanation may be that, in innovation-driven economies, women who believe their needs are well met may perceive that they have more to lose if they start a business.

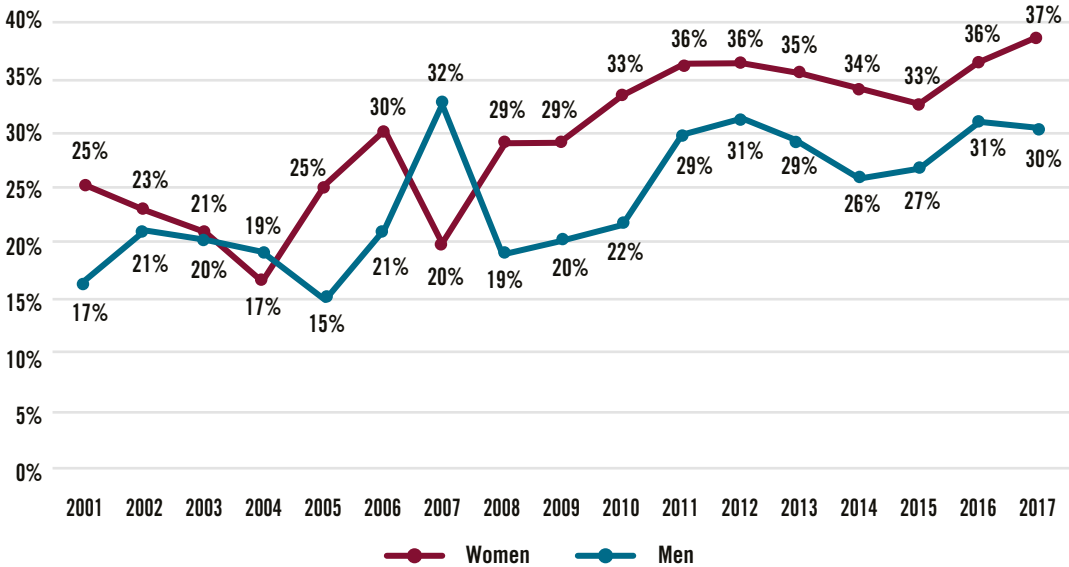


FIGURE 5.4
Fear of Failure
Perceptions of
Men and Women
Entrepreneurs,
GEM 2001–2017

SOURCE OF DATA:
GEM 2017

Entrepreneurial intentions are defined as intentionally planned behavior: in this case, to start a new business.¹⁷ Intentions are a precursor to entrepreneurial action, but not all intentions result in a business start-up. As Figure 5.5 demonstrates, the data for 2017 show a surprising increase in men’s intentions from 13% to 19%, whereas women’s entrepreneurial intentions have remained the same for the past two years at 11%. The sharp rise in men’s intentions marks a gender gap of 8%, which is the highest in the history of the study.

Further, the extent to which an individual knows an entrepreneur or is affiliated with entrepreneurs can provide role models and inspire one to consider entrepreneurship. Despite the high visibility of entrepreneurs in the daily press, or news, a small percentage of both men and women indicate they know an entrepreneur: 36% for men and 30% for women, a slight increase overall since 2016. Nevertheless, this is much lower than previous years, for instance in 2008 when 47% of men and 41% of women reported knowing an entrepreneur. Notably, the gender gap did narrow slightly by one percentage point from 2016 to 2017.

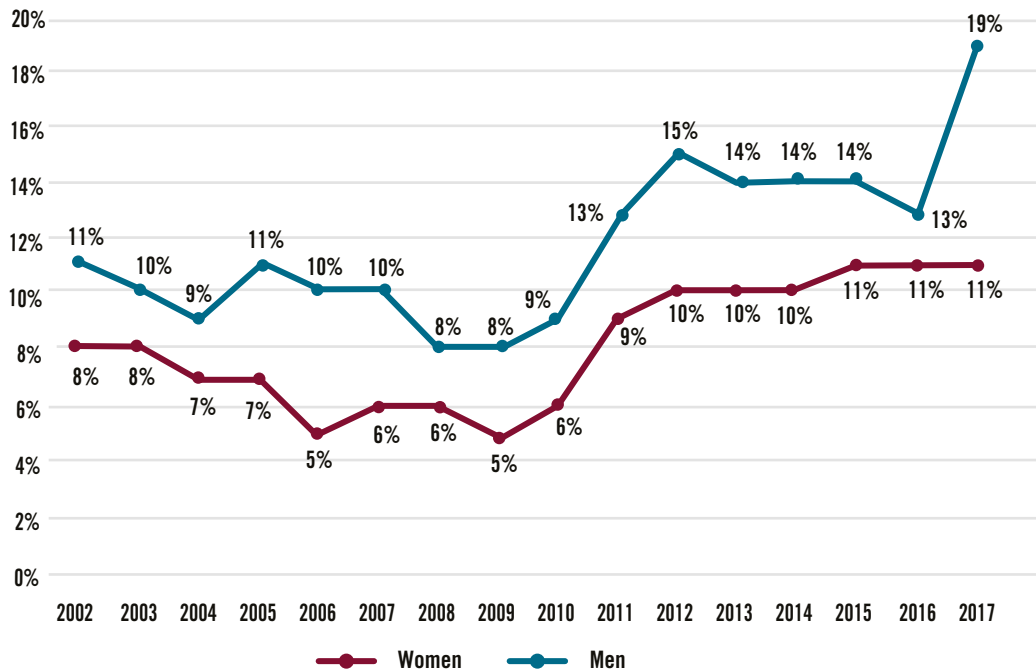
Taken together, the analysis of opportunity perceptions, perceived capabilities, fear of failure and intentions for men and women entrepreneurs shows that, generally, women’s perceptions of opportunities rose over last year to the highest rate since 2001, as did men’s. However, for men the intention rate also rose dramatically to 19%, perceived capabilities remained steady at 62%, and fear of failure declined slightly to 30%. For women, even though they perceive more opportunities and are more likely to know an entrepreneur than in the past, their intention rate remained steady at 11%, perceptions of capabilities declined by 2%, and fear of failure rose slightly to 37%.

¹⁶ Wennberg, K., Pathak, S., and Autio, E., 2013. How culture molds the effects of self-efficacy and fear of failure on entrepreneurship. *Entrepreneurship and Regional Development*. 25: 9–10. 756–780.

¹⁷ Krueger, et al., 2000.

FIGURE 5.5
Entrepreneurial
Intentions of
Men and Women
Entrepreneurs, GEM
2002–2017

SOURCE OF DATA:
 GEM 2017



These results are somewhat puzzling. It would seem that patterns by gender across these attitudes would be parallel, but this is not the case. As noted earlier, it is possible that the types of opportunities observed may be perceived as less possible for action by women because of the nature of the technology or type of opportunity. Alternatively, lower intentions and perceived capabilities might similarly correlate with the differences in age categories. The data show that more men of younger ages are starting businesses while for women it is the middle-aged category. Younger men may be more optimistic about their capabilities while middle-aged women may be more realistic. Another possible influence could be overall perceptions of the economy. A recent study by Wells Fargo showed that 59% of women are optimistic about the economy compared to 73% of men.¹⁸ A Pew Research Center study showed similar results with 53% of men asserting confidence in the future of the United States but only 29% of women expressing this opinion. It is likely that these perceived attitudes about the economy explain in part the overall gender gap in TEA rates of men and women. (See Figure 5.1.)

BUSINESS ACTIVITY AND PERFORMANCE

Business activity and performance over time were measured in several ways in this GEM survey: industry participation, use of new technology, innovation, exporting, discontinuance and profit. Consistent with the overall composition of firms by industry in the United States, nascent and new firms operate predominantly in business and consumer services rather than in agriculture, mining, and manufacturing.

Women start a much higher percentage of businesses in health, education, government and social services, and professional and administrative services than do men. Information/communication technology, and agriculture and mining businesses are more prevalent among men than among women entrepreneurs. (See Figure 5.6.) Recent data from the National Women’s Business Council shows that of businesses owned by women in the United States, the highest number of women-owned firms is in other services, followed by health care and social assistance, professional scientific and technical services, administrative support and retail trade.¹⁹

One of the biggest differences in the GEM analysis is that only 3.9% of women start information and communications technology businesses compared to 11.5% of men. Similarly, only 3.2% of women consider their businesses to be in medium or high technology sectors compared to 8.2% of men. However, women are almost as likely to use new technology in their businesses: 8.9% compared to 10.3% for men.

¹⁸ <https://stories.wf.com/investor-poll-optimism-varies-gender/>.

¹⁹ <https://s3.amazonaws.com/nwbc-prod.sba.fun/wp-content/uploads/2012/01/11092011/fact-sheet-industry-differences-by-gender.pdf>.

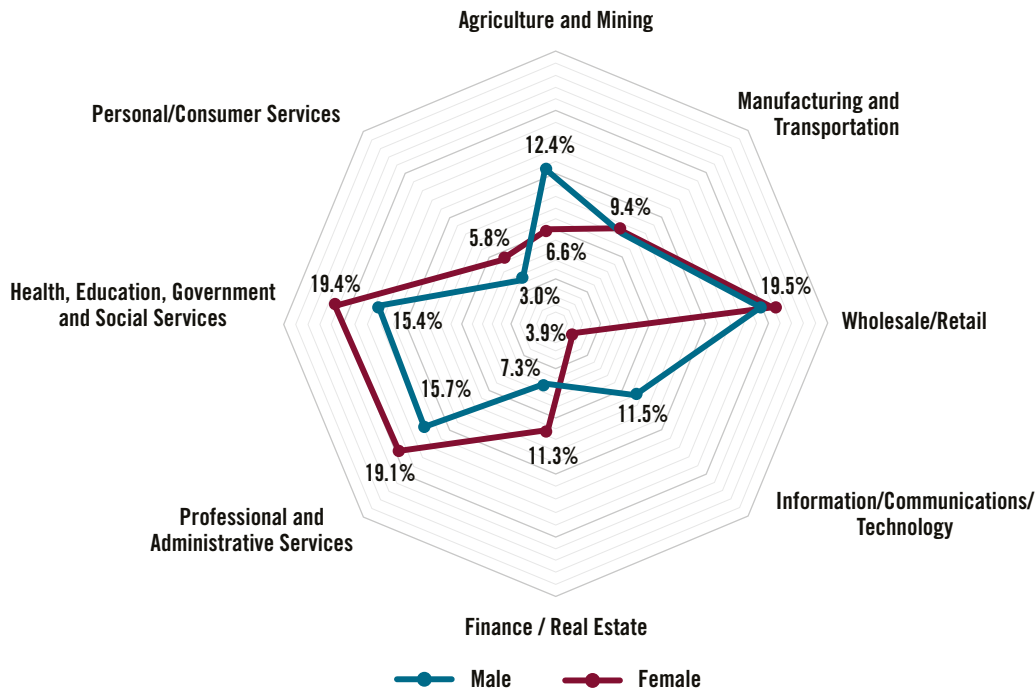


FIGURE 5.6
Composition of Businesses by Industry for Male and Female Entrepreneurs, GEM 2017

SOURCE OF DATA:
GEM 2017

In addition to industry sector and use of technology, GEM also tracked the extent to which women consider their products and services innovative. This measure has fluctuated widely over the past few years. In 2015, only 32% of women considered their products/services innovative. This number rose to 40% in 2016 but declined to 33% in 2017. The trend was the opposite for men, 39% in 2015 declining to 35% in 2016 and rising to 38% in 2017. (See Figure 5.7.) Innovation with regard to products and services is likely related to the industry. Opportunities for innovation in business-to-business arenas, such as manufacturing and information and communication technology, might be more available than they would be in business-to-consumer arenas or in professional/administrative services which can be more competitive. The difference in product/service innovation by gender may be due to the fact that male entrepreneurs are more prevalent in business-to-business ventures while women are more often in business-to-consumer companies.

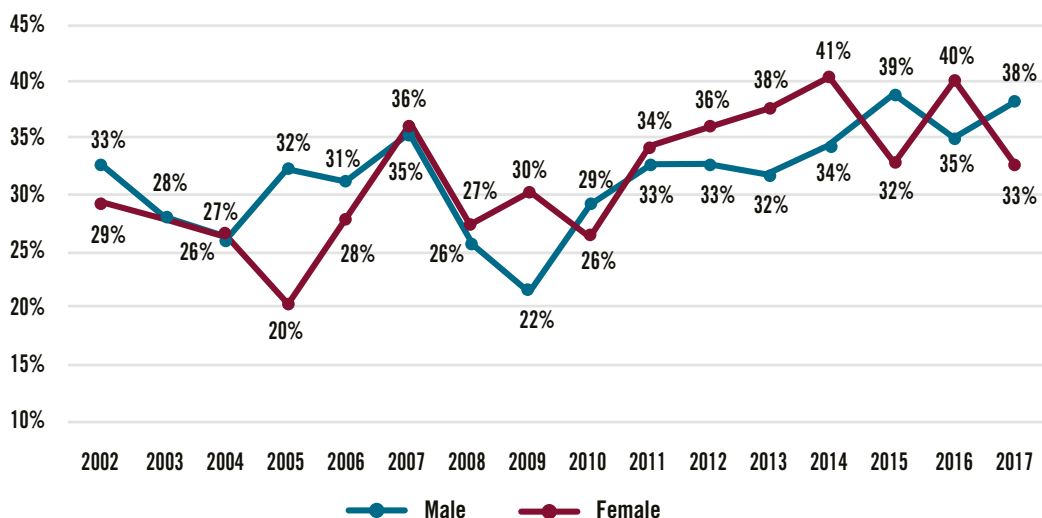


FIGURE 5.7
TEA New Product Market Combinations for Male and Female Entrepreneurs, GEM 2002-2017

SOURCE OF DATA:
GEM 2017

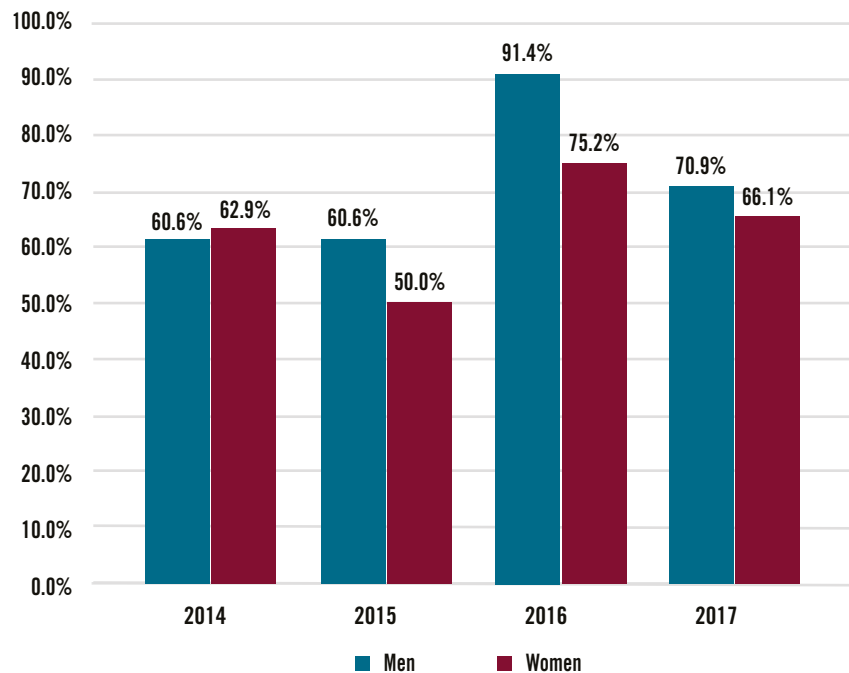
Internationalization refers to the extent to which entrepreneurs export, specifically whether their businesses receive more than 25% of sales from customers living outside the United States. In 2015, 14% of men entrepreneurs indicated this level of international sales compared to 8.3% of women. In 2016, the percentage dropped for men to 11.3% and rose slightly for women to 8.6%, narrowing the gender gap. In 2017, the percentage of businesses started by women exporting more than 25% nearly doubled to 14.1% and increased to 18.5% for men. The trend reflects more internationalization on the part of start-up businesses.

The discontinuation rate is the percentage of the adult population that has discontinued a business in the past 12 months, either by selling, shutting down or otherwise discontinuing an owner/management relationship with the business.²⁰ Compared to 2016, a slightly higher percentage of both men and women discontinued their businesses in 2017: 4.1% of men in 2016 compared to 4.7% in 2017, and 2.7% of women in 2016 compared to 3.3% in 2017. This represents an approximately 0.6% increase for both men and women. The trend over time is consistently low for both men and women, but women have an overall lower rate of discontinuance than men. This could suggest that women are more likely to sustain businesses over time, which may also correlate with the age at which women start businesses and/or the sectors in which they compete. However, women also start fewer businesses than men, so there is a smaller base of ventures which could possibly be discontinued, perhaps causing the overall number to be lower.

The final measure of performance is profitability. For both men and women entrepreneurs, the rate of profitability increased dramatically between 2015 and 2016 by more than 25%. (See Figure 5.8.) However, in 2017 the rate of profitability declined for both men and women, although the decline of 21% for men was greater than the decline of 9% for women. This change reflects a narrowing of the gender gap to less than 5%, suggesting women are performing almost as well as their male counterparts.

FIGURE 5.8
Profitability of
Men and Women
Entrepreneurs,
GEM 2014–2017

SOURCE OF DATA:
GEM 2017



²⁰ 2017/2018 Global GEM Report, p. 107.

CONCLUSION

In summary, TEA rates for men and women entrepreneurs rose in 2017 with a slight widening of the gender gap. The gender gap is lowest for established and new venture TEA and highest for early stage and employee entrepreneurship. There was a shift in TEA rate by age group with fewer women but more men starting businesses at younger ages. Slightly more women are motivated by opportunity than men, a change from previous years.

Analysis of opportunity perceptions, perceived capabilities, fear of failure and intentions shows that women's perceptions of opportunities rose over the previous year to the highest rate since 2001. For men, rates of intentions rose dramatically to 19%, perceived capabilities remained steady at 62%, and fear of failure declined slightly to 30%. Although women perceive more opportunities and are more likely to know an entrepreneur than in the previous year, their perceptions of capabilities declined by 2%, intentions remained steady at 11%, and fear of failure rose slightly. A trend that may need to be considered going forward is the combination of high perceived opportunities with lower intentions and perceived capabilities and higher fear of failure.

Compared to men, women are less likely to discontinue businesses and less likely to export more than 25% of their products or services. Women are less likely to innovate than men, but they are nearly as profitable. Overall, 2017 reflects about the same gender gap as past years, even though start-up rates for women are at an all-time high.





Chapter 6

Established Business Ownership in the United States

ESTABLISHED BUSINESS ACTIVITY LEVELS

The length of time a business takes to reach maturity can vary considerably. Variation may be influenced by economic or industry conditions, the product or service being developed, actions and ambitions of an entrepreneur, and many other factors. Based on analyses of data and literature, GEM has long used three and a half years as the transition point between a new business and an established business.

On average, developed economies have lower TEA levels than less developed economies, given that people in developed economies generally have more job options, and start-ups must overcome highly competitive conditions. Although many start-up attempts never reach maturity, there is still a higher level of established business activity relative to TEA in developed economies. This may be due to greater selectivity in start-up attempts in developed economies, where people weigh job options and enter entrepreneurship with some degree of caution. It may also be due to an environment which supports entrepreneurship with financial and human resources, predictable institutional surroundings, advanced infrastructure, the benefits of agglomeration economies, and other factors enabling entrepreneurs to sustain their businesses.

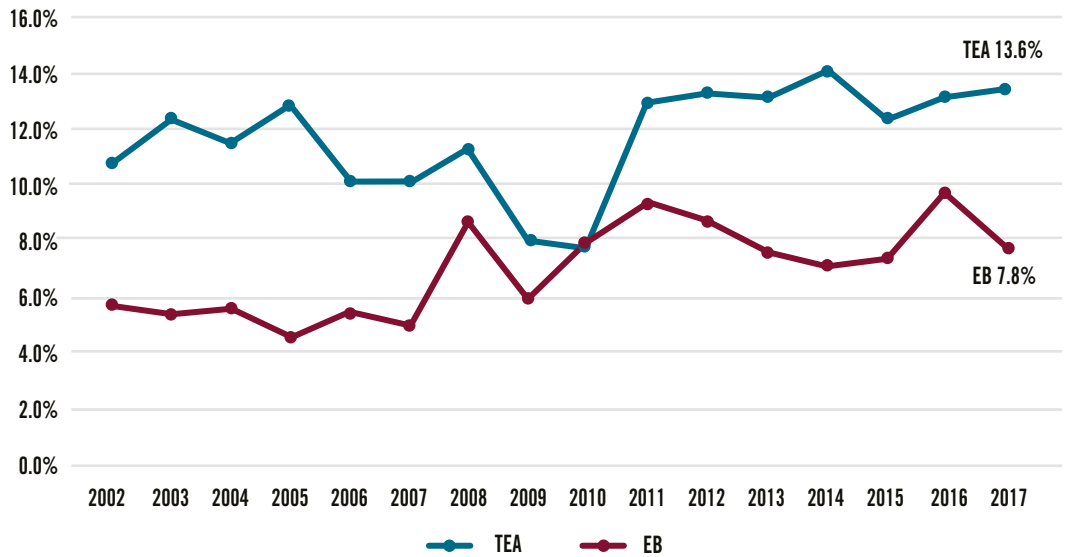
Business sustainability can contribute to stable employment and stakeholder value in a society, particularly to the extent that businesses grow and innovate. The GEM 2017 survey shows that 85% of established business owners in the United States expected to be profitable in the current year. Expectation of profitability may indicate the viability of mature business ownership. However, in the United States there are fewer established businesses relative to start-up attempts compared to the average of the 23 innovation-driven economies. For every 10 people starting businesses, there are 5.7 established business owners in the United States vs. 7.6 established business owners among the innovation-driven peers.

Some explanations may be gleaned from Figure 6.1. The post-recession drop in entrepreneurship in 2009 and 2010 provided fewer start-ups to feed into the next phase; likewise, established business activity declined from 2012 to 2014. Additionally, many post-recession start-up attempts were likely less sustainable, particularly given that many were motivated by necessity and may have been less viable or served as stopgap income sources. Increased entrepreneurship levels from 2011 to 2014 were mirrored in established business activity in 2015 and 2016.

From 2016 to 2017, however, entrepreneurship and established business ownership levels moved in opposite directions. There could be a lag effect on established business activity from a drop in TEA during 2015, but slowed established business activity may be partly explained by normal data fluctuations from year to year. At the same time, the favorable economic environment and support for entrepreneurship in the United States may have energized start-up activity. But low unemployment and the high proportion of exits motivated by the pursuit of other opportunities may indicate that some entrepreneurs and business owners moved on to something new. (See Chapter 2 for information on business exits.)

FIGURE 6.1
Established Business (EB) and Total Entrepreneurial Activity (TEA) Rates in the United States from 2002–2017, GEM 2017

SOURCE OF DATA:
GEM 2017

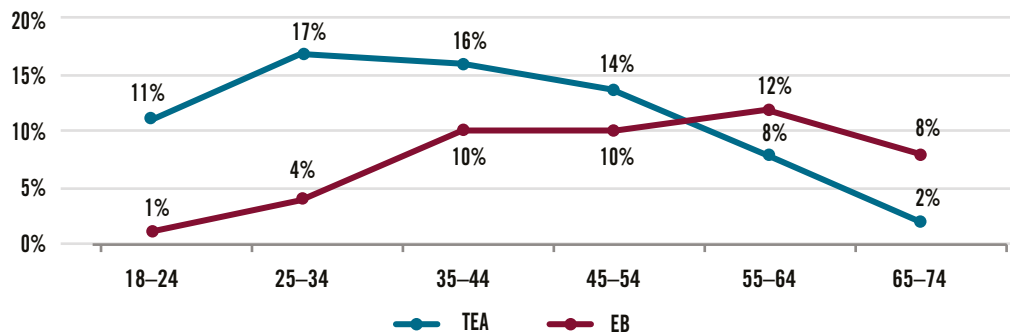


DEMOGRAPHICS OF ESTABLISHED BUSINESS OWNERS

Established business ownership is the province of the older population in the United States, as Figure 6.2 illustrates. It makes sense that younger age groups would be too young to have established businesses, but may be trying their hand at starting businesses as they navigate through their early careers. However, it is still notable that the highest rate of established business activity is among those aged 55–64, with substantial activity remaining among those 65–74. This finding highlights the role of older Americans in established businesses ownership.

FIGURE 6.2
Established Business (EB) and Total Entrepreneurial Activity (TEA) Rates by Age Group in the United States, GEM 2017

SOURCE OF DATA:
GEM 2017



Established business rates by gender show a pattern similar to that of TEA, with about 7 women for every 10 men owning and running established businesses. Other demographic characteristics show marked differences between established business ownership rates and TEA rates with respect to ethnicity, education levels, and household income levels.

The GEM 2017 survey shows that 85% of established business owners in the United States expected to be profitable in the current year.

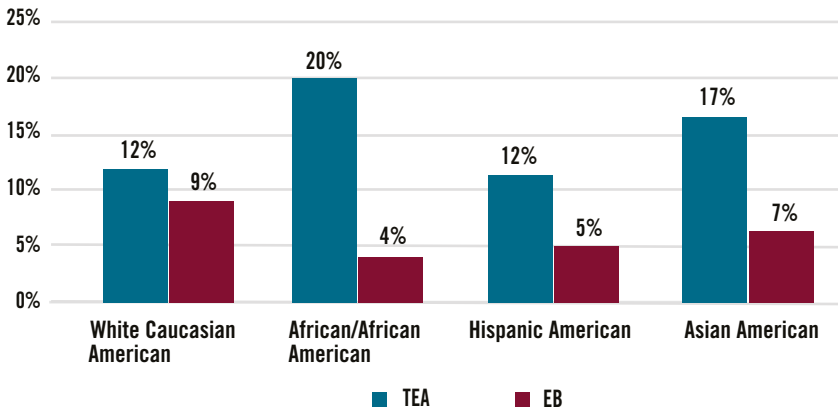


FIGURE 6.3
Entrepreneurship (TEA) and Established Business Ownership (EB) Rates by Ethnicity in the United States, GEM 2017

SOURCE OF DATA:
 GEM 2017

Figure 6.3 shows a breakdown of established business owners and entrepreneurs for four ethnic groups. As Figure 6.3 illustrates, White Caucasian Americans are starting and running new businesses at the rate of 12% and running established businesses at the rate of 9%. African/African Americans are starting and running new businesses at the rate of 20% and running established businesses at the rate of 4%. Hispanic Americans are starting and running new businesses at the rate of 12% and running established businesses at the rate of 5%. Asian Americans are starting and running new businesses at the rate of 17% and running established businesses at the rate of 7%. Further study may be warranted to determine what factors influence patterns of each ethnic group in the United States.

Entrepreneurs are highly educated: 88% have a college degree or higher level of education. Established business owners at 79% are somewhat less likely to have this level of education. Additionally, the highest rate of established business ownership lies in the upper one-third of the household income category. As Figure 6.4 shows, households at the upper one-third level of household income have three times the established business ownership rate as the lowest household income level. The highest entrepreneurship rates are found in both the middle and high-income categories.

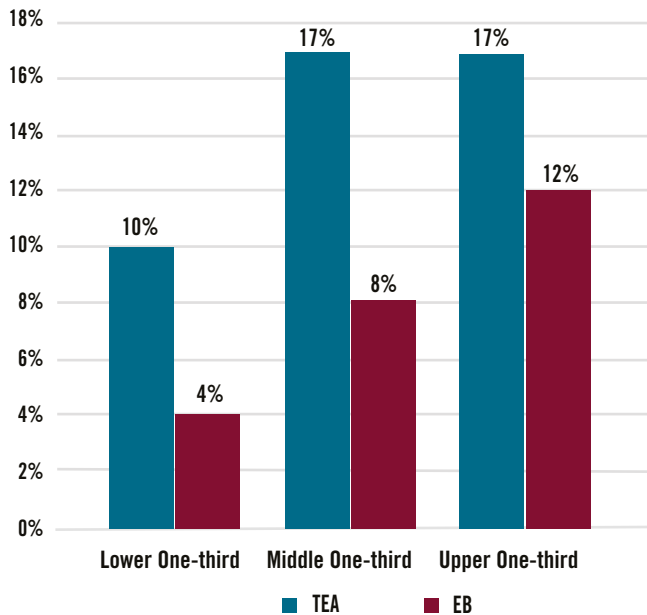


FIGURE 6.4
Entrepreneurship (TEA) and Established Business Ownership (EB) Rates by Household Income in the United States, GEM 2017

SOURCE OF DATA:
 GEM 2017

IMPACT OF ESTABLISHED BUSINESS OWNERSHIP

Established business ownership impacts society by providing new and stable jobs, contributing to an economy’s international competitiveness, and introducing novel solutions that add new value for people while challenging rival enterprises. Additionally, business owners offer a stable base for the functioning of industries. Many entrepreneurs start out with growth ambitions, global reach, and innovations, and seek to gain a foothold in a variety of industries. An examination of mature business activity can highlight indications of the longer-term impact of these efforts.

While entrepreneurs have long been recognized for their job creation capacity, established business owners not only create jobs, but sustain them, providing stable employment. At the time of this GEM survey conducted during the summer of 2017, 76% of established business owners were employers with one or more hires. This represents nearly 12 million business owner/employers in the United States²¹ and shows an increase over the prior year when 70% reported at least one employee. Although most businesses stay small with no more than a few employees, it is notable that 28% of owner/managers employ six or more people.

FIGURE 6.5
Total Jobs Expectations
in Five Years Among
Established Business
Owners (EB) and
Entrepreneurs (TEA) in
the United States,
GEM 2017

SOURCE OF DATA:
GEM 2017

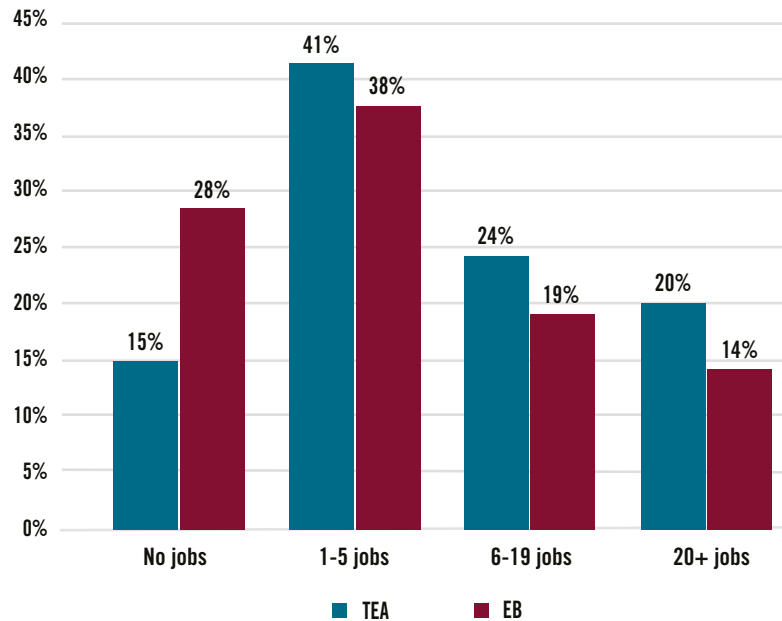


Figure 6.5 illustrates that entrepreneurs have higher future job creation expectations than business owners. This may be due to the fact that they are building their businesses and have yet to hire, while most business owners already have employees. This could also denote entrepreneurial optimism amid uncertainty about the business and its potential. Conversely, established business owners, based on past experience, future plans, history and prospects, may be in a position to make sound predictions about hiring. Yet while many are either operating small businesses with few or no employees, or have reached a point where they do not project further hiring, there still may remain some hiring potential among these mature business owners.

The international reach of U.S. entrepreneurs has traditionally been low, particularly compared to that of entrepreneurs in smaller countries with limited markets or those with the ability to trade easily with similar and cooperative neighbors. The United States offers a large and diverse internal market with customers willing to try new things, and with access to sophisticated technologies, financial and human capital, and other resources that support business activity. Entrepreneurs have reliable institutions, infrastructure and value chain partners to perform their activities. At the same time, the United States is intensely competitive, and international markets may present better prospects than battling it out in the crowded domestic market. Yet very few entrepreneurs take advantage of international opportunities.

²¹ Based on U.S. population of 325,719,178 reported by U.S. Census Bureau as of July 1, 2017, with 61.8% between 18–64 years of age, and the GEM established business ownership rate of 7.8%.

Established business owners also tend to stay domestic, with only 14% having more than 25% of their sales coming from outside the U.S. border. Whether these businesses started out selling to other countries or migrated to international markets after gaining a foothold domestically, these international sales add not only complexity but also expansion prospects to their businesses. Those who have experience and connections in other countries can leverage these advantages and expand their sales. Those who are courageous enough to venture into unfamiliar domains can gain knowledge and practices that make their businesses internationally competitive.

While both entrepreneurs and established business owners exhibit low international reach, innovation levels differ among these two activity phases. Established business owners consistently show lower innovation rates than entrepreneurs. While 36% of entrepreneurs state that their products and services exhibit market newness and competitive uniqueness, only 13% of established business owners make this same claim. It may be the case that innovations help entrepreneurs get a foothold in a competitive environment, while established business owners already have a foothold and rely more on incremental improvements. Innovation is difficult to maintain in mature businesses, but ignoring the need to engage in experimentation and strategic renewal could threaten long-term viability of a business. At the same time, innovation carries a high degree of uncertainty, and it could be the case that many businesses founded on innovations do not survive into maturity.

The industry breakdown for established business ownership is similar to that of TEA for many sectors, with some notable exceptions. As Figure 6.6 shows, there are many established business owners in construction and mining: 22% vs. 6% for TEA. This perhaps shows the mature and stable nature of this sector, which accounts for more established business owners than any other category, and into which few entrepreneurs are venturing.

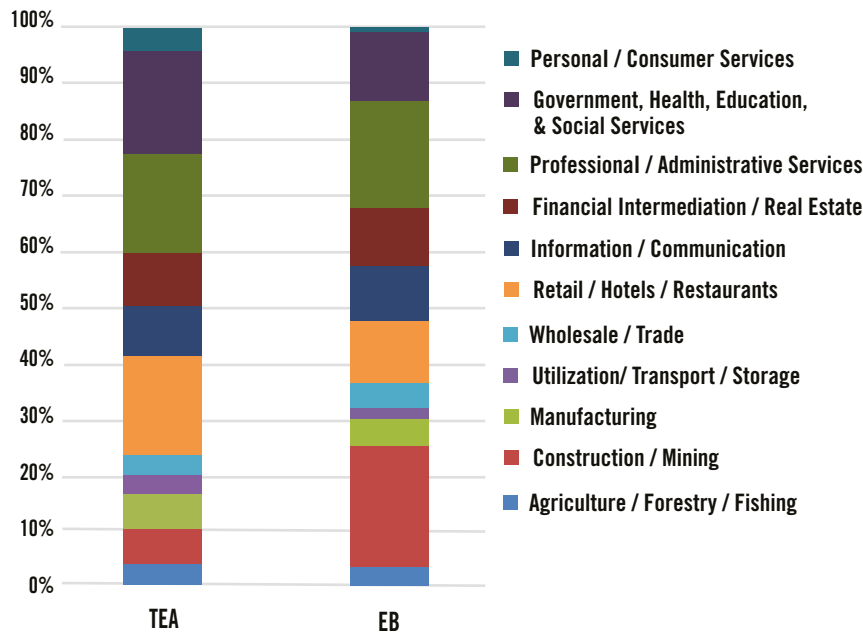


FIGURE 6.6
Industry Sector
Breakdown of
Established Business
Owners (EB) and
Entrepreneurs (TEA)
in the United States,
GEM 2017

SOURCE OF DATA:
GEM 2017

In contrast, start-up activity is much higher than mature business ownership in retail and hotel/restaurants, government/health/education/social services, and personal/consumer services. These sectors showed similar activity levels in 2015, indicating that they are consistently attractive to entrepreneurs. For the most part, these are suggestive of low barrier-to-entry businesses with a relatively low likelihood of sustainability. While it might be comparatively easy to start a retail store, restaurant, or hair salon, for example, these businesses face stiff competition and often suffer from low profitability, despite the dedicated effort and long hours devoted entrepreneurs commit to them.

BROADER IMPACT OF ESTABLISHED BUSINESS

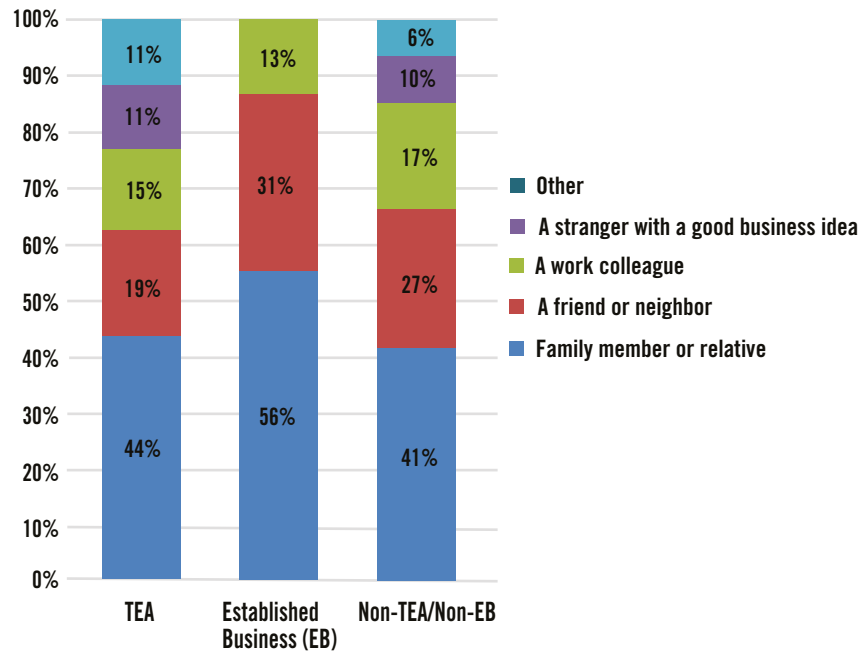
While mature business owners can positively affect society by virtue of the products and services they bring to market, as described in the previous section, they can also produce benefits for society that extend beyond the business itself. For example, 10% of established business owners report starting or running a new business, enabling them to leverage their experience, resources, networks and other advantages into a new venture.

Established business owners also invest in other entrepreneurs. Twelve percent have provided such funding in the past three years. This is similar to current entrepreneurs who have invested at the same level, but greater than non-entrepreneurs/non-business owners, among whom only 5% have financed entrepreneurs. Established business owners provided a median of \$10,000 in their last investment, lower than entrepreneur investors with a median of \$23,653 but higher than non-entrepreneurs/non-business owners at a median of \$3,000.

Established business owners tend to be highly relational in their investing behavior. As Figure 6.7 shows, 87% of their investments go to family or friends. None reported investing in strangers, while 11% of entrepreneur funding went to strangers. Established business owner behavior suggests a preference for helping people they are close to, rather than venturing beyond trusted networks.

FIGURE 6.7
Recipients of Investments in Entrepreneurs by Entrepreneurs (TEA), Established Business Owners (EB) and Non-TEA/Non-EB in the United States, GEM 2017

SOURCE OF DATA:
GEM 2017



While mature business owners can positively affect society by virtue of the products and services they bring to market, as described in the previous section, they can also produce benefits for society that extend beyond the business itself.



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- 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

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