



The Global Entrepreneurship Monitor

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What is GEM

- Global survey of entrepreneurship
- Coordinated by LBS and Babson
- Launched in 1999 with ten countries
- Now includes over 40 countries
- South Africa joined the study in 2001



Consortium of national teams

Argentina	Finland	Korea	South Africa
Australia	France	Mexico	Spain
Belgium	Greece	Netherlands	Sweden
Brazil	Germany	New Zealand	Switzerland
Canada	Hong Kong	Norway	Thailand
Chile	Hungary	Poland	Uganda
China	Iceland	Portugal	United Kingdom
Chinese Taipei	India	Russia	United States
Croatia	Italy	Singapore	Venezuela
Denmark	Israel	Slovenia	
	Japan		



GEM and South Africa

- South Africa joined the study in 2001
- Participated in the last three surveys
- Benchmark study of entrepreneurship in SA
- Increasingly informs public policy



South African GEM Research

- UCT Centre for Innovation and Entrepreneurship (CIE) is the national team in SA
- Market research company does survey
- GEM Global Team compiles international database
- GEM SA funded by corporations (Liberty, Standard Bank, and SAB) and government (Khula, DTI)



Why study entrepreneurship?

- Entrepreneurship is a key source of economic change and growth
- It plays an important role in creating jobs and income
- It is a source of new technology, products and services
- In Southern Africa could play a role in empowerment



Major aims of GEM study

- Does the level of entrepreneurial activity vary between countries?
- Does the level of entrepreneurial activity affect a country's rate of economic growth?
- What factors are associated with higher rates of entrepreneurial activity?
- How can national policy enhance entrepreneurship



GEM Research Methodology

- **Adult population surveys**
 - Random sample of adults, 2,000 or more
 - Identify grass roots entrepreneurial activity
- **National expert interviews**
 - Completed by national teams
 - 18-70 per country
- **National expert questionnaires**
 - Follows personal interview
- **Standardized national data**
 - IMF, World Bank, UN, OECD, etc



Sources of entrepreneurship

- New business venture formation
 - Start-up phase before operational
 - New businesses less than 3.5 years
 - Some innovative and growth oriented most not
- Investment by established businesses to achieve innovation and growth
- A country's national institutions can support innovation and growth



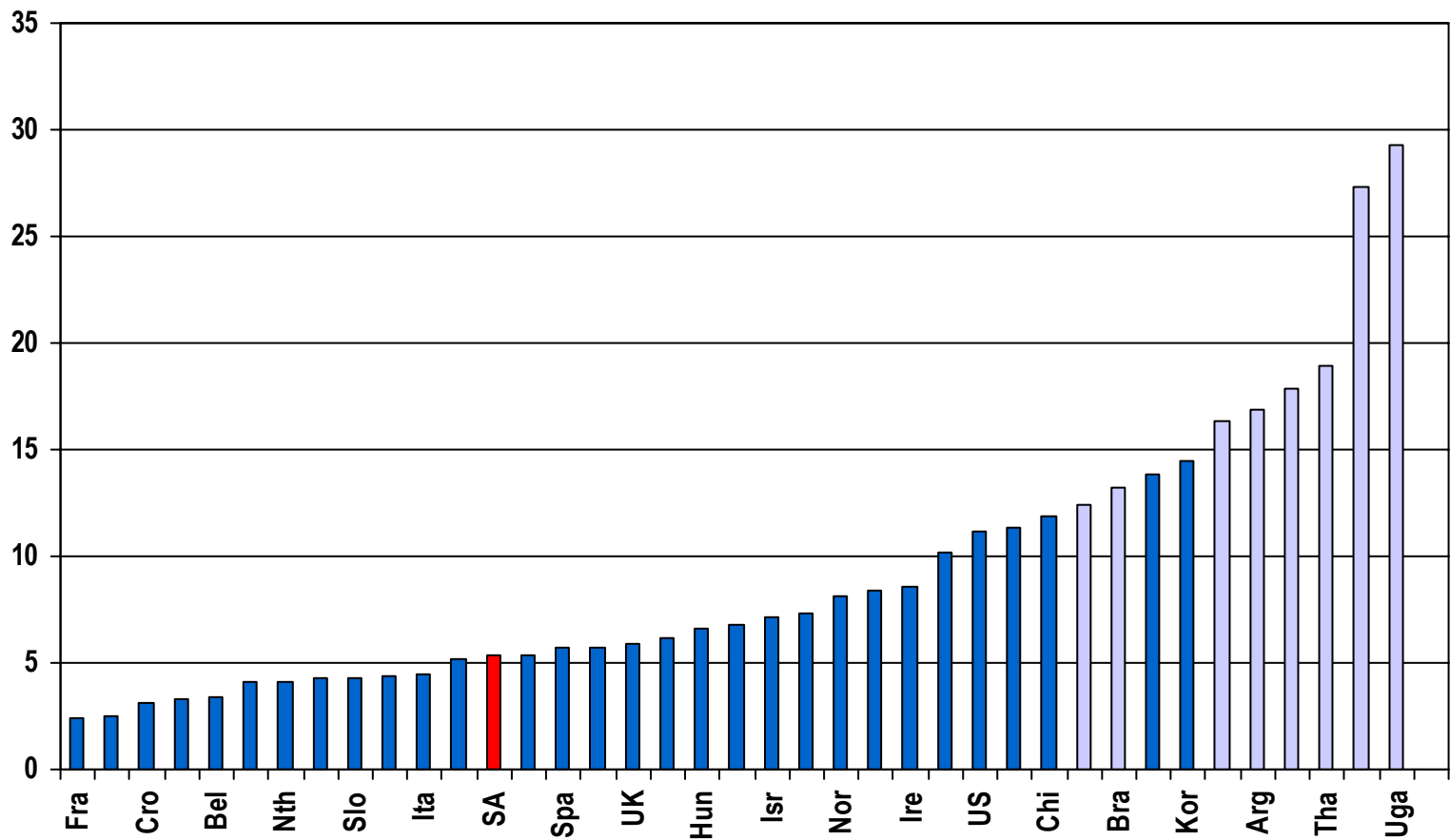
New business formation

- GEM's major focus has until now been new business formation
- From the adult population surveys we
 - Count those involved in **start-ups**
 - Active, will own, not paid wages for more than three months
 - Count those involved in operating **new firms**
 - Active, do own, paid wages and salaries for 3-43 months
- Add starts-ups and new businesses together to get Total Entrepreneurial Activity (TEA) index
 - If respondent active in start-up and new firm count once



TEA Average 2002-3

(persons per 100 adults)





South Africa's ranking by TEA

	2001	2002	2003
Average TEA All GEM (%)	9.7	8.0	8.8
Average TEA Developing (%)	12.8	14.2	18.4
TEA Highest (%)	18.7	18.9	29.3
TEA Lowest (%)	4.6	1.6	1.8
TEA South Africa (%)	9.4	6.5	4.3
Countries participating (no.)	29	37	31
SA rank	14 th	19 th	22 nd
Developing as multiple of SA	1.4 x	2.2 x	4.3 x



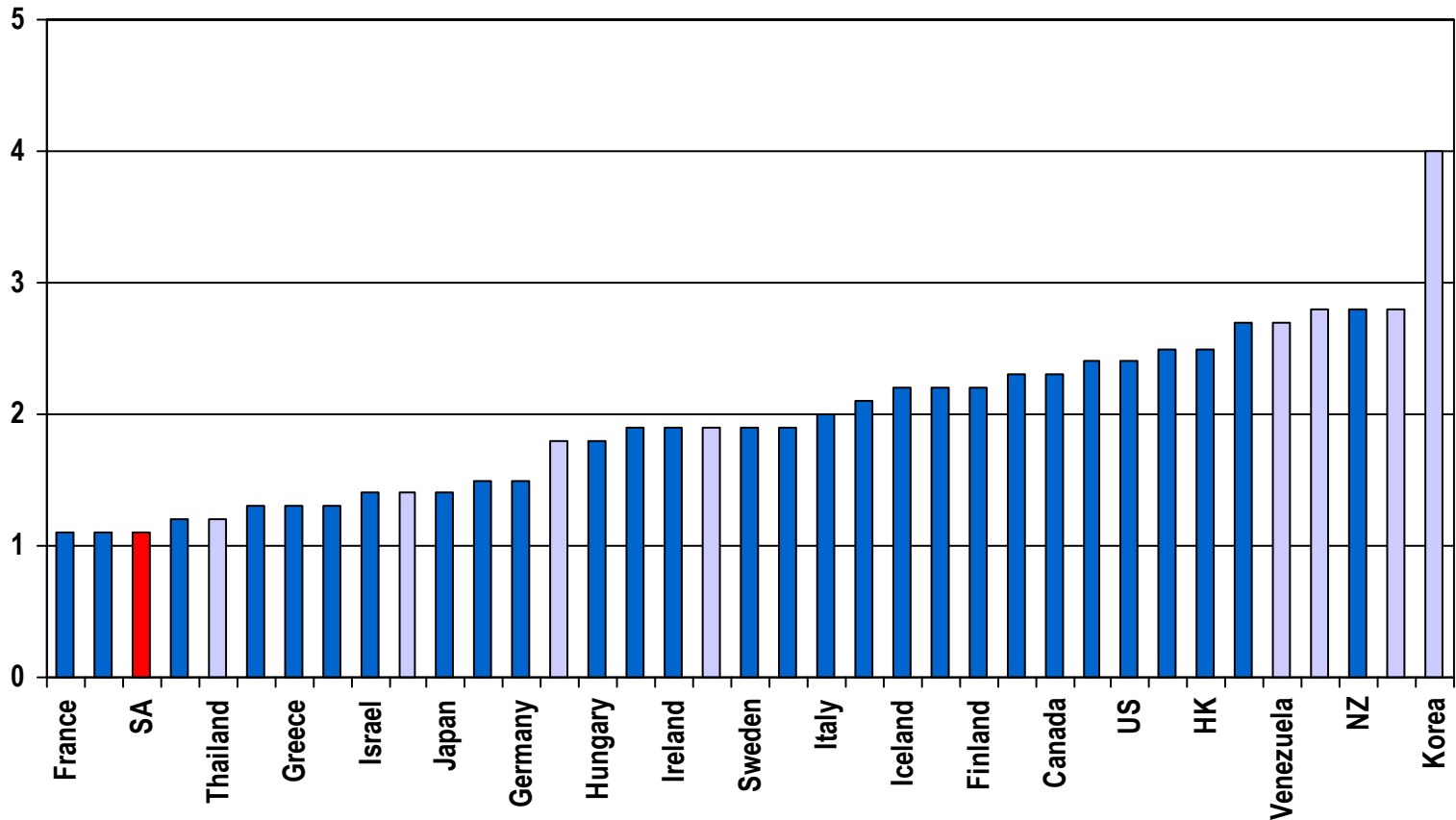
Firm entrepreneurial activity

- Measures the prevalence of entrepreneurship within established firms
- Entrepreneurial firms are established firms that expect to:
 - Make an innovative change in the market
 - Add new jobs in the future
- Compute firm entrepreneurial activity (FEA) index as a composite of:
 - Proportion of established firms that are entrepreneurial
 - Proportion of total jobs provided by entrepreneurial firms



FEA index 2002-3

(Firm entrepreneurial activity index)





TEA & FEA considered jointly

	Low TEA	Medium TEA	High TEA
High FEA	Hong Kong, Slovenia	China, Mexico	Chile , Korea, NZ, Uganda , Venezuela
Medium FEA	Belgium, Finland, Italy, Sweden	Australia, Canada, Denmark, Iceland, Ireland, Hungary, Singapore, Spain, UK, US	Brazil , India
Low FEA	Taiwan, Croatia, France, Japan, Netherlands, Poland, Russia	Germany, Greece, Israel, Norway, South Africa , Switzerland	Argentina , Thailand



Five ordinal groupings

Highest	5	Chile, South Korea, NZ, Uganda , Venezuela
Above Average	4	Brazil , China, India , Mexico
Average	14	Argentina , Australia, Canada, Denmark, Hong Kong, Hungary, Iceland, Ireland, Slovenia, Spain, Singapore, Thailand , UK, US
Below Average	10	Belgium, Finland, Germany, Greece, Israel, Italy, Norway, South Africa , Sweden, Switzerland
Low	7	Taiwan, Croatia, France, Netherlands, Japan, Poland, Russia

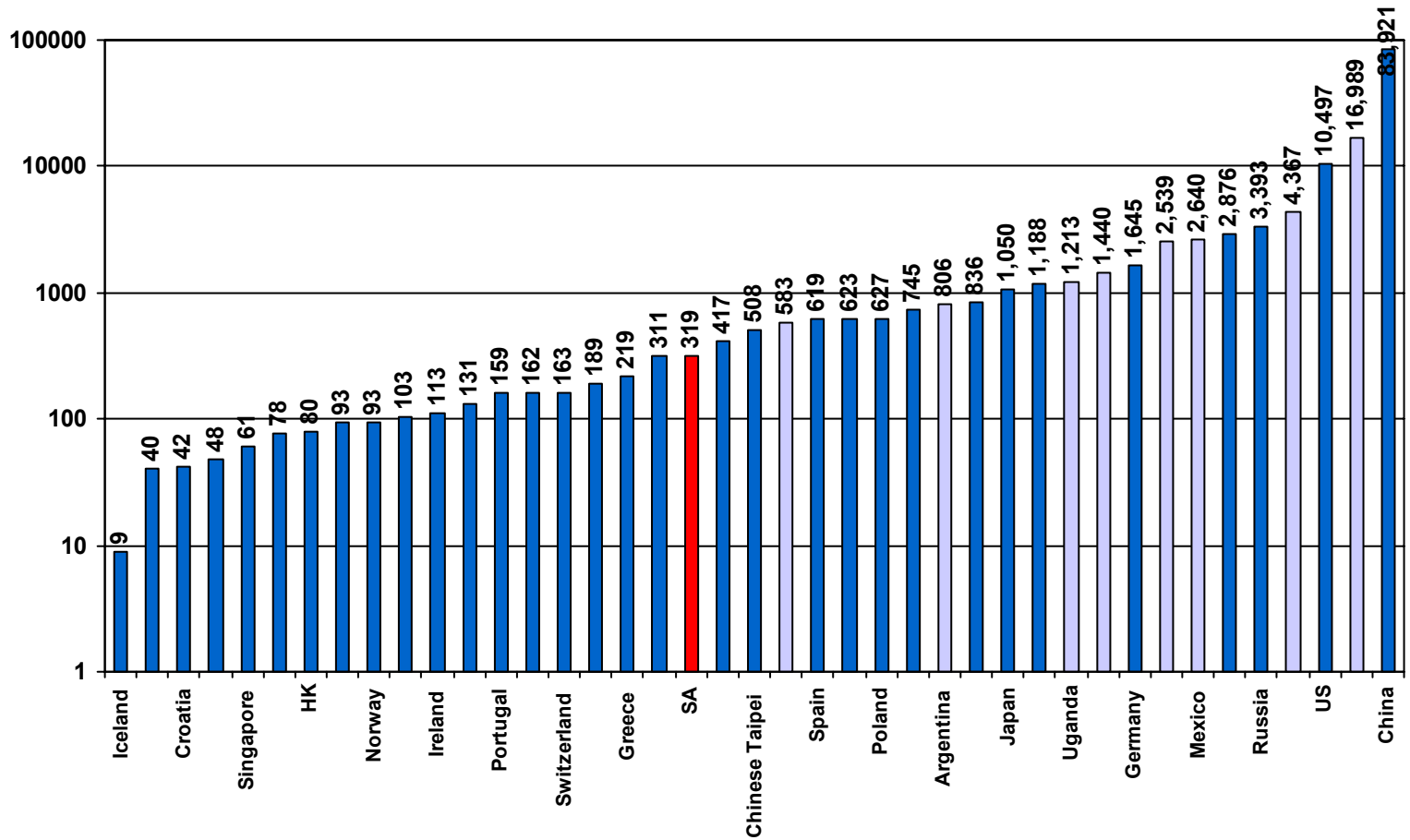


Economic impact of new business formation



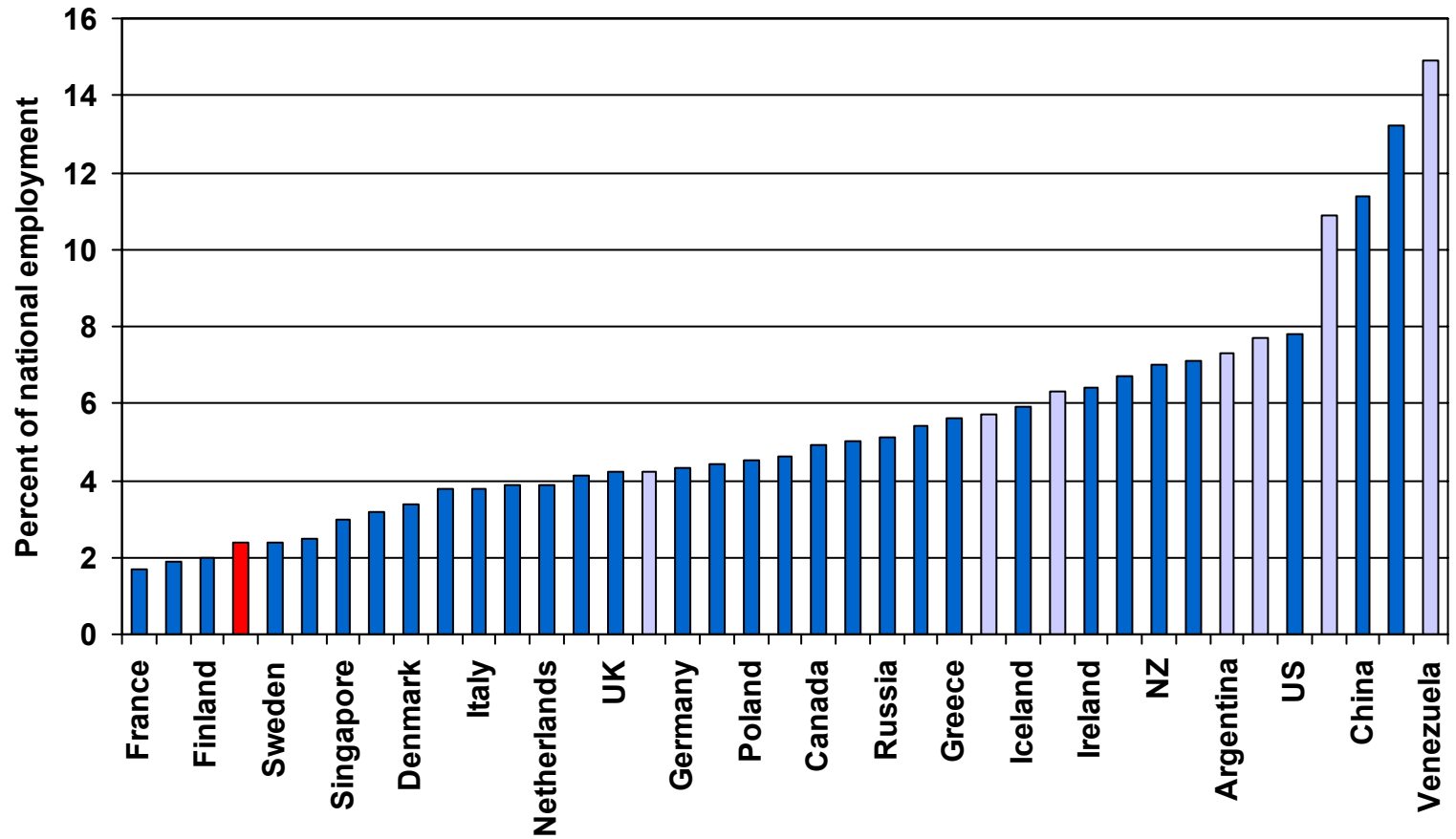
Jobs provided by new firms

(Log scale, Annual jobs provided in 2003, '000)





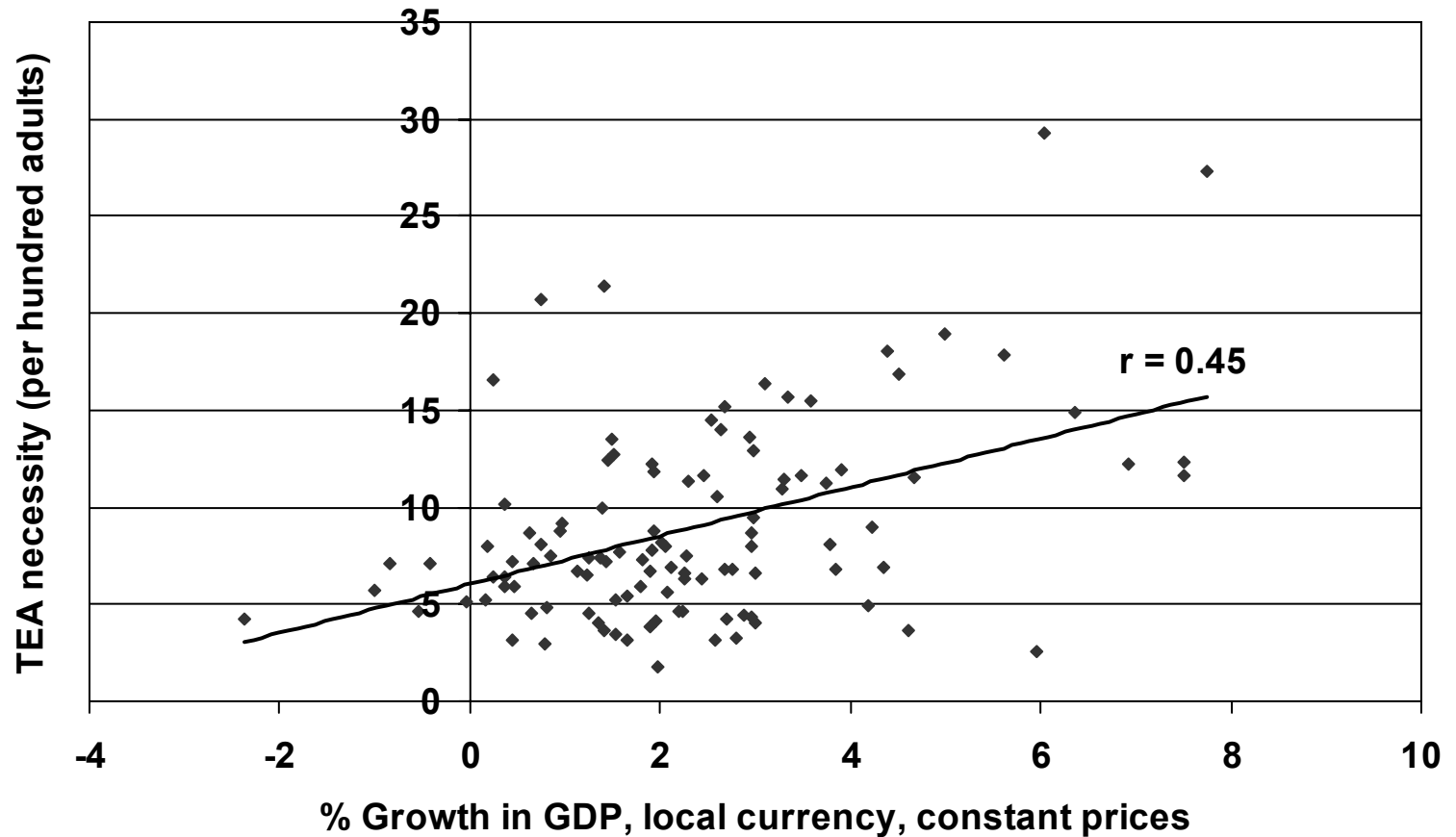
Percentage of jobs provided by new firms





TEA and national economic growth

TEA 2000-2004 and GDP growth lagged one year





Country Groups and Projected Growth

Ordinal Group	Countries	Percent Growth GDP 2003-2004 [IMF Forecast]
Highest	Chile , Korea, NZ, Uganda , Venezuela	5.2 %
Above Average	Brazil , China, India , Mexico	4.9 %
Average	Argentina , Australia, Canada, Denmark, Hong Kong, Hungary, Iceland, Ireland, Slovenia, Spain, Singapore, Thailand , UK, US	3.4 %
Below Average	Belgium, Finland, Germany, Greece, Israel, Italy, Norway, South Africa , Sweden, Switzerland	2.2 %
Low	Taiwan, Croatia, France, Netherlands, Japan, Poland, Russia	3.2 %



Entrepreneurship and economic growth

- Entrepreneurial activity related to subsequent national economic growth
 - Moderate, positive, statistically significant association
- Necessity entrepreneurship TEA association higher than opportunity entrepreneurship TEA
 - Poor countries more necessity entrepreneurship
 - Poor countries grow faster than rich countries
- High TEA without subsequent growth is rare
- Causal mechanism remains obscure



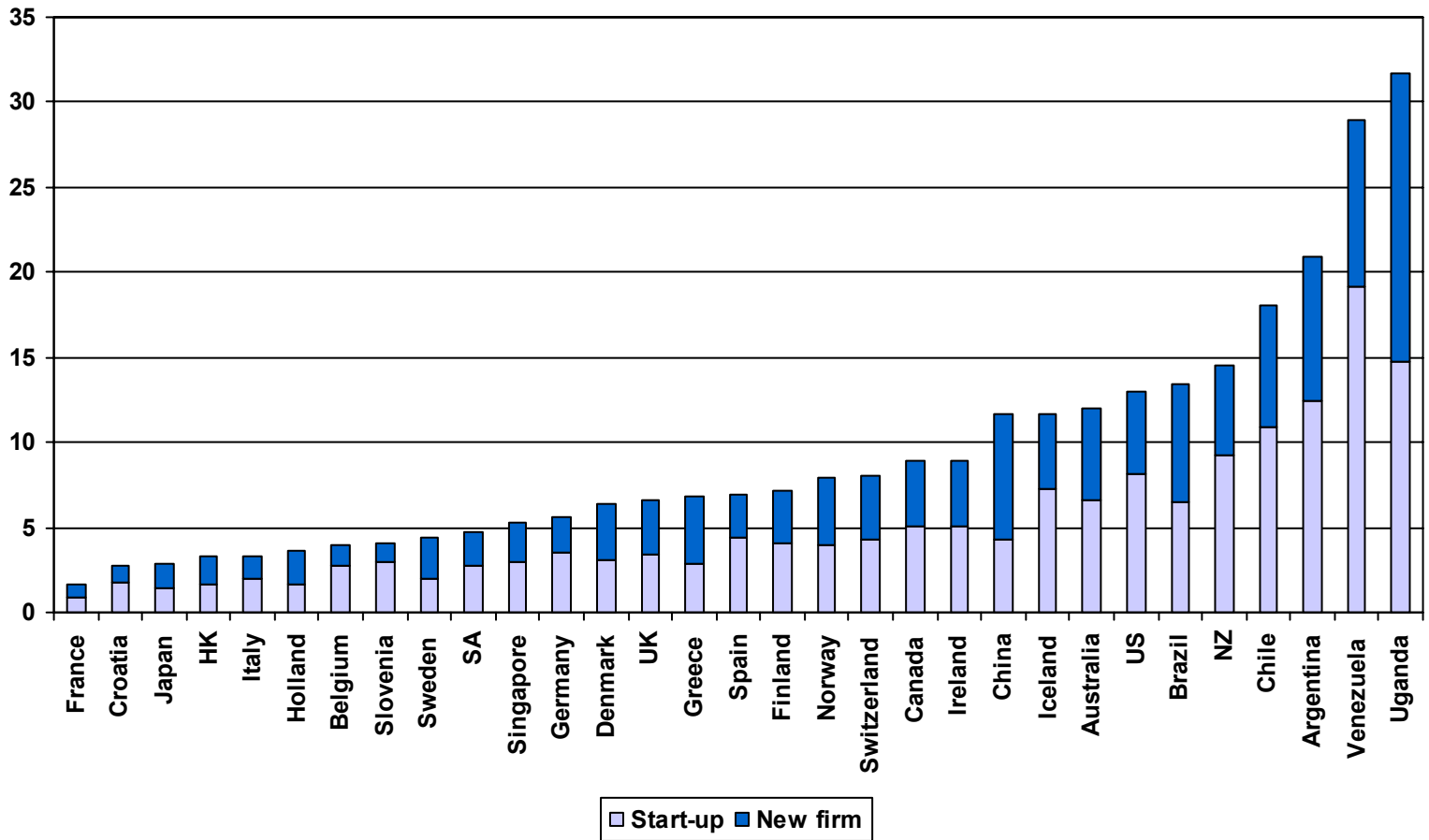
Selected aspects of entrepreneurial activity

- Stage of development
- Motivation
- Gender
- Age



Start-ups and new firms

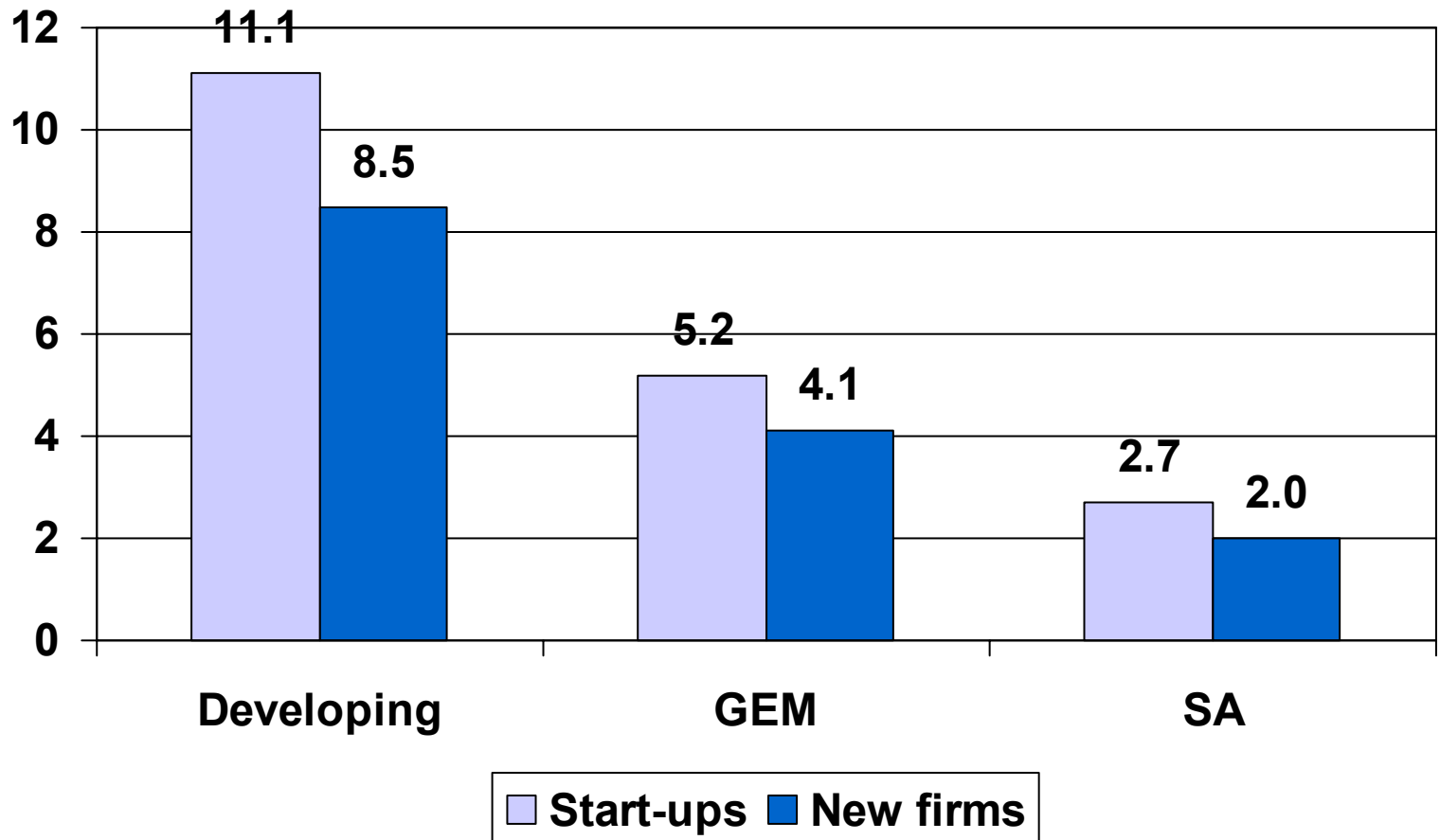
(Per hundred adults)





Start-up and new firm rates

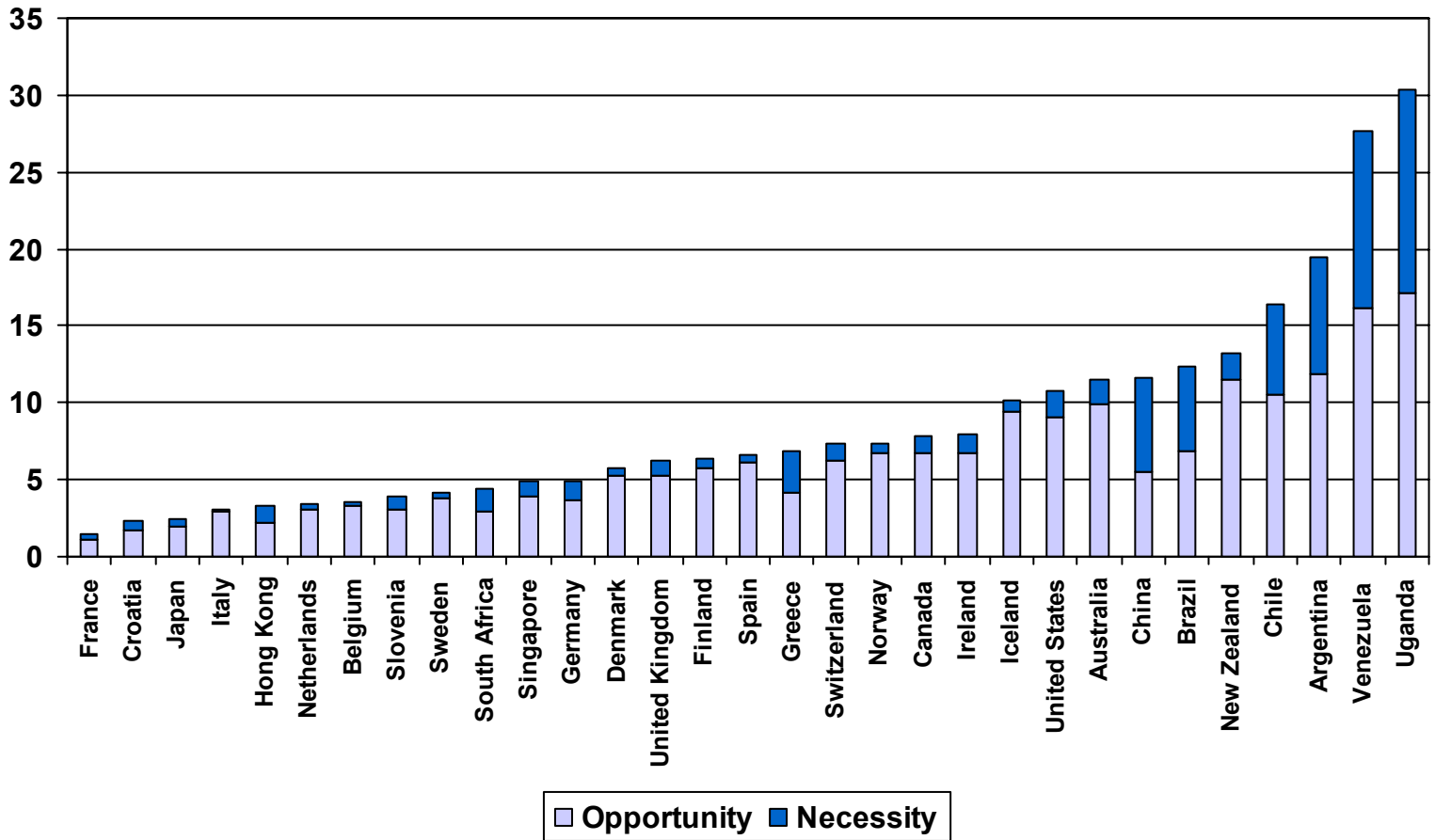
(Per hundred adults)





Necessity and opportunity

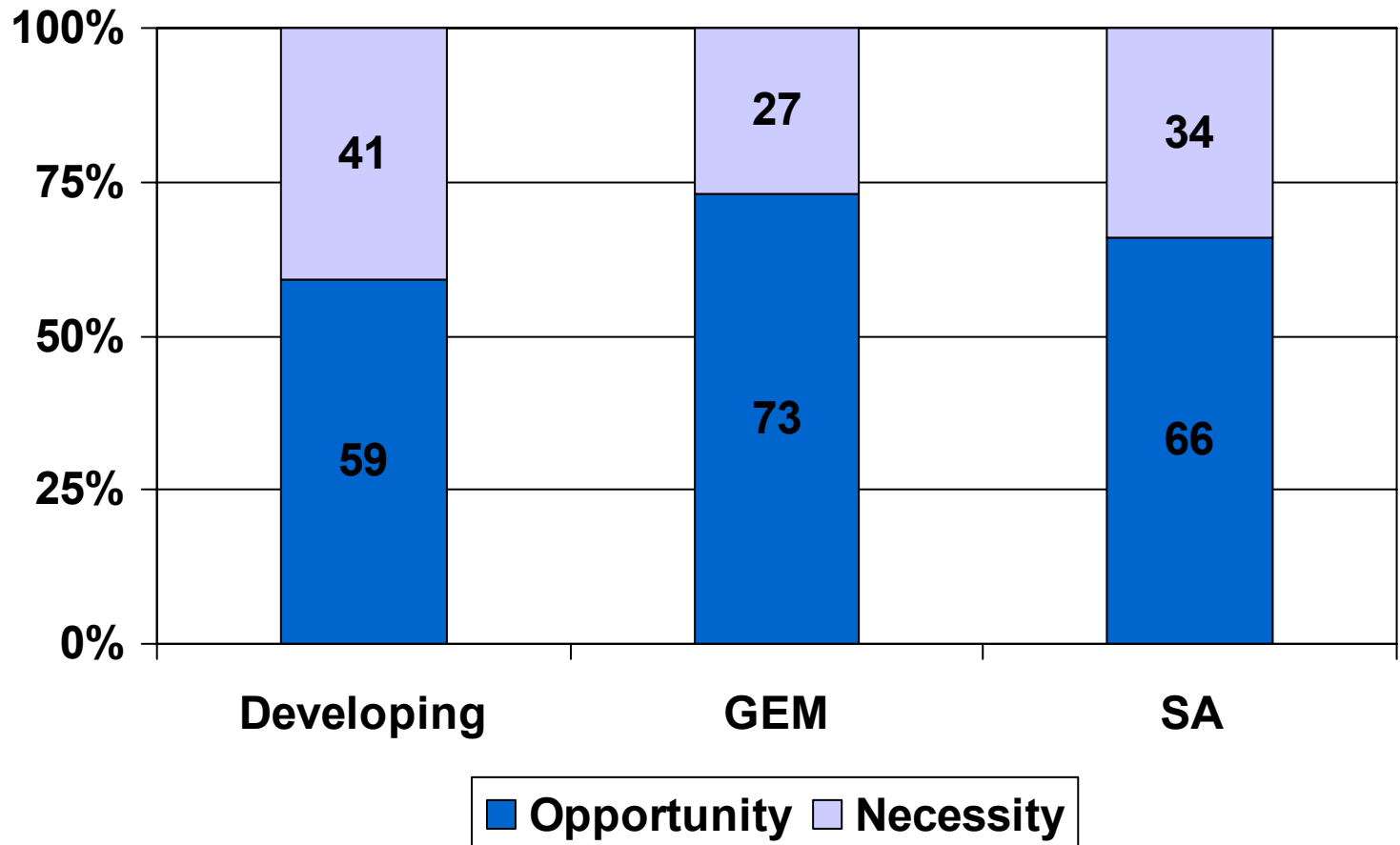
(Per hundred adults)





Relative importance of necessity

(Percent of necessity and opportunity)





Township entrepreneurs in SA

Informal 88%

- 58% earn less than R2,000
- 35% have matric or higher
- Average of 0.8 employees
- Ave loan needed: R1,000
- 18% have own vehicle
- 8% have fixed premises
- 34% have land line
- 42% cell phone

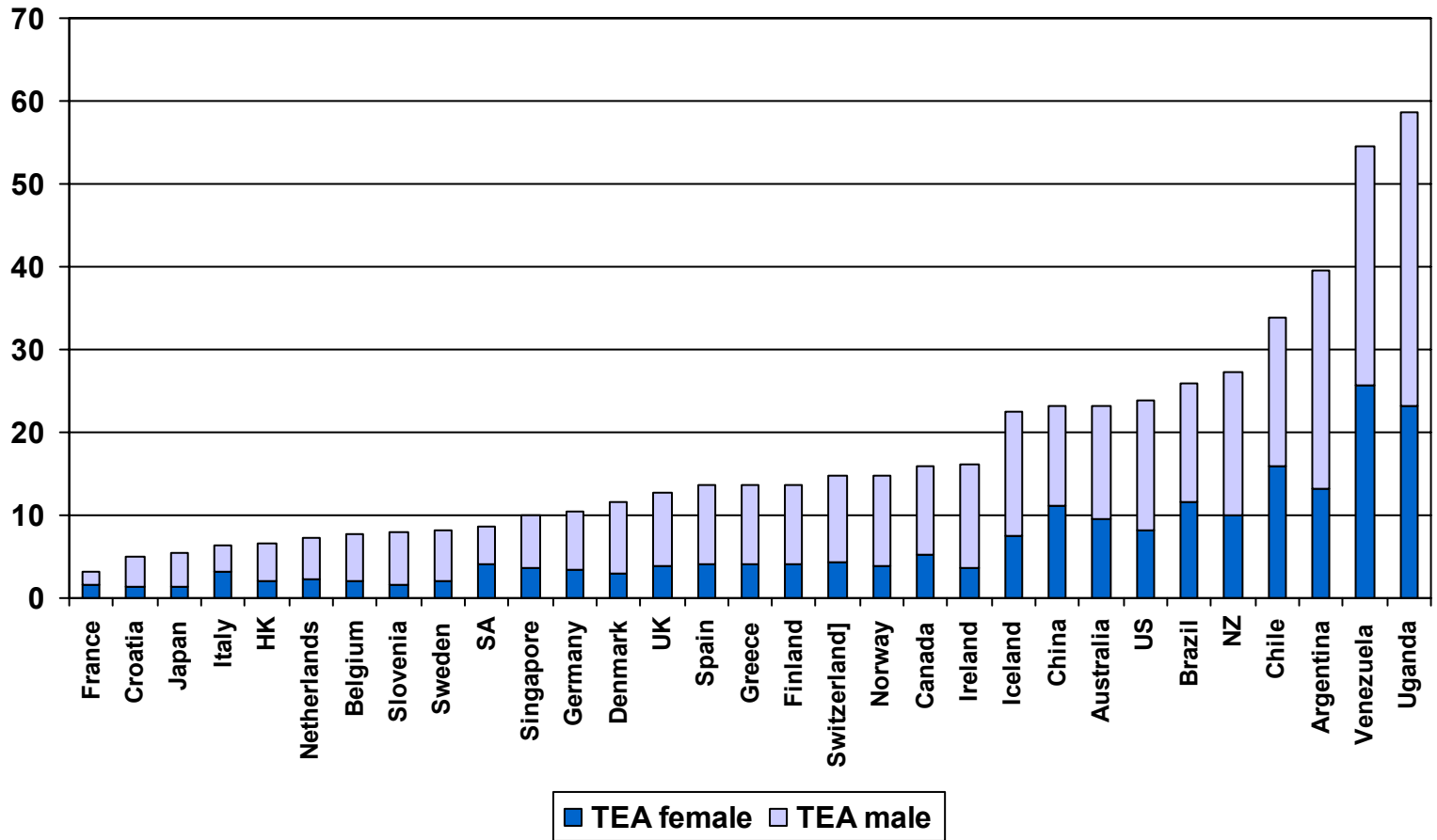
Formal 12%

- 25% earn less than R2,000
- 73% have matric or higher
- Average of 7.2 employees
- Ave loan needed: R10,000
- 67% have own vehicle
- 45% have fixed premise
- 67% have landline
- 83% have cell phone



Entrepreneurial activity by gender

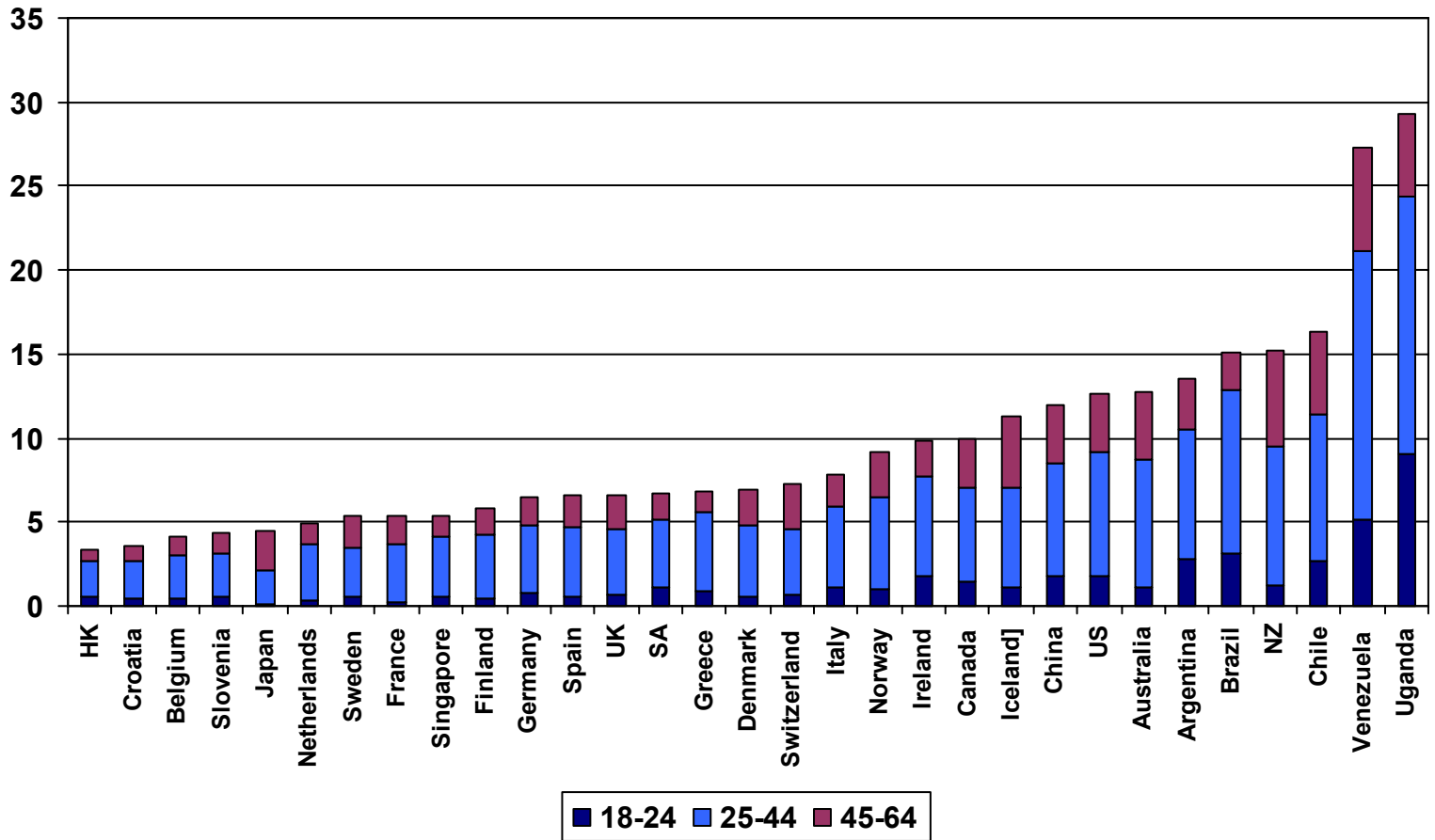
TEA by gender, 2003 survey





Entrepreneurial activity by age

Average TEA 2001-3, countries in 2003 survey





Why does SA perform so poorly and what can be done

- Education and training
- Financial support
- Policy lessons



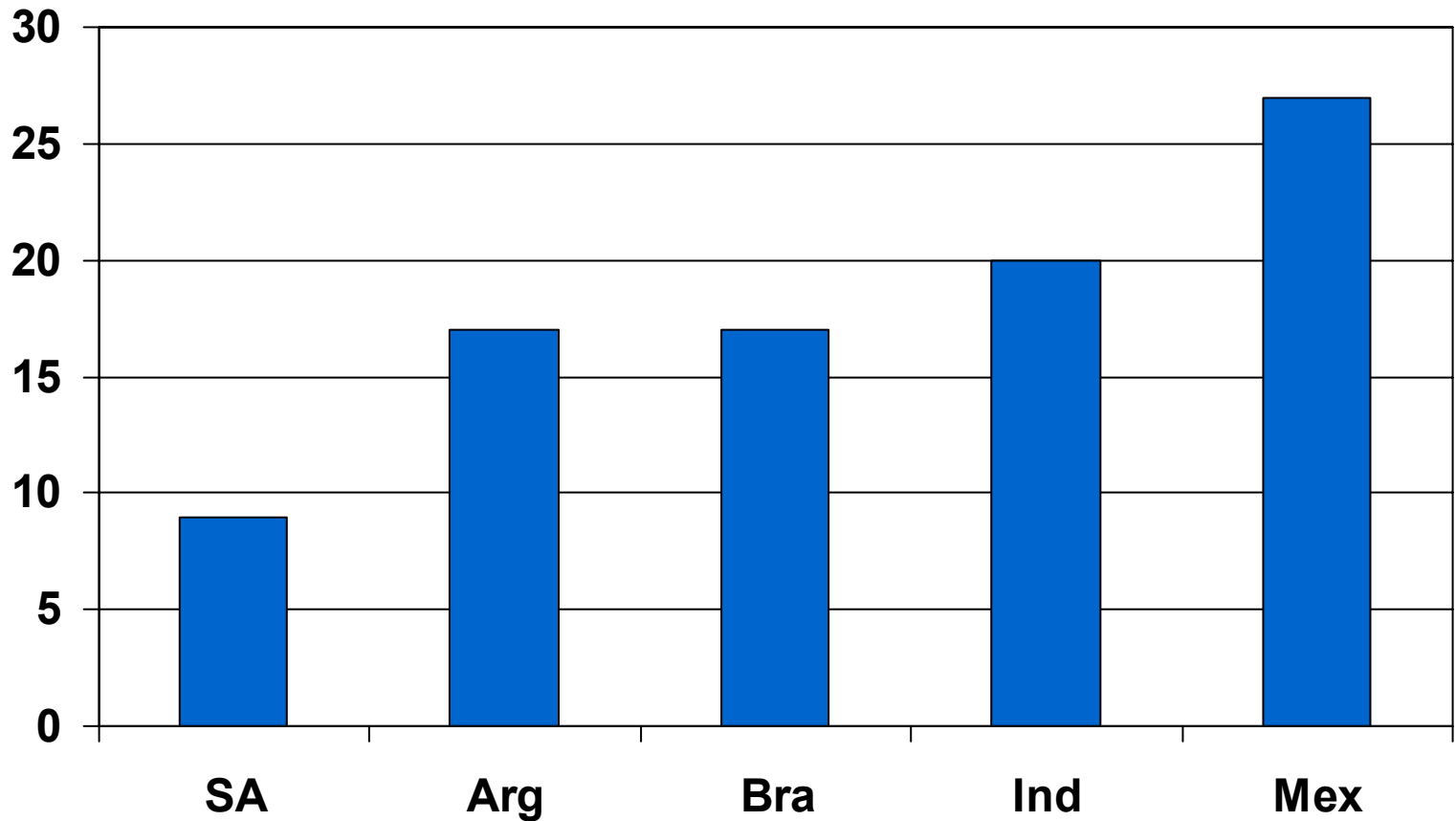
South Africa has low scores on all GEM measures

	GEM average	Developing country average	South Africa
TEA (# per 100)	8.8	18.4	4.3
Start-ups (# per 100)	5.2	11.1	2.7
New firms (# per 100)	4.1	8.5	2.0
New firm jobs (% total jobs)	5.3	7.5	2.4
FEA (index score)	1.9	2.0	1.1



TEA for younger men

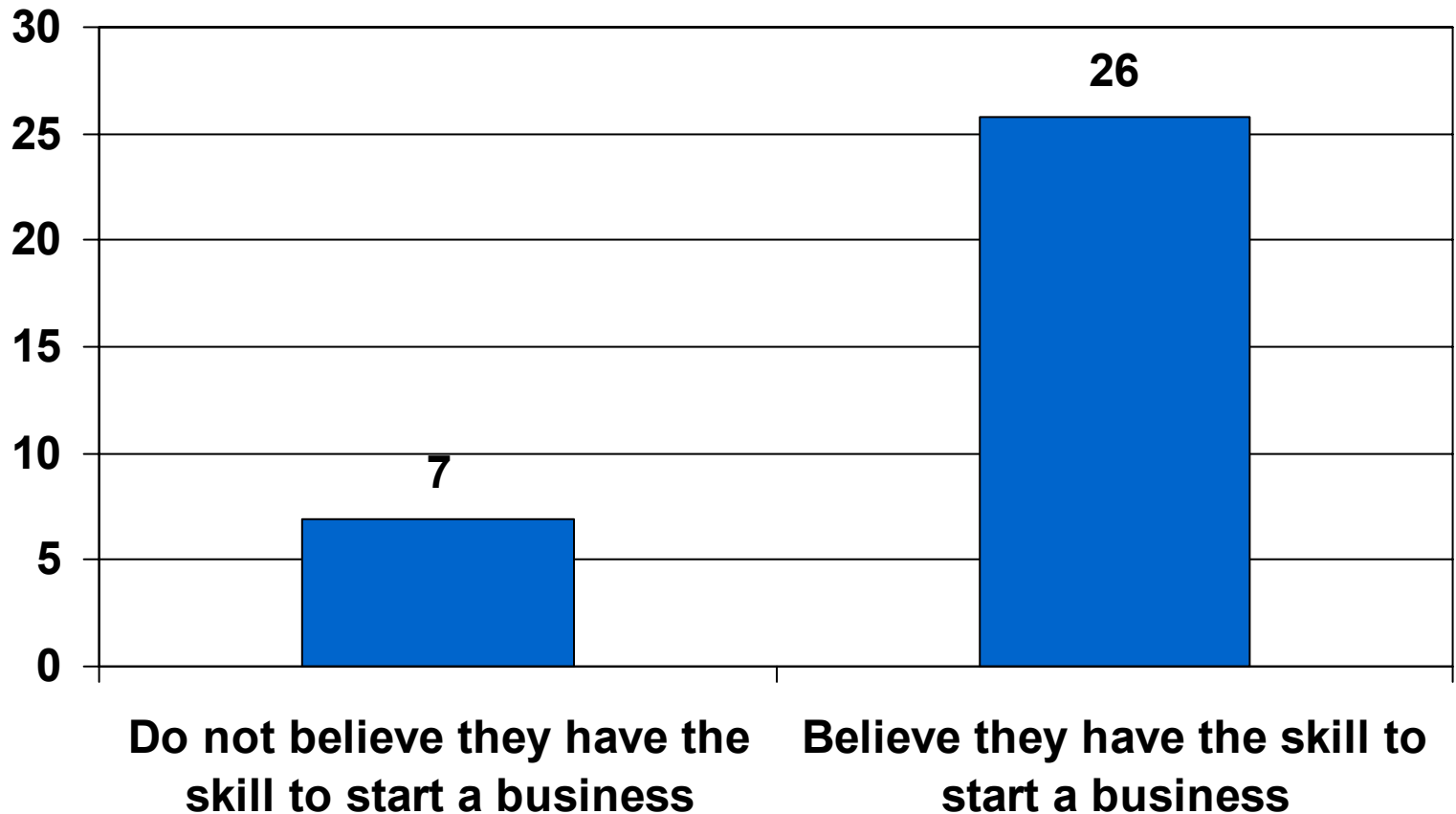
(Per hundred males aged 18-45)





TEA by perception of own skills

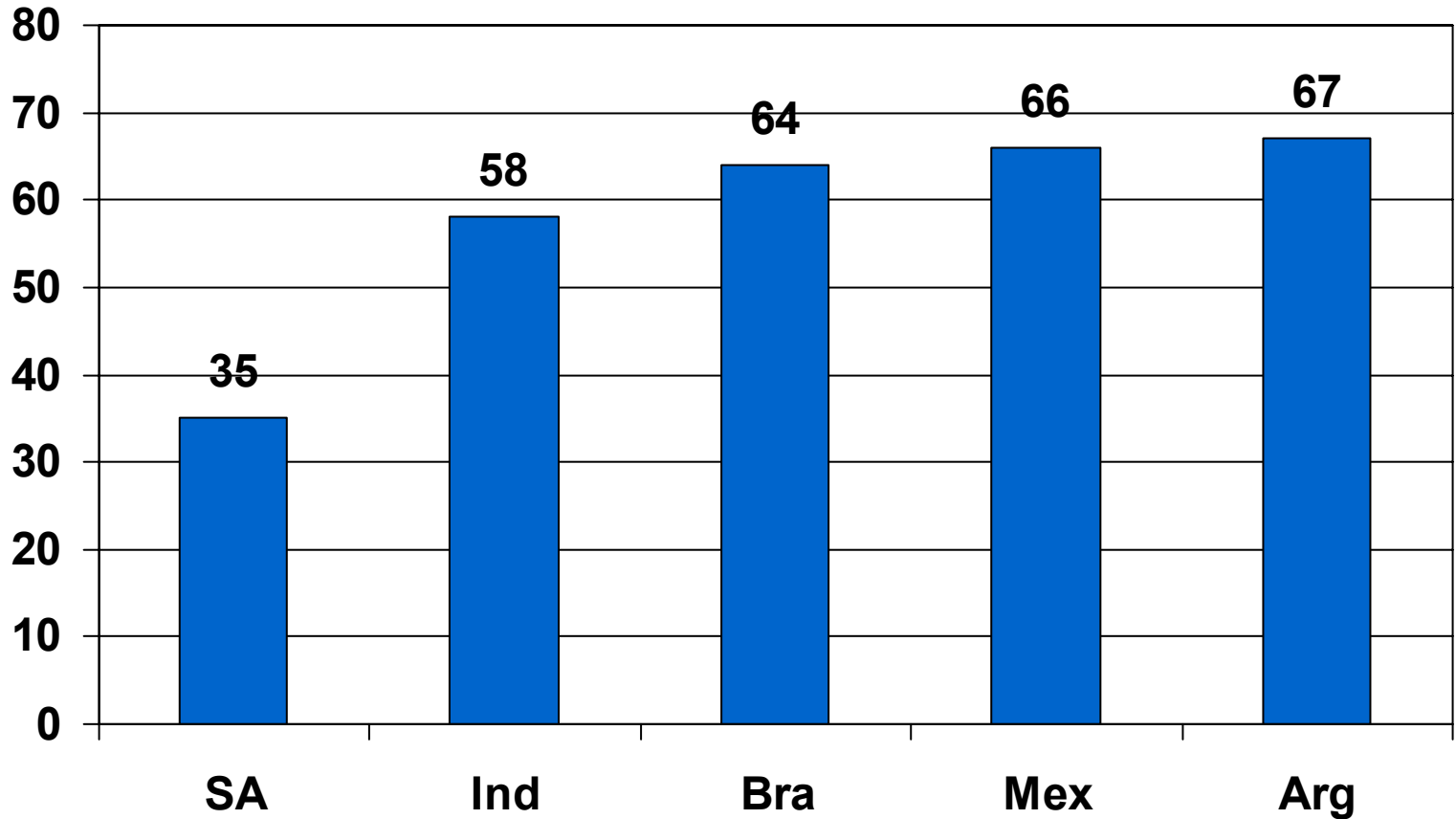
(Per hundred males aged 18-44, 2001)





Perception of own skills for start-up

(% males, 18-44, who believe they have start-up skills, 2001)





Education and training

- Believing you have the skills for a start-up is the most powerful predictor of opportunity entrepreneurial activity
- Evidence that this is linked to problems in the schooling system
- South African experts have identify education as the main environmental weakness inhibiting entrepreneurship in SA
- Evidence that teaching entrepreneurship enhances learners perceptions of their skills to start a business
- Need for change in the schooling system so that it develops skills and attitudes necessary for entrepreneurial success



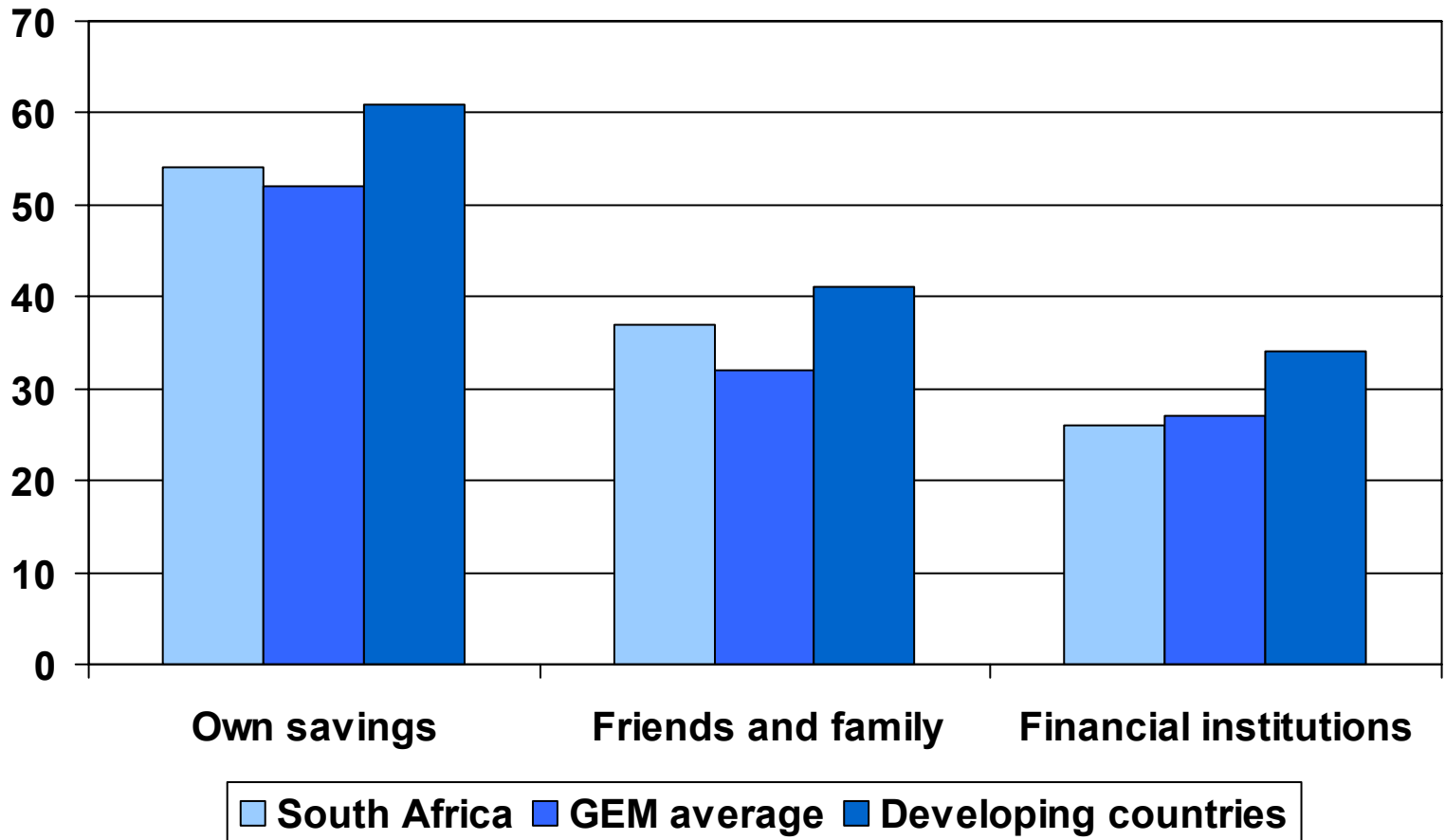
Financial support

- Lack of financial support is often raised as a major obstacle for entrepreneurship
- Our research suggests two counter-arguments
 - Not a problem peculiar to SA
 - Evidence that SMMEs in SA do get bank loans if practice sound financial management



Expected sources of start-up finance

(Proportion of start-up entrepreneurs)

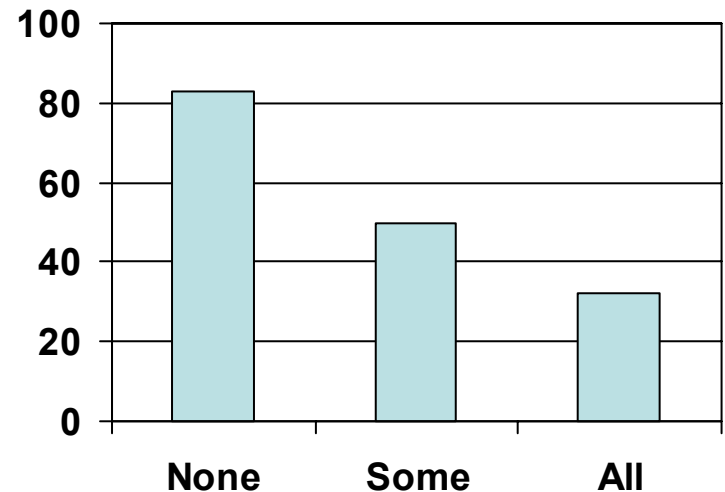




Financial management in SMMEs

- Significant proportion SMMEs distressed
- Probability of distress influenced by financial management
 - Cash book
 - Record of accounts receivable
 - Keeping a record of inventory
 - Active debtor management

Percent businesses distressed by implementation of the four financial management practices

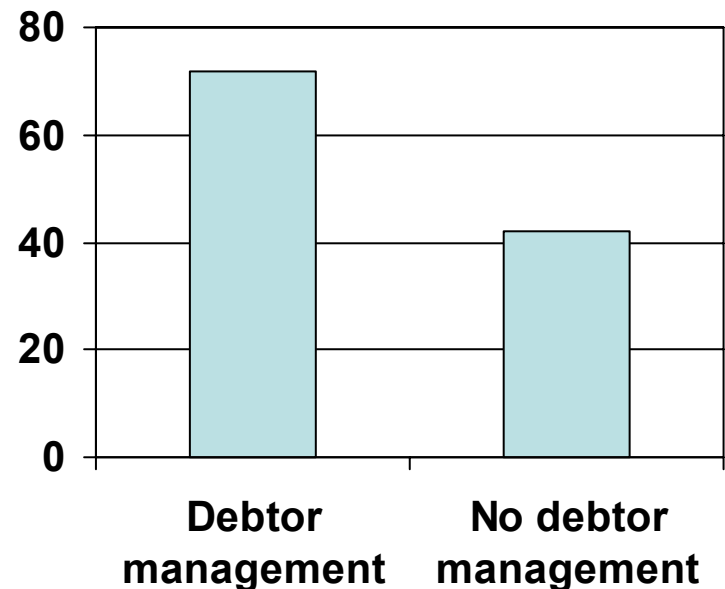




Access to finance by SMMEs

- Banks can distinguish firms with sound financial management
- Banks willing to lend to these firms

Percent of firms successful with loan application





Access to financial support

- High probability of financial distress in SMMEs due to lack of financial management capacity
- Access to finance linked to financial management
- A need for widespread delivery of training in financial management
- Lending in the absence of capacity development is ill-advised



Policy lessons

- Four areas of importance:
 - Public policy must prioritise entrepreneurship
 - Expand the pool of potential entrepreneurs
 - Raise the capacity of existing entrepreneurs
 - Improve the environment for existing entrepreneurs



Policy lessons for South Africa

- Make entrepreneurship a top public policy priority
 - High level political support
 - Regulatory review
 - Subject other policies to the test “what will this policy mean for small and medium enterprise promotion”



Policy lessons for South Africa

- Expand the pool of entrepreneurs
 - Focus on youth
 - Role of education
 - General
 - Entrepreneurship
 - Perception of own skills



Policy lessons for South Africa

- Skills development in existing businesses
 - Formal enterprises
 - Financial management skills
 - Informal enterprises
 - Life skills



Policy lessons for South Africa

- Environment for entrepreneurship
 - Systematize recognition of property rights
 - Enhance access to institutional finance
 - Improve efficiency of government
 - Reduce the impact of crime



Thank You

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