The current state of entrepreneurship in the United States is analyzed in this report utilizing Global Entrepreneurship Monitor (GEM) data characteristics of entrepreneurial behavior in 2010. Given the economic turmoil in the U.S. and the rest of the world from 2008 onwards, it is important to assess its effects on entrepreneurial activity and on entrepreneurial behavior. This report presents data on entrepreneurial activity in the U.S. in 2010 present a mixed picture. The total early stage entrepreneurial activity continued the marked decline described in last year’s report and which has been consistent since 2005. The total early stage entrepreneurial prevalence rate showed a small decline from 8.9% in 2009 to 7.9% in 2010. On the other hand, the data for established businesses were more positive, increasing from 5.9% in 2009 to 7.7%. With respect to opportunity or necessity based entrepreneurial activity, the numbers give room for pause. The increased reporting of necessity based entrepreneurial activity continued, with 29% of entrepreneurs reporting that they started their business out of necessity (up from 25% in 2009). While these numbers are still high compared to the rest of the world, the continuous decline in these numbers is not encouraging, given the correlation between opportunity based entrepreneurial activity and the quality of the venture.

The examination of gender and entrepreneurial activity in 2010 yielded more positive results. The prevalence rate of women entrepreneurs for 2010 was 47% compared with a rate of 53% for males. This result confirms that the gap in prevalence rates between men and women continued to narrow. The start-up activity numbers corroborate these results. Women showed a 5.6% rate of start-up activity (4.4% of females for men was 8.7% (a big drop from 8.8% in 2009). Of the nascent businesses started by women, 53% focused on consumer services compared to 39% for men. The 73% startup activity of women compared to 58% for men has been a consistent trend. Additionally, while 37% of men launched ventures in the business services sector, 32% of women’s start-ups fell into the same category. And finally, 9.4% of men versus 11.3% of women considered their businesses medium to high technology. Men and women entrepreneurs (including both start-up and established business entrepreneurs) were approximately the same age (45-54 years old), although we found that a slightly higher percentage of women between the ages of 35 and 44 engaged in entrepreneurship (20% of women versus 18% of men). Additionally, men and women entrepreneurs attained similar levels of education. With respect to age, the trends discussed in last year’s report continued, showing a decrease in entrepreneurial activity in the 18-44 age group and an increase in activity in the 44 and over category. The numbers for those over 55 are also notable, with 7.9% of those involved in early stage entrepreneurial activities over the age of 65 and 18% over the age of 55. In regard to education, the data indicate that a higher percentage of those with post-secondary and graduate experience started ventures (55% of the sample of entrepreneurs). However, those with graduate status were slightly less likely than those with a post-secondary or bachelor’s degree to start a business. Moreover, the data indicate that those at the bottom of the education pole were less likely to start businesses. Finally, with respect to income, the highest rates of start-ups in 2010 were reported by respondents who earned between $50,000 and $75,000 annually. This is consistent with previous data.

Despite the economic crisis, overall, early stage entrepreneurs maintained an optimistic outlook on the economy. Early stage entrepreneurs believed their businesses to have high potential, with 23.3% expecting to create more than 10 jobs and to show over 50% growth over the next 5 years. However, amongst established business owners, only 2.3% believed the same. The data also show an optimistic outlook with respect to starting a business. Over 46% of early stage entrepreneurs and 64% of established business owners reported that starting a business in the U.S. in 2010 was harder than a year ago. Yet, these numbers are significantly lower than the 2009 numbers (54% of early stage and 77% of established businesses), thus revealing a somewhat optimistic view of the hardship of starting a business. As is the practice with these reports, we also compared the entrepreneurial activity in the U.S. with that of the rest of the world, in particular, with respect to social entrepreneurship and its relationship to innovation-driven start-ups. The GEM data indicated that the U.S. exhibited one of the highest prevalence rates of nascent entrepreneurial activity. In 2010, the U.S. total early-stage entrepreneurial activity rate was the fourth highest among innovation-driven economies. Among innovation-driven economies, the U.S. exhibited one of the highest prevalence rates of nascent entrepreneurial activity. In 2010, the U.S. total early-stage entrepreneurial activity rate was the fourth highest among innovation-driven economies, a result of its very high prevalence rates for nascent entrepreneurial activity. However, for the U.S., the improvement-driven opportunity rate in early-stage entrepreneurial activity was much lower than in the past and was slightly below the average within innovation-driven economies. Again, this is cause for pause, considering that the U.S. has traditionally been a global leader in this regard. The same is true for business discontinuations: the U.S. business discontinuation rate was second highest among innovation-driven countries and much higher than the group average. These rates highlight worrisome trends in the U.S.’s entrepreneurial activity.

In regard to innovation, the 2010 data comparing early stage entrepreneurs to established business owners indicate that early stage entrepreneurs offered more new products than established business owners. Overall, an increasing number in both groups offered novel products in 2010 compared to the 2009 cohorts. Such increased numbers suggest that entrepreneurs found more opportunities to develop innovative products and that both groups were more optimistic about the economic climate in 2010 than in 2009. In terms of innovation, opportunity-based entrepreneurial activities were more often associated with new product-market combinations than those based on necessity. For example, in 2010, 31.9% of opportunity-driven entrepreneurs reported developing innovative products, as opposed to 23.3% of necessity-driven start-ups. Overall, an increased number of both necessity-driven and opportunity-based entrepreneurs undertook the development of innovative products in 2010 compared to 2009. Finally, over 10% of early-stage entrepreneurs were active in the technology sector in 2010 compared to only 1.7% in 2009. The corresponding percentages for established business managers-owners were 1.4% (2009) and 14.9% (2010). Thus, we see increased involvement in the technology sector in 2010.

With respect to social entrepreneurship, start-ups with purely social goals and a not-for-profit goal were fewer than ventures with purely economic or economic and social goals. In 2010, 40% of the 175 respondents indicated they were for profit, primarily achieving economic goals. However, the nearly 7% growth rate for ventures focusing on purely social goals over purely economic goals suggests an effort to achieve social goals, while remaining unimpeded by the realistic commitment to an economic model. Only 7.43% of respondents (n=13) identified as for profit start-ups primarily achieving social goals. With respect to age, among start-ups, 25-34 year olds and 65-99 year olds reported, within their respective age groups, concentrating on economic goals. Among 35-44 year olds there was much more interest in achieving both economic and social goals than any other goals. Finally, with respect to gender and race, white males were more likely to own both start-up and ongoing ventures with purely social or economic and social goals. Females nearly equaled males in owning start-ups with both economic and social goals.

The report examines trends by region to try to determine the effects of the crisis on entrepreneurial activity amongst different groups in the U.S. In 2010, the Midwest, which was the most affected region in 2009, experienced a significant rebound in entrepreneurial activity, as prevalence rates rose 13.8% to 15.2% overall. Early stage entrepreneurial activity in the Midwest increased slightly from 4.9% to 5.3%, and established businesses (older than 42 months) increased from 5.1% to 7.0%. With respect to race, Caucasians experienced relative stability, with the overall rate of entrepreneurial activity staying approximately the same at 16.7% in 2010 compared to 16.4% in 2009. But, consistent with the overall U.S. numbers, the rate of opportunity-driven entrepreneurship among African-Americans dropped from 4.5% to 3.9%, while involvement with a business more than 42 months old increased from 6.4% to 7.9%. Non-Caucasians, on the other hand, saw an increase in overall activity (from 12.8% to 18.1%) with a similar (to Caucasian) drop in opportunity-driven entrepreneurship (5.9% to 5.1%), an increase in necessity-driven entrepreneurship (2.5% from 1.6%), and a large increase in involvement with older businesses (2.1% in 2009 to 6.4% in 2010).

Finally, in regard to public policy, the data reveal some trends of particular interest to policy makers. The decline in the availability of sufficient funding for entrepreneurs from key funding sources continued in 2010 and reached the lowest level for the five-year period (2006-2010). In 2010, while individual industry results were mixed, the overall growth rate turned slightly positive (0.6%). Moreover, in 2010 the GEM Nations’ experts’ perceptions of good opportunities to create new firms declined below that of 2008 and the U.S. dynamism rate declined substantially.

Thus, overall, the picture of entrepreneurial activity in the U.S. painted by the report continues to exhibit elements of light and dark. While some improvements have occurred, the extent to which the U.S. economy recovers from the downturn has affected entrepreneurial activity remains unclear. Many trends in entrepreneurial activity have persisted, particularly the rates of entrepreneurial behavior, opportunity and necessity entrepreneurship, and age and entrepreneurial activity. These trends may continue as they are likely to affect the economic wealth of the country.