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Global Entrepreneur Indicator
from the Entrepreneurs' Organization

Global Entrepreneur Indicator: Literature Scans

Dr Sally Ernst - (May 2010)

The Global Entrepreneur Indicator is a quarterly survey of the membership of the Entrepreneurs' Organization, a membership-based non-profit with more 7,500 entrepreneurs across 38 countries. Each of these business owners have successfully founded a business with over US$1 million in revenue, with an average annual revenue of US$18.4 million. Collectively, these entrepreneurs employ more than 1.3 million workers and represent more than US$124 billion in global economic activity.

Entrepreneurial Efficacy

Indicators underpinning the fostering of entrepreneurship

Previous research by Bosma and Levie (2010) show 9 main framework conditions that affect national propensity to foster entrepreneurship. These are:

1. Financial support
2. Government policies
3. Government programs
4. Education and training
5. Research and development transfer
6. Commercial and professional infrastructure
7. Internal market openness
8. Availability of physical infrastructure
9. Social and cultural norms

The EO Indicator will be researching 7 of these 9 key areas to understand whether you believe the country in which you operate in is conducive to entrepreneurship. Internal market openness and social and cultural norms have been excluded because they cover a cross section of sector and socio-cultural specific information which are too numerous to cover sufficiently in a robust manner.

Here we look at the areas key to a country fostering entrepreneurship:

Financial support

Financial support refers to the availability of capital for new businesses, including debt, equity, grants and subsidies. When assessing a country's level of financial support, considerations include:

- The costs associated with starting a business, given that higher start-up costs require higher levels of financing.
- Strength of currency and domestic buying power

As a matter of interest, in 2009 the country that on average recorded the highest amount of informal financing as percentage of GDP was Chile, while the country that recorded the highest amount of venture capitalist financing was Israel (Bosma et al., 2010).

Government policies

Government policies refer to the extent to which government taxation and regulation policies prioritise, obstruct or encourage start-ups. Administrative requirements and taxation policies can often represent an obstacle to entrepreneurship affecting entrepreneurship by making self-employment more or less attractive than salaried jobs. Therefore policies adopted by a government can positively or negatively affect the development of entrepreneurship (Bruce & Schuetze, 2004).

Government programs

Government programs refers to the availability of specific local, regional and national government programs, aimed at supporting entrepreneurs. Bosma et al. (2010) have found a sharp difference has been recorded, by national experts, in the perception of government as an entrepreneurship facilitator between:

- factor-driven economies, in countries such as Morocco and Yemen;
- efficiency-driven economies, in countries such as Argentina and China; and,
- innovation-driven economies, in countries such as the United Kingdom and Germany.

For example, the United States offers women entrepreneurs the help of several specialized organizations, such as the *Office of Women's Business Ownership* and the *National Women's Business Council* (Entrepreneur, 2006).

Education and training

Education and training refers to the degree of entrepreneurship education and training that is incorporated in the education system at all levels (Bosma et al., 2010).

Entrepreneurship education develops an innovative and dynamic culture by providing individuals with the skills needed to operate in such an environment. While traditional education provides students with basic skills, entrepreneurship education teaches how to operate in a fast-changing, dynamic and global economic environment (Vyakarnam, 2009).

Research and development transfer

R&D transfer refers to the extent to which national investments in research and development generate new business opportunities for entrepreneurs. According to Bosma et al.(2010), R&D transfer is considered least favorable in most countries, second only to entrepreneurship education in primary and secondary school.

Commercial and professional infrastructure

This infrastructure refers to the presence of commercial, accounting and legal services aimed to support entrepreneurs (Bosma et al., 2010).

Internal market openness

Internal market openness refers to the ease of entering a specific market. When entering a market a business has to consider several factors (Bosma et al., 2010). The main factors considered by entrepreneurs when assessing the attractiveness of a market are:

- Rivalry among existing firms, threat of new entrants and threat of substitutes
- Presence of a firm that benefits from large economies of scale
- Presence of firms that 'dominate' the market and benefit from a very strong brand
- Number and balance of competitors (Barringer&Ireland, 2006)

Access to physical infrastructure

Access to physical infrastructure refers to accessibility by all people to infrastructure such as communication, transportation systems and land. According to Bosma et al. (2010), physical infrastructure in most countries is currently considered as the most satisfactory in terms of fostering and supporting entrepreneurship.

As an example, currently in Africa millions of people are using mobile banking services which allow safe money transfer thereby, as an example, protecting cash from thieves (Greenwood, 2009).

Cultural and social norms

This area refers to which extent cultural and social norms influence individuals' propensity to start and run businesses (Bosma et al., 2010). Shapero et al. (2002) identify social groups, such as refugees or workers in particular industries and societies that are more often identified with entrepreneurship.

As an example, societies where social mobility is limited are considered less likely to foster entrepreneurship (Shapero et al., 2002). In most South American countries cultural and social norms are considered as a good framework condition to entrepreneurship (Bosma et al., 2010).

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Alternative Asset Classes

Background

Entrepreneurs are a special group given, among other things, their ability to assimilate the same information, at hand to the general population, differently to generate opportunity and create new things. This group continues to be a generally understudied population at scale.

There is some evidence Alternative asset classes may improve investment returns as part of a portfolio. While loose and broad, the definition of alternative asset classes may exclude stocks, bonds and cash.

For the purposes of the Global Entrepreneur Indicator we define alternative asset classes as either tangible or intangible goods that have a proven economic value but are not typically included in standard investment portfolios. Investors may look to alternative asset classes to diversify their portfolios, as part of their investment strategy. Due to their nature, it can sometimes be hard to arrive at an objective valuation of alternative asset classes.

Bonds, stock and cash are generally excluded from the definition of alternative asset classes, as they represent, in most cases, the fundamental constituents of portfolios.

About Alternative Asset Classes

Given its broad definition, the Global Entrepreneur Indicator carves out the alternative asset classes and/ or components of alternative asset classes that are most easily measurable for their return and are subjectively perceived to be more accessible, attractive and/ or applicable to entrepreneurs. They have then been ordered by the alternative asset class's ability to be as far as possible consistently and clearly valued and measured.

For example, Private Equity has been excluded for the purposes of the research as these investments are usually relatively large and available to qualified investors only. Therefore they may not be applicable across the majority of entrepreneurs. Another example is philanthropy, which may not be clearly valued or measured. In the case of Education, while it is perceived by some as an investment with a high return, higher even than bonds or gold, if it is considered against 'conventional' assets - such as bonds or equity - for which return is justified by risk, it is not easy to assess the risk on investing on education (Judd, 2000).

Hedge Funds

> Hedge Funds became popular as an investment vehicle in the late 1990s, as an alternative to stocks which were then characterized by high prices and low returns (Edwards & Liew, 1999). According to HFR (2010) hedge-funds have recovered in the first quarter of 2010 from the low values reached in early 2009. Globally, hedge funds now manage c.USD$1,670bn of assets. During the first quarter of 2010, hedge funds on average have recorded a return of 2.56%. Relative-value funds have recorded higher values, returning on average 3.58% in the first quarter of this year (Jones, 2010; HFR, 2010).

Natural Resources/Commodities

The Bloomberg Global Poll of investors, traders and analysts conducted on 19th January 2010, revealed that after stocks, commodities were considered as the most promising asset class (Dorning & Dodge, 2010). Commodities may be perceived by some to be an attractive investment as, being strongly linked to supply and demand, this alternative asset class has the advantage of potentially protecting portfolios from inflation (Bloemker, 2010). Examples of investible commodities are:

- Gas
- Oil
- Corn
- Cotton
- Copper
- Soybean
- Precious metals (Platinum, Gold, Silver)

According to the Halifax Assetwatch Press Release published on 6th March, 2010, precious metals overall increased in value by 242% in the decade December 1999 to December 2009. Respectively, gold registered an annual average increase in price of 14.2%, platinum of 12.7% and silver of 12.6% (Halifax Assetwatch, 2010).

Managed Future Accounts

Managed future accounts are investment vehicles managed by Commodity Trading Advisors ("CTAs") (Investopedia, 2010a). CTAs trade a portfolio of futures, forwards or options in global currency, interest rate, metal, energy and agricultural markets (Morgan Stanley Smith Barney, 2009). Although the strategies that CTAs employ on their portfolios can vary greatly, these managers all trade highly liquid and regulated financial products (Barclay Hedge, 2010).

Investors may perceive managed futures as an attractive way to diversify their portfolio due to their potential non-correlation to stocks and bonds (Barclay Hedge, 2010). Successful managers are stated to generally use modern portfolio theory to pick assets that will maximize returns against the level of risk they have chosen to take (Investopedia 2010b). Since their introduction in 1980, according to the CASAM CISDM CTA Equal Weighted Index, managed futures had a compound average return of 14.52%, almost double the return of U.S. stocks over the same period (based on the S&P 500 total return index).

Real Estate

Investment in real estate can be directed to the purchase of any of the following categories of estates and may be perceived by investors as a hedge against inflation (Skidmore, 2010):

- Commercial real estate
- Residential real estate
- Land

Considering returns on residential and commercial properties, in the UK, these respectively recorded an average 11.1% and 5.8% return between December 1999 and December 2009. However, considering 2009 only, while residential properties recorded a return of 8.7%, commercial properties recorded a return of -1.4% (Halifax, 2010).

Even though real estate is often considered as an alternative asset class, it is sometimes considered an 'additional' asset class to stock, bonds and cash. One reason is that before the emergence of stocks and bonds real estate was the preferred asset class. Upon the invention of stock and bonds, these were considered alternative asset classes to real estate. Additionally, real estate is often considered as a fundamental and indispensible component of a well-diversified portfolio (Anson, 2006).

Microfinance

Socially Responsible Investments ("SRIs") are investments aimed to generate financial return and social, environmental and ethical improvements. Of all SRIs, microfinance is currently the sector that attracts the larger number of investors.

Microfinance is a term that describes the provision of financial services to poor parts of the population that otherwise would not have access to banking services. Micro-loans are aimed at poor individuals who are able to engage in a productive entrepreneurial activity. Examples of micro-borrowers are street vendors, small farmers and fishermen.

According to a study conducted by The MIX on a sample of around 704 microfinance institutions, for the year 2007, the leading 176 MFIs recorded a RoE of 17.2% (The MIX, 2006). Investments in microfinance are expected to rise to around USD 20bn by 2015 (Deutsche Bank Research, 2007).

Wine

Wine investment has registered a steady growth since the early 1990s, with an average annual growth rate of 17.64%. Compared to other alternative asset classes, wine investment has some perceived advantages: wine is easy to store, is likely to increase in quality with time, is not subject to fashions and may be shown to increase value with rarity. Increasing global demand and the existence of professional investment advice services appear to be making wine an interesting investment opportunity (Golding, 2009).

Collectibles and Luxury Items

Categories of goods that can be included in the collectibles and luxury items alternative asset class are:

- Art (produced by each of famous artists and emerging artists)
- Photography
- Stamps and coins
- Antiques
- Classic cars and motorbikes
- Vintage watches
- Yachts
- Designer fashion
- Sport and Music memorabilia and autographs
- Toys

Let's take the example of Art. Even if the return on art is almost impossible to measure accurately, it appears an increasing number of investors perceive art as an interesting alternative investment opportunity. Bernard Duffy, manager of the "Emotional Assets" fund, which invests in art and other collectibles, thinks investors can make a 15% profit per year (Papworth & Collinson, 2009). However, art may be perceived as a long-term investment that is likely difficult to value, and may be unlikely to guarantee immediate liquidity. On the other hand, art may also be considered by some as a hedge against inflation.

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About the Research

This report is part of the Global Entrepreneur Indicators research program conducted by the Entrepreneurs' Organization in partnership with The Standard Chartered Private Bank. This research program began in May of 2010 and consists of a five-year series of quarterly surveys of Entrepreneurs' Organization members. The full report and findings are available at: http://www.entrepreneurIndicators.com/

The significance and uniqueness of this global research program lies in the very tight definition of a successful entrepreneur represented by the Entrepreneurs' Organization's membership base. All those surveyed have successfully founded a business grossing more than US$1 million in revenue annually. Overall, EO members average US$18.4 million in revenue per year. Between them, these entrepreneurs employ more than 1.3 million workers, with an average of 191 employees per entrepreneur. The average age of the entrepreneurs surveyed is 40. This group provides the ability to gain an entree to this highly important sample of the successful entrepreneur population.

This initial research surveyed more than 7,300 entrepreneurs in 42 countries from the Entrepreneurs Organization, achieving a response rate of 20% based on a minimum reach of 7,300.

Methodology

Survey
The survey incorporates elements of cited Alternative Asset Class investments as described in the research report literature scan. The litmus test for the choice of key Indicatorss for the purposes of this research is that they are later measurable against actual asset class performance.
There are 7 categories measured in the Indicators:

- Currency
- Residential real estate
- Commercial real estate
- Precious metals
- Managed futures
- Hedge funds
- Selves/own businesses

Some additional questions, which are not used in the calculation of the Indicators, have also been included in the survey for other insights into topical areas of interest from time to time. These, as well as data from Indicators questions, may be used in the Alternative Asset Class Indicators or other Entrepreneurs' Organization Indicatorss.

The Indicators is calculated as the category score, or averaged upper end and neutral percentages divided by 10, which are then averaged across all category scores with equal weighting to give the final Indicators benchmark out of 10.

Limitations

- Over 50% surveyed were based in the U.S., however they only represented 38% of respondents thereby reducing the impact of this limitation.
- The EMEA and Asia regional Indicatorss have a small response rate relative to their size. These reports can perhaps be used in the context of the longitudinal data as a benchmark made richer over time.
- 42.5% of responses for the EMEA Region Indicators were from the Netherlands.

- There may be anomalies in the membership data, such as an owner or major shareholder rather than founder may be included in respondents or other anomalies.
- There may be anomalies caused by technology in the process from data extraction, to survey delivery, to responses, to first stage analysis. While noted as a limitation, this is for probity as these are estimated to be minimal.

Response Rates Summary

	Number of Respondents
Global	1477
Australia	67
Asia	120
Canada	101
U.S.	564
Europe/Middle East/Africa	120

Just under 10,000 words of free text were recorded.

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