

TRENDS in ENTREPRENEURSHIP SERIES

Reporting on data from a wide range of sources to measure, track, and compare trends related to entrepreneurship | 2020, No. 4

MOTIVATIONS FOR ENTREPRENEURSHIP

The reasons that an individual might become an entrepreneur can vary – and can reflect the broader economic environment as well as influence the type, nature, and future direction of the business activity itself. This brief takes a closer look at the previous economic activity of an individual before starting a business, and the reasons for business ownership reported by employer business owners.

Highlights

- **In 2018, the opportunity share of new entrepreneurs was 86.2%**, indicating that nearly 9 out of 10 new entrepreneurs were pursuing a business opportunity and about 1 in every 10 new entrepreneurs likely lacked other options in the labor market.
- **Fewer women became new entrepreneurs than men.** When they did, women were more likely to be pursuing a business opportunity than their male counterparts.
 - The gender gap in new entrepreneurial activity has increased over time: in 1998, about 320 out of every 100,000 men and 250 out of every 100,000 women became new entrepreneurs, compared with 410 men and 240 women in 2018.
 - The gender gap in opportunity share of new entrepreneurs has narrowed slowly over time. In 1998, the opportunity share of new entrepreneurs was 75.4% among men and 87.3% among women. By 2018, it was 82.6% among men and 90.0% among women.
- **Employer businesses are the subset of businesses that hire employees.** In 2016, among employer business owners, the most common reasons for starting a business were pursuing a *greater income* (55.5% said this was very important) and *wanting to be their own boss* (55.4% said this was very important). Being their own boss was very important to 60.3% of men compared to 44.2% of female employer business owners.
- **In the United States, necessity-driven entrepreneurship is not a strong factor for new entrepreneurs in general, and for employer business owners specifically.** In 2016, *being unable to find a job* was not important to about 3 in 4 employer business owners (76.7%). In the same year, the opportunity share of new entrepreneurs more broadly was 86.3%.



Opportunity and Necessity Entrepreneurship

An individual's labor market status before starting a business can be a broad reflection of the economic context for entrepreneurship.¹ The distinction between *necessity* and *opportunity* entrepreneurship can reflect push and pull factors leading to entrepreneurship. It

is a useful distinction because the overall volume of entrepreneurship doesn't necessarily reflect the overall conditions for entrepreneurship. Sometimes, the trend even seems counterintuitive because entrepreneurship may increase under weak economic conditions.

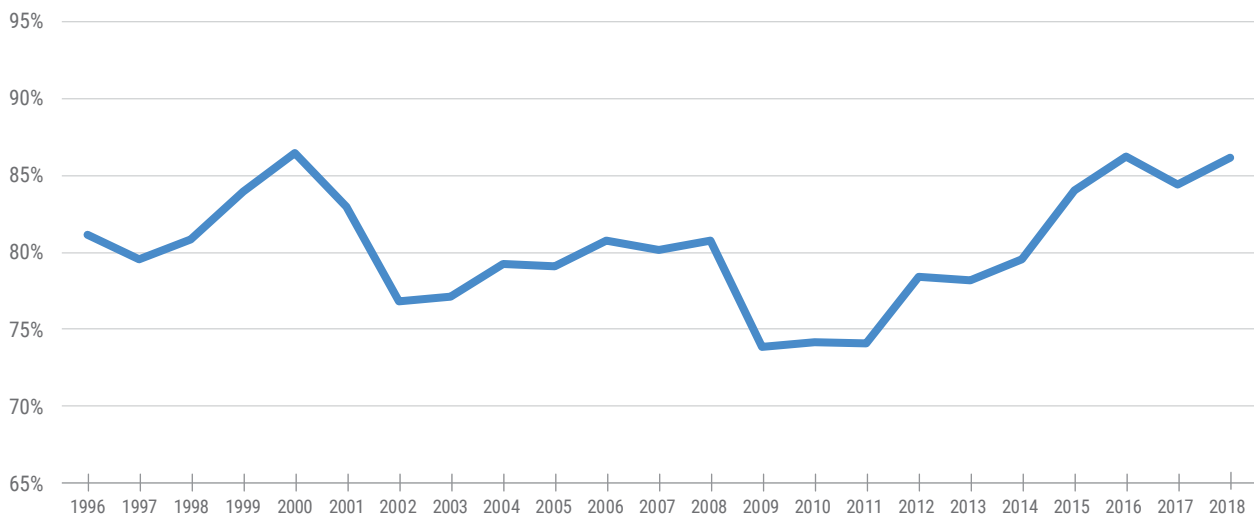
The *opportunity share of new entrepreneurs* reflects the share of new entrepreneurs emerging from the population that likely started a business out of opportunity and not necessity. This is taken from the Kauffman Early-Stage Entrepreneurship Indicators (<https://indicators.kauffman.org/series/earlystage>). It reflects the share of new entrepreneurs who were not unemployed and not looking for a job prior to working 15 hours weekly on a new business (compared to the previous month).²

In 2018, the opportunity share of new entrepreneurs was 86.2%, meaning that nearly 9 out of every 10 businesses were started by people seeking to capture a business opportunity. Between 1996 and 2018, the opportunity share of new entrepreneurs in the United States ranged between 73.8% to 86.4%. Over this time range, the lowest opportunity share of new entrepreneurs occurred in 2009, 2010, and 2011, lining up with the Great Recession.

A weak economy, where businesses are cutting jobs or there are few jobs available, could see higher levels of entrepreneurship. A worker who faces difficulty finding employment could be pushed to start a business to generate some income, rather than having none. A strong economy could pull an individual into entrepreneurship if there seem to be favorable business opportunities. At the same time, however, a strong economy could mean that existing businesses are expanding and creating jobs, which could draw individuals away from entrepreneurship and into employment.

In 2018, nearly 9 out of every 10 businesses were started by people who left other economic activities, such as a job or school, before starting a business.

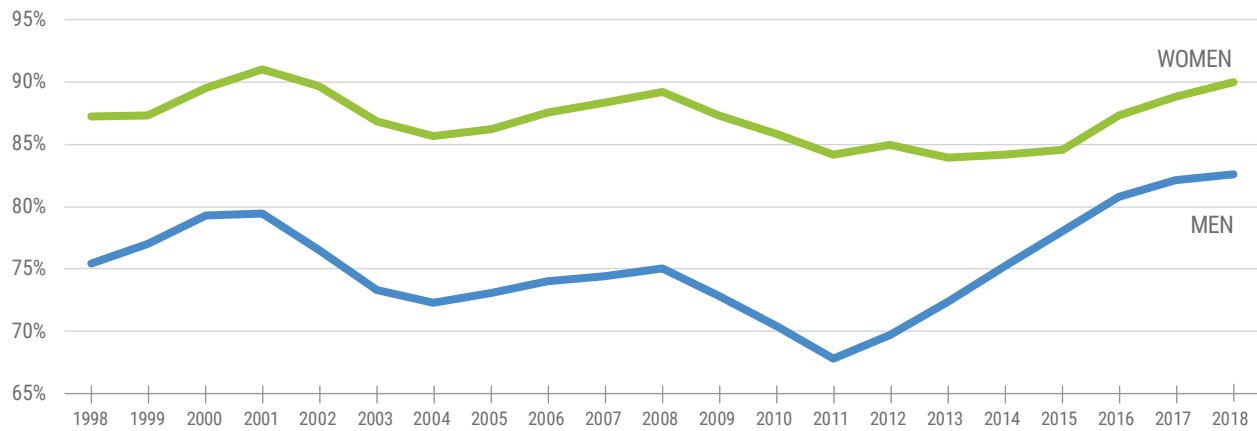
FIGURE 1: Opportunity Share of New Entrepreneurs



The opportunity and necessity lens can also provide broad context about demographic groups entering entrepreneurship. Between 1998 and 2018, women were consistently less likely to start a business than men; in 1998, about 250 out of every 100,000 women and 320 out of every 100,000 men became new entrepreneurs, compared with 240 women and 410 men in 2018.

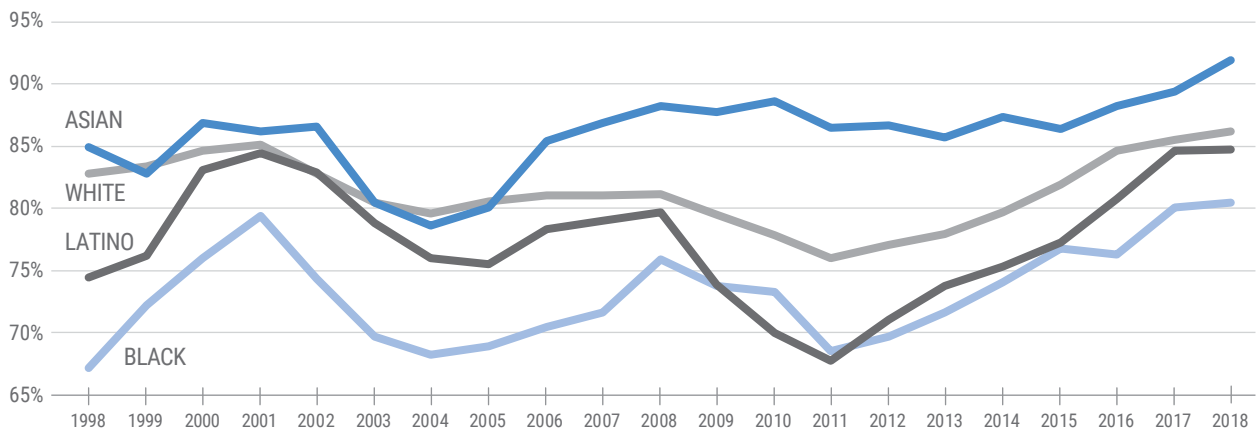
Although women were less likely to become new entrepreneurs, the women who became entrepreneurs were more likely than men to be opportunity-driven: the opportunity share of new entrepreneurs has been consistently higher among women than men over time. In 1998, the opportunity share of new entrepreneurs was 75.4% for men and 87.3% for women. In 2018, it was 82.3% among men and 90.0% among women. Overall, the gap in the opportunity share for men and women decreased by more than one-third between 1996 and 2018, although the gap was largest in 2010, 2011, and 2012, following the Great Recession.

FIGURE 2: Opportunity Share of New Entrepreneurs by Gender



In the years between 1998 and 2018, the opportunity share of new white entrepreneurs was the most stable, staying within 76.0% and 86.2%. The opportunity share of new Latino entrepreneurs was the least stable, ranging between 67.8% and 84.8%. Since 2006, the opportunity share of new Asian entrepreneurs has been higher than all other groups. The opportunity share of each demographic group experienced marked declines between 2001 and 2004. Each demographic group besides new Asian entrepreneurs also declined between 2008 and 2011. These two periods of declining opportunity share of new entrepreneurs correspond roughly with the Afghanistan and Iraq Wars and the Great Recession.

FIGURE 3: Opportunity Share of New Entrepreneurs by Race/Ethnicity



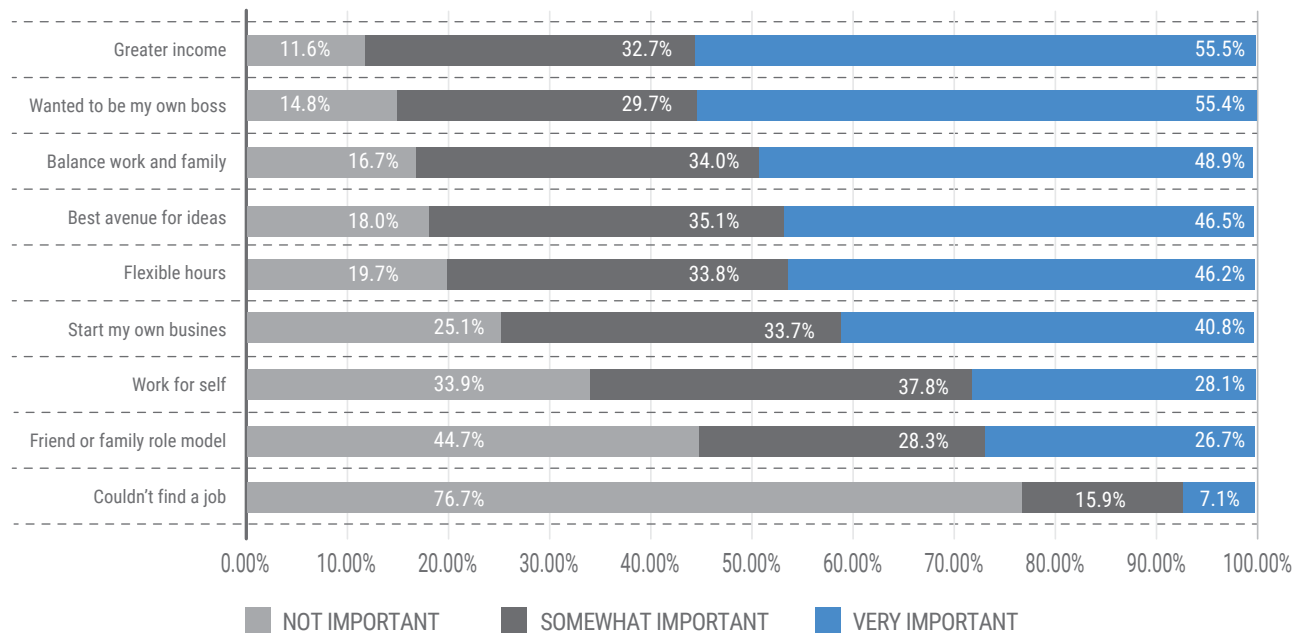
Origins of an Employer Business: Why Was it Started?

A small number of new businesses go on to hire employees. In 2016, about 12 in 100 new business applications (for an employer identification number) became employers within eight quarters.³ While they represent a relatively small subset of entrepreneurial activity, they are linked to job creation so it is useful to understand why their owners originally started the business.⁴

The reasons employer business owners originally started their business is taken from the 2016 Annual Survey of Entrepreneurs. Respondents reported if they felt that a reason (*wanted to be my own boss, flexible hours, balance work and family, greater income, best avenue for ideas, couldn't find a job, work for self, start my own business, or friend or family role model*) was not important, somewhat important, or very important for them to start a business.

More than half of employer business owners reported pursuing a *greater income* and *wanting to be their own boss* as very important reasons for starting a business (55.5% and 55.4%, respectively). *Being unable to find a job* was reported as not important by more than 3 in 4 employer business owners (76.7%).

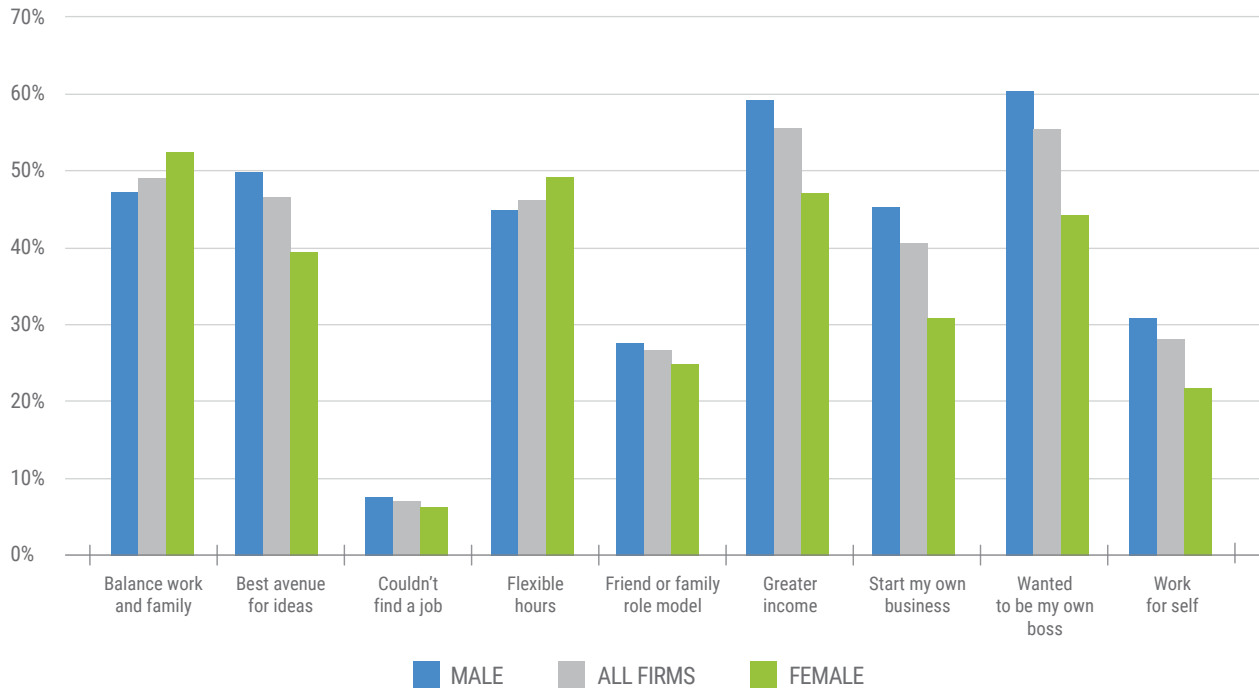
FIGURE 4: Reasons for Starting an Employer Business



More than half of employer business owners reported pursuing a greater income and wanting to be their own boss as very important reasons for starting a business. Being unable to find a job was reported as not important by more than 3 in 4 employer business owners.

Among employer business owners, the reasons for starting a business differ by gender. *Being their own boss* was a very important reason for 60.3% of males compared to 44.2% of females, and pursuing a *greater income* was very important to 59.2% of males compared to 47.0% of females. *Flexible hours* were a very important reason to 44.9% of males compared to 49.2% of females, and *balancing work and family* was a very important reason to 47.3% of males compared to 52.5% of females.

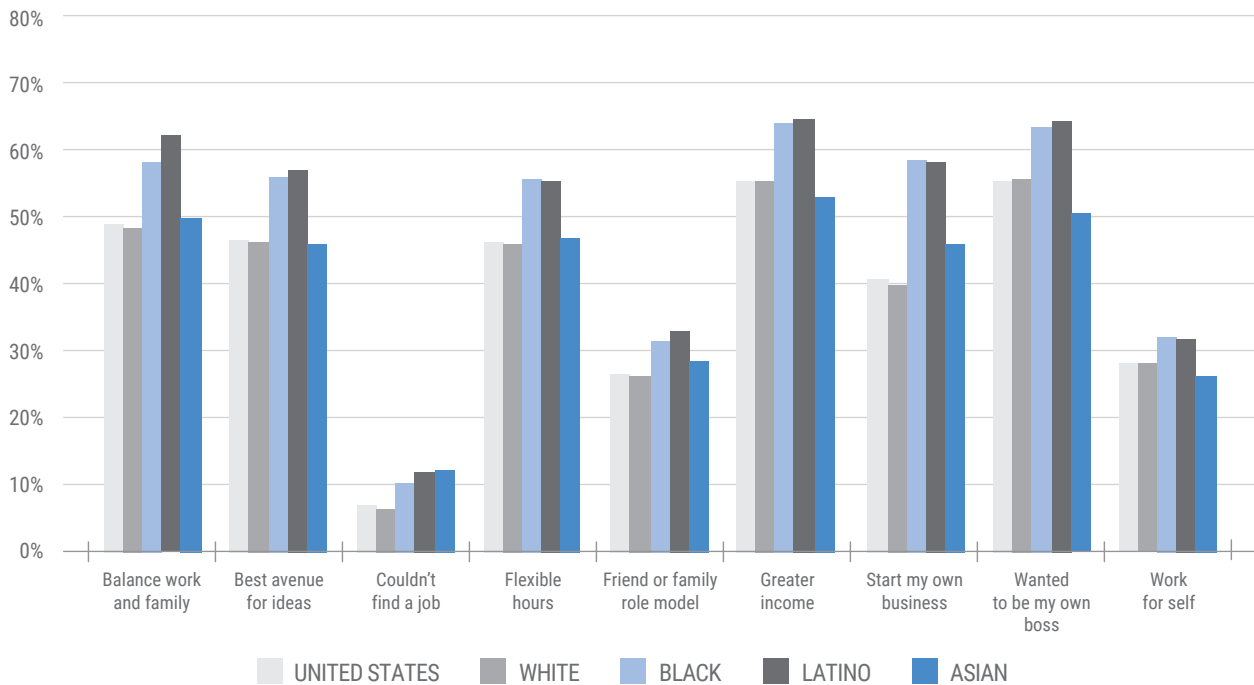
FIGURE 5: Reasons Employer Business Owners Say Were Very Important in Why They Started Their Business by Gender



Being their own boss was a very important reason for 60.3% of males compared to 44.2% of females, and pursuing a greater income was very important to 59.2% of males compared to 47.0% of females.

Reasons for starting a business also vary by race and ethnicity. Pursuing a *greater income* was very important to 64.5% of Latino owners, 63.8% of black owners, 55.5% of white owners, and 52.9% of Asian owners. *Wanting to be their own boss* was very important to 64.2% of Latino owners, 63.4% of black owners, 55.7% of white owners, and 50.5% of Asian owners. *Not being able to find a job* was cited as a very important reason for starting a business by 12.3% of Asian owners, 11.8% of Latino owners, 10.5% of black owners, and 6.3% of white owners. Although Asian employer business owners had the highest opportunity share between 2006 and 2018, they were least likely to say *greater income* was very important and most likely to say *not finding a job* was very important compared to other racial groups.

FIGURE 6: Reasons Employer Business Owners Say Were Very Important in Why They Started Their Business by Race/Ethnicity



Although Asian employer business owners had the highest opportunity share between 2006 and 2018, they were least likely to say greater income was very important and most likely to say not finding a job was very important compared to other racial groups.

About the Data

Rate of new entrepreneurs refers to business owners with 15 or more hours worked per week, including those who own incorporated or unincorporated businesses and those who are employers or nonemployers, who did not own a business in the previous month.

Opportunity share of new entrepreneurs refers to the share of new entrepreneurs who are coming out of wage and salary work, school, or other labor market statuses. Both measures are from the Kauffman Indicators Early-Stage Entrepreneurship Series. See indicators.kauffman.org.

Employer business owners refers to owners of businesses with paid employees that own at least 51% stock or equity in the business. The data come from the 2016 Annual Survey of Entrepreneurs of the U.S. Census Bureau, which samples approximately 290,000 employer businesses operating anytime during the survey year; it includes all nonfarm businesses that file IRS tax forms as individual proprietorships, partnerships, or any type of corporation, with annual receipts of \$1,000 or more. See www.census.gov/programs-surveys/ase.html. ASE data include point estimates, which can be subject to sampling and nonsampling errors and should be considered carefully for populations with smaller representations in the sample. For more on ASE definitions, limitations, and methodology of the Annual Survey of Entrepreneurs, see <https://www.census.gov/programs-surveys/ase/technical-documentation/methodology.html>. Data on race and ethnicity are reported as provided by the source: <https://www.census.gov/topics/population/race/about.html>.

Sources: (1) Fairlie, R. and Fossen, F. 2017. The Two Components of Business Creation: Opportunity versus Necessity Entrepreneurship, Stanford Institute for Economic Policy Research Discussion Paper No. 17-014. (2) Fairlie, R. et al. 2019. 2018 National Report on Early-Stage Entrepreneurship, Ewing Marion Kauffman Foundation: Kansas City. (3) Desai, S. et al. 2020. 2018 New Employer Business Report: National and State Trends, Ewing Marion Kauffman Foundation: Kansas City. (4) Haltiwanger, J. et al. 2013. Who creates jobs? Small versus large versus young. The Review of Economics and Statistics.

Acknowledgements:

Sameeksha Desai, Travis Howe,
Hayden Murray, Madeleine Oldstone

Please cite as: Ewing Marion Kauffman Foundation (2020) "Motivations for Entrepreneurship" *Trends in Entrepreneurship*, No. 4, Kansas City, Missouri.

This is a publication by the Ewing Marion Kauffman Foundation utilizing content and data from multiple sources and external contributors. Every effort has been made to verify the accuracy of the information contained herein and is believed to be correct as of the publication date. Nonetheless, this material is for informational purposes and you are solely responsible for validating the applicability and accuracy of the information in any use you make of it.