

# TRENDS in ENTREPRENEURSHIP SERIES

Reporting on data from a wide range of sources to measure, track, and compare trends related to entrepreneurship | 2020, No. 11

## FEWER NEW BUSINESSES HAVE BECOME EMPLOYERS

*New businesses have been shown to contribute disproportionately to job creation in the United States<sup>1</sup>. This brief provides context about new business hiring in the United States by (i) describing the trend in new businesses that become employers, and (ii) comparing intent to hire with hiring. The trends reported in this brief are reported at the national level, and can be considered as indicative of the ability of the economy to foster an environment for new business hiring, and not individual business success.*

*A relatively small share of new businesses become employers<sup>2</sup>: slightly more than 11% of new business applications in 2019 became employers within eight quarters (projected), reflecting a decline from just over 21% in 2005.<sup>3</sup> Average job creation from employer businesses within their first 12 months of operations declined from about eight jobs to five jobs per 1,000 people between 1996 and 2019.<sup>4</sup> And, entrepreneurs report that finding skilled employees is among their biggest challenges.<sup>5</sup>*

### Highlights

- Between 2005 and 2019, the number of new business applications in the United States increased by 38.9%.
- Over the same time period, the number of these applications that became employers within eight quarters decreased by 27.8%.
- The share of new business applications that intend to hire decreased from 34.9% in 2005 to 13.6% in 2019, and the share of new business applications that hired decreased from 21.1% in 2005 to 11.0% in 2019 (projected). In other words, intent to hire among new business applications nationally consistently exceeded the level of hiring activity.



## How many new businesses become employers?

Between 2005 and 2019, new business applications in the United States increased by 38.9%, from 2,502,011 applications in 2005 to 3,474,215 in 2019. Over the same time period, however, the rate at which this entrepreneurial activity created employers within eight quarters declined. The number of new business applications that became employer businesses fell from 528,855 in 2005 to 381,695 in 2019 – a 27.8% decrease.

**New business applications** represent applications for an employer identification number (EIN) for a given year and **new employer businesses** represent the number of these new business applications that became employers within eight quarters. These measures reflect national

trends, and are taken from or calculated using *Business Formation Statistics (BFS)*, U.S. Census Bureau. Data on becoming an employer is projected for 2015 to 2019.

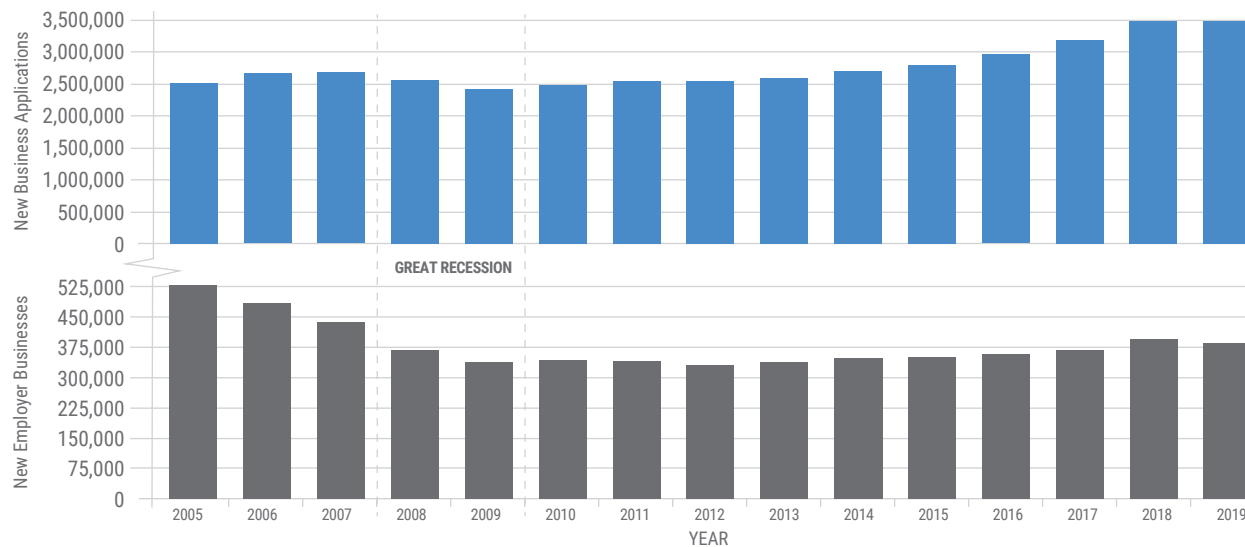
The number of new business applications increased from year to year since 2005, except for years during the Great Recession (2008–2009). After the Great Recession, new business applications recovered and by 2014, surpassed the number of new business applications in years prior.

On the other hand, new employer businesses generally declined since 2005 and, according to the combined projected and actual data, did not recover after the Great Recession, although there were a few years where they increased. The number of new employer businesses has not recovered to pre-recession levels.

TABLE 1: Trends in New Business Applications and New Employer Businesses<sup>i</sup>

	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
<b>New Business Applications</b>	2,502,011	2,644,208	2,659,813	2,556,049	2,401,134	2,463,835	2,537,114	2,542,238	2,582,593	2,689,186	2,786,770	2,945,885	3,176,131	3,469,391	3,474,215
<b>Yearly percent change in new business applications</b>		5.68%	0.59%	-3.90%	-6.06%	2.61%	2.97%	0.20%	1.59%	4.13%	3.63%	5.71%	7.82%	9.23%	0.16%
<b>New Employer Businesses</b>	528,855	481,736	436,921	368,839	336,267	341,504	339,185	329,758	336,141	347,451	350,938	357,545	368,932	393,243	381,695
<b>Yearly percent change in new employer businesses</b>		-8.91%	-9.30%	-15.58%	-8.83%	1.56%	-0.68%	-2.78%	1.94%	3.36%	1.00%	1.88%	3.18%	6.59%	-2.06%

FIGURE 1: New Business Applications have Increased and New Employer Businesses have Decreased



The number of new business applications increased since the Great Recession.

The number of new employer businesses has not recovered to pre-recession levels.

## Do overall hiring intentions match overall hiring?

One way to understand new business activity is to compare collective intent to hire with new employer business actualization. Table 2 compares intent to hire and hiring among new business applications. Figure 2 shows the trends over time. Intent to hire among new business applications declined: 34.9% of new business applications in 2005 intended to hire compared to 13.6% in 2019. This reflects a decline of more than half over this period.

Hiring among new businesses has also declined: 21.1% of new business applications became employers in 2005, compared to 11.0% in 2019. This reflects a 47.9% decline.

For all years between 2005 and 2019, collective intent to hire exceeds hiring. This gap narrowed: in 2005, 34.9% of new business applications reported intent to hire, but 21.1% hired. In 2019, 13.6% reported intent to hire but 11.0% hired (projected). Intent to hire has declined more rapidly than hiring.

**Intent to hire** is measured as a share of new business applications that identified a date for first planned wages in a given year. We assume that identifying a date for first planned wages indicates that the applicant realistically expects to hire.

**New employer business actualization** is the share of new business registrations that hire an employee within eight quarters, for a given year. Both are measured as *shares* of new business applications and reflect overall national trends, and do not capture if a specific business achieved a stated hiring goal. These measures are taken from or calculated using the Business Formation Statistics (BFS), U.S. Census Bureau. New employer business actualization can be found in the Kauffman New Employer Business Indicators.

TABLE 2: Trends in Intent to Hire and Hiring among New Businesses<sup>ii</sup>

	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
<b>Intent to hire (share of new business applications)</b>	34.9%	34.5%	31.6%	24.0%	23.0%	21.4%	20.4%	19.6%	18.7%	17.5%	16.9%	16.1%	15.0%	14.3%	13.6%
<b>Hiring (new employer business actualization within eight quarters)</b>	21.1%	18.2%	16.4%	14.4%	14.0%	13.9%	13.4%	13.0%	13.0%	12.9%	12.6%	12.1%	11.6%	11.3%	11.0%

Collective intent to hire exceeded new employer business actualization for every year in the period examined, using both actual and projected data. Even if every new business applicant that hired within eight quarters had also originally reported an intention to hire, which we cannot verify, the gap would persist.

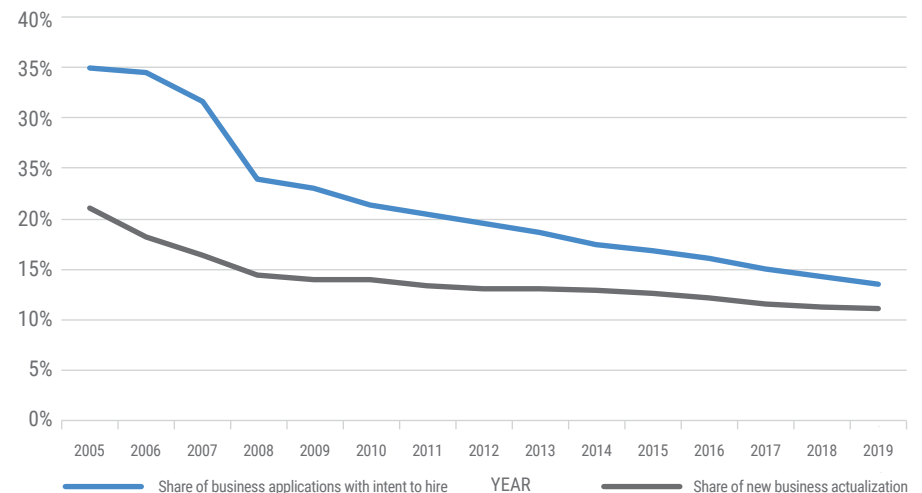
How can this gap be explained?

It could indicate the presence of barriers that entrepreneurs encounter in the business environment after starting the business, which specifically inhibit hiring. For example, the costs of searching, identifying, attracting, hiring, and maintaining an employee have increased.<sup>6</sup> New businesses can also face legitimacy challenges in recruitment related to being small and being new.<sup>7</sup>

If entrepreneurs thought they would grow enough to hire by a specific time, this could indicate that they did not reach the business milestones that they expected to achieve. Or, it could be that entrepreneurs realized they did not need to hire once they started business operations.

We are not able to observe beyond the eight-quarter window, so it possible that businesses may be hiring later in their life cycle.<sup>iii</sup>

FIGURE 2: Trends in Intent to Hire and New Employer Business Actualization



## About the Data

Data used here come from the Business Formation Statistics (BFS) of the US Census Bureau (<https://www.census.gov/programs-surveys/bfs.html>). BFS variables used in the calculations of these measures are business applications (BA), business applications with planned wages (WBA), and spliced business formations within 8 quarters (SBF8Q). Data used here was pulled July 2020.

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## Notes:

(i) The BFS provide projected data related to becoming an employer for 2015 through 2019. (ii) *ibid.* (iii) See Bayard et al. Figure 2 for more details.

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## Sources:

(1) Haltiwanger, J. et al. 2013. Who creates jobs? Small versus large versus young. *Review of Economics and Statistics*. (2) Bayard et al. 2018. Early-stage business formation: an analysis of applications for employer identification numbers, NBER Working Paper 24364. (3) Howe et al. 2020. 2018 New Employer Business Report: National and State Trends, Ewing Marion Kauffman Foundation: Kansas City. (4) Fairlie and Desai. 2020. 2019 Early-Stage Entrepreneurship in the United States, Ewing Marion Kauffman Foundation. (5) Looze and Desai. 2020. Challenges along the entrepreneurial journey: considerations for entrepreneurship supporters, Ewing Marion Kauffman Foundation. (6) Ewing Marion Kauffman Foundation (2020), How Quickly do Entrepreneurs Hire? New Employer Business Velocity Across States 2005–2014, *Trends in Entrepreneurship*, No. 3, Kansas City, Missouri. (7) Coad et al. 2017. My first employee: an empirical investigation. *Small Business Economics*.

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### Acknowledgements:

Sameeksha Desai,  
Travis Howe, Hayden Murray

**Please cite as:** Ewing Marion Kauffman Foundation (2020), Fewer New Businesses Have Become Employers, *Trends in Entrepreneurship*, No. 11, Kansas City, Missouri.

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