

Nascent Entrepreneurs: Are They Worth Our Investment?

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New business formation is key to any society expecting economic growth and industry innovation. Giant corporations of today were once start-up companies more than 25 years ago. Apple Computer, started in 1978, had \$8 billion in sales in 2000 and employed approximately 95,000 people. Likewise, Microsoft Corporation, started in 1976, is the world's largest software company with more than \$23 billion in sales. Other well-known companies such as Federal Express, Wal-Mart, ConAgra and Amazon.com were once fledgling businesses that revolutionized industries.

A study completed by the National Commission on Entrepreneurship (2001) documented that 197 (97.5 percent) of the Fortune 200 were once entrepreneurial start-up companies. This alone is convincing evidence that new industries, technologies and a high level of job creation result from the start-up, development and growth of new firms. An additional study (GEM 2001) conducted by the Global Entrepreneurship Monitor compared entrepreneurial activity from multiple countries and found that new business creation is highly associated with economic growth around the world.

History has shown that to drive our future economy, we must focus efforts on nascent entrepreneurs starting companies today. However, little research is available that helps to sequence the process of business formation. Questions remain such as: What prompted individuals to start the business? Was it social or economic factors? Or, were there prescribed activities that lead to the successful business launch?

The Panel Study of Entrepreneurial Dynamics (PSED) sponsored by the Ewing Marion Kauffman Foundation was a longitudinal study designed to study the phenomenon of new business creation by budding entrepreneurs. The first stage of the study involved a telephone survey of 64,622 households to create two samples (nascent entrepreneurs and comparison group) representing the national population of adults 18 years old and older. The second stage was the completion of a mailed questionnaire from the initial samples. The third stage was conducted twice, a 12-month and 24-month follow-up telephone interview. Key findings from the study are as follows:

- Entrepreneurship is widespread throughout the United States. About 6.2 in every 100 adults are engaged in trying to start a new business. This equates to approximately 10.1 million adults in the United States attempting to create a new business at any one time.
- About one-half of all new businesses are started by teams of people. The average start-up team is 1.8 people even though 40 percent of the start-up businesses are sole-proprietorships.
- Men are more likely to start a business, 8.1 per 100 as compared to 4.5 per 100 for women 18 years and older. The most active years for business start-ups for men and women are between the ages of 25 to 34.
- Blacks are about 50 percent more likely to engage in start-up activities than whites. Hispanic men are 20 percent more likely than white men. Hispanic women are equally likely to start a business as white women but less likely than black women.
- Education and training does impact the prevalence rates of business start-ups. Individuals who finish high school and complete additional education are more likely to be involved

- in the entrepreneurial process. For white men and women there is only a slight increase in participation. For black men and women and Hispanic men who reported receiving graduate training, there was a two to three times increase in their entrepreneurial involvement.
- Income also plays a role in the formation of new businesses. For incomes with less than \$15,000 household income, the prevalence rate was 3.1. For incomes greater than \$75,000 the rate was 8.2 per 100. This change is most significant with black men and women.

Finally, the PSED study attempted to determine whether locality affected business formation. Using demographic and economic information provided by survey respondents, each respondent was assigned an urban context score that represented the demographic-economic characteristics of their locality. Comparisons between the lowest and highest quartile groups showed substantial differences. The highest quartile had 24 percent more population in the 25-44 years of age, three times more individuals with college degrees; per capita income was 70 percent higher; and percentage of households with annual income of \$75,000 or greater was five times greater than the lowest quartile.

The urbanization results from the survey are significant to the Midwest as the largest percentage of the lowest quartile respondents were from the Midwest and South. In these regions, the prevalence rates of entrepreneurship averaged 4.9 per 100 adults whereas the more urbanized regions average 7.1 per 100 start-up efforts.

What significance does this study have for Nebraska's economy? Even though entrepreneurial activity is shared by all individuals, other factors such as household income, gender, ethnicity and age do affect business start-up potential. To become more competitive with other regions of the United States, Nebraska must look at these determining factors to identify potential entrepreneurs and then mobilize resources to help grow these fledgling businesses. Our future economy may just depend on what we do today to help these emerging entrepreneurs.

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