

# stateof**entrepreneurship**

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## ZERO BARRIERS: Three Mega Trends Shaping the Future of Entrepreneurship

Ewing Marion  
**KAUFFMAN**  
Foundation



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# ZERO BARRIERS:

## Three Mega Trends Shaping the Future of Entrepreneurship

### Summary

After a long Great Recession hangover, entrepreneurship is finally rebounding in the United States. Entrepreneurs are driving a resurgence of business activity in America—in new business creation, local small business activity, and the growth of small firms into larger businesses.

But underneath this reassuring surface, turbulent shifts are shaping the future of entrepreneurship to be dramatically different than what it is today, or was in the past. We posit that three mega trends will be defining forces shaping the future of entrepreneurship for decades to come. These three trends reflect the changing demographics, map, and nature of American entrepreneurship.

### The State of Entrepreneurship Today

- The state of entrepreneurship is improving, across new firm creation, local small businesses, and growth companies.
- Overall entrepreneurial indicators have gone up, job creation by new establishments is on an uptick, and optimism among small business owners has surged.
- Yet, many entrepreneurial indicators are below the peak that preceded the Great Recession, and certain indicators of entrepreneurial dynamism are still in a long-term decline.

### Three Mega Trends Shaping the Future of Entrepreneurship

#### 1) New Demographics of Entrepreneurship

- The U.S. population is increasingly older and more racially diverse. By 2050, three out of every ten U.S. adults will be past the traditional retirement age, and more than half of the U.S. population will be from racial minority backgrounds.
- Yet, changes in the composition of America's population are not yet fully reflected in the composition of our nation's entrepreneurial population. This means that the portrait of U.S. entrepreneurs—80.2 percent white and 64.5 percent male—looks a lot different than that of the overall U.S. population.
- An aging population dramatically affects the pipeline of entrepreneurs, and the slow labor for growth associated with it is connected to the long-term decline in entrepreneurial dynamism in the United States.
- Certain demographic groups are consistently under-represented in the entrepreneurial economy, leaving major gaps in the market. Minorities own half as many

businesses as non-minorities do, and their businesses start smaller and stay smaller.

- These gaps cost the country. In fact, if minorities started and owned businesses at the same rate as non-minorities do, the United States would have more than 1 million additional employer businesses and approximately an extra 9.5 million jobs in the economy.
- Regardless of race, women are half as likely as men to own employer businesses. Though not a new trend, the persistent gender business gap costs the United States 1.7 million additional businesses.
- Adults without formal education—regardless of race—are much less likely to be entrepreneurs than their educated counterparts. Adults without high school degrees make up 11.6 percent of the population, but only 3.4 percent of entrepreneurs.

#### 2) New Map of Entrepreneurship

- Entrepreneurial activity seems to be increasingly happening beyond the stereotypical entrepreneurial hubs of places like Silicon Valley and Boston—although the distribution is not even, and many areas are falling behind.
- Venture capital is more distributed than it was in the 1980s. Metros like Charlotte and Memphis are leading places for new forms of entrepreneurial financing like crowdfunding, and metros in the middle of the country, like St. Louis, are experiencing an entrepreneurial boom.
- Entrepreneurship is an increasingly urban phenomenon and, while it seems like mid-sized metros like Kansas City are winning, places like rural Kansas are losing.
- In 1977, more than two out of every ten U.S. startups were in rural areas. Today, this number is just over one in every ten. A major reason for this is that the U.S. population is less rural and more urban, but the circumstances are even more pronounced when you look at new firms: the percent of startups in rural communities has dropped from 20 percent in the 1980s to 12.2 percent today.

#### 3) New Nature of Entrepreneurship

- Entrepreneurial companies create jobs, wealth, and innovation. This is true today, and it has been true for decades. Yet, technology has made the activity of starting and scaling up inherently different than it used to be.
- In the past, as companies scaled their revenue, jobs could scale at a similar pace. Today, thanks to the leveraging potential of technology, revenue and value creation can take off dramatically while job growth lags behind. Example: When Kodak first reached \$1 billion in sales, the company employed 75,000. When Facebook reached the

same scale in today's dollars, it only employed 6,300 people.

- At the same time, new industries open and entrepreneurial opportunities become more widely accessible through platforms that lower barriers to entry—think of Airbnb or Etsy, for example.

## Zero Barriers to Startup

Despite encouraging data and promising trends, not all Americans are experiencing the benefits of entrepreneurial growth or have the same access to entrepreneurial opportunities.

The Foundation's founder, Ewing Marion Kauffman, believed that individuals have a fundamental right to take an idea they have and turn that into a business. People shouldn't need a formal degree. They shouldn't need consultants to navigate the process. It shouldn't matter what your race is, your gender, or where you live. Anyone should be able to do it fast, without confusion, and for free,

without any artificial barriers imposed by others. Entrepreneurship is something that should be available to all—not just to those with money, connections, or expertise.

There is a big gap between today's world and a future in which zero barriers to start a business are a reality. At the same time, these mega trends—affecting the demographics, geography, and nature of entrepreneurship—are causing fundamental shifts, and entrepreneurs need supportive communities to turn ideas into businesses and create jobs. As the engine of job creation in America, startups are too important to our economy to allow obstacles to persist.

To empower more entrepreneurs to pursue their ambitions, the Kauffman Foundation is launching a collaborative, nationwide effort called Zero Barriers to Startup. The Foundation will collaborate with entrepreneurs, policymakers, and others in the entrepreneurial community to first identify barriers and then work with these same groups to develop solutions.

Watch for more Zero Barriers details at [www.Entrepreneurship.org](http://www.Entrepreneurship.org).

## The State of Entrepreneurship Today

The state of entrepreneurship is improving. Overall entrepreneurial outcome indicators have gone up, job creation by new establishment is on an uptick, and optimism among small business owners has surged.<sup>1</sup>

At the Kauffman Foundation, we assess the state of entrepreneurship according to three broad measures that capture the lifecycle of entrepreneurship—from starting a business, to

operating a small firm, to growing that business. Across all three of these measures, entrepreneurship is on the rise.

Startup activity is up, with more people becoming new entrepreneurs and starting more opportunity-driven businesses than they did in the recent past. Main Street entrepreneurship has reached a near-two-decade high, with more and more businesses surviving their first five years of operation. Growth entrepreneurship is, well, growing—and new companies are gaining more traction and reaching scale at higher rates than they did in recent years.<sup>2</sup>

### The State of Entrepreneurship Today



SOURCE: 2016 Kauffman Index of Startup Activity, Main Street Entrepreneurship and Growth Entrepreneurship

1. Arnobio Morelix, "Startup Activity has Rebounded in the U.S. Here is Why," *LinkedIn*, August 4, 2016, at <https://www.linkedin.com/pulse/startup-activity-has-rebounded-us-here-why-arnobio-morelix>.

Vince Golle, "U.S. Small-Business Activity Surges by Most Since 1980," *Bloomberg*, January 10, 2017, at <https://www.bloomberg.com/news/articles/2017-01-10/u-s-small-business-optimism-index-surges-by-most-since-1980>.

2. Kauffman Index of Entrepreneurship Series, at <http://www.kauffman.org/microsites/kauffman-index>.

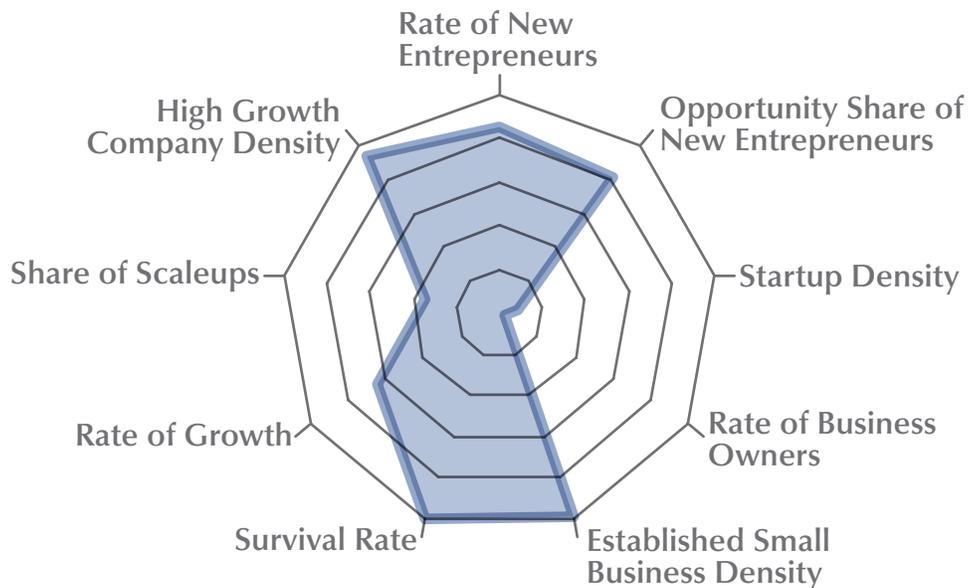
This recovery is not exclusive to these entrepreneurship indicators. We see this overall economic improvement, for instance, in the sizeable increase of middle-class incomes—a first after years of stagnated earnings.<sup>3</sup>

Yet, beneath this surface, the state of entrepreneurship is going through dramatic changes. While the recent recovery is strong on the aggregate, some indicators are still below their pre-recession peak,

and entrepreneurial dynamism remains in a decades-long decline.<sup>4</sup>

Below, we share national findings about each of the three aspects of entrepreneurship tracked in three annual Kauffman indices: Startup Activity, Main Street Entrepreneurship, and Growth Entrepreneurship. For more details on each, including state and metro-level statistics as well as data and methodology, visit [www.kauffmanindex.org](http://www.kauffmanindex.org).

## Kauffman Index of Entrepreneurship 2016 United States

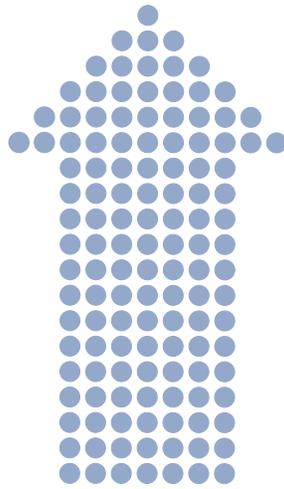


The closer an indicator is to the outer boundary, the closer it is to the historical highs in the United States.

SOURCE: 2016 Kauffman Index of Startup Activity, Main Street Entrepreneurship, and Growth Entrepreneurship

3. Alex Rowell and David Madland, "New Census Data Show Middle-Class Income Rising—But More Work to Be Done," September 13, 2016, at <https://www.americanprogress.org/issues/economy/news/2016/09/13/144045/new-census-data-show-middle-class-incomes-rising-but-more-work-to-be-done/>.

4. Kauffman Index of Entrepreneurship Series, at <http://www.kauffmanindex.org/microsites/kauffman-index>.



# startup activity

Kauffman Index of Startup Activity (1997–2016)



SOURCE: Authors' calculations using the CPS and the BDS. For an interactive version, please see: [www.kauffmanindex.org](http://www.kauffmanindex.org).

2016 THE KAUFFMAN INDEX  
startup activity



Rate of New Entrepreneurs



Opportunity Share of New Entrepreneurs



Startup Density



The 2016 Startup Activity Index rose in 2016, continuing an upward trend started in 2015. After falling with the recession and reaching its lowest point in the last twenty years just two years ago, startup activity rebounded, going up for the second year in a row. The recovery of startup activity has been fueled by more people entering entrepreneurship out of opportunity rather than necessity. The Opportunity Share of New Entrepreneurs, the proportion of new entrepreneurs driven primarily by opportunity rather than necessity, reached 84 percent in 2015.<sup>5</sup> This is more than ten percentage points higher than the opportunity share experienced at the depths of the recession, suggesting an increase in market opportunity. Similarly, the

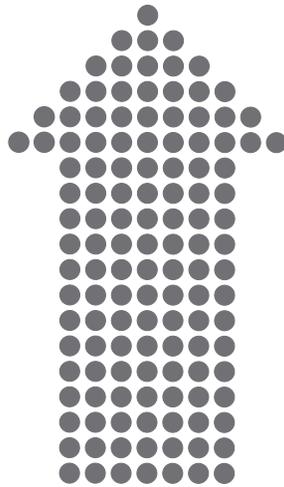
Rate of New Entrepreneurs, calculated as the percentage of adults becoming entrepreneurs in a given month, has increased by more than 15 percent in the last two years.<sup>6</sup>

Yet, concerns remain. While more people are becoming entrepreneurs, startup activity is still lower today than it was before the recession. And, there are fewer startups with employees today than there were in the past. In fact, U.S. startup density, measured as the number of new employer businesses normalized by the total business population, has been stuck roughly 20 percent lower than pre-Great Recession levels for the last four years and has trended downward for some time.<sup>7</sup>

5. Necessity entrepreneurs defined as new entrepreneurs who were previously unemployed and looking for a job. *2016 Kauffman Index of Startup Activity, National Trends*. The rate is calculated from data from the Current Population Survey (CPS), a monthly survey conducted by the U.S. Bureau of the Census and the Bureau of Labor Statistics.

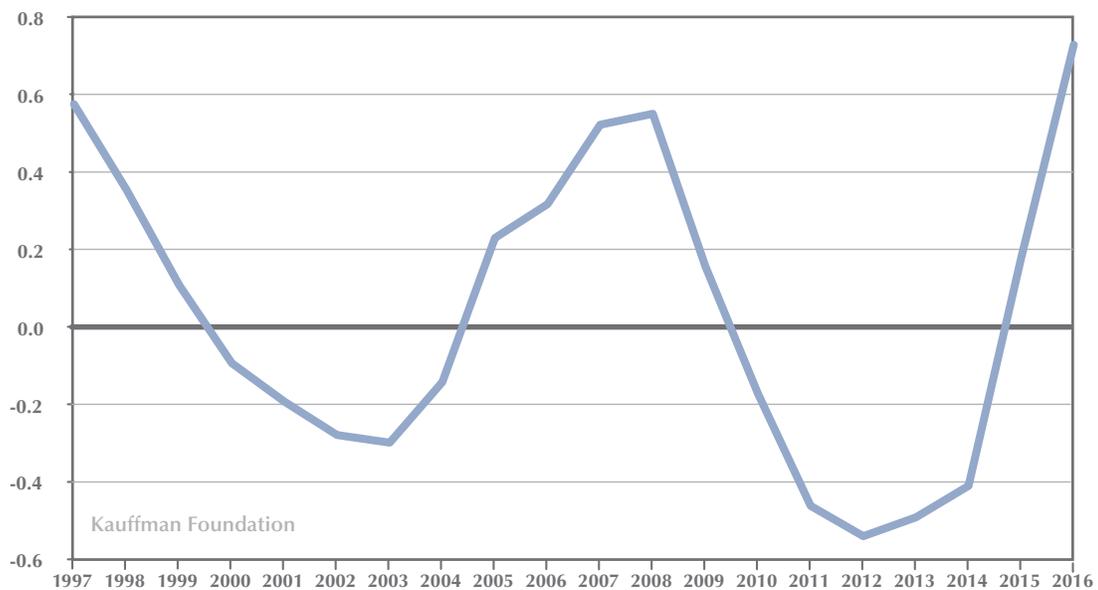
6. Also calculated using the Current Population Survey (CPS) data.

7. The underlying data comes from the U.S. Census Business Dynamics Statistics (BDS) and is taken from the universe of businesses with payroll tax records in the United States, as recorded by the Internal Revenue Service—a dataset that covers approximately five million businesses.



# mainstreet entrepreneurship

Kauffman Index of Main Street Entrepreneurship (1997–2016)



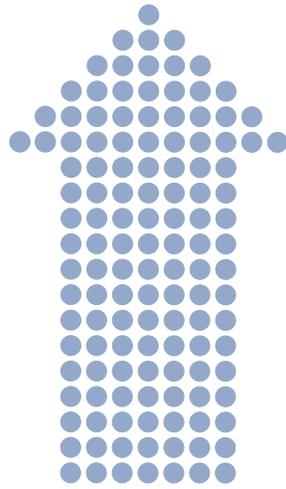
SOURCE: Authors' calculations using the CPS and BDS. For an interactive version, please see: [www.kauffmanindex.org](http://www.kauffmanindex.org).



In 2016, for the first time, the Main Street Entrepreneurship Index rose, finally surpassing the peak that preceded the Great Recession. Main Street Entrepreneurship is an indicator of the number of established small businesses, the five-year survival rates of businesses, and the number of business owners in a location. Established businesses with fewer than fifty employees make up almost

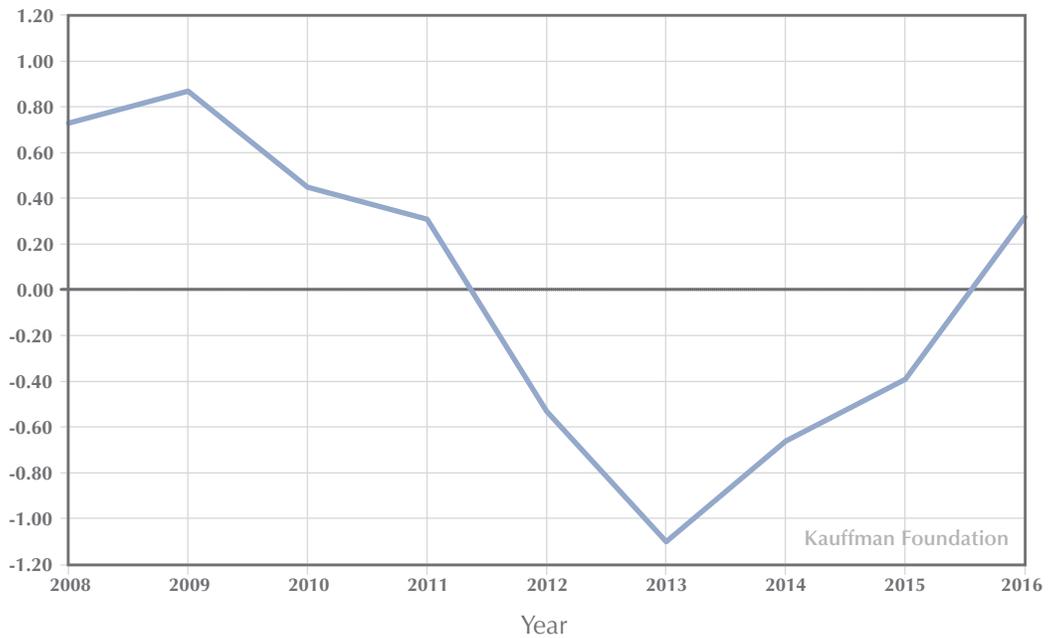
68 percent of all employer firms in the United States and are a source of local economic activity.<sup>8</sup> This recent year's increase was primarily driven by a sharp uptick in the five-year survival rates of businesses, as well as modest increases in the density of established small businesses.

8. Authors' calculations from the U.S. Census Bureau's Business Dynamics Statistics.

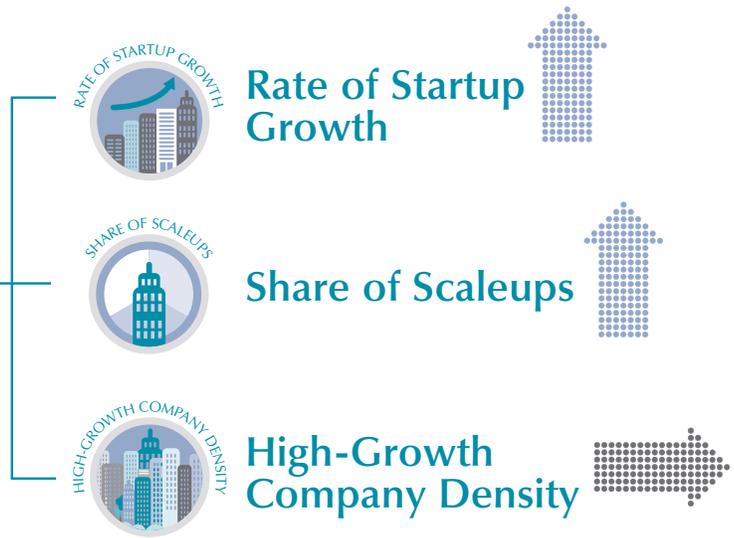


# growth entrepreneurship

Kauffman Index of Growth Entrepreneurship (2008–2016)



SOURCE: Authors' calculations using the BDS and Inc. 500|5000 data. For an interactive version, please see: [www.kauffmanindex.org](http://www.kauffmanindex.org).



The Growth Entrepreneurship Index registered the largest year-over-year increase in the last decade and continued an upward trend that started in 2014. This indicates that business growth in America is finally being seen more broadly in the success of younger entrepreneurial firms. Over approximately the past decade, the Growth Entrepreneurship Index generally has followed the business cycle, but with a slight time lag to the full business cycle. Growth Entrepreneurship was high leading up to the Great Recession and fell for some time after the business cycle began to recover—with its lowest level of activity measured in 2013. The rise in growth

entrepreneurship is largely driven by an increase in the rate of startup growth—how much new firms grow their team size in the first five years of operation—and an uptick in high-growth company density—a measure of high-growth companies by revenue in the United States. Entrepreneurial growth remains a rare phenomenon—most companies do not grow or intend to grow. However, the increase in the Growth Entrepreneurship Index in 2016 was large and indicates a broad-based return of growth across young and older firms in the United States.

# Three Mega Trends Reshaping the State of Entrepreneurship in America

## A Look at the Future of the Entrepreneurial Economy

While in the previous section we looked at the state of entrepreneurship today, this section looks ahead: what the future of the entrepreneurial economy might look like.

When thinking about this future and evaluating the data and research, some major shifts happening in the United States became clear—more specifically, three major trends are reshaping entrepreneurship. These shifts exist today, and we believe their impact will increase in the future.

These mega trends we posit affecting entrepreneurship in America are:

### 1) New Demographics of Entrepreneurship

- The U.S. population is increasingly older and more racially diverse. By 2050, three out of every ten U.S. adults will be past the traditional retirement age, and more than half of the U.S. population will be from racial minority backgrounds.
- Yet, changes in the composition of America's population are not yet fully reflected in the composition of our nation's entrepreneurial population. This means that the portrait of U.S. entrepreneurs—80.2 percent white and 64.5 percent male—looks a lot different than that of the overall U.S. population.
- An aging population dramatically affects the pipeline of entrepreneurs, and the slow labor for growth associated with it is connected to the long-term decline in entrepreneurial dynamism in the United States.
- Certain demographic groups are consistently under-represented in the entrepreneurial economy, leaving major gaps in the market. Minorities own half as many businesses as non-minorities do, and their businesses start smaller and stay smaller.
- These gaps cost the country. In fact, if minorities started and owned businesses at the same rate as non-minorities do, the United States would have more than 1 million additional employer businesses and approximately an extra 9.5 million jobs in the economy.
- Regardless of race, women are half as likely as men to own employer businesses. Though not a new trend, the persistent gender business gap costs the United States 1.7 million additional businesses.
- Adults without formal education—regardless of race—are much less likely to be entrepreneurs than their educated counterparts. Adults without high school degrees make up 11.6 percent of the population, but only 3.4 percent of entrepreneurs.

### 2) New Map of Entrepreneurship

- Entrepreneurial activity seems to be increasingly happening beyond the stereotypical entrepreneurial hubs of places

like Silicon Valley and Boston—although the distribution is not even, and many areas are falling behind.

- Venture capital is more distributed than it was in the 1980s. Metros like Charlotte and Memphis are leading places for new forms of entrepreneurial financing like crowdfunding, and metros in the middle of the country, like St. Louis, are experiencing an entrepreneurial boom.
- Entrepreneurship is an increasingly urban phenomenon and, while it seems like mid-sized metros like Kansas City are winning, places like rural Kansas are losing.
- In 1977, more than two out of every ten U.S. startups were in rural areas. Today, this number is just over one in every ten. A major reason for this is that the U.S. population is less rural and more urban, but the circumstances are even more pronounced when you look at new firms: the percent of startups in rural communities has dropped from 20 percent in the 1980s to 12.2 percent today.

### 3) New Nature of Entrepreneurship

- Entrepreneurial companies create jobs, wealth, and innovation. This is true today, and it has been true for decades. Yet, technology has made the activity of starting and scaling up inherently different than it used to be.
- In the past, as companies scaled their revenue, jobs could scale at a similar pace. Today, thanks to the leveraging potential of technology, revenue and value creation can take off dramatically while job growth lags behind. Example: When Kodak first reached \$1 billion in sales, the company employed 75,000. When Facebook reached the same scale in today's dollars, it only employed 6,300 people.
- At the same time, new industries open and entrepreneurial opportunities become more widely accessible through platforms that lower barriers to entry—think of Airbnb or Etsy, for example.

These fundamental shifts present major challenges and opportunities. For each of these, the Kauffman Foundation is working on initiatives to design a better future for entrepreneurship in America.

We focus here on how these three mega trends are reshaping entrepreneurship in America. But versions of them are happening, one way or the other, all over the world.

## New Demographics of Entrepreneurship

The first mega trend shaping the future of entrepreneurship in America has to do with demographics. Demographic change is, in many ways, destiny—and U.S. demographics are undergoing a dramatic shift as the population becomes older and more racially diverse.

Yet, changes in the composition of America's population are not yet fully reflected in the composition of our nation's entrepreneurial population. This means that the portrait of U.S. entrepreneurs—80.2 percent white and 64.5 percent male—looks a lot different than that of the overall U.S. population.

Certain demographic groups are consistently under-represented in the entrepreneurial economy, leaving major gaps in the market. Because of these market gaps, the economy as a whole suffers.

There are two key drivers behind the New Demographics of Entrepreneurship in America—the aging of the population and the growing diversity numbers in the United States.

## Aging and Depopulation

By 2050, three out of every ten U.S. adults will be past the traditional retirement age, compared to 19 percent today.<sup>9</sup> The U.S. population is aging, and that has important implications for entrepreneurship.

While older adults are living and working longer than they did in the past, they still have to eventually retire.<sup>10</sup> And the fact that more and more Americans will be of retirement age affects the pipeline of entrepreneurs in the nation.

Some researchers find suggestive evidence that the aging of the United States population and its corresponding role in slow labor force growth is a big driver behind the decline in entrepreneurial dynamism in the nation.<sup>11</sup> In addition, population growth is associated

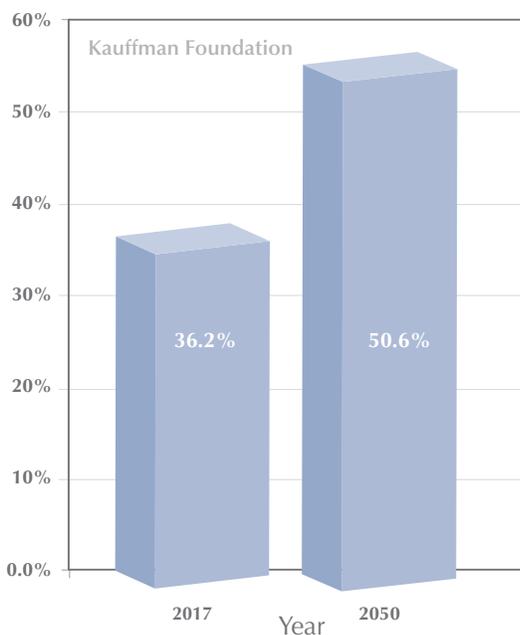
with economic growth; as some highlight, a world in which we are going through depopulation may not be far off.<sup>12</sup>

## Diversity Nation and the Entrepreneurship Diversity Gap

The United States is an increasingly racially diverse nation. By 2050, more than half of the U.S. population will be from racial minority backgrounds, up from 36 percent today.<sup>13</sup>

We already see this demographic shift shaping the face of entrepreneurship in America. U.S. startups are significantly more diverse than they were twenty years ago. Almost 40 percent of the newest of the new entrepreneurs—those in their first month of operation, with or without revenue or employees—are from racially diverse backgrounds, up from 23 percent in 1996.<sup>14</sup> However, we do not yet see this level of change among larger businesses—for instance, among employer businesses with million-dollar revenues

### Percent of U.S. Adults from Racial Minority Backgrounds



By 2050,  
over half of  
U.S. adults  
will be from  
a racial  
minority  
backgrounds

SOURCE: Arnobio Morelix, Kauffman Foundation calculations from U.S. Census Bureau Population Projections

9. Arnobio Morelix, Kauffman Foundation, calculations from Census Bureau, Table 6 (NP2014-T6.xls), Percent Distribution of the Projected Population by Sex and Selected Age Groups for the United States: 2015 to 2060.

2016 Kauffman Index of Startup Activity, at <http://www.kauffman.org/microsites/kauffman-index/reports/startup-activity>.

10. 2016 Kauffman Index of Startup Activity, at <http://www.kauffman.org/microsites/kauffman-index/reports/startup-activity>.

11. Benjamin Pugsley, et al., "Understanding the 30-year Decline in the Startup Rate: a General Equilibrium Approach," May 2015, at [http://www.hec.ca/iea/chaieres\\_groupes\\_recherche/macromontreal/conferences/20150602\\_Aysegul\\_Sahin.pdf](http://www.hec.ca/iea/chaieres_groupes_recherche/macromontreal/conferences/20150602_Aysegul_Sahin.pdf).

12. Philip Auerswald and Joon Yun, "Depopulation: An Investor's Guide to Value in the Twenty-First Century," 2015, Amazon Kindle, at <https://www.amazon.com/Depopulation-Investors-Guide-Twenty-First-Century-ebook/dp/B00SW9JAHU>.

13. Arnobio Morelix, Kauffman Foundation, calculations from U.S. Census Bureau Population Projections [NP2014\_D1.csv].

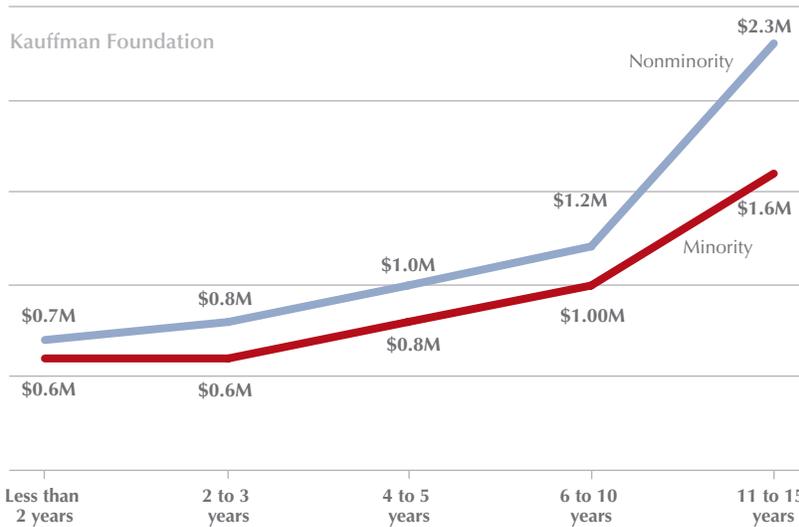
14. 2016 Kauffman Index of Startup Activity, at <http://www.kauffman.org/microsites/kauffman-index/reports/startup-activity>.

or more.<sup>15</sup> While minorities make up more than 35 percent of the population, they own less than 20 percent of employer businesses and only 17.4 percent of million-dollar-or-more-revenue businesses.<sup>16</sup>

In fact, minority-owned companies start smaller and stay smaller, and the gap is not only in ownership or startups. While the startup gap is narrowing, the scaleup gap is huge.

## Scaleup Gap: Minority-Owned Businesses Start Smaller and Stay Smaller

Average Annual Revenue by Size Category from Employer Businesses in Operation in 2014



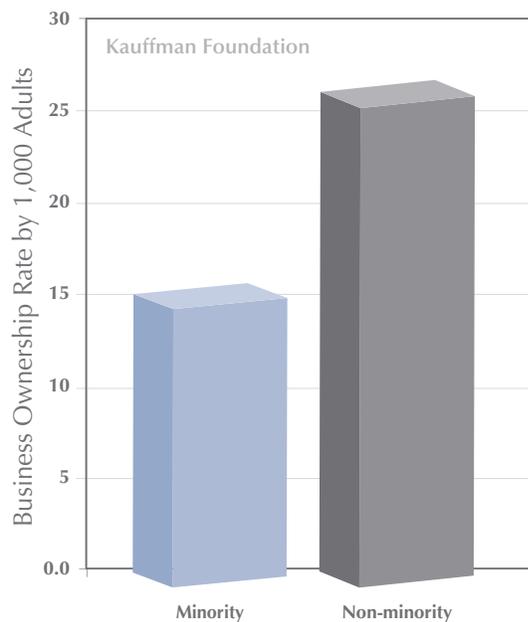
While the average size of mature non-minority-owned businesses is \$2.3 million in annual revenue, the average size of minority-owned businesses is only \$1.6 million at the same age.

SOURCE: Arnobio Morelix, Kauffman Foundation calculations from U.S. Census Bureau Annual Survey of Entrepreneurs

## The Missing Million and the Entrepreneurship Diversity Gap

How much does this entrepreneurship diversity gap cost the country? It already costs the United States approximately 1.2 million businesses and 9.5 million jobs. **This means that, if minorities started and owned businesses at the same rate as non-minorities do, the United States would have more than 1 million additional employer businesses and as much as an extra 9.5 million jobs in the economy, all else being equal.**<sup>17</sup>

## Entrepreneurship Diversity Gap



Non-minorities are twice as likely as minorities to own employer businesses in the United States.

SOURCE: Arnobio Morelix, Kauffman Foundation calculations from U.S. Census Bureau Population Projections

15. 2016 Kauffman Index of Startup Activity, at <http://www.kauffman.org/microsites/kauffman-index/reports/startup-activity>.

16. Arnobio Morelix, Kauffman Foundation, calculations from Census Bureau, Annual Survey of Entrepreneurs (2014). Figures include companies with both primary ownership stakes by minorities and businesses equally owned by minorities and non-minorities.

17. Authors' calculations from U.S. Census Bureau Population Projections and Annual Survey of Entrepreneurs. Estimated range of between 1.17M and 1.20M firms and 8.92M and 10.18M jobs.

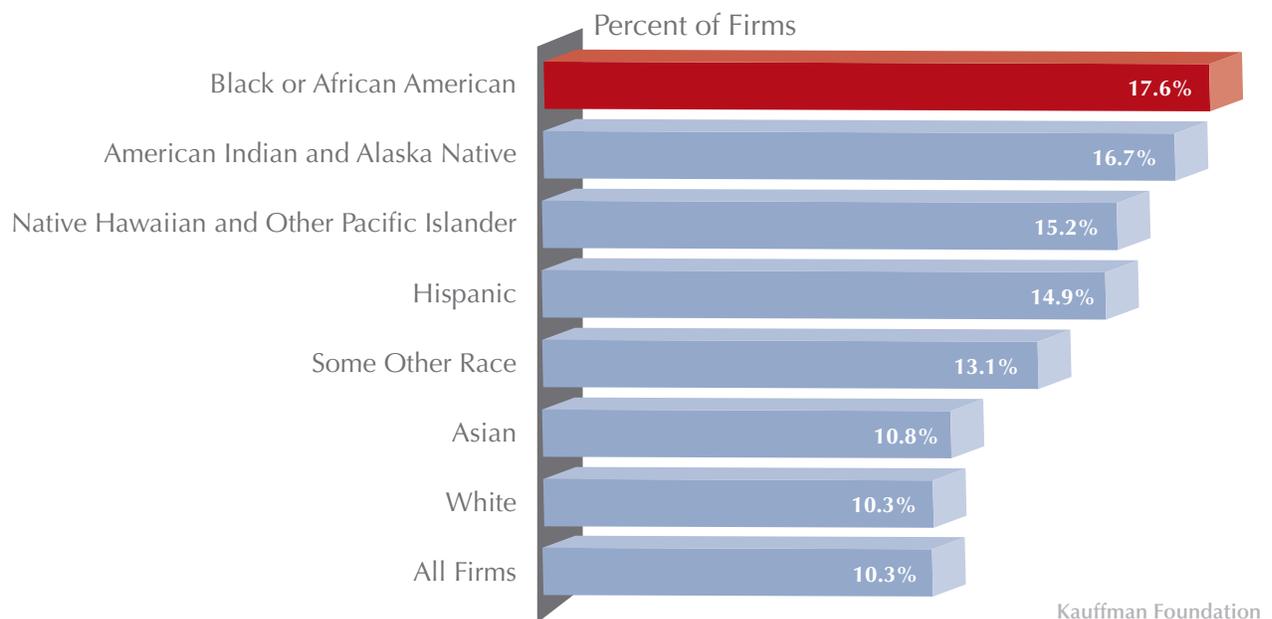
## An Opportunity and Empowerment Divide

There are major gaps in the market, and we believe they represent primarily an opportunity and empowerment divide in the nation. The

playing field is not level, and certain groups face persistent barriers to startup at higher levels than others do.<sup>18</sup>

For instance, take these facts about cost of capital and startup financing into account:<sup>19</sup>

### Black entrepreneurs rely the most on credit cards to fund new companies or acquire existing ones.



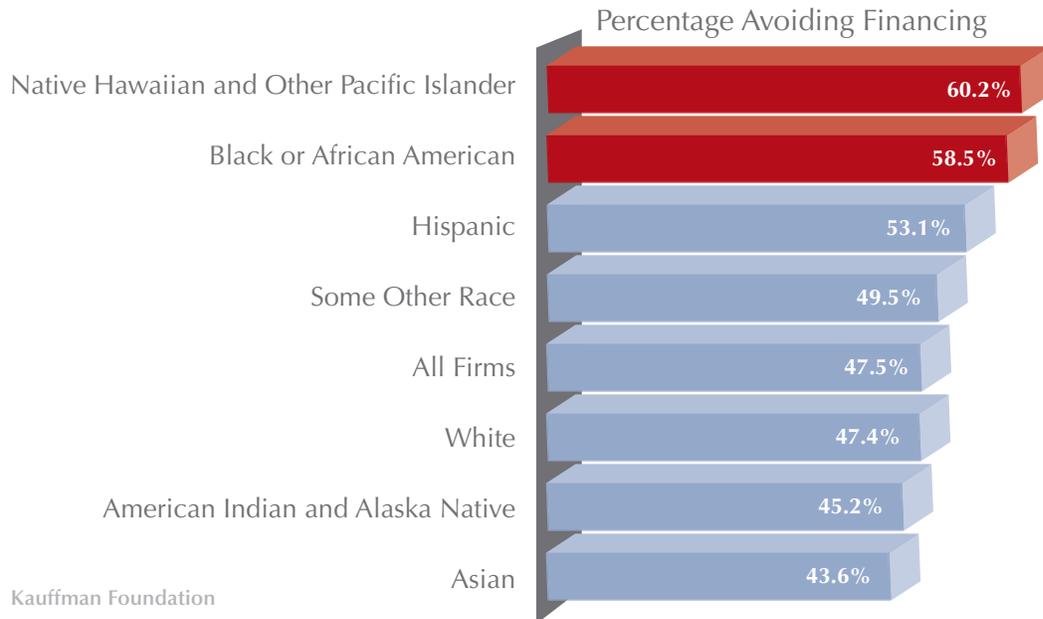
Source: Kauffman Foundation calculations from the Census Bureau, Annual Survey of Entrepreneurs (2014)

18. Aaron K. Chatterji and Robert C. Seamans, "Entrepreneurial Finance, Credit Cards, and Race," *Journal of Financial Economics*, September 1, 2011, at [https://faculty.fuqua.duke.edu/~ronnie/bio/JFE\\_ChatterjiSeamans](https://faculty.fuqua.duke.edu/~ronnie/bio/JFE_ChatterjiSeamans).

Alex Krause and Emily Fetsch, "Labor After Labor," May 2016, at [http://www.kauffman.org/~media/kauffman\\_org/research%20reports%20and%20covers/2016/labor\\_after\\_labor\\_may3b.pdf](http://www.kauffman.org/~media/kauffman_org/research%20reports%20and%20covers/2016/labor_after_labor_may3b.pdf).

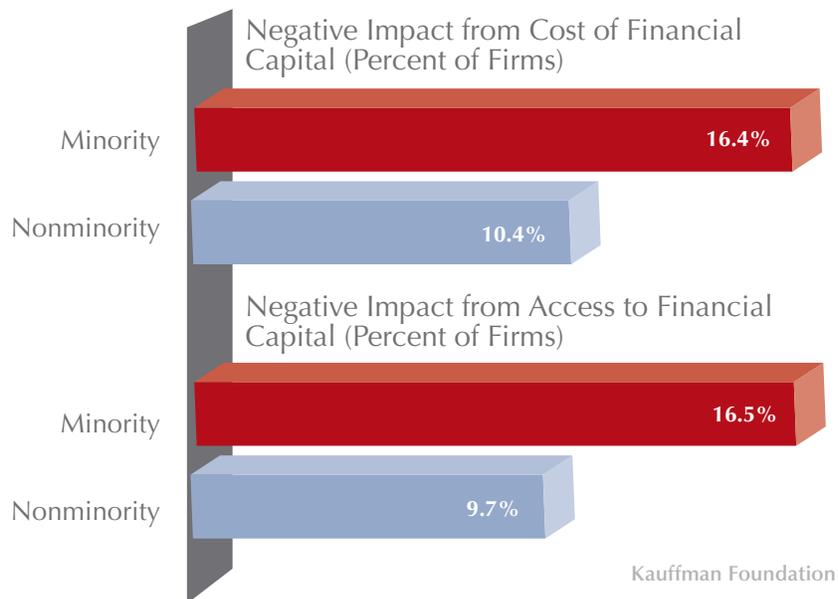
19. Alicia Robb and Arnobio Morelix, "Startup Financing Trends by Race: How Access to Capital Impacts Profitability," October 2016, at [http://www.kauffman.org/~media/kauffman\\_org/research%20reports%20and%20covers/2016/ase\\_brief\\_startup\\_financing\\_by\\_race.pdf](http://www.kauffman.org/~media/kauffman_org/research%20reports%20and%20covers/2016/ase_brief_startup_financing_by_race.pdf).

About six in ten Native Hawaiian and Black entrepreneurs who did not seek additional financing despite needing it did so because they thought the business loan would not be approved by a lender.



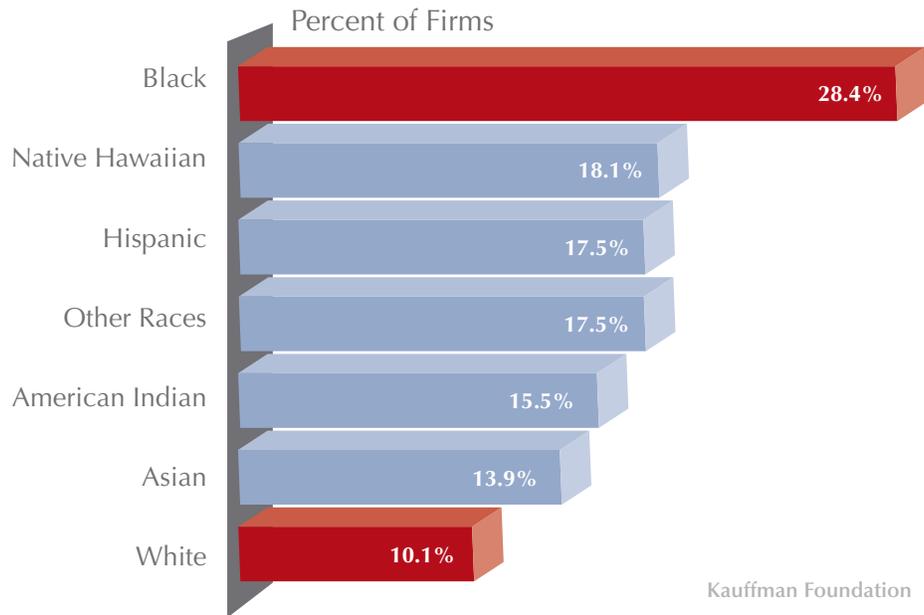
Source: Kauffman Foundation calculations from the Census Bureau, Annual Survey of Entrepreneurs (2014)

Sixteen percent of minority-owned businesses report profits being negatively impacted by lack of access to and cost of capital, compared to only about 10 percent of nonminority-owned businesses in the same period. Black entrepreneurs in particular, are most affected.



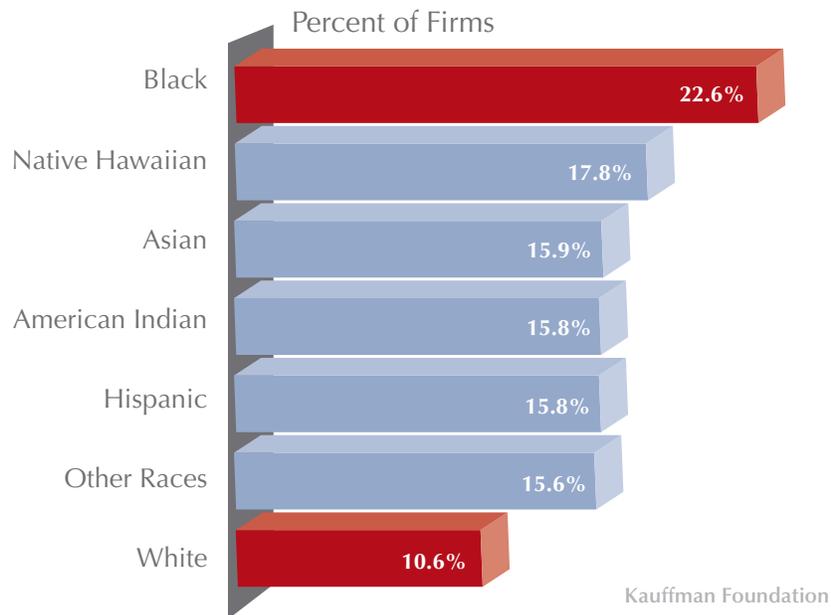
Source: Kauffman Foundation calculations from the Census Bureau, Annual Survey of Entrepreneurs (2014)

## Black entrepreneurs are almost three times more likely than whites to have profits negatively impacted by access to capital.



Source: Kauffman Foundation calculations from the Census Bureau, Annual Survey of Entrepreneurs (2014)

## Black entrepreneurs are more than twice as likely to be negatively impacted by cost of capital.



Source: Kauffman Foundation calculations from the Census Bureau, Annual Survey of Entrepreneurs (2014)

While we do not fully know why these are the case, we believe we should make changes to improve the environment for all groups of entrepreneurs.

In this report, we focused on the aging population and the racial diversity component of the opportunity divide. We focused on these because they are the major demographic shifts underway now. But the opportunity divide goes way beyond just racial minorities—for instance, it includes females and whites from disadvantaged backgrounds. **The startup gender gap remains large, and adults without formal education—regardless of race—are much less likely to be entrepreneurs than are their educated counterparts.**<sup>20</sup> **Adults without high school degrees make up 11.6 percent of the population, but only 3.4 percent of entrepreneurs.**<sup>21</sup>

Closing this entrepreneurship diversity gap will be a major priority for Kauffman in what we call our market gaps strategy. To tackle this, we have launched initiatives like the Kauffman Inclusion Challenge, which awarded \$4.3 million in 2016 to twelve outstanding national organizations that are trying new ways to address systemic gaps for women and minority entrepreneurs.<sup>22</sup> We will expand this work in years to come, targeting other barriers, working with a variety of partners, and experimenting with new techniques.

## New Map of Entrepreneurship

The second mega trend has to do with geography. There is a new map of entrepreneurship in America—manifested in two major ways.

**First, entrepreneurial activity seems to be increasingly happening beyond the stereotypical entrepreneurial hubs of places like Silicon Valley and Boston.** Practitioners like entrepreneur and investor Steve Case documents this change, labeling it the “rise of the rest.”<sup>23</sup>

**Second, entrepreneurship is increasingly an urban phenomenon.** There are increasingly fewer startups in rural parts of America. Moreover, while many mid-size metros are doing well, smaller metros are registering low rates of firm formation.

## A New Geography of Entrepreneurship

Startup activity and growth entrepreneurship are not a monopoly of the “expected” entrepreneurial hubs in places like Silicon Valley, Boston, and New York. At least not anymore.

Venture capital is more distributed than it was in the 1980s. Metros like Charlotte and Memphis are leading places for new forms of entrepreneurial financing like crowdfunding, and metros in the middle of the country, like St. Louis, are experiencing an entrepreneurial boom.<sup>24</sup>

The geographical diversity of entrepreneurship in America is particularly obvious when we look at entrepreneurial outcomes such as the ones tracked in the Kauffman Index of Growth Entrepreneurship. The metros with the highest levels of activity relative to their size in the most recent report are Washington, D.C.; Austin, TX; San Jose, CA—usually considered the heart of Silicon Valley; Columbus, OH; and Nashville, TN (see map on page 19).

A look at places with the highest density of IPOs in the nation tells another angle of the same story: while the “traditional” entrepreneurial hubs of Silicon Valley and Boston continue to do incredibly well in entrepreneurial activity, they do not hold a monopoly on it. And mid-size metros from all over the country are being able to do well—even though the smallest metros do not have as favorable outlook.<sup>25</sup> (See table on page 19).

As Steve Case notes: “In recent years, if an entrepreneur wanted to start a software company, he or she would probably be better off by moving to Silicon Valley or Boston. That’s changing.”

“A startup wanting to revolutionize agriculture may find fertile ground in the Midwest. A company looking to disrupt healthcare may want to settle in Nashville.”<sup>26</sup> This shift in the geography of entrepreneurship means that startups and scaleups can become increasingly present in places where they were not expected before. And, while we do not fully know why this could be happening, the affordability of cities can give us some clues.

20. Alex Krause and Emily Fetsch, “Labor After Labor,” May 2016, at [http://www.kauffman.org/~media/kauffman\\_org/research%20reports%20and%20covers/2016/labor\\_after\\_labor\\_may3b.pdf](http://www.kauffman.org/~media/kauffman_org/research%20reports%20and%20covers/2016/labor_after_labor_may3b.pdf). 2016 Kauffman Index of Startup Activity, Entrepreneurial Demographics Profiles, at <http://www.kauffman.org/microsites/kauffman-index/reports/startup-activity>.

21. Educational Attainment in the United States: 2015, 2015 Current Population Survey, U.S. Census Bureau, at <http://www.census.gov/content/dam/Census/library/publications/2016/demo/p20-578.pdf>.

Arnobio Morelix, Kauffman Foundation, calculations from U.S. Census Bureau, Annual Survey of Entrepreneurs (2014).

22. Victor Hwang, “Kauffman Foundation: New Year, New Strategy, New Team,” *LinkedIn*, January 2, 2017, at <https://www.linkedin.com/pulse/kauffman-foundation-new-year-strategy-team-victor-hwang>.

23. Steve Case, “The Third Wave: An Entrepreneur’s Vision of the Future,” New York: Simon & Schuster, April 5, 2016.

24. Richard Florida, “America’s Leading Metros for Venture Capital,” June 17, 2013, at <http://www.citylab.com/work/2013/06/americas-top-metros-venture-capital/3284/>.

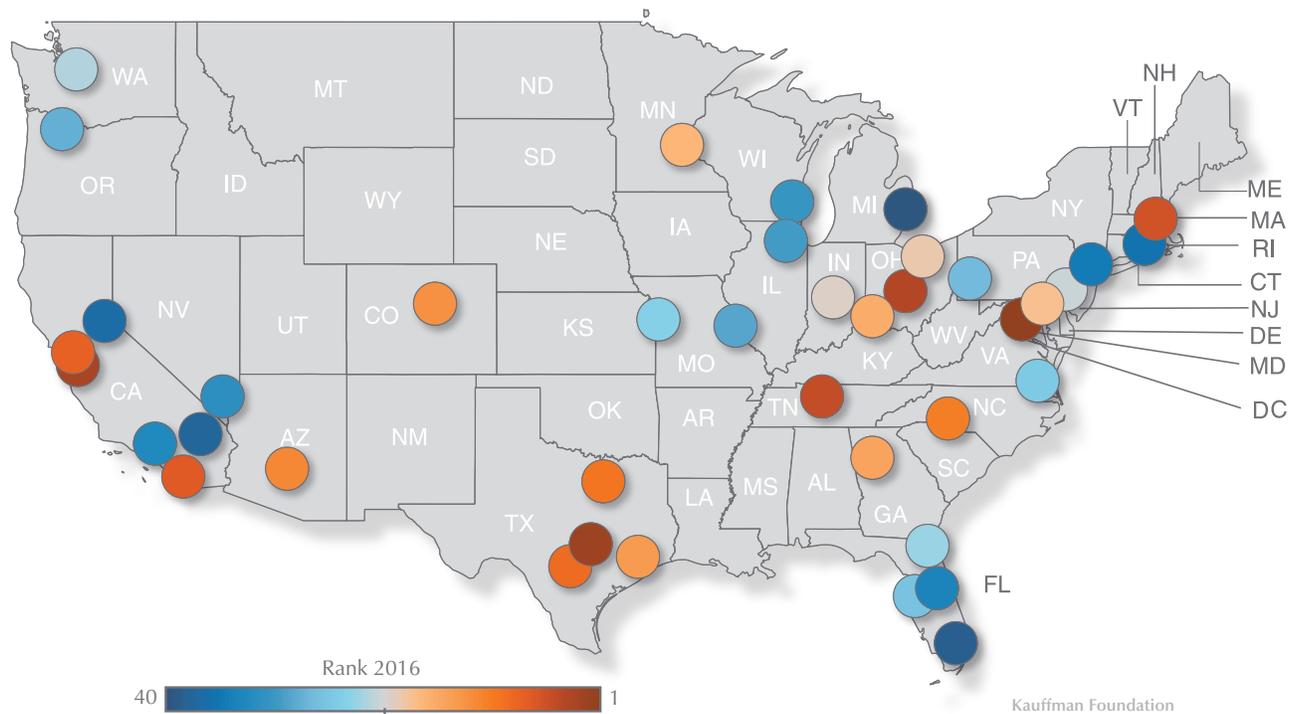
Dane Stanger, Inara Tareque, and Arnobio Morelix, “Trends in Venture Capital, Angel Investments, and Crowdfunding across the Fifty Largest U.S. Metropolitan Areas,” December 2016, at [http://www.kauffman.org/~media/kauffman\\_org/research%20reports%20and%20covers/2016/ase%20briefing%201216\\_final.pdf](http://www.kauffman.org/~media/kauffman_org/research%20reports%20and%20covers/2016/ase%20briefing%201216_final.pdf).

Dane Stangler and Colin Tomkins-Bergh, “St. Louis, Entrepreneurial Boomtown,” 2016, at <http://washingtonmonthly.com/magazine/junejulyaug-2016/st-louis-entrepreneurial-boomtown/>.

25. Kenan Fikri, John Lettieri, and Angela Reyes, “Dynamism in Retreat: Consequences for Regions, Markets, and Workers,” February 2017, at <http://eig.org/wp-content/uploads/2017/02/Dynamism-in-Retreat.pdf>.

26. Foreword, 2016 Kauffman Index of Growth Entrepreneurship, at [http://www.kauffman.org/~media/kauffman\\_org/microsites/kauffman\\_index/growth/kauffman\\_index\\_growth\\_entrepreneurship\\_metro\\_report\\_6\\_2016.pdf](http://www.kauffman.org/~media/kauffman_org/microsites/kauffman_index/growth/kauffman_index_growth_entrepreneurship_metro_report_6_2016.pdf).

## 2016 Metropolitan Area Rankings for the Kauffman Index of Growth Entrepreneurship



For an interactive version of the map, please see: [www.kauffmanindex.org](http://www.kauffmanindex.org)

### Top Metros by Emerging Growth IPO Density in 2015— Kauffman Index of Growth Entrepreneurship

Rank	City (Main)	Metropolitan Area	Number of IPOs	IPO Density
1	San Jose	San Jose-Sunnyvale-Santa Clara, CA	7	19.7
2	San Francisco	San Francisco-Oakland-Fremont, CA	16	17.9
3	Boston	Boston-Cambridge-Quincy, MA-NH	15	16.6
4	San Diego	San Diego-Carlsbad-San Marcos, CA	5	8.9
5	Nashville	Nashville-Davidson-Murfreesboro-Franklin, TN	2	7.5
6	Dallas	Dallas-Fort Worth-Arlington, TX	4	4.0
7	Washington	Washington-Arlington-Alexandria, DC-VA-MD-WV	4	4.0
8	Denver	Denver-Aurora-Broomfield, CO	2	3.8
9	Cincinnati	Cincinnati-Middletown, OH-KY-IN	1	3.2
10	Charlotte	Charlotte-Gastonia-Rock Hill, NC-SC	1	3.2

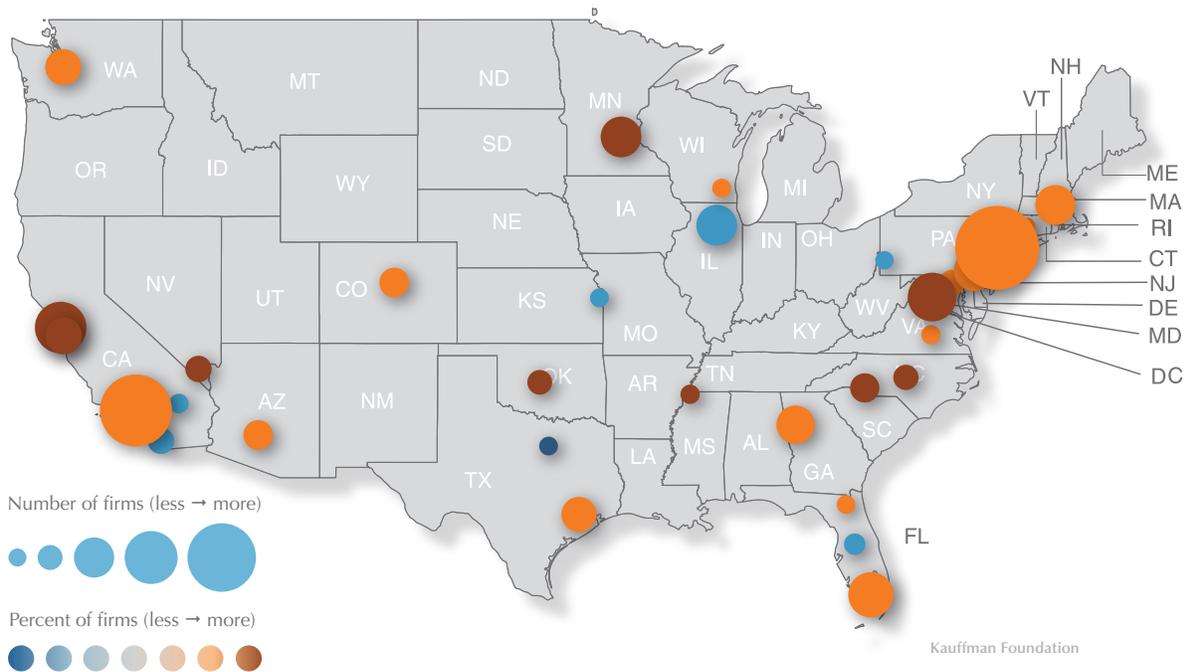
Source: Authors' calculations from Kenney-Patton IPO Database and BDS.

## A Look at Crowdfunding across the Nation

In addition to this dispersion of entrepreneurial activity, new pathways to entrepreneurship are taking hold in very diverse areas of the country. Take, for instance, crowdfunding. The metros with the highest percentage of companies financed by successful crowdfunding platforms are:<sup>27</sup>

- Charlotte-Concord-Gastonia, NC-SC
- Las Vegas-Henderson-Paradise, NV
- Memphis, TN-MS-AR
- Minneapolis-St. Paul-Bloomington, MN-WI
- Oklahoma City, OK
- Raleigh, NC
- San Francisco-Oakland-Hayward, CA
- San Jose-Sunnyvale-Santa Clara, CA
- Washington-Arlington-Alexandria, DC-VA-MD-WV

### Crowdfunding in 2014



SOURCE: Kauffman Foundation calculations from the U.S. Census Bureau, Annual Survey of Entrepreneurship (2014)

27. Dane Stanger, Inara Tareque, and Arnobio Morelix, "Trends in Venture Capital, Angel Investments, and Crowdfunding across the Fifty Largest U.S. Metropolitan Areas," December 2016, at [http://www.kauffman.org/~media/kauffman\\_org/research%20reports%20and%20covers/2016/ase%20briefing%201216\\_final.pdf](http://www.kauffman.org/~media/kauffman_org/research%20reports%20and%20covers/2016/ase%20briefing%201216_final.pdf).

## A Shortage of Cities, and Affording a Garage in Silicon Valley

The mythos of Silicon Valley venerates the importance of the garage. Legendary companies like Hewlett-Packard, Apple, and Google all were famously started from garages. Entrepreneur and investor Paul Graham from Y Combinator suggests this is one of the often overlooked advantages of California: the mild climate means there is a lot of available “marginal space”—like garages—that can be used for entrepreneurship and experimentation.<sup>28</sup> While that was certainly true in the past, it may not be anymore. It is not clear that a new entrepreneur can even afford a garage in Silicon Valley today.<sup>29</sup>

Entrepreneurship is, at its core, experimentation—a pursuit of new ideas, markets, and products.<sup>30</sup> And it’s increasingly expensive to experiment in the United States’ biggest cities—which can make the affordability of mid-size places quite attractive.<sup>31</sup>

Entrepreneurial activity tends to go together with many of the things we associate with cities—density, openness, and creative scenes.<sup>32</sup> And, while entrepreneurs seem to want these elements where they live, it looks like they are looking for it outside the biggest cities—and increasingly going to or staying in mid-size metros. Portland’s former mayor has an interesting way of putting it, as he shared with Kauffman in an event: there is a shortage of cities in the United States. The biggest cities, like New York and San Francisco, can

struggle to accommodate more residents, so people go to places like Portland, Nashville, and Kansas City to look for city amenities with more affordable prices.

**Yet, while we see these positive developments in mid-sized metros, rural communities, as well as the smaller metros, are going through a tough change.**

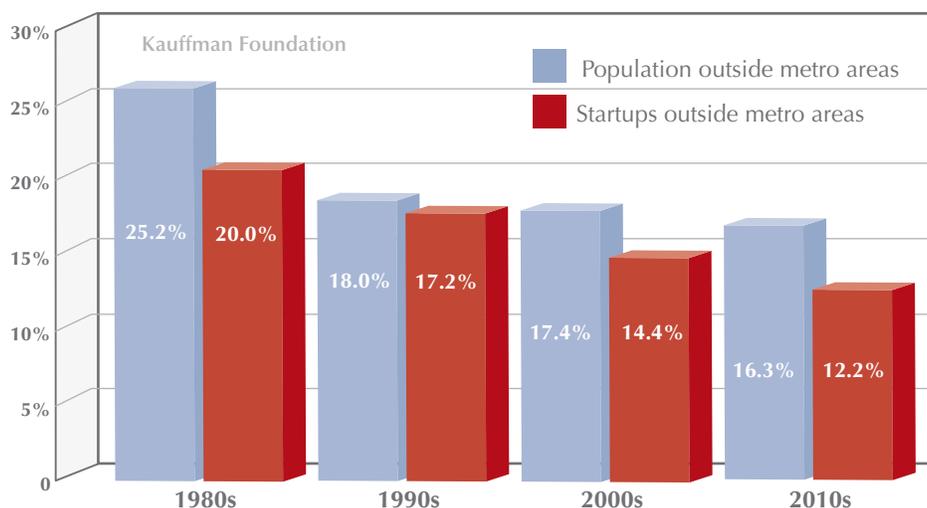
## Rural Flight: Kansas City Wins, but Rural Kansas Loses

In 1977, more than two out of every ten U.S. startups were in rural areas. Today, this number is just over one in every ten.<sup>33</sup> Entrepreneurship is an increasingly urban phenomenon, and while it seems like mid-sized metros like Kansas City are winning, places like rural Kansas are losing.

A major reason this is happening is simply because the U.S. population is less rural and more urban, year after year. But the fact is even more pronounced when you look at new firms: the percent of startups in rural communities has dropped from 20 percent in the 1980s to 12.2 percent today.<sup>34</sup>

No matter where you are in the political spectrum, one of the things that became abundantly clear is the enormous divide between rural and urban America. We see at least a version of this divide in entrepreneurial activity also.

Percent of Population and Startups in Non-Metro Areas



**The percent of startups in rural communities has dropped from 20 percent in the 1980s to 12.2 percent today.**

*SOURCE: Arnobio Morelix, Kauffman Foundation calculations from Business Dynamics Statistics and U.S. Census Bureau, 1960 Census, 1980 Census, 1990 Census, 2000 Census, 2010 Census*<sup>35</sup>

28. “The Power of Marginal,” June 2006, at <http://paulgraham.com/marginal.html>.

29. We are grateful to our colleague, Yasuyuki Motoyama, for highlighting this.

30. For a look at the importance of experimentation in entrepreneurship, please visit <http://www.hbs.edu/faculty/conferences/2014-strategy-research/Documents/Entrepreneurship%20as%20Experimentation.pdf>.

31. Yasuyuki Motoyama, Brian Danley, Jordan Bell-Masterson, Kate Maxwell, and Arnobio Morelix, “Leveraging Regional Assets,” July 2013, at [http://www.kauffman.org/~media/kauffman\\_org/research%20reports%20and%20covers/2013/07/leveragingregionalassets.pdf](http://www.kauffman.org/~media/kauffman_org/research%20reports%20and%20covers/2013/07/leveragingregionalassets.pdf).

32. Richard Florida, “The Connection Between Venture Capital and Diverse, Dense Communities,” July 9, 2013, at <http://www.citylab.com/work/2013/07/connection-between-venture-capital-and-diverse-dense-communities/5444/>.

33. Rural is defined here as a non-metro area.

34. Arnobio Morelix, Kauffman Foundation calculations from Business Dynamics Statistics, and U.S. Census Bureau, 1980 Census, 1990 Census, 2000 Census, 2010 Census, through [https://www.wilsoncenter.org/sites/default/files/fazley\\_final\\_paper.pdf](https://www.wilsoncenter.org/sites/default/files/fazley_final_paper.pdf).

For ideas on actions rural communities can take, see Maryann Feldman, “Entrepreneurial Policy for Rural America,” at <http://www.kauffman.org/neg/section-6#entrepreneurialpolicyforruralamerica>.

35. Jordan Fischer and Fazley Siddiq, “Trends in Metropolitan and Non-Metropolitan Populations in Canada and the United States over Fifty Years,” May 2013, at [https://www.wilsoncenter.org/sites/default/files/fazley\\_final\\_paper.pdf](https://www.wilsoncenter.org/sites/default/files/fazley_final_paper.pdf). For startups numbers, figure listed on 2010s is 2014 (most recent year with data available), followed by 2004, 1994, and 1984 for their respective decades.

## Entrepreneurial Ecosystems Spreading Opportunity

To understand and address this new map of entrepreneurship, we are changing some of our approaches. After all, so much of entrepreneurship happens at the local level. Entrepreneurs raise money from local investors, hire from the local market, and found companies with the people who live in the same area.<sup>36</sup>

In many ways, all entrepreneurship is local. In recognition of this truth, the Kauffman Foundation will continue engaging with entrepreneurs, ecosystems builders, and policymakers at the local level. We will keep strong with 1 Million Cups, a peer-learning program that helps establish tribes of trust in ecosystems across the nation—now in more than 100 cities. We will continue to ask for insights and listen to entrepreneurs building their companies across America, as we have done in our Eship City Heartland Entrepreneurship tour.<sup>37</sup> We will bring entrepreneurs, supporters, and policymakers together to help professionalize the discipline of entrepreneurship ecosystem-building through initiatives like a major conference on the topic—the ESHIP Summit in June 2017—and an ecosystem “playbook.”<sup>38</sup>

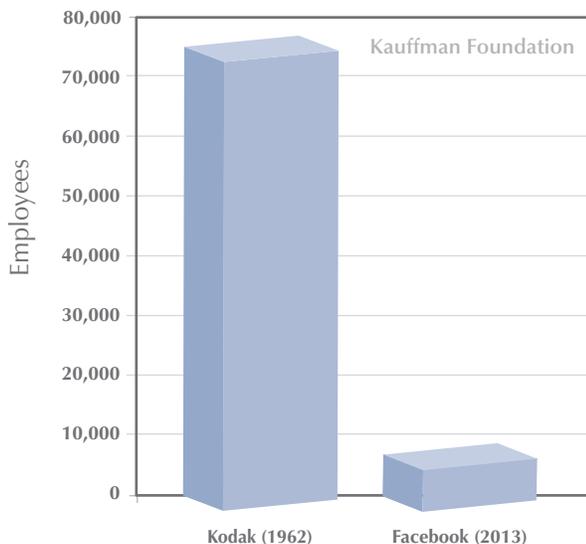
## New Nature of Entrepreneurship

The third mega trend shaping the present and future of entrepreneurship has to do with technology, which is creating a new nature of entrepreneurship in the United States and the world.

Entrepreneurial companies create jobs, wealth, and innovation.<sup>39</sup> This is true today, and it has been true for decades.<sup>40</sup> Yet, technology has made the activity of starting and scaling up inherently different than it used to be. The nature of entrepreneurship is changing.

This new nature of entrepreneurship has two major implications. On one hand, fewer jobs are created as companies are able to reach massive scale in terms of revenue without having to scale employment in the same fashion. On the other hand, new industries open and entrepreneurial opportunities become more widely accessible through platforms that lower barriers to entry—think of Airbnb or Etsy, for example.

### Jobs by Company at the Same Revenue—\$8 Billion in Today's Dollars



In 1962, Eastman Kodak employed 75,000 people. At the same revenue scale in 2013, Facebook employed only 6,300 people.

36. Victor Hwang, “Communities across American are Harnessing Entrepreneurism to Drive Growth,” October 3, 2016, at <https://www.entrepreneur.com/article/282064>.

37. Ryan Pendell, “QA with Kauffman’s Victor Hwang on Entrepreneurship in the Heartland,” November 29, 2016, at <http://siliconprairienews.com/2016/11/qa-kauffmans-victor-hwang-entrepreneurship-heartland/>. “Heartland Entrepreneurship,” at <http://www.kauffman.org/eship-city/introduction#>.

38. The ESHIP Summit, at <http://www.kauffman.org/what-we-do/events/the-eship-summit>.

39. John Haltiwanger, et al., High Growth Young Firms: Contribution to Job Output, and Productivity Growth, at <http://www.nber.org/chapters/c13492>.

40. John Haltiwanger, et al., “Who Creates Jobs? Small vs. Large vs. Young,” NBER working Paper, at [http://econweb.umd.edu/~haltiwan/size\\_age\\_paper\\_R&R\\_Aug\\_16\\_2011.pdf](http://econweb.umd.edu/~haltiwan/size_age_paper_R&R_Aug_16_2011.pdf).

## The Breaking Link Between Revenue Scale and Job Growth

In the past, as companies scaled their revenue, jobs could scale at a similar pace. Today, thanks to the leveraging potential of technology, revenue and value creation can take off dramatically while job growth lags behind.

For an example, look at two technological behemoths during their own times: Eastman Kodak and Facebook.

In 1962, when Kodak sales first surpassed \$1 billion—\$8 billion in today's dollars—the company employed 75,000 people.<sup>41</sup> When Facebook reached the same revenue size in today's dollars, it employed approximately 6,300 people.<sup>42</sup>

The enormous divide in job creation between these two companies remained wide as both companies grew further. At its height, Kodak employed 145,300 people, a third of them in Rochester, New York.<sup>43</sup> Even now, Facebook employs 17,000 people as it generates an incredible \$27 billion in revenue.<sup>44</sup> While recent research suggests that large tech companies are scaling as fast as or faster than they were in the past in terms of jobs, the Facebook case is an example of what we know from research covering millions of companies and almost twenty years of data: the most innovative, high-productivity companies are not creating as many jobs as they did in the past.<sup>45</sup> We also see a similar phenomenon with “superstar” companies—the few businesses that dominate large revenues of their respective industries. The more concentrated an industry is—with few businesses capturing

large profits and market shares—the less income goes to labor.<sup>46</sup> While the rise of the contract economy might be a factor at play here, it is unlikely to be the sole driver.

Jobs that not long ago were thought of as safe from automation are now threatened. **Self-driving vehicles are challenging truck driving jobs—1.7 million of them in heavy truck driving alone—an occupation in a dwindling pool of good-paying jobs for people without formal education.**<sup>47</sup> **Tax preparation software reduces the need for accountants. Amazon—even though it is a major employer—launches a store that eliminates the need for cashiers—the second-largest occupation in America, employing 3.5 million people.**<sup>48</sup> Overall estimates looking at net job change—including both jobs created and destroyed due to automation—find that as many as 5 million jobs will be destroyed in the next five years alone in fifteen global economies.<sup>49</sup>

This is, as Erik Brynjolfsson, MIT professor, says, the great paradox of our era. While innovation accelerates, and improves the world in many facets, we have fewer and worse jobs because “our skills and organizations aren't keeping up.”<sup>50</sup>

New and young companies have been the biggest net job creators in the nation since the 1970s—the first decade for which we have this data—and they continue to be.<sup>51</sup> **But it is not clear how much these firms will be able to contribute to net job creation in the future.**

41. “Kodak's growth and decline: a timeline,” *Rochester Business Journal*, January 19, 2012, <http://www.rbj.net/article.asp?aID=190078>. We are grateful to Erik Brynjolfsson and Andrew McAfee for these examples coming from their excellent book, “The Second Machine Age.”

Currency conversions over time done based on the Consumer Price Index.

42. “Facebook Reports Fourth Quarter and Full Year 2013 Results,” *Facebook, Inc. Press Release*, January 29, 2014, [https://s21.q4cdn.com/399680738/files/doc\\_news/2014/FB\\_News\\_2014\\_1\\_29\\_Financial\\_Releases.pdf](https://s21.q4cdn.com/399680738/files/doc_news/2014/FB_News_2014_1_29_Financial_Releases.pdf).

“Facebook Annual Report 2013,” *Facebook, Inc.* [https://s21.q4cdn.com/399680738/files/doc\\_financials/annual\\_reports/FB\\_AR\\_33501\\_FINAL.pdf](https://s21.q4cdn.com/399680738/files/doc_financials/annual_reports/FB_AR_33501_FINAL.pdf).

43. Erik Brynjolfsson and Andrew McAfee. “Chapter 9—The Spread.” *The Second Machine Age: Work, Progress, and Prosperity in a Time of Brilliant Technologies*. New York: W.W. Norton, 2014. Print.

44. “Facebook Reports Fourth Quarter and Full Year 2016 Results,” *Facebook, Inc.* <https://investor.fb.com/investor-news/press-release-details/2017/Facebook-Reports-Fourth-Quarter-and-Full-Year-2016-Results/default.aspx>. “Company Info Stats,” *Facebook, Inc.* <http://newsroom.fb.com/company-info/>.

45. “A Historical Perspective on Tech Job Growth,” <http://www.progressivepolicy.org/wp-content/uploads/2017/01/tech-job-boom-1-12c-17-formatted.pdf>.

Javier Miranda, et al., “Declining Business Dynamism: Implications for Productivity,” September 19, 2016, at [https://www.brookings.edu/wp-content/uploads/2016/09/wp23\\_decker-et-al.pdf](https://www.brookings.edu/wp-content/uploads/2016/09/wp23_decker-et-al.pdf).

46. David Autor, David Dorn, Lawrence F. Katz, Christina Patterson, John Van Reenen, “Concentrating on the Fall of the Labor Share,” January, 2017, NBER Working Paper.

47. Occupational Employment Statistics, Bureau of Labor Statistics, at <https://www.bls.gov/oes/current/oes533032.htm>.

48. Occupational Employment Statistics, Bureau of Labor Statistics, at <https://www.bls.gov/oes/current/oes412011.htm>.

49. <https://makercitybook.com/?gi=27515149598c>.

50. David Rotman, “How Technology is Destroying Jobs,” June 12, 2013, at <https://www.technologyreview.com/s/515926/how-technology-is-destroying-jobs/>.

For a thought-provoking, brief look at accelerating innovation, see this blog post reviewing the evolution of different technologies across different industries. <https://nintil.com/2016/04/25/no-great-technological-stagnation/>.

51. Jason Wiens and Chris Jackson, “The Importance of Young Firms for Economic Growth,” September 13, 2015, at <http://www.kauffman.org/what-we-do/resources/entrepreneurship-policy-digest/the-importance-of-young-firms-for-economic-growth>.

## New and Young Companies Continue to be the Biggest Net Job Creators in the Nation

### Technology, creation, and opportunity

Yet, there is also reason for optimism.

While machine capabilities grow, human intuition and creativity remain uniquely human—at least so far. To the extent that machines are also complements to human abilities—not just substitutes—human production can increase, perhaps even at exponential rates.<sup>52</sup>

**Technological disruption is displacing workers at a rapid pace**, but perhaps unemployment itself can also be disrupted—as David Nordfors from i4j and Vint Cerf, one of the fathers of the internet, defend.<sup>53</sup>

From an optimistic perspective, there are two major ways in which the new nature of entrepreneurship can shape the entrepreneurial economy.

The first one is that it opens new markets in industries that were previously inaccessible. As Geoffrey Moore reminds us, technology makes formerly expensive inputs cheap—from computational power, to machine learning predictions, to payment processing. This makes them the perfect platform to launch the next wave of entrepreneurial innovations.<sup>54</sup> These new innovation platforms range from the digital—like data science and Big Data—to the physical—like the maker movement.<sup>55</sup>

**The second way the new nature of entrepreneurship positively shapes the state of entrepreneurship is by opening up new opportunities for taking a chance.**<sup>56</sup> Startup founders can and are driving for Uber as a way to pay bills, meet investors, and makes sales.<sup>57</sup> A budding musician in Los Angeles can

Net Job Creation by Firm Age



Source: Arnobio Morelix, Kauffman Foundation calculations from the U.S. Census Business Dynamics Statistics

52. For an example of this argument, see, for instance, Ray Kurzweil, *The Singularity is Near: When Humans Transcend Biology*, New York: Viking, 2005.

53. *Disrupting Unemployment—Reflection on a Sustainable, Middle Class Economic Recovery*; i4j Leadership Forum, Foreword.

54. *Disrupting Unemployment—Reflection on a Sustainable, Middle Class Economic Recovery*; i4j Leadership Forum, Foreword.

55. Dane Stangler and Kate Maxwell, "DIY Producer Society, MIT Press Journals, at [http://www.mitpressjournals.org/doi/pdf/10.1162/INOV\\_a\\_00134](http://www.mitpressjournals.org/doi/pdf/10.1162/INOV_a_00134).

Peter Hirshberg, Dale Dougherty, and Marcia Kadanoff, "Maker City, a Practical Guide for Reinventing Our Cities," Maker Media, at <https://makercitybook.com/?gi=27515149598c>.

56. We are grateful to Javier Miranda from the Census Bureau for highlighting the optionality that the gig economy opens up to potential entrepreneurs.

57. Michael J. Coren, "In Silicon Valley, savvy founders are networking all around town by driving for Uber and Lyft," November 30, 2016, at <https://qz.com/848449/in-silicon-valley-savvy-founders-are-networking-all-around-town-by-driving-for-uber-and-lyft/>.

join the gig economy to make ends meet when business is slow. A maker can use Etsy to reach larger markets faster. A cash-strapped entrepreneur can use online business lending platforms like PayPal Working Capital and Kiva Zip—alternative financing channels that particularly benefit young and minority-owned businesses and places where retail banks have stepped away from.<sup>58</sup>

The optimism we show here is not meant to encourage complacency. Even when new jobs and opportunities are created, the first generation of displaced workers often fall behind because they usually do not have the skills to adapt to the new, more complex tasks.<sup>59</sup> We see it as society's job to level the playing field for these workers so they have the chance to reach and keep their economic independence.

Yet, even if the new nature of entrepreneurship is a net negative to job creation, we think there is no such thing as reversing it. **We cannot go back to a time that was. That would be as naïve as trying to reverse job destruction during the Industrial Revolution by bringing hammers to steam-powered machines.** Moreover, we would do well to remember that anxiety around job automation is centuries old, and the direst Luddite predictions from the seventeenth century have not come true.

**What we can do, instead, is launch new educational models for entrepreneurship to replace our currently outdated ones—and help prepare entrepreneurs for the opportunities the new nature of entrepreneurship opens up.**

By far, this is the least understood of the three mega trends shaping the state of entrepreneurship, and Kauffman hopes to fund research and programs to understand and tackle the issues around it.

Technology has changed the nature of entrepreneurship, and we have to change with it.

# zero BARRIERS

## Zero Barriers to Startup

### Final Thoughts and a Call to Action

As we explore in this report, the state of entrepreneurship is improving. Startup activity is up, Main Street entrepreneurship has reached a near two-decade high, and growth entrepreneurship is growing.<sup>60</sup> While it is still unclear what entrepreneurial activity will look like in the future, the past year showed improvements in the state of entrepreneurship.

Despite this good news, not all Americans are reaping the benefits of entrepreneurial growth or are given the same access to entrepreneurial opportunities. Many Americans are feeling alienated and are facing the future with trepidation.

While the average improvements shown in the data seem at odds with what people are living in their experiences, the explanation for the difference is simple. No one lives in *the* economy—the stuff measured in broad sweep indicators we are usually able to capture. They live in *their* economy, as Morgan Housel concisely put, and the gap between the averages and people's personal experiences can be wide.<sup>61</sup> This gap means that, even in a strengthening economy, many Americans are feeling disempowered about their situations.

## The State of Entrepreneurship Today



SOURCE: 2016 Kauffman Index of Startup Activity, Main Street Entrepreneurship and Growth Entrepreneurship

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## A Call to Action—Zero Barriers to Startup

If you have an idea, we believe that you have a fundamental right to start a business to make it a reality. You shouldn't need to hire an accountant or lawyer. You shouldn't need a formal degree. You should be able to do it fast, without confusion, and for free, without any artificial barriers imposed by others.

Yet, this is not how the world is today. Entrepreneurs are encumbered by bureaucracy, arcane regulations, and an environment that often protects incumbents. They face fears about the likelihood of success and lack sufficient assurances or safety nets to protect against entrepreneurial failure. There is a big gap between today's world and a future in which zero barriers to startup is a reality.

To empower more entrepreneurs to pursue their ambitions, the Kauffman Foundation is launching a collaborative, nationwide effort to identify barriers big and small to new business creation. Working with entrepreneurs, policymakers, and others in the entrepreneurial community, the Foundation will first catalogue barriers identified by entrepreneurs and then work with these same groups to develop solutions.

We invite you to tackle this challenge with us.

## A Unified Approach to Addressing these Mega Trends

We believe the three mega trends we explore in this report explain much of what we see today in the economy—from the economic anxiety reshaping our politics, to a shift in how communities organize, to the brave new worlds of entrepreneurial opportunity that previously did not exist. The Kauffman Foundation will use these mega trends as a guide as we make our decisions for future investments.

Below we share some of the initiatives addressing each of the trends.

### • New Demographics

- Unified Founders Education Initiative
- Women's Research Call for Proposals
- Inclusion Challenge
- Annual Survey of Entrepreneurs, with the U.S. Census Bureau

### • New Map

- ESHIP Summit
- Mayors Conference on Entrepreneurship
- 1 Million Cups
- Kauffman Index of Entrepreneurship Series

### • New Nature

- Future of Work Request for Proposals
- Big Ideas Project
- New data and research investments

## Areas for Further Work and Outstanding Questions

While the framework we use here has been helpful to us in understanding the current state of entrepreneurship in the United States and thinking about the future, we know it is both editorial and incomplete. While we thought about these questions rigorously, and stayed close to the data, we know predictions—even the relatively straightforward ones we make here—are tricky things. We hope to learn from you the things we are missing and what we are getting wrong.

Moreover, there are many outstanding questions we hope to engage the field in answering. Below are some of them.

### • Demographics

- How is the aging of the U.S. population affecting—or not affecting—the long-term decline in entrepreneurial dynamism?
- What is causing market gaps? How can we measure them at scale? How can we address them? Which communities are doing best at addressing them?
- Millennials start fewer businesses today than Boomers did when they were of the same age. Why is this happening? How can we address it?

### • Geography

- How new is the new map of entrepreneurship in the United States? How will it change in coming years?
- What makes ecosystems thrive?
- How can rural areas build entrepreneurship ecosystems?
- How can smaller metros build entrepreneurship ecosystems?

### • Technology

- How new is the new nature of entrepreneurship? Is the broken link of revenue scaling and job creation a new phenomenon—or a phenomenon at all? Is it a temporary or permanent state?
- How can we better prepare entrepreneurs and workers for the world of technological change?
- How is the nature of work changing?
- How can we increase the scale up potential of startups?

### • Education

- How do entrepreneurs best learn, and how can we support them more through building online and offline communities of learning?
- How can we address the major entrepreneurship gap between people with and without formal education?
- What is the role of a more educated United States on entrepreneurial activity?

- **Other**

- What is behind the long-term decline in entrepreneurial dynamism?
- Failure rates could be big deterrents to business starts—especially for groups without strong personal safety nets. Would reducing the failure rates help? Would it encourage more people to start companies? Could a reduction in failure rates have an adverse effect on innovation and dynamism?
- How can we improve the safety net so that the consequences of business failure are not catastrophic for the entrepreneurs who take the leap? Would that even help? How could this affect different groups (e.g., women, minorities)?
- What is the role of regulatory inequality affecting different communities (e.g., minority, non-minority)? How does that affect the types of entrepreneurship the communities pursue?

More questions will be raised as policymakers, entrepreneurship researchers, and support organizations work to eliminate barriers to starting up. The bigger questions will be in how to resolve the challenges. That is a job for all of us.

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