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IN PERSPECTIVE

The Changing Demography of Entrepreneurship

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If one polls a representative group of people and asks them to identify a ‘typical entrepreneur,’ the pattern of responses is often surprisingly similar. In the US, Bill Gates (or Steve Jobs) is frequently cited. In the UK, Richard Branson often tops the list. In Scandinavia, one might hear references to Jorma Ollila, Nokia’s CEO, or Linus Torvalds of Linux fame.

What do these people have in common? First off, they are men. They also tend to be in their 40s or 50s, and work in high technology sectors. This is, and has been, the typical profile for entrepreneurs in Western developed economies. For many people, entrepreneurship and the technology economy are synonymous. And, the technology economy has traditionally been led by white male ‘geeks’ in the mold of Gates, Jobs, or Torvalds.

As more people get the entrepreneurial bug, this traditional perception is starting to change. Women, minorities and new immigrants are becoming more important players in the entrepreneurial landscape. They are starting businesses at faster rates, and are beginning to develop world class, high growth businesses that compete on a global scale. As these trends evolve, it will become more difficult to speak of a ‘typical entrepreneur.’ Instead, the entrepreneurial population will likely come to look like a slightly younger, slightly more educated, version of the general population.

This essay takes a brief look at these trends. It examines recent data on the demography of entrepreneurship with a special focus on women and

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minority populations. It next highlights the overwhelmingly positive implications of this shift. Given the many benefits of expanded entrepreneurship, we conclude with a review of how communities can best support and nurture these activities. By encouraging more entrepreneurial activity among these 'new' entrepreneurs, community leaders can create more diverse, inclusive, and prosperous local economies.

The Rise of New Entrepreneurs

While white males continue to dominate the entrepreneurial landscape, business start-ups led by women and minorities are growing at an increasingly rapid pace. For example, rates of self-employment and the establishment of women-owned businesses have risen rapidly within OECD countries. In Canada, for example, self-employment among women rose twice as fast as it did for men between 1991 and 1996 (OECD). In the US, the number of women-owned businesses grew by 16 per cent between 1992 and 1997, and the total number of new businesses rose by only 6 per cent over the same period (NWBC).

Similar patterns occur among minority populations. In the UK, ethnic minority start-ups account for 9 per cent of all start-ups, while ethnic minorities account for only 5 per cent of the population (Bank of England data—SBS). In the US, the highest levels of entrepreneurial involvement in a start-up business occur among African Americans and Latino men. In fact, African American men are roughly 50 per cent more likely to start a business than any other demographic group in the US (PSED).

National level data on immigrant entrepreneurs is less solid, but anecdotal evidence strongly indicates that new immigrants start new businesses at much faster rates than native-born residents. Certainly, diaspora populations of overseas Chinese, Greeks, Jews, and others have long been recognized for their success in starting new businesses. Today's immigrant entrepreneurs are starting world-class businesses. Their impact has been especially pronounced in high technology hotbeds like Silicon Valley. Research by Annalee Saxenian shows that 24 per cent of Silicon Valley technology firms are led by an Indian or Chinese CEO. In 1998, these firms collectively employed more than 58,000 people (Saxenian monograph).

The benefits of this influx of talent are not simply limited to urban areas hosting high technology clusters. Rural regions are also being transformed by immigration. In many parts of the US's Midwest and South, Latino immigration is booming. For example, North Carolina's Hispanic population grew nearly 400 per cent over the 1990s. Once-dying small towns are now being revitalized by this younger dynamic population.

These data depict a fairly consistent pattern. White men continue to account for a majority of start-ups and growing businesses, but the gap is closing. Start-up and business ownership rates among women and minorities are growing at a significantly faster rate. As these patterns

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continue, and as minority populations grow in size, the gap will further erode.

Challenges Ahead

As these gaps in entrepreneurial interest and activity start to close, several critical challenges remain. These new entrepreneurs face significant hurdles at both the initial start-up phase and at the point when their firms have operated for several years and are poised for growth.

At the initial startup phase, women and minority entrepreneurs tend to open their businesses with less start-up capital, smaller support networks, and less education than their white male counterparts. These hurdles have led to lower survival rates for firms owned by African Americans and Hispanics. Survival rates for women-owned firms are not significantly different from those of comparable firms owned by men.

These start-up challenges can be severe, but a more significant set of issues emerges after a business has operated for several years and is poised to enter a high growth phase. At this point in a firm's life cycle, outside resources—in the form of venture capital and more sophisticated management assistance—are needed to transform a company's operating systems and to enter new markets.

For a variety of reasons, women and minority entrepreneurs have been less able to access these high-level services tailored to high-growth businesses. For example, while women own or co-own 46 per cent of US businesses, women-owned ventures receive only 3–4 per cent of all venture capital invested in the US each year (Diana Project). Minority entrepreneurs fare even worse, as minority-owned firms receive even less venture-backing than women-owned firms. These shortfalls have a real impact on the bottom line. In the US, a small proportion of firms survives four or more years and grows to more than 100 employees. Women own only 25 per cent of these successful firms, and African Americans and Hispanics own less than 4 per cent of the total (Kauffman Thought Book).

Why Act? How New Entrepreneurs Can Transform Communities

As new entrepreneurs continue to start new ventures, can the market take care of itself? As historical barriers based on discrimination fade, minority- and women-owned businesses should begin to grow and thrive just as majority-owned businesses do. While trends do point in this general direction, simply accepting this rosy scenario does not make sense. Instead, community leaders in both the public and private sector should continue to provide special emphasis on developing new ventures owned by women, immigrants, and minority entrepreneurs.

These activities make sense on several grounds. Most importantly, they make business sense. New data indicate that the past performance gap plaguing women and minority-owned businesses is rapidly disappearing. In fact, much research shows that women-led businesses may enjoy

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performance advantages. For example, a 2004 survey by Catalyst, a New York-based non-profit organization supporting women in business, found that Fortune 500 firms with high numbers of women managers performed better than comparable firms with fewer women managers.

Investing in these firms also can be profitable. Tim Bates at Wayne State University has found that venture capital investments in minority-owned businesses posted better returns than the S&P 500 over the course of the 1990s.

Beyond business basics, these new entrepreneurs merit additional support on equity grounds. A truly inclusive and diverse economy requires a truly inclusive and diverse base of entrepreneurs. These new entrepreneurs bring new ideas and dynamism to their communities. By creating and reinvesting their wealth, these entrepreneurs also help create new economic opportunities for their fellow citizens.

Finally, nurturing new entrepreneurs can help revitalize distressed communities in both the inner city and in rural regions. New immigrants will play a particularly important role in addressing the demographic pressures of rapidly graying populations in many developed Western societies. This influx of talent will prove especially important in rural regions hit hard by plant closures and youth out-migration. In fact, many American states, such as Iowa, are now developing special outreach programs for this population.

Nurturing New Entrepreneurs: What Works?

Effective support for new entrepreneurs does not require a major reshaping of existing business support services and programs. However, it does require two important shifts of emphasis: (1) a commitment to culturally sensitive business support services, and (2) a strengthened focus on moving qualified firms to the high growth phase.

First, community leaders must recognize the unique talents and perspectives of the new entrepreneurial population. For a variety of reasons, many of these entrepreneurs are unwilling or unable to access traditional business counseling and other services provided by Business Links, Small Business Development Centers, or similar organizations. Language barriers and a lack of trust tend to rank high as obstacles here. Fortunately, such barriers can be easily eliminated by translating program materials into other languages and by hiring staff specially trained to work with target populations. Sustaining funding for existing programs poses the principal challenge in this arena.

These types of focused programs have worked quite well. For example, a recent study of federally funded Women's Business Centers in the US found that targeted support for women entrepreneurs has yielded impressive results. Overall, entrepreneurs supported by the Centers between 2001 and 2003 enjoyed a 490 per cent rise in profits while creating more than 12,700 jobs and 6,600 new businesses.

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A second and more pressing challenge concerns preparing these new entrepreneurs for the high growth phase. While start-up rates among various populations are converging, fewer minority and women-owned businesses move from start-up to high-growth stages where annual growth rates regularly hit 15–20 per cent and higher. Similarly, minority and women-owned businesses still face difficulties in accessing venture capital and other sophisticated support services.

This pattern has several causes, but a primary factor is that new entrepreneurs have not historically been part of traditional business networks supporting high-growth ventures. A variety of tools are needed to help new entrepreneurs enter such networks. Extensive coaching for entrepreneurs on how to work with venture capitalists has worked quite well in the US. Springboard Enterprises, a program designed to help women access venture capital, has helped 235 women-owned businesses raise more than \$2 billion in outside equity investment.

In addition, new entrepreneurs need access to effective mentor and peer networks. These programs help promote peer learning and also create role models for new business owners. Effective mentoring programs now exist for firms at all stages of the development cycle—from micro enterprises to fast growing technology businesses. These hands-on support networks provide both a nurturing environment and hard to access insider knowledge that can be critical to the success of new business ventures.

Concluding Thoughts

When one looks at the recent history of entrepreneurial activity in developed economies, the impact of new ventures and new innovations is quite astounding. Simply put, our daily lives have been transformed via entrepreneurial start-ups that became firms such as Microsoft, Google, Virgin, or IKEA. What is even more astounding is that these tremendous accomplishments have occurred with the proverbial ‘one hand tied behind our backs’ as a large part of the population has not actively participated in the entrepreneurial boom. The active engagement and full participation of women and minority citizens in the entrepreneurial economy can help stimulate a renewed cycle of innovation, wealth creation, and prosperity.