

REPORT

JULY 2017



## **Necessity as a Driver of Women's Entrepreneurship**

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Business Council

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The statements, findings, conclusions, and recommendations found in this study are those of the authors and do not necessarily reflect the views of the National Women's Business Council, the United States Small Business Administration, or the United States Government.

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## 1. Introduction

The number of women entrepreneurs in America continues to grow, fostering increased employment and economic development. Results from the most recent Survey of Business Owners and Self-Employed Persons (SBO) indicate that there were approximately 9.9 million women-owned businesses in 2012, an increase of approximately 27 percent since 2007.<sup>1</sup> These women business owners are a heterogeneous population, differing along demographic and industry lines, as well as motivation. While some entrepreneurial endeavors are born out of the desire to exploit a market opportunity, others arise as a result of a particular individual discovering that traditional labor force options are not working for her. As a result, a distinction between opportunity-based entrepreneurship and necessity-based entrepreneurship forms when assessing motivations and outcomes in starting a business.

However, identifying and delineating the different motivating factors for entrepreneurship among women illustrates the oversimplification of simply categorizing each entrepreneur's decisions as based strictly in *opportunity* versus *necessity*. In short, women entrepreneurs are not a homogeneous class of individuals, or even two distinct groups. Entrepreneurship can provide a means to economic empowerment and self-sufficiency for *all* women and effective public policy can support women in achieving their personal and professional goals through entrepreneurship. This includes women who identify with necessity-based reasons as a principal driver for engaging in entrepreneurship.

This paper explores and expands upon necessity as a driver of women's entrepreneurship in the United States. In particular, this study examines whether and how women turn to entrepreneurship to address potential market failures that limit their ability to maintain or attain economic self-sufficiency, or alternatively, to overcome flexibility bias and potential stigma in balancing work-life conflict assumed in traditional gendered roles and social norms. Traditional "necessity entrepreneurship" definitions, discussed in greater detail in the literature review, largely focus on the concept of "survival entrepreneurship" or "emergency entrepreneurship" where a woman starts a business to meet basic economic needs for survival. Along the "survival" line of thinking, consider Great Recession, which led to a marked increase in unemployment, where many women may have engaged in entrepreneurship given the lack of any traditional employment options in the labor force.

There are also necessity-based reasons for starting a business that reach beyond women's economic survival. Reasons include labor force market failures brought on by overly restrictive, or outright absent, workforce policies that do not acknowledge or accommodate the variety of caregiving roles that women, in particular, play in modern society. Examples include the lack of paid leave, the lack of affordable

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<sup>1</sup> U.S. Census Bureau, Survey of Small Business Owners and Self-Employed Persons, 2007 and 2012 public use tables, obtained from American Fact Finder at <https://factfinder.census.gov/faces/nav/jsf/pages/index.xhtml>.

or subsidized childcare, and the lack of flexible work arrangements. For women facing these challenges, each of these reasons can be the stimulus for the pursuit of entrepreneurship out of necessity, since the options in the labor force do not permit them to meet personal and professional goals.

The initial phases of the research design entail investigating what is already known or hypothesized about necessity entrepreneurship, particularly the choices that women make when faced with a decision about self-employment. Women necessity entrepreneurs can have a wide range of impacts on their personal and professional lives, as well as their community and the economy. Effective policies can help foster economic growth within this community of women to further enhance their contributions to the economy and personal self-empowerment via entrepreneurship. Yet, different motivations might require different interventions.

A cornerstone of this research project is identifying the specific needs of and challenges facing women necessity entrepreneurs. This process entails not only a review of the existing literature on necessity entrepreneurship, but also exploring what data exist to provide additional insight into these needs and challenges. Ideally, reliable quantitative and qualitative data would not only provide data-driven definitions of necessity entrepreneurs, but would also illustrate specific characteristics of these entrepreneurs. However, while there is a robust set of existing literature with respect to the general nature of necessity entrepreneurship, there is a dearth of reliable data that tie together specific entrepreneurial motivations, characteristics, and outcomes.

The data limitations, particularly the lack of reliable sources of data regarding entrepreneurial *motivations*, underscore the potential flaws in traditional definitions of necessity entrepreneurship that are limited only to “survival” or “emergency” entrepreneurship. In these cases a woman engages in entrepreneurship to meet basic needs, as no other labor force options exist. A comprehensive review of the literature confirms the aforementioned alternative reasons for engaging in entrepreneurship by necessity, which extend beyond meeting basic economic needs. Currently, available data fail to adequately capture the relationship between the employment and entrepreneurship decisions that many women face in evaluating their labor force options. As a result, one product of the initial research design is a model that posits different start and end points for women considering or engaging in necessity entrepreneurship. These women reflect a wide range of socioeconomic characteristics, and the model posited by this research seeks to reflect this diversity.

The initial research findings also provide insight into categorizing the different types of women necessity entrepreneurs, while building the foundation for additional qualitative research that can fill in the gaps about the differences in motivations and operational outcomes facing women necessity entrepreneurs. Although the utility of existing data is limited, the data do provide an initial springboard to not only evaluate the appropriate definition of necessity entrepreneurship for women, but also begin the discussion about how additional data collection can assist policymakers in developing

and evaluating potential programs and legislation to support women who start firms when traditional labor force options are not sufficient to satisfy economic and other needs and objectives.

## 2. Literature Review

### ***Opportunity vs. Necessity Entrepreneurship***

Traditional entrepreneurship theories, which associate entrepreneurship with innovation, profitability, and economic growth, date to Schumpeter (1934). Even today, these qualities often characterize an individual who voluntarily starts a business to exploit a market opportunity (an “opportunity” entrepreneur). In this classical framework, entrepreneurs respond to demand side forces that present an opportunity to exploit a particular market area with a product or innovation (i.e., to achieve economic growth and generate profit). In contrast, necessity entrepreneurship arises in the context of supply side forces, such as a reduction in the labor force (e.g., rising unemployment) that drives individuals into entrepreneurship given the lack of attractive alternatives.

Reynolds, et al. (2002) draw a clear distinction between opportunity and necessity entrepreneurs using results from the Global Entrepreneur Monitor (GEM) survey.<sup>2</sup> The annual survey explores the entrepreneurial behavior and attitudes of individuals, as well as the national context and its impact on entrepreneurship. Shortly after starting the annual survey, the GEM explicitly distinguished between opportunity and necessity entrepreneurs. The GEM defines opportunity entrepreneurs as individuals pursuing a business opportunity for personal interest and with a voluntary nature of participation, while necessity entrepreneurs start a business because they have no better choices for work. Fairlie, et al. (2016) employ a similar definition with respect to entrepreneurship research conducted by the Kauffman Foundation. Specifically, the authors define necessity entrepreneurs as new entrepreneurs who were previously unemployed and looking for a job. In this scenario, the necessity entrepreneur’s perception is that such actions (i.e., starting the business) present the *best option available* for employment but not necessarily the preferred option.

Additional literature reinforces the relationship between economic factors and defining necessity and opportunity entrepreneurship. Verheul, et al. (2006) use 2002 GEM data to explore the rise in necessity entrepreneurs as a result of negative employment growth across 29 countries. The team postulates that necessity entrepreneurship results from a lack of suitable economic alternatives for employment and generating income. Maritz (2004), Acs et al. (2005) and Figueroa-Armijos, et al. (2013) through their research, explore relationships between entrepreneurship and economic development encompassing macroeconomic factors such as Gross Domestic Product (GDP), immigration, unemployment, and the Great Recession.

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<sup>2</sup> The GEM survey is a global survey that began in 1999 with the objective of understanding why some countries were more “entrepreneurial” than others. The study is conducted annually by the GEM consortium and as of 2016 has 17 years of data on over 100 countries collected in over 200,000 interviews per year.

With respect to the Great Recession, a rise in the unemployment rate led to the low supply of wage-jobs, a market change that historically pushes workers into self-employment. For example, Beckhusen (2014) used data from the Survey of Income and Program Participation (SIPP)<sup>3</sup> to demonstrate that during the recession, the probability of transitions to self-employment increased for both unemployed individuals and wage-workers. In these cases, women and men might be pushed into entrepreneurship by traditional necessity factors such as meeting basic economic needs.

With respect to the Verheul (2006), Maritz (2004), Acs (2005) and Figueroa-Armijos (2013) studies, the authors examine factors that influenced a particular change in entrepreneurial motivations from opportunity to necessity. When viewed along these lines, the literature draws a clear distinction between differential growth expectations for opportunity versus necessity entrepreneurs. Reza Zali, et al. (2013) find that business growth and growth expectations are negatively associated with necessity entrepreneurs and that the opposite is true of opportunity entrepreneurs. This comports with the traditional view of opportunity entrepreneurs as generating the lion's share of employment and income growth.

Robichaud, et al. (2010) use GEM data to examine gender differences in motivations to start a business among Canadian entrepreneurs. The study develops a profile of necessity entrepreneurs in terms of personal and organizational characteristics using the GEM data definitions of necessity and opportunity entrepreneurship. The researchers find that opportunity entrepreneurs are younger, more educated, have more relevant skills, had recent contact with an entrepreneur, earn more income as a result of their business, and expect to have more employees in five years compared to necessity entrepreneurs. While these conclusions may fit the dichotomous GEM definition, it still raises questions about transferability to other categories of necessity entrepreneurs who might not be motivated purely by income.

### ***Motivations – “Push” and “Pull” Factors***

While Reynolds, et al. (2002) and the GEM are among the first to explicitly use the term “necessity entrepreneur,” there is a rich history of literature that distinguishes between the contrasting motivations that spur entrepreneurship. These are typically referred to as “push” and “pull” factors, where pull factors are often associated with opportunity and push factors are associated with necessity. For example, Amit and Muller (1995) find that pull entrepreneurs generated greater sales per employee and higher personal income than push entrepreneurs. This is consistent with the idea that opportunity entrepreneurship leads to higher economic growth, innovation, and profit (along the lines of the traditional Schumpeter entrepreneur). Warnecke (2013)

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<sup>3</sup> The SIPP is a nationally representative, longitudinal survey that provides comprehensive information on demographic and labor force characteristics, sources and amount of income, and program participation. The survey is conducted periodically through the Census Bureau. The most recent survey began in 2008 and includes 16 waves from 2008 through 2013.

reinforces this concept, observing that necessity entrepreneurs typically have less education, less managerial experience and training, less capital, and less developed social networks than opportunity entrepreneurs. While informative from an economic standpoint, many researchers examine the push and necessity factors of entrepreneurship in terms of individual economic survival without considering the personal and social factors that influence women to forgo traditional employment and launch businesses.

Bhola, et al. (2006) contrast pull entrepreneurs, those making a deliberate choice to start their ventures and capitalize on a perceived opportunity, with push entrepreneurs, who enter into entrepreneurship for multiple reasons including loss of a job, hitting a glass ceiling, or personal responsibilities, such as needing to care for a family member. It is crucial to explore these, and other, motivations in context of gender and social norms.

### ***Gender Differences in Opportunity and Necessity Entrepreneurship***

The existing literature on entrepreneurship and necessity-based entrepreneurship draws some distinctions, particularly regarding “push” and “pull” factors. With respect to push, or necessity-based, factors, Hisrich and Brush (1985) mention lack of promotional opportunities and recognition for women, consistent with the glass ceiling limitation discussed by Bhola, et al. (2006). Orhan and Scott (2001) identify several other push factors specific to women, including difficulty finding a job, dissatisfaction with salaries, an inflexible work schedule, and insufficient family income. While many of these factors might appear to be gender-neutral characteristics, the authors specify a particular link between workplace dissatisfaction and the “glass ceiling” that impedes executive women from reaching more senior executive positions. The authors also attribute the push to entrepreneurship to women’s dissatisfaction with “a dominant masculine business culture, characterized by the hierarchy, the ‘old-boys’ networks’ and the use of directive power.”

Non-economic push factors identified by these sources support a broader definition of necessity-based entrepreneurship, in which women start a business not due to the lack of employment options, but because the options available are either not preferable or are not sufficient to achieve a desired outcome. Note that while this broader definition is not inherently gender-specific, it is applied in this paper from a gendered perspective.

Gender norms exist and social pressures to conform to these norms influence employment options and decisions for women. This highlights the inherent tension that exists between different types of push factors related to entrepreneurship. One on hand, there are *personal* push factors, while on the other hand there are *structural* push factors. Personal push factors relate to the individual characteristics of a woman entrepreneur that influence the decision to start a business, such as personal preferences and experiences. Structural push factors are those that exist that might be

gender-specific but women entrepreneur-neutral. For example, a persistent wage gap might reflect a structural issue that would influence most women in the labor force, without concern for the specific characteristics of one individual woman entrepreneur. Another example is federal or state policies that address paid leave or subsidized childcare, potentially affecting all parents or family caregivers, a disproportionate share of whom are women.<sup>4</sup> Additionally, it is important to note that structural push factors may implicitly influence personal push factors.

While not limited to an analysis of necessity entrepreneurship, Thébaud (2015) investigates the relationship between work-family institutions and gender gaps in entrepreneurship. She finds that there is theoretical purchase in the observation that women are more likely than men to start a business in order to resolve work-family conflict; in such instances, entrepreneurship is essentially a fallback or “Plan B” employment strategy. In this respect, the business decision could be classified as necessity-driven, given the need to either resolve competing demands or find an alternative approach to meeting all of these ends.

In subsequent work, Thébaud (2016) found that when women working full time encounter increased demands for unpaid work (such as children), they are likely to cut back hours, switch to a part time job, enter a more female-dominated occupation, or “opt out” of the labor force altogether. Her observations support the notion that a work-family balance can lead to employment decisions driven by the necessity to resolve conflict, which encompasses entrepreneurship as a means to achieve work-life balance. While the answer may be fact-specific, there are frameworks in place to develop a greater understanding of these decisions, such as Thébaud’s use of the GEM data to explore gender gaps in entrepreneurship as driven by work-family conflict.

A limitation of applying a broader definition of necessity entrepreneurship is the blurring of lines between necessity and opportunity with respect to the voluntary selection of one labor force alternative over another. For example, Figueroa-Armijos, et al. (2013), citing Mattis (2004), Bennett and Dann (2000), and Walker and Webster (2007), summarize several pull factors related to greater schedule flexibility and control, independence, self-fulfillment, and higher income. As a result, there is a potential ambiguity in evaluating business creation that arises out of the desire to fulfil a personal objective that is unattainable in the current employment environment.

### ***The Influence of the Life Course***

The factors of timing, opportunities, individual agency, and external social factors are all relevant when exploring necessity as a driver of women’s entrepreneurship. With respect to timing, both opportunity and necessity entrepreneurs are driven by motivating

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<sup>4</sup> It is important to recognize that both women and men face caregiving tensions. However, based on the structure of modern society and gender norms, these tensions most often accrue to women compared to men.

factors and expectations that fluctuate over the life course. The self-employment decisions being made at one point in time for a particular entrepreneur might be vastly different at another point in time. This relates to the life course, which Elder (1994) views as a multilevel phenomenon, ranging from structural pathways through social institutions and organizations to the social trajectories of individuals and their development pathways. For example, the self-employment decision driven by necessity might be vastly different for a woman at the outset of her professional career compared to an older woman facing retirement. Specifically, women's perceived financial need, assessment of risk, and strategies to address work-life balance undergird many of the reasons for entrepreneurship at different points in the life cycle.

García-Manglano (2015) investigates cumulative work patterns over the life course for American Baby Boomer women, modeling women's workforce trajectories based on expectations and outcomes, while also identifying specific factors affecting women's career timing and duration. By exploring time series data, García-Manglano observes that a significant number of women (40%) stayed steadily employed through middle age, which indicates that these women did not "opt out" of paid employment due to family or health constraints. His findings also point to policy and cultural changes that could support women's employment throughout the life course, which is particularly germane when considering policy implications associated with women necessity entrepreneurs.

Assessing necessity as a driver of women's entrepreneurship requires an awareness of life course patterns. For example, policies designed to target better paid leave or subsidized childcare might have more relevance and weight with a woman in her 20s or 30s, as opposed to her 50s or 60s.<sup>5</sup> Consistent with García-Manglano's research, such policy changes could have an impact on a woman's decision about whether to remain in the labor force or pursue entrepreneurship as a means to meet needs at a given point in time with respect to her professional life, her personal life, or both. Again, structural pushes influence personal pushes.

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<sup>5</sup> This is not to say these issues are exclusive to a particular age group. Rather, one can hypothesize that there is a larger proportion of women in a younger age group dealing with fertility and childcare issues than in an older group.

### 3. Assessing Current Data on Women Necessity Entrepreneurs

The primary objective in analyzing entrepreneurship data drawn from available sources is to determine whether business and personal characteristics provide sufficient information to help identify and classify women necessity entrepreneurs. Ideally, these data would provide identifying characteristics of women necessity entrepreneurs, as well as information on the specific motivations that led a woman to choose a necessity-based entrepreneurship path.

Developing a data-driven definition of “necessity entrepreneurship” is an important first step in the data analysis process and one that immediately elucidates some of the shortcomings of existing data sets. For example, as the literature review highlights, many researchers have used GEM data, where necessity entrepreneurship is defined largely by a single question (i.e., did you start this business to take advantage of a business opportunity or because no better choices for work existed). Other data sets, such as the SBO or American Community Survey (ACS), require subjective assumptions about what classifies a particular business or individual as a “necessity” versus “opportunity” entrepreneur. Common assumptions regarding the classification of necessity entrepreneurship might entail thresholds on receipts or income, given the perception and observation that opportunity entrepreneurs typically exhibit higher revenue or higher income businesses than necessity entrepreneurs.<sup>6</sup>

The inherent difficulty with applying a quantitative definition of necessity entrepreneurship is the inclusion of initial assumptions or thresholds that immediately limit the scope of a necessity definition, possibly excluding women necessity entrepreneurs who cannot be neatly described by the pre-determined categories required in the quantitative data. As a result, there is no single data set that captures all of the desired information on women necessity entrepreneurs. Some data sets are particularly instructive with respect to business operations, albeit often at a single point in time. Other data sets include information on start-up *motivations*, but these are often out of date and do not contain relevant personal characteristics. Nevertheless, it is beneficial to explore and test initial definitions of women necessity entrepreneurs, not only to identify where data limitations exist (i.e., a call for future research and improvement) but also to identify areas where information can be gleaned about women necessity entrepreneurs.

#### ***Testing a Data-Driven Necessity Entrepreneurship Definition***

The literature review noted that receipts and income were one distinguishing factor between opportunity and necessity entrepreneurs, where opportunity

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<sup>6</sup> The research design also considered a number of additional data sources, such as the Survey of Income and Program Participation (SIPP), the Panel Study of Entrepreneurial Dynamics (PSED), the Kauffman Firm Survey (KFS) and the Annual Survey of Entrepreneurs (ASE). However, this report relies on the ACS and SBO as the best representative examples to illustrate both the benefits and concerns with existing data on necessity entrepreneurship.

entrepreneurs typically had higher growth aspirations and outcomes. As a result, an initial definition of necessity entrepreneurship focuses on creating a threshold level for business receipts, where businesses that have revenues below a set amount are deemed “necessity-based” businesses. Analysis of Census Bureau Survey of Business Owners and Self-Employed Persons (SBO) data facilitated an investigation into the effectiveness of this receipts-based threshold definition of necessity entrepreneurship.<sup>7</sup>

The initial definition included a receipts threshold of \$50,000. While subjective, it represents a starting point to begin exploring what differences might exist between businesses when using receipts as a defining characteristic of necessity-based businesses. Table 1 on the following page presents these summary data for the proportion of total firms that have receipts less than \$50,000 using the SBO.

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<sup>7</sup> Every five years, the Census Bureau conducts the Survey of Business Owners and Self-Employed Persons (SBO). The SBO is the only regularly collected nationally representative survey on business ownership. The survey includes data on demographic, funding, and operational characteristics of business owners of non-farm businesses with annual revenues over \$1,000. The most recent survey is from 2012, with the prior survey from 2007. For more information about the SBO, please see <http://www.census.gov/programs-surveys/sbo/about.html>

**Table 1 – Proportion of Firms with Receipts Less Than \$50,000 by Gender Ownership**

Industry	Women-Owned		Men-Owned	
	2007	2012	2007	2012
Total for all sectors	0.80	0.81	0.60	0.61
Other services (except public administration)	0.88	0.90	0.74	0.75
Health care and social assistance	0.84	0.84	0.49	0.44
Professional, scientific, and technical services	0.76	0.76	0.62	0.62
Administrative and support and waste management and remediation services	0.89	0.91	0.76	0.76
Retail trade	0.79	0.80	0.52	0.52
Real estate and rental and leasing	0.70	0.66	0.55	0.51
Arts, entertainment, and recreation	0.89	0.91	0.85	0.85
Educational services	0.92	0.91	0.88	0.87
Construction	0.69	0.70	0.60	0.63
Accommodation and food services	0.53	0.58	0.31	0.29
Finance and insurance	0.70	0.70	0.55	0.53
Transportation and warehousing	0.71	0.72	0.58	0.57
Wholesale trade	0.57	0.60	0.34	0.35
Manufacturing	0.64	0.68	0.39	0.42
Information	0.83	0.84	0.68	0.70
Agriculture, forestry, fishing and hunting	0.83	0.85	0.72	0.74
Mining, quarrying, and oil and gas extraction	0.72	0.70	0.56	0.54
Utilities	0.88	0.89	0.71	0.69

Source: 2007 and 2012 SBO, Table A05 and PQC, Inc. calculations

The data in Table 1 highlight the first major concern with the preliminary definition. Specifically, the existing literature demonstrated that the Great Recession and its lingering effects on the economy may have pushed a number of individuals into self-employment. As a result, one might expect that the number of necessity entrepreneurs would increase and therefore, the proportion of firms with less than \$50,000 in receipts would rise. Yet, the data in Table 1 do not illustrate this phenomenon. In fact, there are certain instances where for both men and women, the proportion *declines*, contrary to expectations.

There are several major flaws in initially defining women-necessity entrepreneurs as women-owned businesses with receipts less than \$50,000. First, this definition fails to recognize the stage of a particular business at a point in time, such that an opportunity-based venture could be in its early stages where revenue generation is not as important as building out the innovation, product, or service. Second, the use of a static threshold fails to recognize geographic differences in cost of living or poverty thresholds, such that a business with under \$50,000 in receipts in one area may not

have the same “standard” for defining necessity as a business making under \$50,000 in another region. Third, it does not consider the level of ownership and whether one is more likely to see necessity entrepreneurship driven by a sole proprietorship or single owner compared to group ownership. Fourth, it does not consider potential lifestyle businesses that are not related to necessity, but simply represent supplemental income arising out of the opportunity to generate additional household income. Lastly, it unwittingly assumes that necessity-based businesses are either low-growth or low-revenue over the long term. Indeed, many necessity-based businesses can transition out of the small business category over time and become more opportunity-based businesses by exploiting market opportunities.

Even if one places additional qualifiers on the receipts-based necessity definition, the data are not conclusive in identifying any common characteristics across necessity entrepreneurs. For example, if one includes only single-owner firms<sup>8</sup>, excludes those with high levels of start-up capital,<sup>9</sup> and excludes companies that were inherited or acquired, the data analysis still fails to provide concrete conclusions regarding specific characteristics or trends among women necessity entrepreneurs. Analysis of the 2007 SBO data indicates a wide variety in business and owner characteristics including founding date (i.e., some of these “necessity-based businesses” date to before 1980), owner education, hours worked per week, and age of owner. Ultimately, Table 1 tends to reflect an assessment of low-receipt firms, as opposed to characterizing women necessity entrepreneurs, even though there may be overlap. Nevertheless, the SBO data may prove useful once other data sets and analyses provide more concrete definitional guidance on women necessity entrepreneurs.

### ***Testing an Alternative Necessity Entrepreneurship Definition***

While the SBO definition provided a baseline for beginning the discussion about characteristics of women necessity entrepreneurs, data from the American Community Survey (ACS) provide an opportunity to explore more refined definitions that incorporate personal, family, and business characteristics.<sup>10</sup> Consideration of ACS data elements provides the basis for the next testable definition of women necessity entrepreneurs, which focuses solely on self-employed women and their households. The definition includes an explicit linkage between necessity entrepreneurship and poverty. In this

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<sup>8</sup> Using the assumption that necessity-based entrepreneurship arises out of the motivations and decisions of a single entrepreneur as opposed to a group of women entrepreneurs.

<sup>9</sup> Using the assumption that high startup costs might favor an opportunity-based perspective as opposed to a necessity-based perspective

<sup>10</sup> The American Community Survey (ACS) is an annual survey of the American workforce sponsored by the United States Census Bureau. The ACS is nationally representative and offers reliable and generalizable data on labor force dynamics, including the prevalence of business ownership and self-employment activity. For more information about the ACS and the survey instrument, please see <http://www.census.gov/programs-surveys/acs/technical-documentation.html>. The ACS analyses in this section utilize the Public Use Microdata Sample (PUMS) data files aggregated for the 2010 through 2014 period, available for download at <http://www.census.gov/programs-surveys/acs/technical-documentation/pums.html>.

case, a necessity entrepreneur is a self-employed individual living in a household below the poverty level for the number of occupants. Explicitly recognizing need-based entrepreneurship to alleviate poverty gives strength to the ACS-based definition over the SBO-based one, but narrows the focus to economic motivators of necessity entrepreneurship, such that the ACS-based definition presupposes the “emergency” or “survival” entrepreneur characteristics to alleviate poverty. This definition is a baseline for true economic necessity as individuals in poverty who start businesses are likely doing so to increase their economic position because they *need* to.

Employing this definition yields results that are both consistent with existing literature, but also raise a number of questions about whether the necessity definition is sufficient. Exploring the definition along three characteristics, education, race and household composition, facilitates an investigation into the potential limits of the ACS-based definition. The reason for exploring the definition along these characteristics lies in existing research that highlights a correlation between each variable and the poverty status of U.S. individuals. Specifically, Proctor, Semega and Kollar (2016) use Census Bureau data to illustrate that the percentage of individuals in poverty is negatively correlated with educational attainment level, is more common among individuals that are Black or Hispanic (any race), and differs based on household composition. Table 2 contains the distribution of entrepreneurs by education level that fall under this definition versus those that are not covered by the definitional parameters.

**Table 2 – Educational Attainment of Entrepreneurs using the ACS-based Definition of “Necessity”**

Education Level	Women		Men	
	<i>In Poverty</i>	<i>Out of Poverty</i>	<i>In Poverty</i>	<i>Out of Poverty</i>
Did Not Complete High School	27.5%	9.1%	32.6%	10.9%
High School Diploma/GED	28.7%	23.5%	32.7%	26.1%
Some College	23.8%	22.8%	17.9%	20.7%
Associate's Degree	7.0%	8.5%	4.7%	6.5%
Bachelor's Degree	9.6%	21.9%	8.5%	20.4%
Master's, Professional, or Doctorate Degree	3.5%	14.2%	3.6%	15.4%
Total	100.0%	100.0%	100.0%	100.0%
<i>Count</i>	28,203	247,837	41,480	431,850

Source: American Community Survey 2010-2014 PUMS, US Census Bureau

The data show a negative correlation between educational attainment and poverty status, where self-employed individuals with less education are more likely to be in poverty than self-employed individuals with more education. This is consistent with the general population data (i.e., not limited just to entrepreneurs) regarding educational attainment and poverty status. This intuitively supports the notion of these individuals

being necessity entrepreneurs, although the data are insufficient to either statistically test or prove this assumption, given the lack of causal reasons for starting a business.

Table 3 shows the distribution of entrepreneurs by race, gender and poverty-driven necessity status. Once again, the data for the entrepreneur subset general agrees with the overall findings of Proctor, Semega and Kollar (2016), who found that African Americans had higher incidence of being in poverty compared to Asian and White Americans..

**Table 3 – Racial Distribution of Entrepreneurs based on the ACS-based Definition of “Necessity”**

Race	Women		Men	
	<i>In Poverty</i>	<i>Out of Poverty</i>	<i>In Poverty</i>	<i>Out of Poverty</i>
White	66.5%	81.8%	73.4%	84.9%
Black/African American	13.8%	5.4%	8.7%	4.8%
American Indian/Alaskan Native	1.1%	0.5%	1.0%	0.5%
Asian	4.9%	6.9%	4.9%	5.3%
Native Hawaiian/Pacific Islander	0.2%	0.1%	0.2%	0.1%
Other Race	10.7%	3.6%	9.6%	3.0%
Two or More Races	2.9%	1.8%	2.3%	1.5%
Total	100.0%	100.0%	100.0%	100.0%
<i>Count</i>	<i>28,203</i>	<i>247,837</i>	<i>41,480</i>	<i>431,850</i>

Source: American Community Survey 2010-2014 PUMS, US Census Bureau

Table 3 illustrates that African Americans, in particular, have a higher relative proportion of entrepreneurs meeting the modified ACS poverty-based definition of necessity. This is true for both men and women, although African American women had an even greater proportion in poverty compared to African American men (13.8 percent of the in-poverty gender total compared to 8.7 percent of African American men). From a theoretical level, these findings align with expectations given the income and household structural foundations of the poverty-based definition. Specifically, the data and existing literature suggest that African Americans are more likely to live in poverty than Whites and are also more likely to be single heads of households, which corroborates or “fits” the ACS modified definition.

Yet, there are also confounding variables at play in this situation. As a result, it is erroneous to assume a causal link between race and whether a particular woman is a necessity entrepreneur. Indeed, entrepreneurship may provide an avenue for an African American woman to address financial issues and potential poverty, but race

alone is not a deciding factor for concluding that an individual subject to this definition is a necessity entrepreneur.

Similar constructs exist when assessing other demographic or sociological variables related to the “in poverty” and “out of poverty” ACS-based definition for women necessity entrepreneurs. Using this definition, self-employed women in poverty were more likely to be never married, separated, divorced or widowed than out of poverty women. Likewise, self-employed women in poverty were also more likely to have children than self-employed women out of poverty. Again, these findings align with expectations given the foundations of the family and income structural definitions of the poverty-based ACS definition. However, the question remains whether the data provide the basis for determining causality, or alternatively whether the data are the outcome of other causal factors which predated the entrepreneurial (i.e., self-employment) decision.

Table 4 includes an analysis that illustrates both the benefits and deficiencies of the ACS poverty-based definition for women necessity entrepreneurs. This table summarizes family employment status by entrepreneur type, grouped by gender and poverty status categories.

**Table 4 – Family Employment Status by Entrepreneur Type and Poverty-Based Necessity Definition**

<b>Married Household</b>	<b>Poverty</b>	<b>Non-Poverty</b>	<b>Count</b>
Both in labor force, at least 1 employed	5.9%	94.1%	576,944
1 in labor force, neither employed	37.7%	62.3%	8,718
Neither in labor force	12.9%	87.1%	55,093
<b>Single Household</b>	<b>Poverty</b>	<b>Non-Poverty</b>	<b>Count</b>
Man: In Labor Force	16.0%	84.0%	30,183
Man: Unemployed/Not in Labor Force	30.8%	69.3%	9,248
Woman: In Labor Force	25.8%	74.2%	45,160
Woman: Unemployed/Not in Labor Force	41.2%	58.8%	22,504
Source: American Community Survey 2010-2014 PUMS, US Census Bureau			

The top portion of Table 4 includes only married couples, of which at least one member is a business owner. As an initial matter, the use of the family employment status variable from the ACS includes an inherent weakness, in that it fails to capture same-sex couples. Nevertheless, the data for married couples shows that when both individuals are in the labor force and at least one is employed, there is a strong likelihood of not fitting the poverty-based definition of necessity entrepreneurship for self-employment. Not surprisingly, when only one individual indicates that they are in the labor force but both individuals are unemployed, there is a higher likelihood of being in the “poverty” necessity category. The “Neither in labor force” category presents one

of the challenges associated with the ACS data and definitions. This category could represent married couples where both individuals are on subsidies or assistance or alternatively, consider themselves entrepreneurs (i.e., self-employed), but not part of the labor force.

The bottom portion of Table 4 focuses only on households led by single individuals. In general, single householders are more likely to fit the poverty-based definition of necessity self-employment than married couples. Furthermore, the data show a clear trend that women are more likely to be in poverty compared to men with a similar family employment status. Finally, women who are either unemployed or not in the labor force had the highest propensity for falling into the poverty-based definition of necessity entrepreneurship. Recalling that these women are those who identify as self-employed, this result raises questions about the nature of their entrepreneurial efforts and whether additional interventions and assistance should focus on elevating or empowering these women to escape financial hardship.

### ***Summary of Data-Driven Definitions***

The initial data-driven definitions for women necessity entrepreneurs fail to provide a solid basis to determine characteristics and trends. The data-driven definitions are too simplistic to yield sufficient clarity on the different types of women engaging in entrepreneurship out of necessity. The data are informative with respect to identifying characteristics and trends, but only with the requisite prior knowledge of what constitutes a necessity entrepreneur. Absent a reliable and robust definition, the data only reflect characteristics of a potential subset of women necessity entrepreneurs or even worse, only provide information on low receipt or low income self-employed women without regard for entrepreneurial motivation. Given that motivations should be the deciding factor that drives the necessity-based definition, the existing data lack sufficient information to link the motivations with the characteristics, trends, and outcomes.

The SBO-based definition that employed a receipts threshold does not adequately capture whether a particular business is born out of necessity or opportunity. As a result, a simple receipts threshold as the determining factor ignores key considerations such as business stage, start-up capital, technology, and other factors that might provide a distinction between necessity-based ventures versus opportunity-based ventures.

The ACS definition represents an improvement over the SBO definition, given the more focused attention to poverty as a defining factor for necessity. However, the analyses conducted using this definition also raise a number of questions, given the confounding nature of certain variables. This includes the degree to which necessity entrepreneurship can arise out of employment situations where entrepreneurship is not the only option, but is the preferable option (i.e., implying that other options exist but are not optimal for a particular woman). In these cases, a poverty threshold severely limits

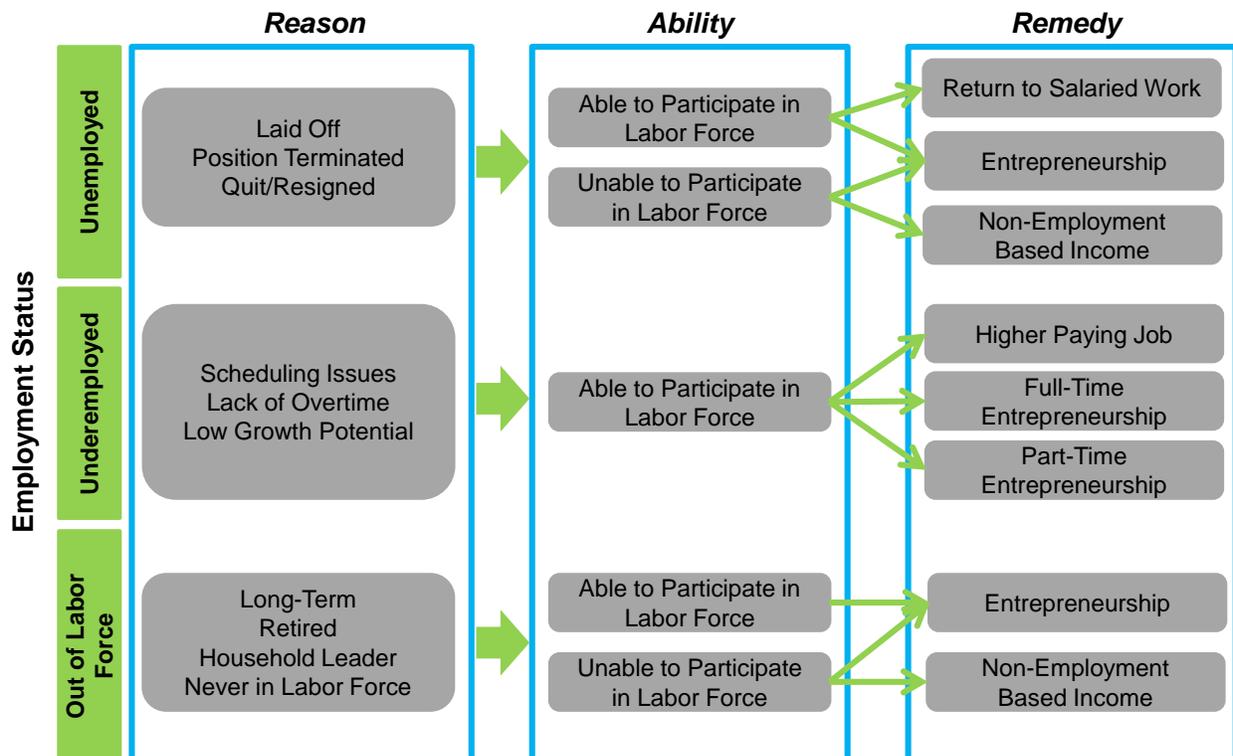
the utility of exploring the different typologies that exist and only applies to the subset of existing literature that defines necessity entrepreneurship as individuals seeking the only option to meet their basic economic needs.

## 4. Necessity Entrepreneurship Model

The existing literature and available data succinctly recognize that women, and particularly women entrepreneurs, are not a homogeneous category across time or space and certainly not with respect to race, ethnicity, age and a number of other socioeconomic or demographic variables. With this recognition of heterogeneity comes the realization that economic empowerment of necessity entrepreneurs is not limited to the singular lens of a woman lacking any alternatives to meet basic survival needs due to no other labor force options. While it is certainly one component of necessity entrepreneurship, this research explores and develops a broader definition that includes women who explore and ultimately engage in entrepreneurship, motivated by their belief that the traditional labor options available are insufficient to meet either their economic or non-economic needs and goals (or both).

Figure 1 presents a theoretical model that captures some of the paths that lead to necessity entrepreneurship as a possible remedy to a particular employment status and labor decision scenario. The figure includes three distinct employment statuses, as well as the potential decisions and remedies to the issues facing a particular woman with one of these statuses. This model is a framework that acts as the starting point for exploring an expanded definition of necessity entrepreneurship (i.e., beyond the traditional needs-based definition).

**Figure 1 – Theoretical Framework for Women Necessity Entrepreneurs**



The three categories of employment status include “unemployed,” “underemployed,” and “out of labor force.” In each case, the employment status is relevant at the decision point immediately prior to seeking a remedy. The reasons for being in a particular employment status are shown in the “reason” column. The “ability” column reflects the potential decisions facing a woman with respect to pursuing employment in the labor force. The last column, “remedy,” reflects the potential outcome or solution to addressing the issue or issues that caused a woman to consider the most preferable labor force outcome.

The remedies include “return to salaried work”, “entrepreneurship,” “non-employment based income” and for those who are underemployed, an option to improve their income situation by pursuing a “higher paying job.” All three statuses can engage entrepreneurship as a remedy. However, the reasons that entrepreneurship may be the best alternative to the other options can vary, even within a particular status. Regardless of the particular employment status and selected remedy, the model extends beyond a traditional necessity definition per GEM to allow additional flexibility in realizing that other options may exist, but they may not be preferred.

There are two general categories of unemployed women, those that involuntarily became unemployed (e.g., laid-off or terminated) and those that voluntarily leave their jobs. The specific reasons for becoming unemployed are important, as they may influence the motivations to seek one remedy over another. For example, a woman who was laid-off may seek a return to salaried work as the optimal solution to income loss due to unemployment. Absent a ready salaried option due to a shortage of suitable labor options, she may find the need to use social assistance (e.g., unemployment benefits) or pursue entrepreneurship as a means to meet basic necessities. In contrast, a woman might also be unemployed after leaving a job due to high dissatisfaction with her position. This dissatisfaction could be the result of concerns such as insufficient salary, a glass ceiling, or inflexible work policies regarding maternal leave and childcare.

In each case, the unemployed individual has several remedies she can pursue to address the particular market failure which led to unemployment. The existing literature notes that many women who lose their job due to economic factors are often pressed into entrepreneurship to make ends meet. Another testable hypothesis includes the idea that women who leave a position for non-economic reasons often find themselves weighing a decision between self-employment or alternatively, finding a job that has better pay, policies or environment conducive to remedying the specific reasons she left her last job. The specific decision may depend on the fact pattern associated with each individual entrepreneur, although one can hypothesize that commonalities in weighing critical decisions exist among different types of women necessity entrepreneurs.

A separate category is women who have a paid position that is insufficient to meet a desired objective, whether it is increasing income to accommodate a particular lifestyle or to satisfy basic needs. In this “underemployed” status, women might pursue

either higher wage jobs or alternatively, consider entrepreneurship as a means to supplement their income. Similar to unemployed women, the particular remedy reflects the assessment of the best alternative to achieve the desired outcome. One can construct a potential hypothesis to test these outcomes, such that if a higher wage or second job is available, this may be preferable over a self-employment option. Alternatively, she can pursue either a full-time or part-time business venture that satisfies the particular need (e.g., higher income).

The third employment status category includes women who have either been out of the labor force or have never been in the labor force. These women might be household leaders responsible for meeting family demands while a spouse or partner was in the workforce. This group also includes women who may be dealing with a loss of spousal or partner income due to death or divorce. Another category of the out of labor force employment status is retired women that explore entrepreneurship to meet economic or personal needs. While a return to salaried work is potentially a feasible option, in the paradigm of defining necessity entrepreneurship, this covers a decision point of either retaining the status quo and drawing on social assistance or retirement savings, or alternatively, pursuing self-employment options. Lastly, this category also includes women that have never been in the labor force. An example includes immigrants that pursue entrepreneurship in lieu of joining the labor force, or individuals who may have previously drawn income from non-formal sources, such as off-the-books sales.

The particular remedy can also depend on the household composition and family dynamics. The presence of a wage earning spouse or partner might influence the perceived risks facing a woman seeking a labor force outcome to resolve a particular issue. An example is whether having a wage earning spouse lessens the financial risk associated with starting a business to resolve a workplace issue. Alternatively, there are couples that make joint financial decisions but live separately. An example is a couple living in different places because of economic reasons (e.g., job requirements) that remain married or together. The motivational reasons for entrepreneurship might be different in this situation, compared to a single, married, or domestic partnership household. The differences in geography and additional challenges in maintaining a work/family balance while living apart can influence the pursuit of a particular remedy.

The broad applicability of necessity entrepreneurship as a potential labor force outcome for women, whether preferred or not, only strengthens the need to explore this issue in greater detail. This includes an assessment of economic and demographic variables such as geography (e.g., location of woman necessity entrepreneur), industry, race/ethnicity, level of education, age, marital status, income level, and household characteristics (e.g., if there are dependents such as children or relatives). The specific situation and characteristics of each woman necessity entrepreneur can theoretically have a significant impact on her decision to pursue entrepreneurship and the operations and growth expectations of her firm. This impacts the temporal nature of the entrepreneurial effort, as well as expectations for growth and sustainability.

## **5. Policy Considerations and Recommendations**

A broader necessity entrepreneurship definition, such as the one posited by the theoretical model presented in the prior section, recognizes that entrepreneurship can serve as a vehicle for both economic and social/lifestyle empowerment for women. The body of literature typically characterizes necessity entrepreneurs as women who, because of their economic circumstances, start businesses for economic survival. Yet, additional literature also recognizes that necessity entrepreneurship can, and should, include not only women who start businesses out of economic need but also women who start businesses because it represents the best option for them when considering all other factors.

The inability of existing data to provide concrete definitional parameters, characteristics, or trends related to the expanded concept of a woman necessity entrepreneur underscores the importance of the issue. The lack of robust data analysis and results is not a failure, rather it highlights the complexity of the issue and hints at the numerous policy challenges that exist when trying to evaluate and implement policies to assist the different types of women necessity entrepreneurs.

### ***Policy Considerations Related to Women Necessity Entrepreneurs***

The existing literature summarizes several key areas where policies and interventions can have a significant impact on the entrepreneurial decisions women make. Considering the paradigm described in Figure 1, there are three general categories of policy considerations that have particular relevance when assessing women necessity entrepreneurs. These include policy considerations designed to:

- Alleviate social and economic disparities facing women in the workforce;
- Address macroeconomic and general unemployment issues in the United States, including gender neutral solutions; and
- Assist women who have already made, or are about to make, the necessity entrepreneurship decision to survive and thrive as business owners and leaders.

The first category pertains to an analysis of workforce policies or behaviors that generate a perceived market failure and create a push factor for women. In these cases, women seek a labor force alternative, i.e., entrepreneurship, which allows them to address the outstanding issue(s). The most common examples cited in the literature included inadequate paid family leave, lack of childcare options, inflexible work environment (e.g., lack of part time opportunities to facilitate family responsibilities or needs), hostile work environment against women, and persistent gaps in wages and leadership positions (e.g., glass ceiling).

The literature also cites that policies designed to address these issues can have positive ramifications for women, whether they choose entrepreneurship or decide to remain a paid employee. For example, Thébaud (2015) found that countries with better paid leave, subsidized childcare, and more part-time opportunities demonstrate a negative correlation with necessity entrepreneurship and a positive correlation with growth-oriented forms of entrepreneurship. In this respect, the policies alleviated the need to pursue necessity entrepreneurship as the best labor force alternative, since the policies in place alleviated the need to make one choice *at the expense* of the other.

In many cases, the decision to pursue necessity entrepreneurship requires an evaluation of the risks inherent in opting for entrepreneurship as the best alternative to the current labor force situation. From a policy perspective, a question exists as to whether the current policies in place provide a sufficient basis for a woman to evaluate the trade-offs between additional risk that might be associated with entrepreneurship with the relative “safety” of the status quo, however suboptimal. If the policies are insufficient to address primary concerns, one would expect a significant move towards necessity entrepreneurship given the unacceptable status quo. Yet, policymakers have little information or data to evaluate these considerations, providing further support for exploring the issue in more detail by interacting directly with women necessity entrepreneurs.

The second category involves addressing market issues related to overall employment trends. The prime example is the rise in the unemployment rate due to the Great Recession. As noted in the literature review, Beckhusen (2014) observed a migration towards entrepreneurship, with the belief that meeting basic economic needs was a potential driver of this increase in self-employment. If the recession drives the increase in self-employment, policy considerations that focus on job creation and job training are germane. This is particularly true if necessity entrepreneurship was the only option, as opposed to the preferred option. In these cases, the woman might be a reluctant entrepreneur, which arguably, can lead to suboptimal growth and performance. Policies designed to reintegrate this individual back into the paid labor force might be preferable to policies designed to foster entrepreneurship.

Similar to the first category, risk also plays an important role in evaluating labor force options for women necessity entrepreneurs. From a policy perspective, understanding women necessity entrepreneurs’ assumptions about risk can have an impact on which policies to target at a macroeconomic level. For example, women necessity entrepreneurs born out of the recession might have different risk and reward expectations at the founding of their entrepreneurial endeavors. The goal of meeting basic economic needs might be one fraught with uncertainty, such that the entrepreneur will find any non-entrepreneurial option more favorable when one presents itself. In these cases, a key (and yet unanswered) question is whether policies should focus on integrating these women back into the workforce (even if the job is not “ideal”) or on lowering the risk and providing more assistance to help with the necessity-based business.

The third category for policy investment and intervention involves fostering entrepreneurial endeavors to create and grow sustainable businesses. Assuming *a priori* that necessity-based businesses are short-term efforts to resolve an immediate economic or social issue is shortsighted. In fact, women necessity entrepreneurs are an important part of the economy as tax paying businesses that have the ability to transition into high growth, opportunity-based ventures with employees. With respect to these necessity entrepreneurs, more relevant policy considerations identified in the literature include potential tax reforms, addressing access to capital issues, and finding other ways to foster growth and employment among these businesses.

Given the economic component of necessity entrepreneurship, access to capital is a continuing challenge. Gaining insight and understanding into the specific capital resource challenges facing *women necessity* entrepreneurs provides policymakers with an opportunity to evaluate whether current organizations and programs designed to serve necessity entrepreneurs are actually effective and if not, where improvements can be made. Two examples include Small Business Development Centers (SBDCs) and Community Development Financial Institutions (CDFIs).<sup>11</sup> Insights derived specifically from women necessity entrepreneurs are relevant to policymakers interested in responsibly improving or reforming capital access programs associated with these organizations.

The U.S. Small Business Administration's Women's Business Centers (WBCs) also benefit from gaining additional insight into the diverse nature of different women necessity entrepreneurs. From a policy perspective, challenges exist with respect to how WBCs function in providing technical assistance and guidance to necessity entrepreneurs that have the ability to transition from a necessity-driven to an opportunity-driven business. These challenges include the aforementioned access to capital issues, but also involve consideration of how WBCs (and other organizations) can provide business and strategic advice to assist necessity entrepreneurs that require more formal assistance. In order to evaluate resource allocation, policymakers need a better understanding of exactly what motivates women necessity entrepreneurs and what the preferable desired outcome is for a particular type of necessity entrepreneur.

It is important to recognize that these three categories are a starting point in the discussion of potential policy solutions. Before one can reasonably assess the

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<sup>11</sup> CDFIs share a common goal of expanding economic opportunity in low-income communities by providing access to financial products and services for local residents and businesses. While not exclusively designed to assist necessity entrepreneurs, they represent one avenue where low-income necessity entrepreneurs can seek financial assistance. As noted by the Treasury department, "CDFIs can be banks, credit unions, loan funds, microloan funds, or venture capital providers. CDFIs are helping families finance their first homes, supporting community residents starting businesses, and investing in local health centers, schools, or community centers. CDFIs strive to foster economic opportunity and revitalize neighborhoods." [https://www.cdfifund.gov/Documents/CDFI\\_infographic\\_v08A.pdf](https://www.cdfifund.gov/Documents/CDFI_infographic_v08A.pdf).

appropriate intervention and response, it is necessary to better understand the different types of women necessity entrepreneurs. An important task to conduct prior to assessing policy solutions is to identify the different types of women necessity entrepreneurs, including the underlying motivations and reasons behind these women's conclusion that traditional labor force options are not the best fit for them.

### ***Recommendations for Future Research***

The necessity entrepreneurship model posited previously in Figure 1 is a theoretical framework upon which additional research is necessary. A primary objective is to test the merits of the model by exploring the motivations of women necessity entrepreneurs. By doing so, one can gain greater insight into this potentially overlooked set of entrepreneurs who often operate in the shadow (whether real or perceived) of opportunity entrepreneurs. Key recommended next steps include:

- Leverage the existing literature and theoretical model to develop different typologies of women necessity entrepreneurs. The preliminary data analysis provides information on many different business and entrepreneur (i.e., owner) characteristics that *might* influence what constitutes a necessity entrepreneur. The next step is to hypothesize what these look like by combining suggested motivations with demographic and economic variables to create testable typologies.
- Develop key *policy-driven* research questions that explore many of the issues and challenges facing women necessity entrepreneurs. This step reaches beyond a simple confirmation that access to capital is an issue for women necessity entrepreneurs and focuses on what policies and resources currently exist, could exist, and should exist for women necessity entrepreneurs to achieve economic empowerment.
- Engage with women necessity entrepreneurs to leverage rich and robust qualitative and quantitative data to help advance the knowledge base and discussion with respect to the issues and challenges facing women necessity entrepreneurs. A preferred option is a well-designed case study approach that can begin by positing the key issues and then testing, exploring, and refining them to answer critical questions related to resources and effective policies.

Understanding the drivers, mechanics, and issues inherent in necessity-based entrepreneurship is essential to developing policies that can effect real change. A necessary first step is to broaden the women entrepreneurs classified as "necessity" such that policymakers and stakeholders consider both economic and social/lifestyle factors. Given the non-homogeneous nature of women necessity-based entrepreneurs as well as the lack of appropriate data-based definitions of necessity entrepreneurship, additional work combining qualitative and quantitative analysis will provide

policymakers, stakeholders, and women entrepreneurs alike with quality insights to inspire action.

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