WHO MAKES MONEY FROM ENTREPRENEURSHIP?

- Who makes money from small business ownership or “entrepreneurship”? Despite there being 4.5 million small businesses in the UK, we know little about how much money different kinds of entrepreneur take home.

- We do know that many business owners are often driven by motivations other than money - they want to be independent, creative, flexible. So why does evidence about earnings matter?

1. Most business owners do, at least, need to make a living wage. So, people considering business start-up or already running a small business need information about factors that affect their chances of making the kind of living their families need.

2. Governments internationally invest millions in services that promote business start-up or growth in the hope of creating economic wealth or routes to a better standard of living for the disadvantaged. We need to know how to target this investment to achieves its goals.

3. “Next year, Rodney, we’ll be MILLIONAIRES!”. Del Boy’s catchline might have been fictional but the idea that anyone can create a better life through entrepreneurship is important in our society. We need to find out how often entrepreneurship fulfils this promise.

NEW EVIDENCE: EARNINGS FROM ENTREPRENEURSHIP IN BRITAIN

Researchers at the University of Liverpool and Manchester Metropolitan University have done some clever modelling of a big national dataset – the British Household Panel Survey 1991-2008. Here’s what we found:

HAT DO BRITISH ENTREPRENEURS EARN?

We focused on entrepreneurs whose main job is being in business and whose businesses survived for at least 3 years. For this group, both drawings and profit tend to increase until about year 9 or 10 of trading. After 5 years of trading, average (median) drawings are £12,440 and profits are just under £10,000.

Do older entrepreneurs earn more?
No! Despite having more years of work experience - and possibly more wealth - they typically earn less.

⇒ It may be that older business owners are less motivated to work long hours or to take risks to earn more.

Is there a ‘gender gap’ in the earnings of male and female entrepreneurs?
Yes, women entrepreneurs typically earn less than men.

Do people from higher class families have higher earnings?
Entrepreneurs whose parents were professional or non-manual workers do earn more. Attending a fee paying school doesn’t increase entrepreneur earnings, however.

⇒ It may be that the most wealthy aren’t motivated to work long hours to maximise business returns.

HOW AN ENTREPRENEUR’S BACKGROUND AFFECTS EARNINGS?

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Does more education create higher earnings?
There may be some benefit in getting a solid school education, but a degree doesn’t necessarily lead to higher earnings. Gaining entrepreneurial skill through business experience and training does increase earnings though.

- The limited effect of having a degree may be due to the types of graduates starting businesses. Those with business skills may earn too much in employment to bother with entrepreneurship.

Does a higher class occupation prior to start-up boost earnings?
Only for entrepreneurs who had top professional or management jobs or who were previously self-employed prior to start-up.

- It may be that entrepreneurship offers a better opportunity than employment to earn more for some lower occupations. But this is likely to vary across occupations and requires further research.
- Some entrepreneurs may fail to capitalise on occupational advantages by starting businesses in less prestigious sectors than their work experience.

Is having money prior to start-up related to earnings?
Yes! Entrepreneurs with higher earnings and savings two years prior to start-up earn significantly more in business. Those with incomes low enough to rely on benefits earn less.

- This finding adds to plentiful evidence that small businesses need investment to succeed.
- Higher earners may only persevere with new businesses if they create good incomes. So there may be a ‘selection effect’ here.

Does having a higher household income affect earnings?
If entrepreneurs receive investment income and contribute to household savings they create higher earnings at start-up and across the business life course.

- It may be that continuous investment from the household to the business is necessary to sustain higher earnings from small business ownership.

So – overall - what kind of background boosts earnings?
Our evidence suggests that entrepreneurship may be a route to a higher income for people from the most prestigious occupations or with limited education but business experience/training and money to invest in their businesses.

- We suspect that earnings are higher when people are free and motivated to combine resources from their backgrounds with long hours worked in a business. We explored this idea by looking at the effect of family roles on entrepreneur earnings:

**HOW DOES AN ENTREPRENEUR’S FAMILY ROLE AFFECT EARNINGS?**

If entrepreneurs work longer hours, do they earn more?
Yes, small business ownership is a time hungry occupation and longer hours tend to boost earnings at start-up and across the business life course.

Does spending time on housework and taking a lead role in childcare reduce earnings?
Yes, at start-up and across the business life course.

- Housework and childcare don’t only reduce the hours available to work in the business but also restrict how much entrepreneurs can travel or work away from home.
- Business ideas might be limited by accommodating a domestic role causing a long-term effect on the business.

How do a spouse’s working hours affect entrepreneur earnings?
If a partner works long hours, an entrepreneur’s earnings are reduced at start-up. Later into the business life course, this can have a more positive effect.

- Businesses may be seriously constrained at start-up by a lack of time investment – and maybe motivation to provide for the family – when the entrepreneur has a partner working long hours.
- Once businesses are established, the time issue may be offset by using partner income as business investment or to buy household services like cleaning.
Do entrepreneurs supporting larger families earn more?
Yes, being married and having more children at start-up is related to higher earnings. But an increase in family size has no effect.

- Having greater family financial need may boost motivation to earn but caring for babies may distract time from the business.

If an entrepreneur is the only earner in their family, do they earn more?
Yes, they earn more than sharing the earner role, even compared with entrepreneurs who are the higher earner in a two income family.

- A combination of freedom from domestic responsibilities and motivation to earn for the family probably makes sole breadwinners work hard and effectively in their businesses to create higher earnings.

So – overall - what kind of household roles are related to high or low earnings?
Entrepreneurs earn more if they are relatively free from domestic responsibilities and driven to maximise earning by the responsibility of breadwinning for a larger family.

Later into the business life course, having a partner who works long hours can boost earnings, probably by enabling business investment or purchase of household services to relieve domestic responsibilities.

We expect that women entrepreneurs tend to earn less than men due to taking a traditional family role. We hope to test these ideas in future research.

- Entrepreneurs who are free and motivated to work long hours in their businesses – and who can also invest business experience / training and money in their businesses – may be able to reap good rewards from entrepreneurship.
  - These are most likely to be middle class male entrepreneurs.

- On the other hand, people whose time and motivation is constrained by a heavy domestic role - and who have limited business experience and money to invest - are likely to have low earnings from entrepreneurship.
  - These are most likely to be working class female entrepreneurs.

- Older and more wealthy entrepreneurs may lack motivation to work long hours in their businesses to maximise their earnings.
  - So, the effect of experience and wealth may be disguised by low productivity in applying resources to entrepreneurship.

- The most capable of the better educated may lack motivation to work long hours in business to create higher earnings, opting instead for good employment opportunities or for running a ‘leisure business’.
  - The effect of education on entrepreneur earnings may be disguised by this ‘selection effect’.

HOW DO AN ENTREPRENEUR’S BACKGROUND AND HOUSEHOLD ROLE COMBINE TO AFFECT EARNINGS?

We have not yet tested this directly but our findings (combined with other evidence we have read) lead us to suspect that:

- The most privileged in our society – men from higher class families and occupations with wealth, business experience/training and time to invest in business – may have the best prospects of creating high earnings from entrepreneurship.
What Are the Implications of This Research For You?

In business or thinking of starting a business?

- Be realistic about what kind of income your family needs from the business - do you have the right background and family role to achieve this?
- Don’t assume you’ll get the same rewards from education or occupation as in employment.
- Consider developing your business experience/training and saving to invest.
- Negotiate with your partner or buy domestic services to free up time to work in your business.

Funding or supporting small businesses?

- Don’t assume entrepreneurship is a viable route to a living wage for everyone.
- Invest in developing business experience and training.
- Assume viable businesses demand ongoing financial investment; cross-subsidise the poor and encourage saving and personal investment.
- Offer or incentivise services that enable female entrepreneurs - in particular - to buy themselves out of domestic responsibilities.

**TEACHING**

**Discussion Questions:**
- To what extent is entrepreneurship a route of social mobility? How did reading this research affect your opinion?
- What kinds of investment should governments make to promote wealth-creating entrepreneurship?
- Female entrepreneurs who take a more traditional domestic role often have constrained opportunity to earn money from entrepreneurship. When is this a problem and what can be done about it?
- What further research is required after this study?

**Critical Reading:**
If you are developing students’ critical reading skills, why not give them our full paper and ask them to respond to the questions posed in this summary to check their comprehension of the main findings?

**WANT TO HAVE YOUR SAY OR LEARN**

Read what others are saying about this research – and have your say – on our BLOG: [http://mmucfe.blogspot.co.uk/p/who-makes-money-from-entrepreneurship.html](http://mmucfe.blogspot.co.uk/p/who-makes-money-from-entrepreneurship.html)

Download our full research paper and copies of this summary here: [http://www.mmucfe.co.uk/services/providing/whomakesmoney/](http://www.mmucfe.co.uk/services/providing/whomakesmoney/)

To work on the dataset created for this research: [http://www.data-archive.ac.uk/](http://www.data-archive.ac.uk/)

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