How Did COVID-19 Affect Entrepreneurship?

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A global leader in entrepreneurship education, Babson offers undergraduate, graduate, and executive education programs as well as partnership opportunities. Babson is the co-founder and catalyst for Global Entrepreneurship Monitor (GEM), the world’s largest and longest-standing globally focused entrepreneurship research project.

To date, hundreds of scholars and researchers from all around the world have participated in the GEM project.

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What Happens to Entrepreneurship During a Once-in-a-Century Pandemic?

Every summer since 1999, the GEM U.S. team at Babson College has surveyed more than 2,000 adult Americans and assessed their attitudes and perceptions about entrepreneurship. But this was no typical year.

The impact of the COVID-19 pandemic was far-reaching. Findings yielded by new survey questions, taken together with longitudinal U.S. data collected by GEM over many years, offer a robust understanding of the pandemic's effect on entrepreneurs and established business owners.

These insights will help the public and private sectors shape responses, identify policies, and develop initiatives to support entrepreneurship.
Entrepreneurship as Safety Net—and Path to Solutions

Entrepreneurs did not escape the negative economic effects and pressures of the pandemic. However, they found and pursued ways to survive and thrive through the crisis in 2020.

**50%** of entrepreneurs surveyed started a venture because jobs were difficult to find—representing a 22% increase from 2019.

**50%+** of the entrepreneurs surveyed stated that the pandemic presented new opportunities to pursue with their businesses.

**20%+** of respondents know at least one person who started a business as a direct result of COVID-19.

The GEM results show that people will still turn to entrepreneurship, even in the throes of a social and economic crisis.

— Smaiyra Million P’21, executive director, The Arthur M. Blank Center for Entrepreneurship at Babson College
Did the U.S. Do Enough to Support Entrepreneurship?

When it came to starting new businesses during the pandemic, entrepreneurs encountered challenges, including operational delays and obstacles.
Entrepreneurs encountered challenges, and some uncovered opportunities.

- 82% of entrepreneurs reported that starting a business was more difficult than a year earlier.
- 69% of entrepreneurs reported delays in getting their businesses operational because of COVID-19.
- 54% of entrepreneurs reported that the pandemic provided new business opportunities.
How Effective Were the Government Responses?

Faced with an economic downturn, the federal government launched a formidable response, including economic stimulus payments and additional unemployment benefits for individuals, and the Paycheck Protection Program (PPP) and the Main Street Lending Program for small- and medium-sized business owners. State government responses varied considerably.

The GEM results reveal that entrepreneurs and established business owners held very different perceptions of the efficacy of government responses.
Effects of COVID-19 on Entrepreneurs and Owners of Established Businesses (Those 3.5 Years Old and Older)

When asked if the federal government was more effective than the state government in responding to the economic impact of COVID-19:

- **41%** of established business owners agreed
- **28%** of entrepreneurs agreed

When asked if the state government was more effective than the federal government in responding:

- **32%** of established business owners agreed
- **51%** of entrepreneurs agreed
What Was the Pandemic’s Effect on Existing Businesses?

The effect of COVID-19 on business owners varied in 2020, but many found their businesses faltering in this rapidly evolving environment.

2020

4.4% of the U.S. adult population closed a business.

That’s a 50% increase from 2019.

For an estimated total of 8.7 million Americans who closed a business.

More than 33% of those closing a business pointed to the pandemic as the reason.
Percentage of women and men closing businesses who cited the COVID-19 pandemic as the reason

- Women: 41%
- Men: 30%

Over 40% of survey respondents reported knowing someone who closed their business due to the COVID-19 pandemic.
What Do Entrepreneurs’ Expectations Indicate About Our Future?

An entrepreneur’s expectation for the number of jobs they will create over the next five years is an important indicator of their confidence. Not only in the opportunity they are pursuing and the business they are building—but also in their abilities to recruit, hire, and train others to help them achieve their goals.

Job creation expectations also are important measuring sticks because startups that create many jobs are the businesses that significantly grow local, regional, and national economies.
The percentage of entrepreneurs who expect to create more than five jobs over the next five years:

2019: 32.5% of entrepreneurs

2020: 27.5% of entrepreneurs

This 5 percentage points decrease in the optimism and ambition for higher growth that typically characterize entrepreneurs reflects greater caution among those starting during the pandemic, which greatly added to the uncertainty that business owners already must face in the startup phase.

— Donna J. Kelley P’24, GEM U.S. team co-leader and Professor and Chair of the Entrepreneurship Division at Babson College
Who Were the **Entrepreneurs**?

Black individuals were twice as likely as white individuals to have entrepreneurial intentions and nearly twice as likely to start businesses. These results aligned with surveyed Black individuals' high regard for entrepreneurship as a career path and strong perceptions about entrepreneurial opportunities and their own abilities.

But when it comes to established businesses, Black individuals were half as likely to be running mature businesses, and they reported higher business closures as well. Sustaining a business requires a network of supporters and an ecosystem of resources and conditions, so the GEM data prompts questions about Black entrepreneurs' access to these important elements.

**Entrepreneurs and their businesses**

![Bar chart showing entrepreneurial statistics by race.]

Read more from GEM Report author Donna J. Kelley about how Black women are more likely to start a business than white men in *Harvard Business Review.*
The GEM 2020 survey has revealed the impact COVID-19 had on entrepreneurship six months after the pandemic first caused restrictions on American life and business.

There is much to learn from the entrepreneurship experience during the pandemic.

Not every business was in a position to thrive or adjust during this time, but others found it possible to adapt or pivot completely, offering new products or services, or the same ones with new business models.

The GEM results show a need to identify gaps that, when addressed, offer solutions to provide all Americans the opportunity to execute their entrepreneurial vision and create rewarding, sustainable livelihoods for themselves, their families, and stakeholders.

It is the hope of the research authors that the results can educate and inform a broad audience of academics, educators, policymakers, and practitioners—advancing knowledge, prompting further research, igniting debate, and guiding decisions that ensure America’s entrepreneurial culture continues to thrive.

For media inquiries or speaking opportunities, contact news@babson.edu.