



# Entrepreneurial Climate in Northwest Arkansas

**A Comparison Across Peer Regions**

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WALTON FAMILY  
FOUNDATION

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The average annual cohort of 4.1 million startups in the United States creates a total of 3.0 million jobs in the first year after startup and employs 2.6 million workers five years later. Without these jobs created by startups, net job creation would be negative as older businesses lose jobs on average. Net job creation for all other firms is negative in every year, averaging 1.9 million job losses per year.

– Robert Fairlie

*“The Promise and Peril of Entrepreneurship: Job Creation and Survival Among the Universe of Startups in the United States”*

**Entrepreneurship is key to building a vibrant economy.** In addition to the creation of virtually all net job growth, young firms will grow into small enterprises that contribute significantly to local and national Gross Domestic Product (GDP). Regions with stronger entrepreneurial ecosystems see faster employment growth. Young firms and small businesses expand career options for residents from all backgrounds. Ultimately, a strong entrepreneurial ecosystem creates a diverse economy that ensures a region’s long-term economic vitality.

The Walton Family Foundation commissioned this study to understand how the climate for entrepreneurship in Northwest Arkansas has evolved in recent years. The analysis was conducted by Dr. Robert Fairlie, distinguished professor of public policy and economics at the Luskin School of Public Affairs at UCLA and builds on the Kauffman Foundation’s Indicators of Entrepreneurship, which he also helped develop. The indicators measure trends in entrepreneurship, small business ownership and young business success in Northwest Arkansas and how it compares to other regions, as well as the state of Arkansas and the United States overall.

The data were compiled from several publicly available datasets produced by the U.S. Census Bureau and Bureau of Labor Statistics and represent the most comprehensive, up-to-date data available from these sources. These datasets include the Current Population Survey, the Quarterly Census of Employment and Wages, and the Business Dynamic Statistics. For the purpose of this analysis, Northwest Arkansas is defined as the Fayetteville-Springdale-Rogers Metropolitan Statistical Area (MSA), and the aspirational MSAs for comparison include Austin, TX, Des Moines, IA, Durham, NC, Madison, WI, Provo, UT, and Raleigh, NC.

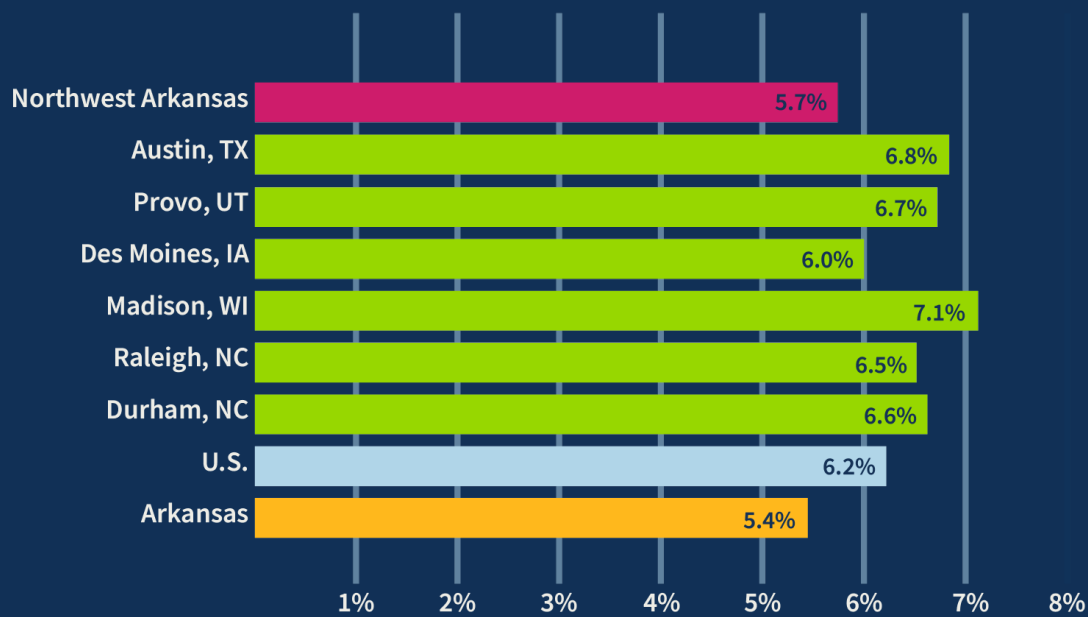
#### **Key observations from the analysis include:**

- Business ownership rates in Northwest Arkansas are low but trending upward with time.
- The ratio of business ownership to unemployment rate (opportunity entrepreneurship) in the region is average in the group of comparison MSAs.
- Growth in number of business establishments in Northwest Arkansas is strong, especially among young firms, as are the survival rates of young firms.
- Startups represent a modest share of the region’s economy at 37.2%, which is higher than US (35.3%) and the state of Arkansas (31%).

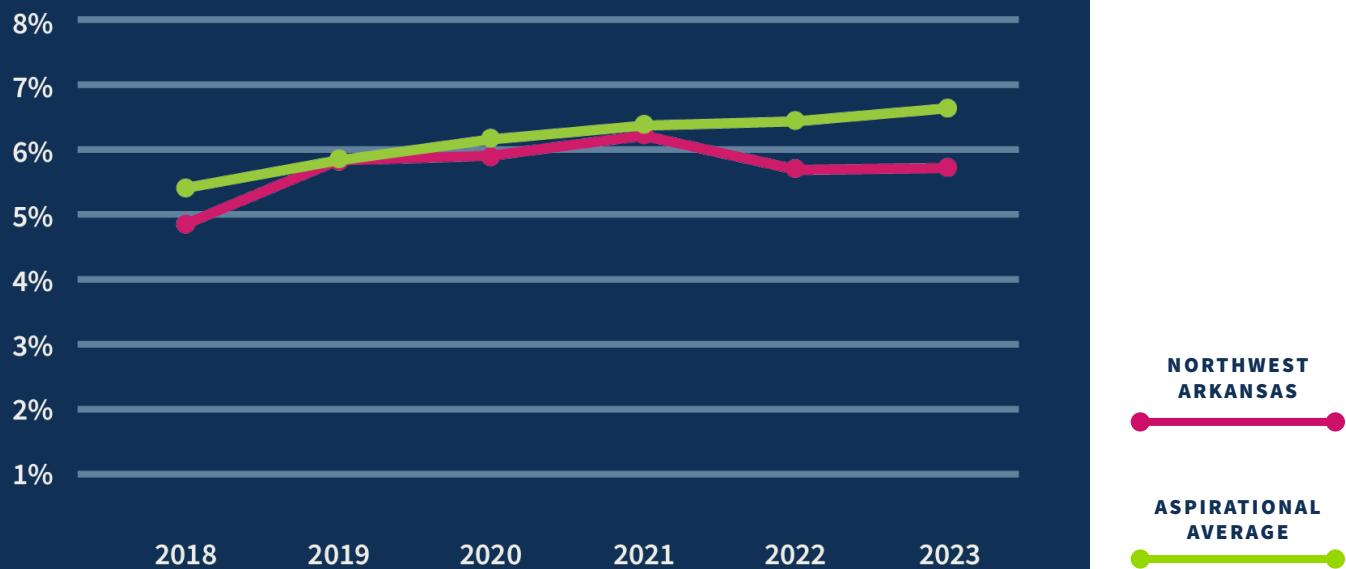
## BUSINESS OWNERSHIP RATES

The percentage of the working age population in Northwest Arkansas that owns a business is relatively low at 5.7% in 2023. This captures all business owners, regardless of business size or origin. Although the business ownership rate for Northwest Arkansas has improved since 2018 and is slightly higher than the state average, the region continues to trail behind the national average and all of the aspirational regions.

### BUSINESS OWNERSHIP RATE 2023



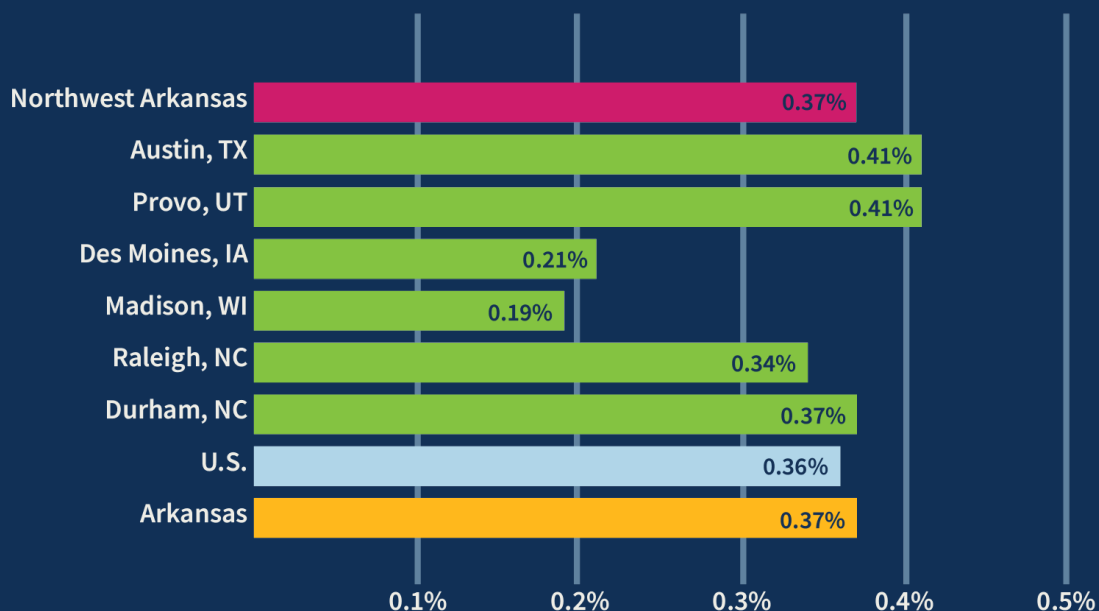
### BUSINESS OWNERSHIP RATE 2018-2023



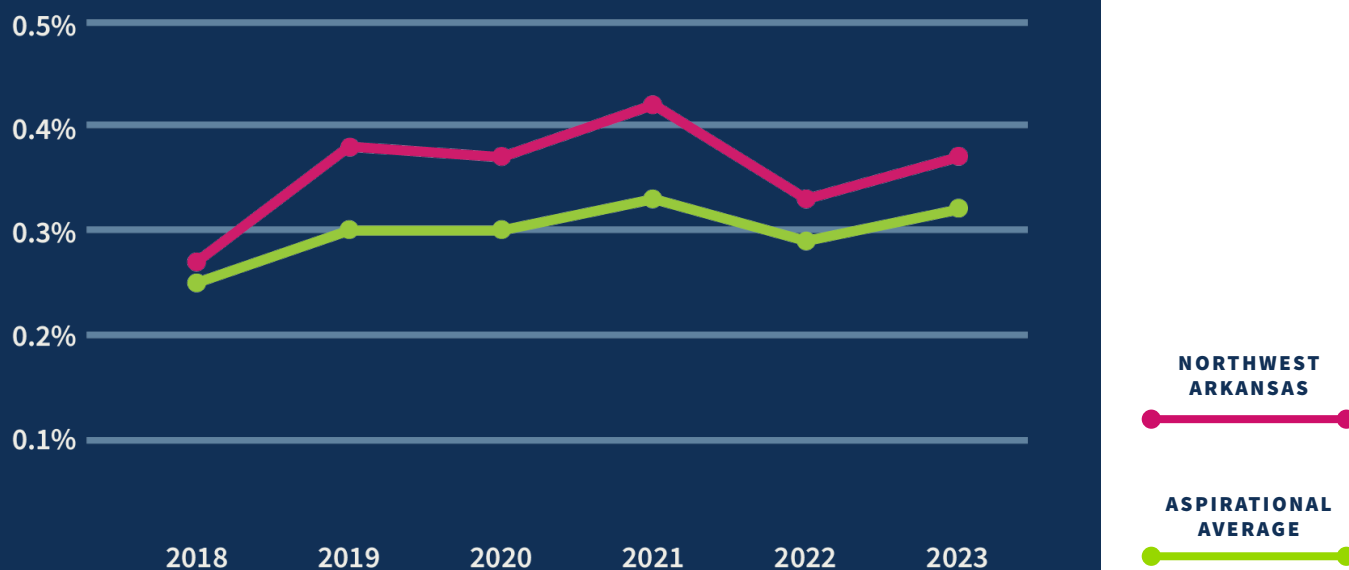
Of the non-business owner population in Northwest Arkansas, on average, 0.37% (or 370 per 100,000) became first-time business owners each month in 2023. As with the business ownership rate, the new business ownership rate in Northwest Arkansas has been trending upward since 2018, but it is more in line with state and national averages and most of the aspirational regions.

The combination of having a relatively high rate of new business ownership and a low business ownership rate overall suggests that a high level of entrepreneurs try out owning a business but fewer continue as business owners for the long term (i.e. churning).

### NEW BUSINESS OWNERSHIP RATE 2023



### NEW BUSINESS OWNERSHIP RATE 2018-2023







## NECESSITY VS. OPPORTUNITY ENTREPRENEURSHIP

Necessity entrepreneurship refers to the process of starting a business due to lack of other viable income streams. It is often driven by external circumstances such as unemployment, or insufficient access to formal employment markets. In contrast, opportunity entrepreneurship refers to the process of starting a business to take advantage of a recognized opportunity. It often involves identifying a market gap, leveraging unique skills or resources and capitalizing on trends and fulfilling unmet consumer needs.

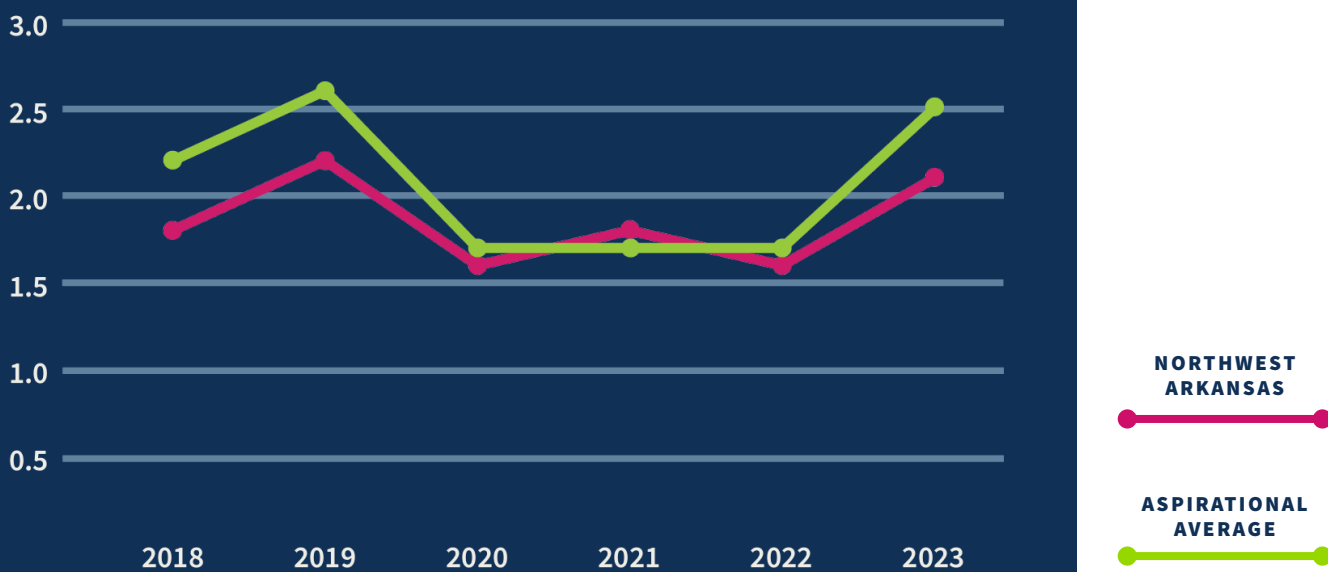
This is approximated here by calculating a ratio of the business ownership rate to the unemployment rate. Higher values (with high business ownership rates and low unemployment rates) indicate greater opportunity entrepreneurship, while lower values suggest more necessity entrepreneurship.

Northwest Arkansas ranks above the state and national averages and is in the middle of the aspirational regions, falling behind Provo, UT, Raleigh, NC, and Madison, WI. The ratio of business ownership to unemployment for Northwest Arkansas slightly increased from 1.8 in 2018 to 2.1 in 2023.

## BUSINESS OWNERSHIP TO UNEMPLOYMENT RATE 2023



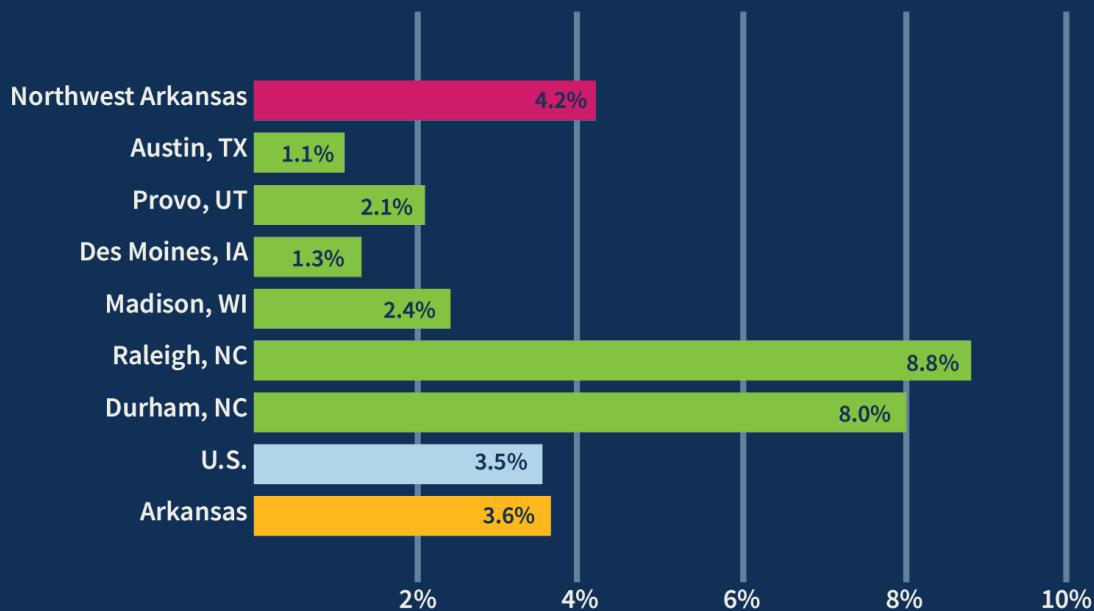
## BUSINESS OWNERSHIP TO UNEMPLOYMENT RATE 2018-2023



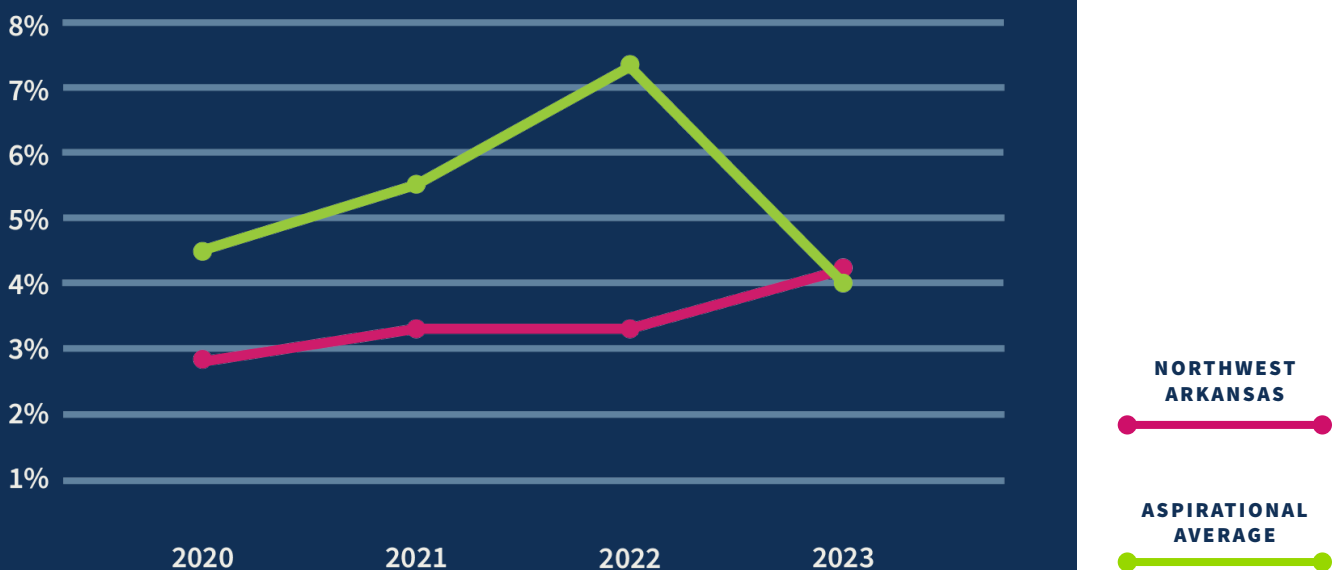
## BUSINESS ESTABLISHMENT ANNUAL GROWTH RATES

The total number of businesses in Northwest Arkansas grew by 4.2% in 2023. This is higher than the state and national average and all but two of the aspirational regions (Raleigh and Durham, NC). The business establishment growth rate for Northwest Arkansas increased from 2.8% in 2020 to 4.2% in 2023.

### BUSINESS ESTABLISHMENT ANNUAL GROWTH RATE 2023

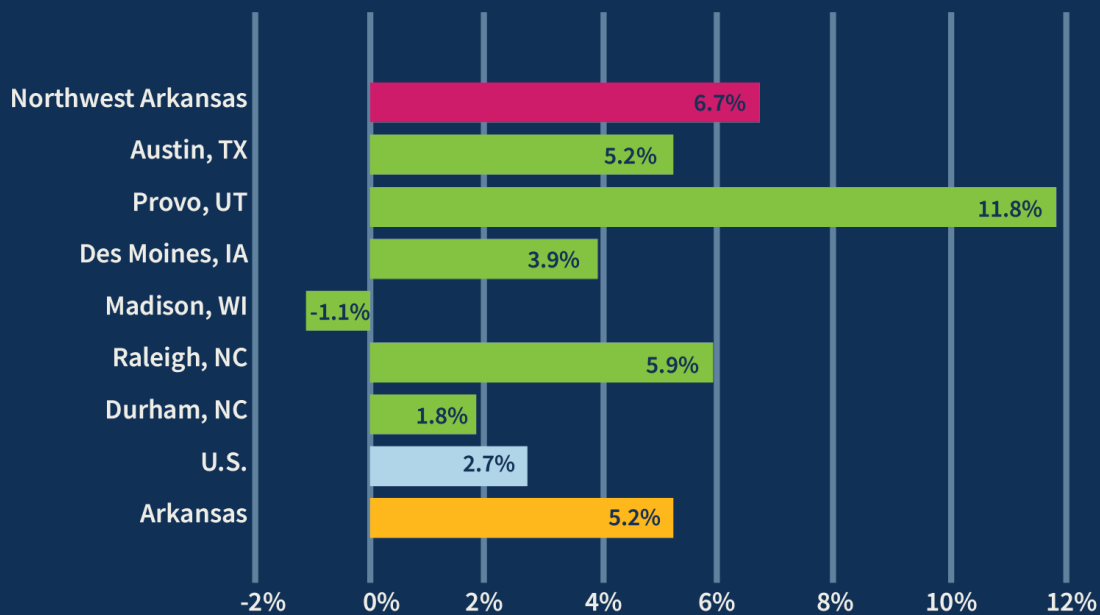


### BUSINESS ESTABLISHMENT ANNUAL GROWTH RATE 2020-2023

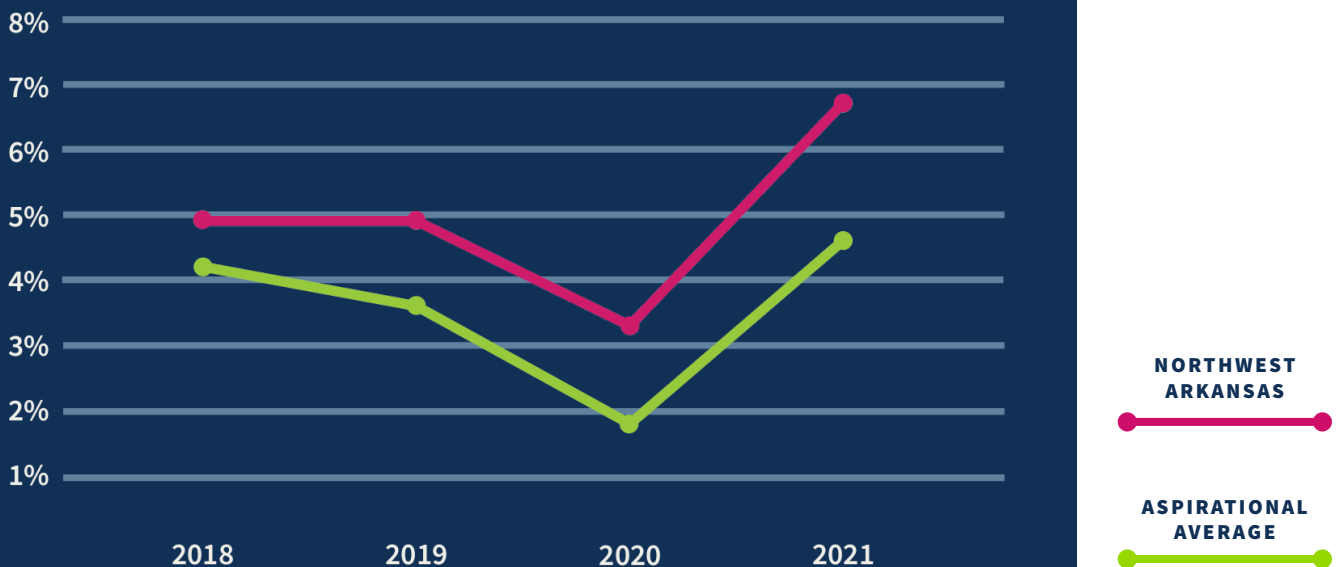


The number of young firms (less than 5 years old) in Northwest Arkansas grew even more. At 6.7% in 2021, the young firm growth rate was twice the growth rate of all businesses, suggesting that some of the overall growth in the region is driven by new firms. The growth rate of young firms in Northwest Arkansas outpaced the state and national averages and every aspirational region except one (Provo, UT). The young firm growth rate for Northwest Arkansas increased from 4.9% in 2018 to 6.7% in 2021.

### YOUNG FIRM GROWTH RATE 2021



### YOUNG FIRM GROWTH RATE 2018-2021

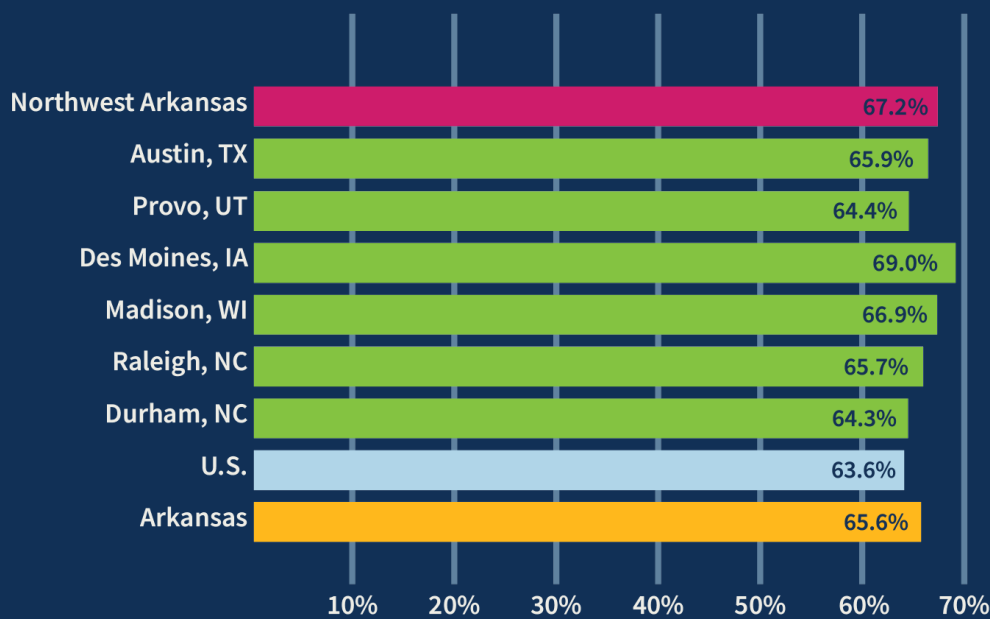




## YOUNG FIRM SURVIVAL RATE

Once established, the survival rate for young firms in Northwest Arkansas is relatively high. Of the firms in Northwest Arkansas that were established between 2016 and 2020, 67.2% survived to 2021. This is the second highest among the aspirational regions, only falling behind Des Moines, IA. It also compares favorably to the survival rates of the United States and Arkansas. The measure provides an indication of how successful new business establishments are in the first few years of existence which previous research finds to be a critical time for longer-term survival.

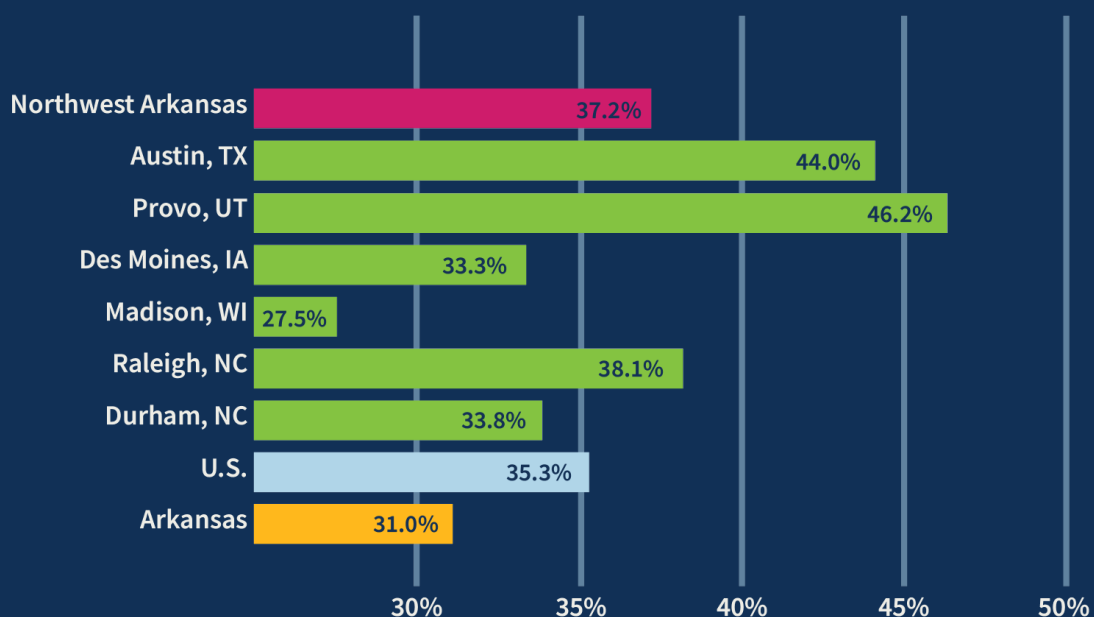
### YOUNG FIRM SURVIVAL RATE 2016-2021



## STARTUPS' SHARE OF BUSINESSES

Young firms accounted for a little more than one-third (37.2%) of all businesses in Northwest Arkansas in 2021. This is slightly above the state and national averages and in the middle of the pack of aspirational regions. It also represents an increase from 34.8% in 2018.

### STARTUPS' SHARE OF BUSINESSES 2021



### STARTUPS' SHARE OF BUSINESSES 2018-2021

