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Entrepreneurship by necessity: A systematic literature review

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Abstract:

Necessity entrepreneurship arises when individuals are compelled to engage in entrepreneurial activities due to a lack of more favorable employment opportunities, in contrast to opportunity entrepreneurship, which emerges from attractive business prospects. This distinction is based on fundamental motivations: opportunity entrepreneurship is often associated with innovation and economic growth, whereas necessity entrepreneurship is generally linked to economic constraints and high unemployment rates.

In the current economic context, characterized by recurrent financial crises, fluctuations in unemployment rates, and increasing disparities, the study of necessity entrepreneurship is gaining importance. This form of entrepreneurship is particularly crucial in developing countries, where it often represents the only means for many individuals to meet their needs and those of their families.

This article is based on a systematic review of academic articles and research on necessity entrepreneurship. It analyzes the specific characteristics of necessity entrepreneurs and the factors influencing their entrepreneurial journey, presenting an exploration of these entrepreneurs' profiles, their motivations, and the obstacles they face. Additionally, it evaluates the economic and social impact of their activities, providing perspectives for policymakers and support organizations to formulate recommendations aimed at creating a favorable environment and tailored support programs, thereby enhancing the economic potential of necessity entrepreneurship in developing economies.

By situating necessity entrepreneurship within a broader theoretical framework, integrating theories of motivation and entrepreneurial behavior, the study enriches the understanding of the underlying dynamics. Theories such as Maslow's hierarchy of needs and Barney's resource-based view offer valuable insights into why individuals facing unmet fundamental needs or limited access to resources may be driven to undertake entrepreneurship out of necessity. The exploration of contextual and cultural differences in necessity entrepreneurship reveals significant variability in entrepreneurship rates between countries, influenced by economic conditions, social structures, and public policies.

This systematic literature review provides a comprehensive analysis of necessity entrepreneurship and its socio-economic repercussions, making a substantial contribution to the academic literature in management sciences.

Keywords: Necessity Entrepreneurship, Necessity Entrepreneur, Socio-economic Impact, Institutional Support, Literature Review

JEL Classification :M10, M12, M13, M50.

Paper type: Theoretical Research

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1. Introduction

Necessity entrepreneurship arises when individuals are compelled to engage in entrepreneurial activities due to a lack of more favorable employment opportunities, distinguishing it from opportunity entrepreneurship, which stems from attractive business prospects. This distinction is grounded in underlying motivations: while opportunity entrepreneurship is often linked to innovation and economic growth, necessity entrepreneurship is typically rooted in contexts marked by economic constraints and high unemployment rates.

In the current economic landscape, characterized by recurrent financial crises, fluctuations in unemployment rates, and widening disparities, the significance of studying necessity entrepreneurship is emphasized. Particularly in developing countries, where this form of entrepreneurship often represents the sole means for many individuals to meet their own and their families' needs, understanding the dynamics of necessity entrepreneurship is essential for formulating effective public policies to support these entrepreneurs and maximize their contribution to the economy.

The primary focus of this paper lies in analyzing the specific characteristics of necessity entrepreneurs and the factors influencing their entrepreneurial trajectory. This comprehensive analysis aims to shed light on the underlying mechanisms of necessity entrepreneurship by examining in depth the demographic and socio-economic profiles of these entrepreneurs, as well as their motivations and encountered obstacles. Furthermore, by assessing the economic and social impact of their activities, this study aims to provide valuable insights for policymakers and support organizations, facilitating the formulation of recommendations to foster a conducive environment and tailored support programs to enhance the economic potential of necessity entrepreneurship in developing economies.

Moreover, it is crucial to contextualize necessity entrepreneurship within a broader theoretical framework encompassing theories of motivation and entrepreneurial behavior. Theories such as Maslow's hierarchy of needs and Barney's resource-based view offer valuable insights into why individuals facing unmet fundamental needs or limited access to resources may be driven to undertake entrepreneurship out of necessity. The exploration of contextual and cultural differences in necessity entrepreneurship reveals significant variability in entrepreneurship rates between countries, influenced by economic conditions, social structures, and public policies in place.

This meticulously crafted article provides a comprehensive analysis of necessity entrepreneurship and its socio-economic repercussions, making a substantial contribution to the academic literature in management sciences. The introduction clearly delineates the foundations of necessity entrepreneurship while distinguishing it from opportunity entrepreneurship, underscoring its importance in the contemporary economic context. The methodology is then elaborated in detail, outlining the key steps in conducting a systematic literature review on necessity entrepreneurship to ensure the study's validity and reliability.

The findings are presented along three main axes: firstly, an analysis of necessity entrepreneurs' profiles, highlighting their demographic and socio-economic characteristics, as well as their motivations and encountered obstacles in their entrepreneurial journey. Secondly, the economic and social impact of necessity entrepreneurship is examined, emphasizing these entrepreneurs' contributions to the economy and poverty alleviation. Lastly, public policies and institutional mechanisms targeting necessity entrepreneurs are scrutinized, with particular attention to evaluating the effectiveness of support programs and policy measures in place.

Subsequent discussion compares necessity entrepreneurship with opportunity entrepreneurship, elucidating the similarities and differences between these two forms of entrepreneurship and their respective impacts on the economy. Practical and policy implications of the findings are then addressed, providing concrete recommendations for policymakers and institutional actors

to effectively support necessity entrepreneurs.
In conclusion, a synthesis of the main review results is offered, accompanied by reflections on the study's limitations and suggestions for future research in this field. This elaborate structure allows for a thorough and exhaustive analysis of necessity entrepreneurship, thus offering a significant contribution to the academic literature in management sciences.

2. Theoretical Framework and Literature Review

To undertake this systematic literature review on necessity entrepreneurship, we adhered to a meticulously crafted and transparent methodology. Our approach commenced by delineating stringent criteria for study selection.
We meticulously scoured through esteemed academic databases, including Google Scholar, JSTOR, PubMed, and ScienceDirect, esteemed for their extensive scholarly coverage and reputable standing in the realms of social sciences and management. Our selected articles were rigorously required to be published in peer-reviewed journals, presented in either English or French, and distinctly focused on necessity entrepreneurship or entailed comparative analyses with opportunity entrepreneurship.
Exclusionary parameters encompassed purely theoretical inquiries devoid of empirical data, articles of insufficient length (fewer than five pages), and publications predating the year 2000. Subsequently, we embarked on keyword searches, encompassing terms such as "necessity entrepreneurship," "opportunity entrepreneurship," "entrepreneurial motivation," and "entrepreneurship support policies." Search outcomes were meticulously filtered based on predefined criteria, and retained studies underwent meticulous scrutiny to extract pertinent insights.
We employed both quantitative and qualitative analyses to discern prevailing trends, motivational underpinnings, encountered hurdles, and the consequential economic and societal ramifications of necessity entrepreneurs. This methodical approach ensured the integrity and reliability of our findings, furnishing a cohesive and comprehensive panorama of the subject matter.
The ensuing table[1] delineates the corpus of consulted articles (alongside the conduction of reading cards comprising authors, publication dates, journal titles, geographic origins, statistical methodologies, sample sizes, study durations, and overarching conclusions).

[1] *Template suggested by IJAFAME*

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Table 1: List of papers consulted (entrepreneurship by necessity)

Authors, date, and journal	Country	Statistical Method	Sample (field)	Study period	Conclusion
Hessels, J., & Wennekers, S. (2008). "Financial capital constraints in early-stage entrepreneurial activity." *Economic and Business Review for Central and South-Eastern Europe*, *10*(1), 33-56.	Netherlands	Quantitative analysis	Entrepreneurs in the initial phase	Not specified	The article examines the constraints of financial capital in early-stage entrepreneurial activity, highlighting their impact on the initiation and development of businesses.
Parker, S. C. (2009). "The economics of entrepreneurship." *Cambridge Journal of Economics*, *33*(4), 901-903.	United Kingdom	Conceptual analysis	Theoretical study on the economics of entrepreneurship	Not specified	The article offers a theoretical reflection on the economics of entrepreneurship, shedding light on its role in economic development and innovation.
Alvarez, S. A., & Barney, J. B. (2007). "Discovery and creation: Alternative theories of entrepreneurial action." *Strategic Entrepreneurship Journal*, *1*(1-2), 11-26.	United States	Conceptual analysis	Theories of entrepreneurial action	Not specified	The article compares the theories of discovery and creation regarding entrepreneurial action, providing insights into decision-making processes and entrepreneurial behaviors.
Block, J., & Wagner, M. (2010). "Necessity and opportunity entrepreneurs in Germany: Characteristics and earnings differentials." *Schmalenbach Business Review*, *62*(2), 154-174.	Germany	Statistical analysis	Entrepreneurs by necessity and by opportunity	Not specified	The article analyzes the characteristics and earnings gaps between necessity and opportunity entrepreneurs in Germany, highlighting implications for public policies and entrepreneurial support.
Kautonen, T., Kibler, E., & Minniti, M. (2017). "Late-career entrepreneurship, income and quality of life." *Journal of Business Venturing*, *32*(3), 318-333.	Finland	Quantitative analysis	Entrepreneurs nearing the end of their careers	Not specified	The article examines late-career entrepreneurship, assessing its impact on individuals' income and quality of life, offering implications for public policies and entrepreneurial development.

Authors, date, and journal	Country	Statistical Method	Sample (field)	Study period	Conclusion
Wach, K., & Stephan, U. (2018). "The entrepreneur's capability set and firm performance: Novelty, implications, and future research directions." *Academy of Management Perspectives*, *32*(1), 11-31.	Germany	Conceptual analysis	Entrepreneurial capabilities and firm performance	Not specified	The article examines the entrepreneur's skill set and its relationship with firm performance, offering directions for future research.
Sine, W. D., & Lee, B. H. (2009). "Tilting at windmills? The environmental movement and the emergence of the U.S. wind energy sector." *Administrative Science Quarterly*, *54*(1), 123-155.	United States	Longitudinal analysis	Environmental movement and the wind energy sector	Not specified	The article studies the emergence of the wind energy sector in the United States, highlighting the role of the environmental movement in its development.
Ács, Z. J., Autio, E., & Szerb, L. (2014). "National systems of innovation: Introduction." *Small Business Economics*, *43*(3), 491-499.	Non spécifié	Comparative analysis	National innovation systems	Not specified	The article introduces and compares national innovation systems, highlighting their role in supporting entrepreneurship.
Hatak, Harms et Fink (2016)	Germany	Regression models and analysis of variance (ANOVA)	426 German employees and entrepreneurs	2015	Age and work identification significantly influence entrepreneurial intention. Younger individuals with strong identification with their current job show higher entrepreneurial intention.
Wagner, J. (2010). "Nascent entrepreneurs: The role of peer effects in entrepreneurship start-ups." *Entrepreneurship Theory and Practice*, 34(4), 833-856.	Germany	Regression models and longitudinal data analysis	3,560 German individuals from the German Socio-Economic Panel (GSOEP) database	1998-2008	Peer effects play a crucial role in the decision to become a nascent entrepreneur. Individuals surrounded by entrepreneurial peers are more likely to launch their own businesses.

Authors, date, and journal	Country	Statistical Method	Sample (field)	Study period	Conclusion
Loof, H., & Heshmati, A. (2006). "On the relationship between innovation and performance: A sensitivity analysis." *Economics of Innovation and New Technology*, 15(4-5), 317-344.	Sweden	Econometric models and sensitivity analysis	1,200 Swedish companies from various industries	1996-2000	Innovation has a positive and significant impact on firm performance, but the extent of this impact varies depending on industry specifics and firm size.
Hessels, J., & Parker, S. C. (2013). "Constraints, internationalization and growth: A cross-country analysis of European SMEs." *Journal of World Business*, 48(1), 137-148.	Europe (multiple countries)	Panel econometric models	Small and medium-sized enterprises (SMEs) from various European countries	2002-2006	Financial and administrative constraints limit SMEs' ability to grow and internationalize. Companies with easier access to financing demonstrate a greater propensity to internationalize and grow.
Audretsch, D. B., & Thurik, A. R. (2001). "What's new about the new economy? Sources of growth in the managed and entrepreneurial economies." *Industrial and Corporate Change*, 10(1), 267-315.	Netherlands, United States	Comparative analysis, multiple regressions	Macroeconomic data of managed and entrepreneurial economies	1980-1990	Entrepreneurial economies demonstrate a greater capacity to generate economic growth and innovation compared to managed economies. The increasing significance of small businesses and entrepreneurship stimulates economic dynamism.
Fairlie, R. W., & Fossen, F. M. (2019). "Opportunity versus necessity entrepreneurship: Two components of business ownership." *Journal of Business Venturing Insights*, 11, e00125.	United States, Germany	Logistic regressions and comparative analyses	Longitudinal panel data of micro-enterprises	1996-2012	Opportunity entrepreneurship and necessity entrepreneurship differ substantially in terms of motivations and economic outcomes. Necessity entrepreneurs tend to generate less income and have shorter survival rates compared to those motivated by opportunities.

Authors, date, and journal	Country	Statistical Method	Sample (field)	Study period	Conclusion
Stephan, U., & Roesler, U. (2010). "Health of entrepreneurs versus employees in a national representative sample." *Journal of Occupational and Organizational Psychology*, 83(3), 717-738.	Germany	Regression analyses	Representative national sample of 35,000 individuals	2003-2006	Entrepreneurs enjoy higher levels of mental health than employees, but exhibit higher levels of stress. The characteristics of entrepreneurial work influence these differences in health.

source: Elaborated by the authors

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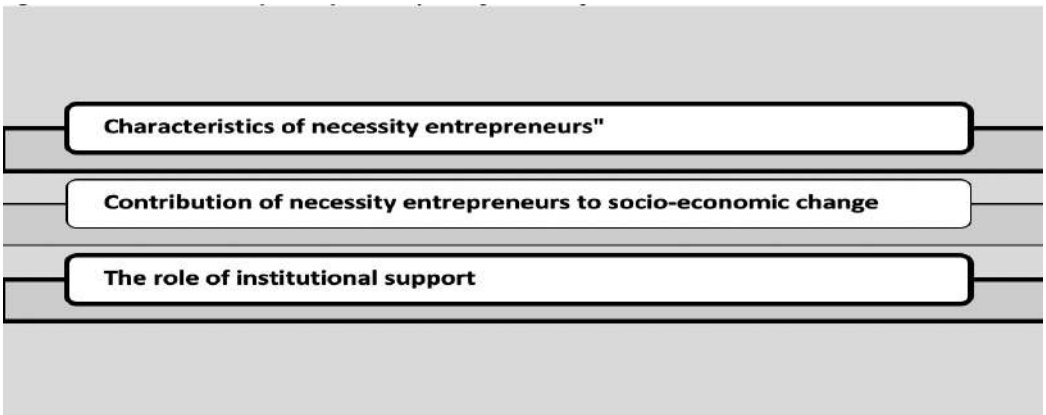
3. Results

The results of this literature review highlight several key facets of necessity entrepreneurship, providing an in-depth understanding of its impact and implications.

Figure 1: the three essential facets of necessity entrepreneurship



source: Elaborated by the authors

3.1. Profiles of Necessity Entrepreneurs

Research examining the profiles of necessity entrepreneurs reveals a diversity of demographic and socio-economic characteristics. Studies such as those by Hatak, Harms, and Fink (2016) have explored the relationship between age, work identification, and entrepreneurial intention among employees and entrepreneurs in Germany. The authors find that younger individuals are more likely to have entrepreneurial intentions, particularly those who strongly identify with their current job. Moreover, work identification moderates the effect of age on entrepreneurial intention, suggesting that how individuals perceive themselves in their professional role plays a crucial role in their entrepreneurial aspirations.

The authors emphasize the importance of these psychological factors for understanding the dynamics of entrepreneurial intention and for formulating supportive policies for potential entrepreneurs. Additionally, research like that of Wagner (2010) has highlighted the importance of peer effects in the entrepreneurial process, underscoring the impact of social networks on entrepreneurial choice. This work examines the impact of peer effects on individuals who become nascent entrepreneurs in Germany. Using longitudinal data from the German Socio-Economic Panel (GSOEP), the author demonstrates that peer effects are significant: individuals with friends or colleagues who are entrepreneurs are more likely to start a business. This influence persists even after controlling for sociodemographic and economic variables. Wagner concludes that social networks and the immediate environment play a decisive role in the transition to entrepreneurship, thus highlighting the importance of fostering entrepreneurial ecosystems to stimulate business creation.

Tab. 2: Main Characteristics of Necessity Entrepreneurs

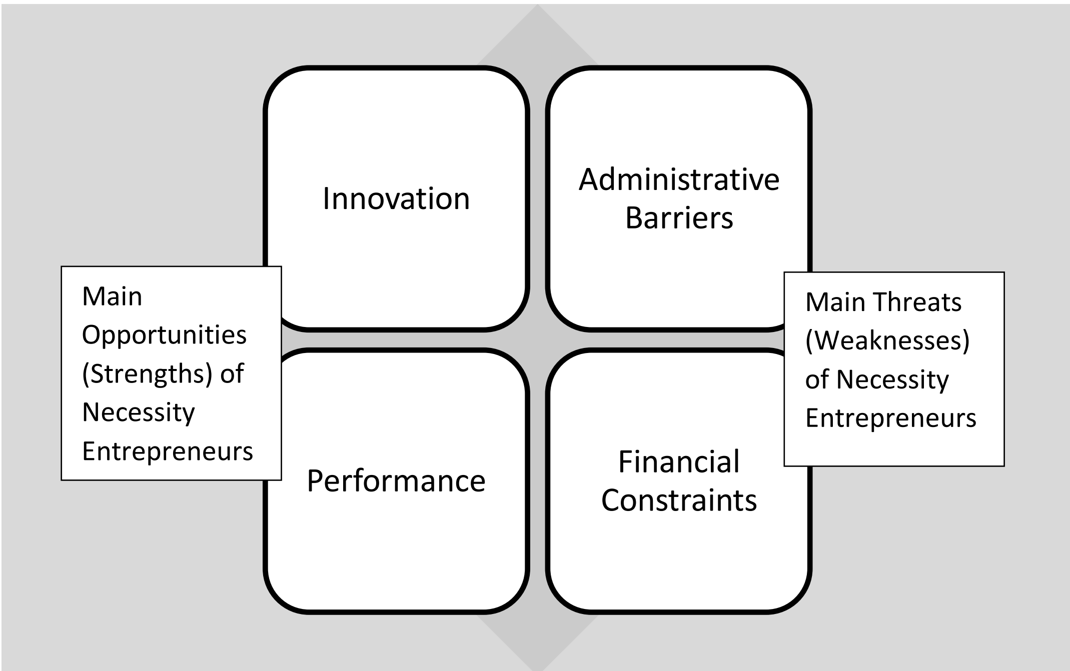
Entrepreneur by necessity	young age
	marginalization in the workplace (unemployment)
	marginalized environment (poverty)
	marginalized socioeconomic surroundings
	integrated into social networks (especially close network, friends or family who are entrepreneurs)

Source: Elaborated by the authors

3.2. "Do entrepreneurs by necessity have opportunities?"

Necessity entrepreneurs contribute significantly to the economy and society, although their impact may differ from that of opportunity entrepreneurs. Studies have explored the relationship between innovation and firm performance in Sweden. Using econometric models and sensitivity analysis on a sample of 1,200 firms, authors Lööf and Heshmati (2006) find that innovation positively contributes to the economic performance of firms, measured in terms of productivity and sales growth. However, this relationship is moderated by factors such as firm size and industry sector. Large firms benefit more from innovation compared to small firms, and high-tech industries show more pronounced performance gains from innovation. The authors conclude that public policies should be designed to encourage innovation in ways that maximize its economic benefits across different industrial contexts and for firms of all sizes.
Similarly, research by Hessels and Parker (2013) analyzed the constraints faced by small and medium-sized enterprises (SMEs) in Europe regarding growth and internationalization. Using panel econometric models on a sample of SMEs from several European countries between 2002 and 2006, the authors identify that financial and administrative constraints significantly limit SMEs' ability to grow and internationalize. Specifically, SMEs with better access to finance tend to expand internationally and exhibit higher growth rates. The results suggest that public policies should focus on reducing financial and administrative barriers to encourage the growth and internationalization of European SMEs.

Figure 2: Main Opportunities and Threats for Necessity Entrepreneurs



Source: Elaborated by the authors

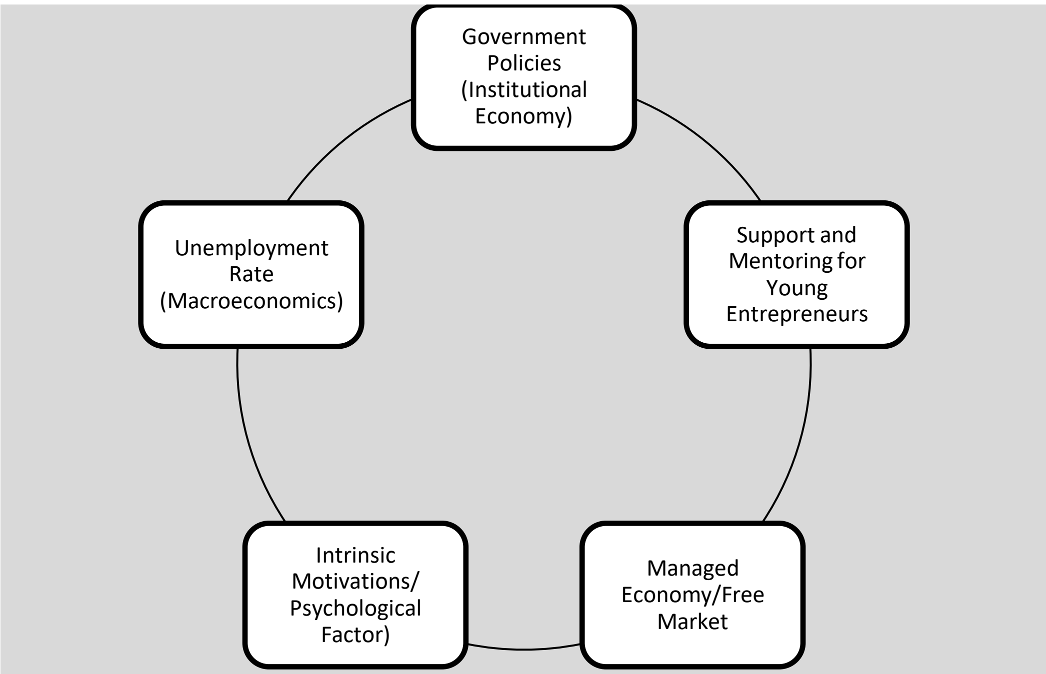
3.3. Public Policies and Institutional Support

Government policies and institutional support play a crucial role in the development and growth of businesses, including those created out of necessity. Works such as those by Audretsch and Thurik (2001) have examined the differences between managed economies and entrepreneurial economies by focusing on their sources of economic growth. The study uses comparative analysis and multiple regressions on macroeconomic data from the United States and the Netherlands during the period from 1980 to 1990. The authors find that entrepreneurial economies, characterized by a favorable environment for the creation of small businesses and innovation, show greater capacity to generate economic growth and innovation compared to managed economies, which rely more on established large firms and rigid economic structures. The results underscore the importance of entrepreneurship as a driver of economic dynamism and competitiveness in the global economy.

Moreover, studies such as those by Fairlie and Fossen (2019) have distinguished between opportunity and necessity entrepreneurship, using logistic regressions and comparative analyses on a panel of longitudinal micro-enterprise data from the United States and Germany, covering the period from 1996 to 2012.

The authors show that opportunity and necessity entrepreneurs have distinct motivations: the former are driven by the desire to seize a market opportunity, while the latter primarily undertake entrepreneurship due to a lack of other employment options. The results indicate that necessity entrepreneurs generally generate lower incomes and have lower business survival rates compared to those motivated by opportunities. This distinction highlights the importance of targeting support policies based on the underlying motivations of entrepreneurs to maximize the effectiveness of interventions in economic development.

Figure 3: Key Factors Hindering/Boosting Necessity Entrepreneurship



Source: Elaborated by the authors

These findings provide a holistic view of necessity entrepreneurship, highlighting its economic and social implications as well as the policies required to effectively support these entrepreneurs in their entrepreneurial journey

4. Discussions

This section aims to deepen the comparison between necessity and opportunity entrepreneurship, based on previous studies and highlighting their impact on the economy as well as the practical and policy implications

4.1. Other Exogenous Factors (Physical and Mental Health of the Entrepreneur)

Necessity and opportunity entrepreneurship exhibit distinct characteristics, as emphasized by Stephan and Roesler (2010) who compare the health of entrepreneurs to that of employees using regression analyses on a nationally representative sample of 35,000 individuals in Germany, covering the period from 2003 to 2006. The results show that, while entrepreneurs generally

have higher levels of mental health than employees, they also experience higher levels of stress. The authors attribute these differences to inherent characteristics of entrepreneurial work, such as increased autonomy and financial responsibilities, which can have ambivalent effects on health. The study underscores the importance of designing specific health interventions and policies for entrepreneurs to mitigate the stressful aspects of their work while maximizing the psychological benefits of autonomy and engagement.
Furthermore, Estrin, Mickiewicz, and Stephan (2013) examine in their research the links between social and commercial entrepreneurship across different countries. Their study reveals that, while opportunity entrepreneurship may be more prevalent in developed economies, necessity entrepreneurship is often more widespread in regions where formal employment opportunities are limited. This international comparison highlights the importance of considering national contexts in the analysis of entrepreneurial motivations.

4.2. The Impact on the Economy

The effects of necessity and opportunity entrepreneurship on the economy are also studied by Hatak, Harms, and Fink (2016), who examine entrepreneurial intentions based on age and professional identification. Their results indicate that necessity entrepreneurs can contribute significantly to job creation, especially in developing economies where formal employment opportunities are limited. However, they also emphasize that these entrepreneurs may face unique challenges regarding the sustainability and long-term growth of their businesses.

4.3. Practical and Policy Implications

The practical and policy implications of the distinction between necessity and opportunity entrepreneurship are discussed by Minniti (2008) in her analysis of the role of government policies in entrepreneurial activity. She suggests that governments should adopt differentiated approaches to support entrepreneurs based on their motivations and specific needs. For instance, training and mentoring programs may be particularly beneficial for necessity entrepreneurs, while tax incentives and innovation policies may better serve opportunity entrepreneurs.
In conclusion, understanding the differences between necessity and opportunity entrepreneurship is essential for designing effective policies and programs aimed at promoting inclusive and sustainable economic growth. By integrating insights from empirical research on these two forms of entrepreneurship, policymakers can better address the diversified needs of entrepreneurs and create an environment conducive to innovation, job creation, and economic development.

5. Implications

This section explores the implications of the findings from our literature review on practical and policy decisions regarding necessity entrepreneurship

5.1. Recommendations for Policymakers

In light of the conclusions drawn from our analysis, it is crucial for policymakers to design policies and programs tailored to the specific needs of necessity entrepreneurs. As suggested by Acs, Desai, and Hessels (2008), governments can implement incentive measures such as tax breaks and targeted grants to encourage entrepreneurial activity in sectors where necessity entrepreneurship is prevalent. Additionally, providing financial and technical support to necessity entrepreneurs to help them overcome startup and growth barriers is important, as suggested by Bruton, Ahlstrom, and Obloj (2008).

5.2. Strategies to Support Necessity Entrepreneurs

Strategies to support necessity entrepreneurs can take various forms, ranging from education and training to access to finance and markets. According to Hessels and Parker (2013), vocational and technical training programs can enhance individuals' entrepreneurial skills and increase their chances of business success. Additionally, initiatives aimed at facilitating access to finance, such as microcredit and special loan programs, can play a crucial role in supporting necessity entrepreneurs, as emphasized by Aidis, Estrin, and Mickiewicz (2012).
In summary, the practical and policy implications of our literature review highlight the need for policymakers and economic development stakeholders to recognize the diversity of motivations and challenges among necessity entrepreneurs. By adopting a differentiated approach and implementing targeted policies, it is possible to stimulate entrepreneurial activity and foster inclusive and sustainable economic growth.

6. Conclusion

In this study, we conducted a systematic literature review on necessity entrepreneurship, highlighting its characteristics, socio-economic implications, and practical and policy implications. Our in-depth analysis has provided a better understanding of the motivations, challenges, and contributions of necessity entrepreneurs in various contexts.
We found that necessity entrepreneurship is a response to socio-economic constraints such as unemployment, poverty, and lack of formal employment opportunities. Necessity entrepreneurs are often characterized by limited resources, survival goals, and strong resilience in the face of adversity. Their economic activities contribute to job creation, stimulate innovation, and strengthen the local economic fabric.
However, our study has some limitations. Firstly, our analysis mainly relies on secondary data from existing academic literature, which could limit the generalizability of our conclusions. Additionally, certain areas of research, such as the impact of culture and institutions on necessity entrepreneurship, warrant further exploration.
Although our literature review deepened our understanding of necessity entrepreneurship, it has limitations.
Firstly, our analysis primarily relies on secondary data from existing academic literature, which could limit the generalizability of our conclusions. Additionally, selection biases may have influenced the selection of studies included in our review, which could impact the representativeness of our results. Moreover, some studies may have methodological limitations or conceptual gaps that could affect the quality of the data analyzed. Finally, our literature review primarily focuses on the socio-economic aspects of necessity entrepreneurship and may not account for other important dimensions such as cultural or institutional aspects.
For future research, it would be beneficial to deepen our understanding of the determinants and consequences of necessity entrepreneurship in different national and regional contexts. Longitudinal and comparative studies could also provide valuable insights into the evolution of necessity entrepreneurship over time and across various economic environments.
In conclusion, our literature review highlights the importance of recognizing and supporting necessity entrepreneurs as key actors in economic and social development. By better understanding their motivations, challenges, and contributions, it is possible to design more effective policies and programs to foster inclusive and sustainable entrepreneurship.
Despite these limitations, our study opens the door to several future research perspectives. Firstly, it would be beneficial to deepen our understanding of the determinants of necessity entrepreneurship in different national and regional contexts. Longitudinal and comparative studies could provide valuable insights into the evolution of necessity entrepreneurship over

time and across various economic environments. Additionally, in-depth qualitative research could help better understand the motivations, challenges, and strategies of necessity entrepreneurs. Finally, it would be interesting to explore the effectiveness of policies and programs supporting necessity entrepreneurship and identify best practices to foster inclusive and sustainable entrepreneurship.

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