



Your New Jobs May Be Homegrown: Entrepreneurship as an Economic Development Strategy

Brian Dabson

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Public perception of entrepreneurs



Luntz, Maslansky Strategic Research and Kauffman Foundation, September 2008

- **70%** think that success and health of our economy depends on the success of entrepreneurs
- **40%** think that entrepreneurs are important for job creation in current economic crisis, but **71%** thought that the crisis makes it more difficult to be an entrepreneur
- **27%** said that they are planning to start their own venture in next five years
- **80%** think that the Government should encourage more entrepreneurship

Kauffman Index of Entrepreneurial Activity



- In 2007, every month, an average of **three out of 1,000 adults** created a new business – 495,000 new businesses.
 - 4.1 men, 2.0 women
 - 4.0 Latinos
 - 2.3 African Americans
 - 4.6 immigrants
- **Tennessee** had fourth highest entrepreneurial activity rates – 4.4 per 1,000 adults

Some Definitions

- **Entrepreneurs**...*people who create and grow enterprises*
- **Entrepreneurship**...*the process through which entrepreneurs create and grow enterprises.*
- **Entrepreneurship development**... *the infrastructure of public and private policies and practices that foster and support entrepreneurship.*
- **Entrepreneurship policy**... *fostering of a socially optimal level and type of entrepreneurship*

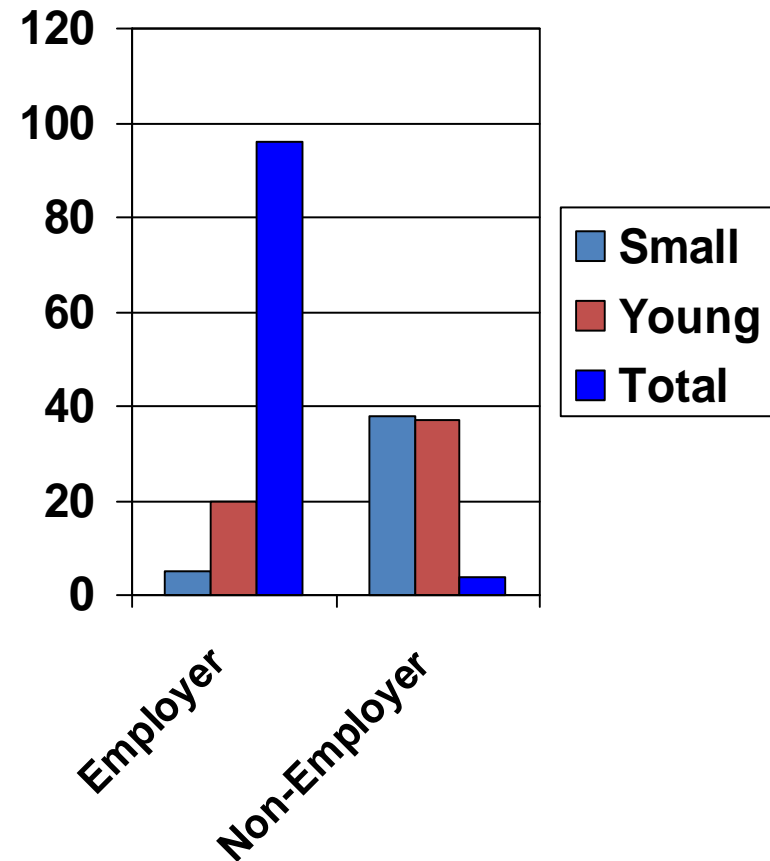
Many types of entrepreneurs

- **Survival entrepreneurs** – *resort to creating enterprises because there are few other options*
- **Lifestyle entrepreneurs** – *choose self-employment to pursue personal goals*
- **Growth entrepreneurs** – *motivated to grow their businesses to create wealth and jobs in their community*
- **Serial entrepreneurs** – *over their lifetimes will create several businesses*

Modest impact individually...rupri

Davis, Haltwinger & Jarmin (2005)

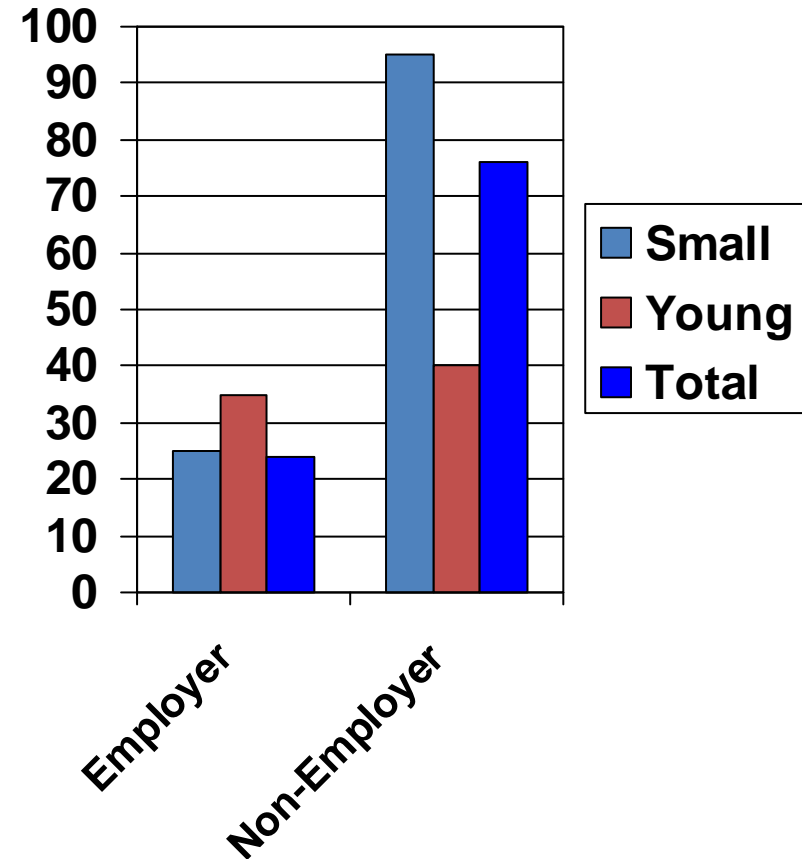
- **Non-employer firms** account for only **4%** of *total* business revenues
- **Small firms** account for only **5%** of employer business revenues
- **Young firms** account for only **20%** of employer business revenues



...but large numbers...

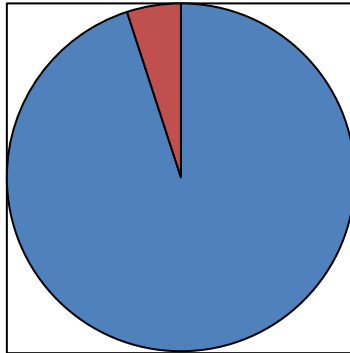
Davis, Haltwinger & Jarmin (2005)

- **21 million firms** in US
76% non-employer firms
- **16 million small firms**
(<\$90K revenues)
- **8 million young firms**
(<4 years)

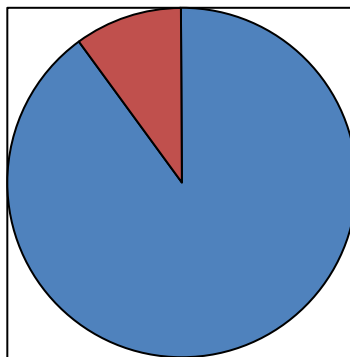


...make them critical to US business dynamics...

Davis, Haltwinger & Jarmin (2005)



Firms



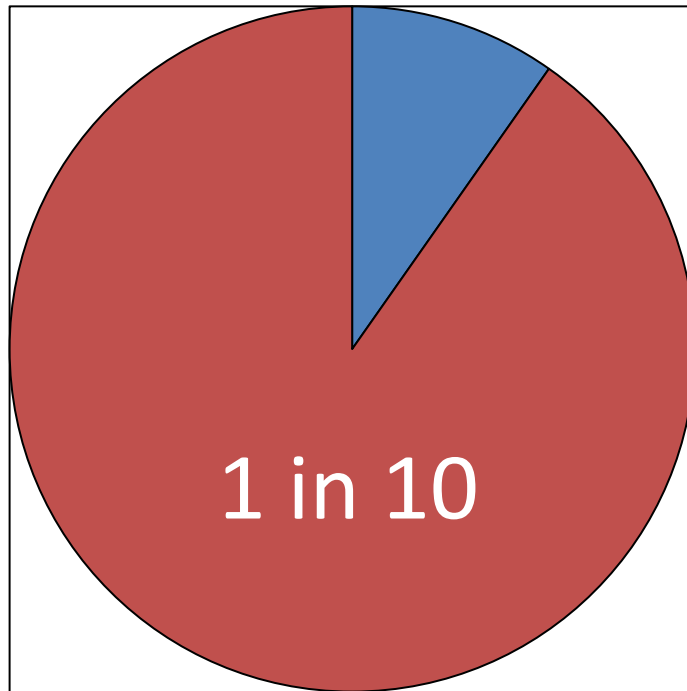
Revenues

- **5%** of non-employer firms (10% of non-employer business revenues) become employer firms within 3 years
- **750,000 businesses**

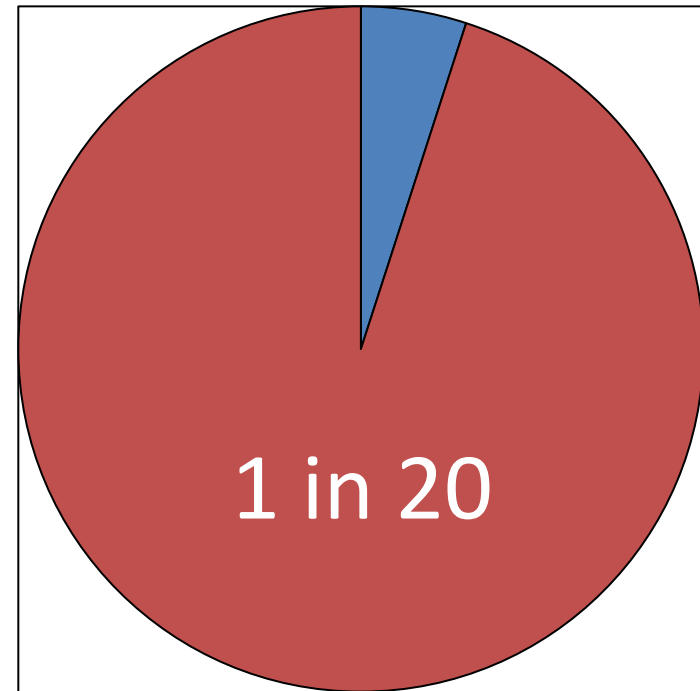
...and many expect to grow

Autio, Hancock, (2005)

20+ employees within 5 years



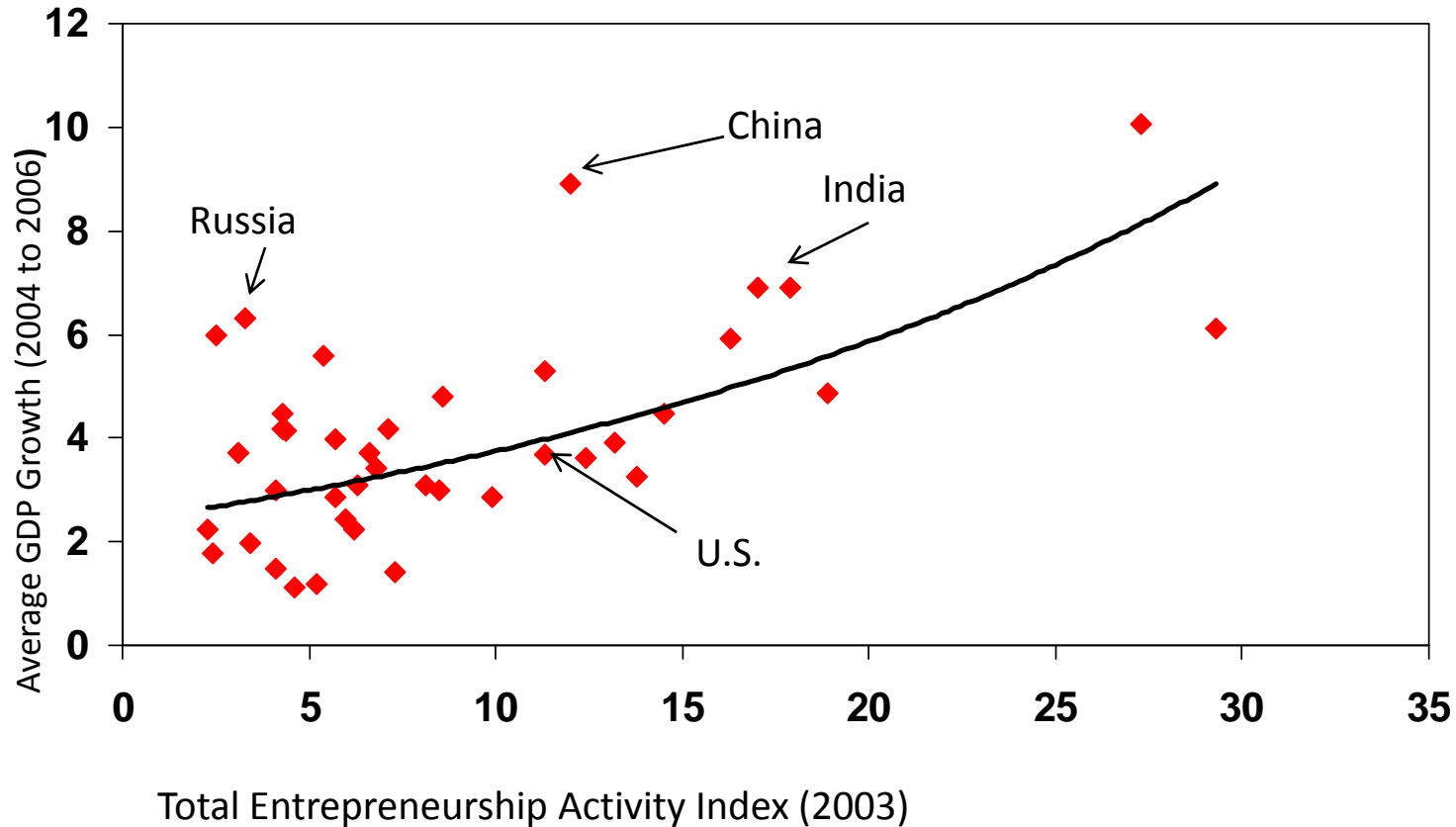
50+ employees within 5 years



Start-ups and newly-formed businesses

More entrepreneurs mean stronger economic growth...nationally and...

National Entrepreneurship Index and GDP Growth

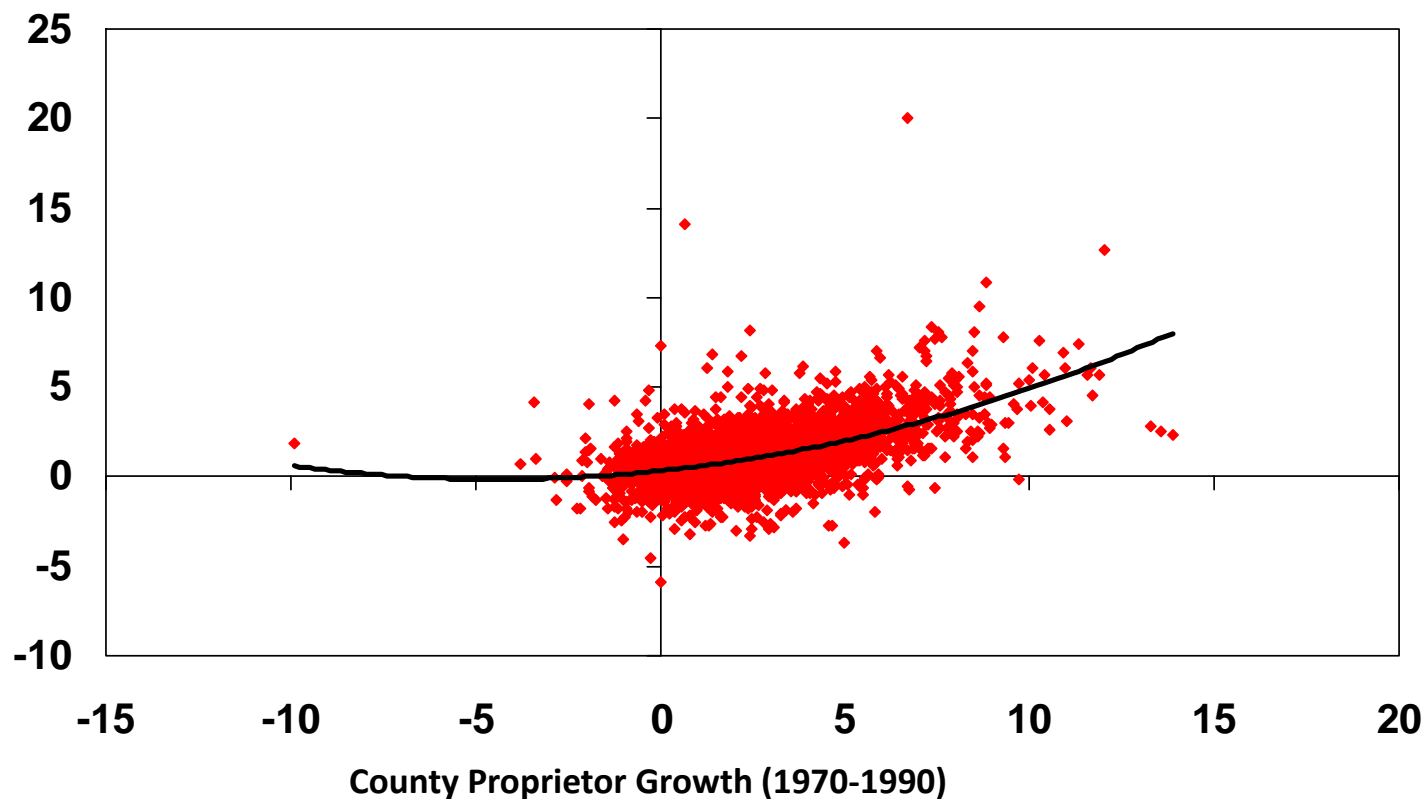


Source: Global Entrepreneurship Monitor, 2003 and International Monetary Fund, RUPRI Center for Regional Competitiveness

...at the local level

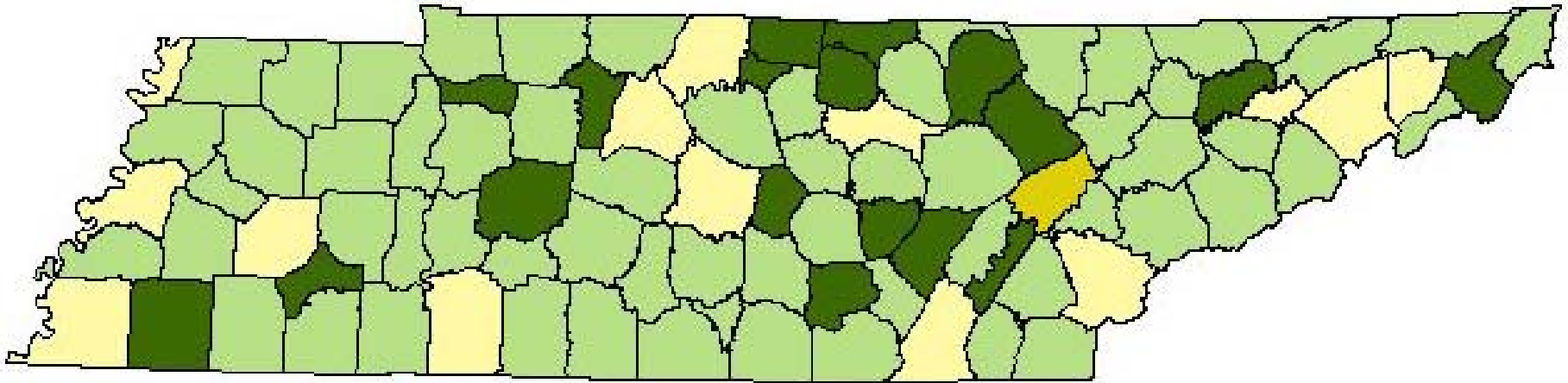
County Entrepreneurial Growth and Employment Growth

Employment Growth (Wage and Salary: 1990-2004)



Calculations based on BEA, Regional Economic Information System data, RUPRI Center for Regional Competitiveness

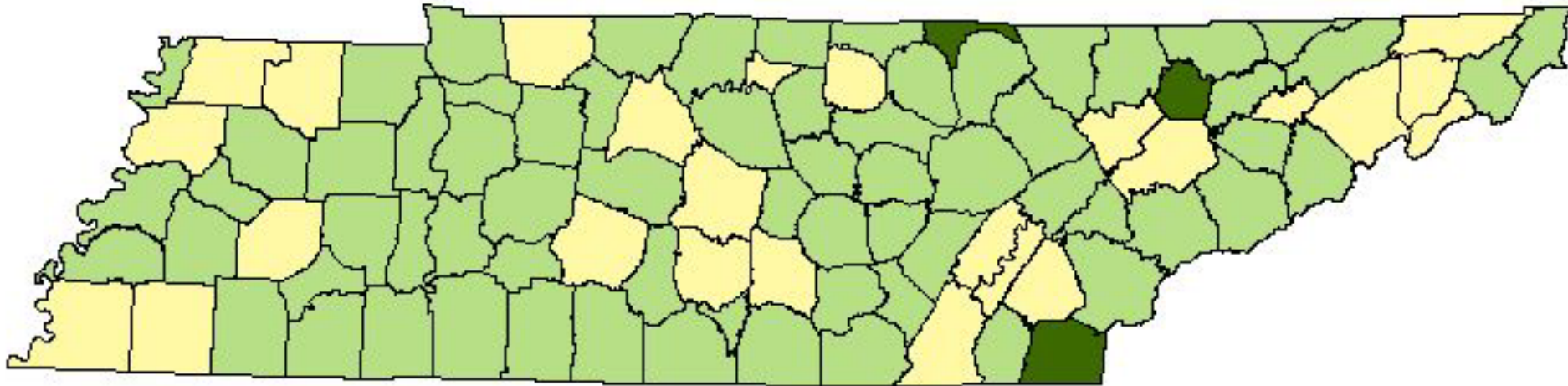
Tennessee's Entrepreneurial Counties: 1







Nonfarm Proprietors as Percent of
Total Nonfarm Employment, 2006

- Less than half of U.S. average (9.3%)
- 9.4% to U.S. average (18.8%)
- 18.8% to 37.6%
- More than twice U.S. average (37.6%)

Tennessee's Entrepreneurial Counties: 2

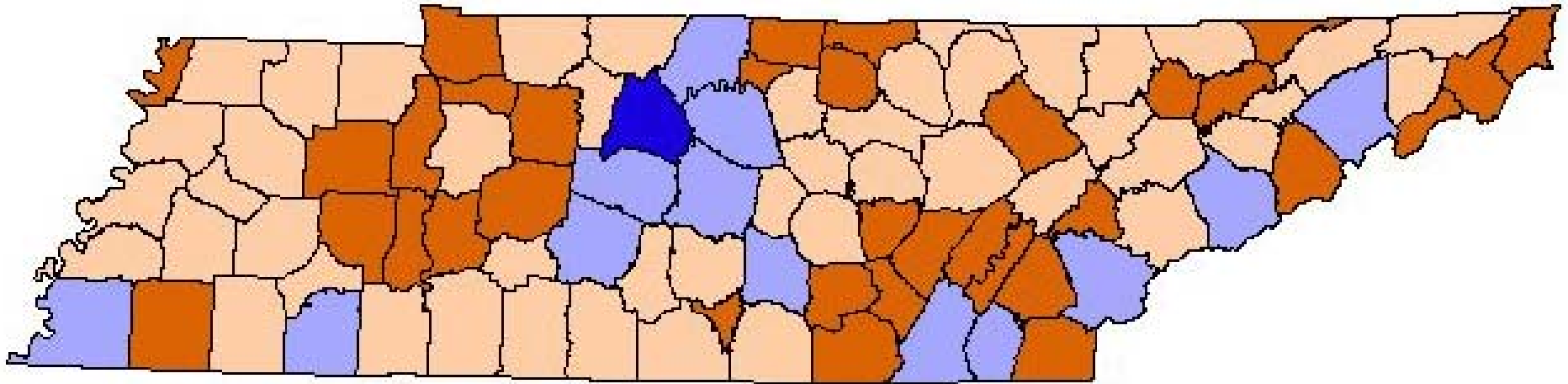


Microenterprise Employment as Percent of Total Nonfarm Employment, 2006

-  Less than half of U.S. average (8.8%)
-  8.9% to U.S. average (17.7%)
-  18.7% to 35.5%
-  More than twice U.S. average (35.5%)

Source: Bureau of Economic Analysis
Regional Economic Information System;
U.S. Census Bureau Nonemployer Statistics
and County Business Patterns

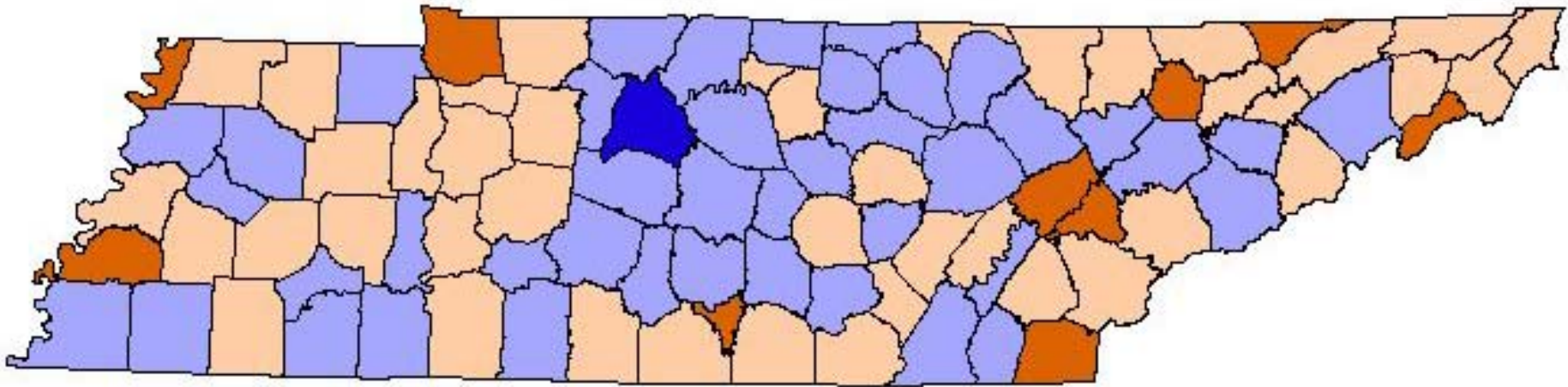
Tennessee's Entrepreneurial Counties: 3







Income per Nonfarm Proprietor, 2006

- Less than half of U.S. average (\$14,975)
- \$14,975 to U.S. average (\$29,950)
- \$29,950 to \$59,890
- More than twice U.S. average (\$59,890)

Tennessee's Entrepreneurial Counties: 4



Proprietors Income as Percent of Total Personal Income, 2006

-  Less than half of U.S. average (4.5%)
-  4.5% to U.S. average (9.0%)
-  9.0% to 18.0%
-  More than twice U.S. average (18%)

Entrepreneurship as Economic Development Strategy

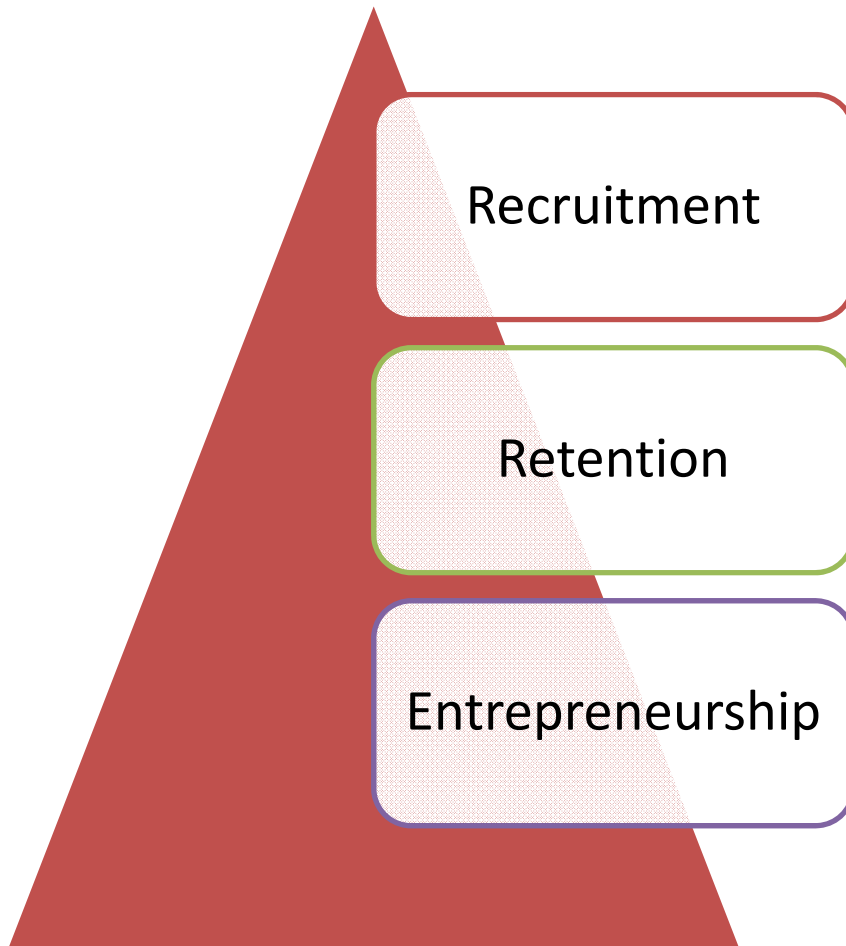


- **Entrepreneurship** – the link between assets and finding new sources of competitive advantage and economic opportunity
- **Entrepreneurs** – recognize opportunity and bring together resources to turn opportunity into a viable business venture
- **Entrepreneurial communities and leaders** – understand their assets and mobilize to employ these assets through entrepreneurship development

Starting Points for Policy

- Key working assumption – entrepreneurship should be *the* core rural economic development strategy
 - Recruitment is irrelevant strategy for most rural communities, except for those with particular locational attributes
 - Entrepreneurs and small businesses are the drivers of local and regional economies; represent appropriate scale of activity for rural places

The New Economic Development



- Entrepreneurship as the bedrock for economic development
- Emphasis on creating an e-friendly community – easier to attract and retain businesses
- E-friendly = business **and** community environment

Three policy principles...



- **Regionalism**

- Careful dance between reaching across jurisdictional and institutional boundaries to achieve scale while recognizing importance of place – resources, capacity, markets – not the same as consolidation.

- **Systems**

- Connecting the dots across programs and initiatives to better serve needs of entrepreneurs

- **Assets**

- Leveraging of local and regional assets to create new economic opportunities

...and one more

- **Interconnectedness** between rural and urban
 - Regionalism = rural and urban linkages
 - Systems = rural and urban resources
 - Assets = unique rural and urban strengths and markets
 - Rural people and places as equal partners with urban counterparts

What we think we know

- Entrepreneurs are **diverse** in education, skill, motivation and found in many contexts – defining characteristic is willingness to **innovate**
- **Innovation** can be found anywhere – not restricted to certain sectors or places
- Only one in ten entrepreneurs will succeed in creating significant jobs and wealth
- Unwise to try to pick winners – need to create **diverse pool** of aspiring and early stage entrepreneurs

What we think we know

- Main challenge in US is to **increase conversion rate** of early stage entrepreneurs into established businesses
- Context for economic development is rapidly changing – global integration means both **threats and opportunities** – entrepreneurial approaches more important especially in rural
- Some rural areas better endowed than others for sources of innovation or entrepreneurial climate, but all can benefit to some degree

Some trends

- **Focus on transformational potential of entrepreneurship**
 - Increasing focus on the individual entrepreneur through mentoring, coaching, peer learning – transformational skills
 - Increasing understanding of **systems approaches** to “connect the dots”, break down institutional barriers – shifting from supply to demand orientation
 - Increasing recognition of **importance of place** – both positive and negative influences (assets and attitudes)

Some trends

- **Critical importance of being clear about goals and outcomes, theory of change**
 - Need for integrated evaluation process – baseline assessment, agreement on appropriate portfolio of measures, regular monitoring, rigorous evaluation, dissemination of findings

Some trends

- **Separation of agriculture and rural development leads to overlooked opportunities**
 - 80% of farm household income is from off-farm sources; Successful farming dependent on vibrant rural communities
 - Important part of new **opportunities** in rural America – bio-energy, local food systems, ecosystem services – all offer farm- and land-based entrepreneurship possibilities
 - Weak system linkages between business support services and farm organizations – unique role for Extension

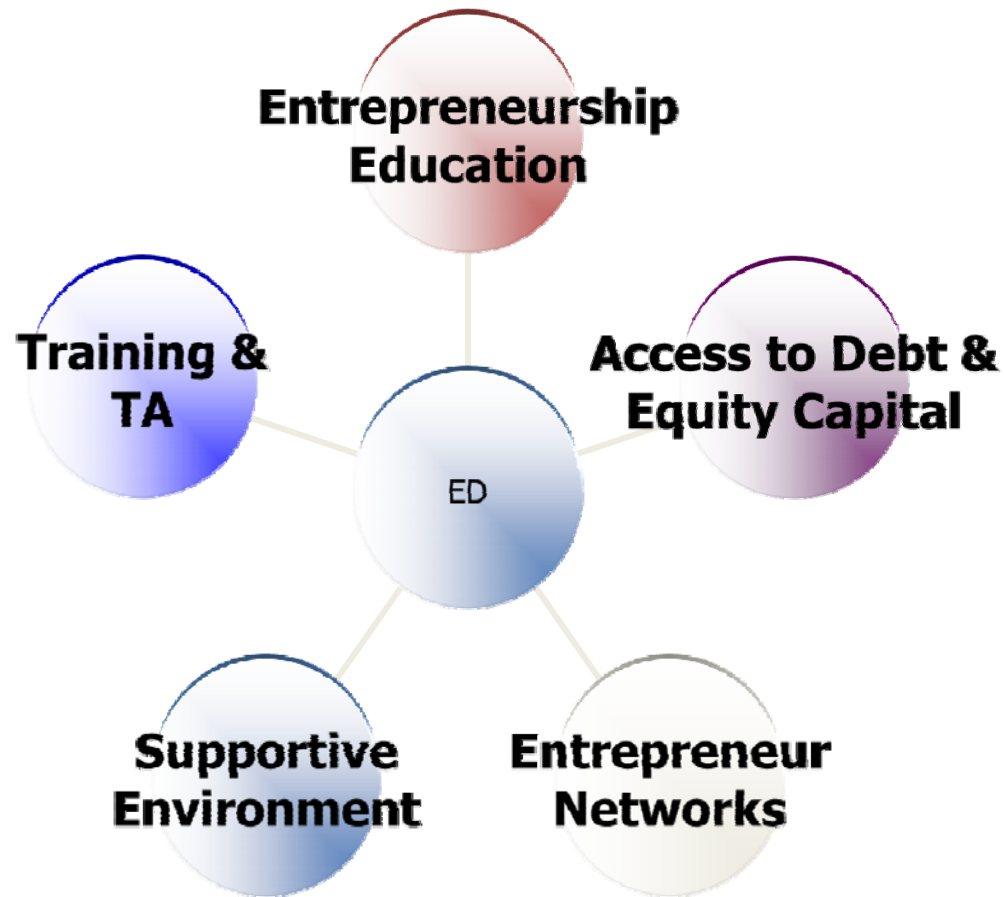
Policy Goals

- **More** entrepreneurs
 - *Increase the numbers*
- **Stronger** entrepreneurs
 - *Increase the survival rate*
- **More high growth** entrepreneurs
 - *Increase the number that create jobs and wealth*

Program Goals

- More entrepreneurs in the **pipeline**
- More entrepreneurs staying in their **community**
- Better **informed** entrepreneurs
- Better **skilled** entrepreneurs
- More **job creating** entrepreneurs
- Greater business **productivity**

Entrepreneurship Development rupri rural policy research institute



Some US Models



- **Entrepreneurship Development Systems**

- Six Kellogg-supported initiatives putting key principles to the test – NC, NE, NM, OR, SD, WV
- Big Tent (Supply Side) vs. Transformational (Demand Side)

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- **Hometown Competitiveness**

- Mobilizing local leaders, energizing entrepreneurs, engage & attracting young people, capturing wealth transfer – NE

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- **Entrepreneurship League Systems**

- Lyons & Lichtenstein – entrepreneur diagnostics, service delivery systems – WV, KY +

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- **Economic Gardening**
 - Chris Gibbons – access to information, infrastructure, connections – emphasis on market research – a developing movement

Some more models



- **Enterprise Facilitation**

- Sirolli – support/counseling to entrepreneurs and linking to resources

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- **Entrepreneurship Education**
 - REAL – K-12, community colleges – experiential learning for young people (and adults) – NC, GA, +

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- **Energizing Entrepreneurs (e2)**
 - RUPRI/CRE – training and tools for entrepreneurship development by communities

Role of State Government



- **Advocate for an entrepreneurial Tennessee**
 - Commission research, convene summits and competitions, promote entrepreneurial education, streamline regulatory processes
- **Invest in an entrepreneurship system**
 - Leverage dollars, target investments to key market audiences, increase capacity, invest on a competitive basis, measure performance, encourage innovation
- **Be a catalyst, convener, connector, and coordinator**
 - Build commitment, encourage collaboration

Role of Higher Education

- **Provide educational leadership**
 - Develop programs for entrepreneurship education and training, make entrepreneurship part of curricula; encourage technology/knowledge transfer
- **Be a resource for research and analysis**
 - Conduct fundamental and applied research to inform and guide entrepreneurship investment
- **Connect students and entrepreneurs**
 - Provide experience and capacity

Role of Private & Nonprofit Sectors



- **Be the ‘connector’ for entrepreneurs and communities**
 - Brokers of networks & knowledge, local conveners
- **Advocate for responsive government and appropriate resources**
 - Argue for policies, regulations, and funding that best promote entrepreneurship
- **Provide direct services and systems**
 - Deliver range of capital, training, technical assistance and other services within comprehensive system



Rural Policy Research Institute (RUPRI)

www.rupri.org

RUPRI Center for Rural Entrepreneurship

www.energizingentrepreneurs.org