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

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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…

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)

- 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**: 1 in 10
- **50+ employees within 5 years**: 1 in 20

Start-ups and newly-formed businesses
More entrepreneurs mean stronger economic growth...nationally and...

**National Entrepreneurship Index and GDP Growth**

- **Russia**
- **China**
- **India**
- **U.S.**

**Total Entrepreneurship Activity Index (2003)**

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)

County Proprietor Growth (1970-1990)

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

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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%)**

Source: Bureau of Economic Analysis
Regional Economic Information System
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

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Tennessee’s Entrepreneurial Counties: 3

Income per Nonfarm Proprietor, 2006
- Orange: Less than half of U.S. average ($14,975)
- Beige: $14,975 to U.S. average ($29,950)
- Light Blue: $29,950 to $59,890
- Dark Blue: More than twice U.S. average ($59,890)

Source: Bureau of Economic Analysis
Regional Economic Information System
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%)

Source: Bureau of Economic Analysis
Regional Economic Information System
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
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)
Some US Models

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• **Hometown Competitiveness**
  – Mobilizing local leaders, energizing entrepreneurs, engage & attracting young people, capturing wealth transfer – NE
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  – 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

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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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  – Kentucky Innovation Fund – taking rural innovators to capital markets
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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