

Energizing Entrepreneurs

By Steve Buttress and Don Macke

DEVELOPMENT STRATEGY FOR THE 21ST CENTURY

Energizing Entrepreneurs, Development Strategy for the 21st Century focuses on three core insights. First, the article addresses why communities and regions should consider entrepreneurship as a foundational economic development strategy.

The “case for entrepreneurship” provides a powerful overview of supporting research.

Second, it outlines the elements of an “entrepreneurial development system” or EDS. This section addresses the building blocks of EDS approaches ranging from a basic system to high performing. Finally, we provide additional information on our work and resources to help you build an entrepreneurship strategy in the 21st Century.

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INTERNATIONAL
ECONOMIC DEVELOPMENT
COUNCIL

*The Power of
Knowledge and Leadership*



energizing entrepreneurs

By Steve Buttress and Don Macke

INTRODUCTION

Steve Buttress wrote an article for the American Economic Development Council's *Economic Development Review* in the summer of 1989. It began with these words: *The times are interesting in the rural heartland. The economic and technological winds are blowing gustily, sometimes into our teeth, and sometimes at our backs.*

The article went on to detail the changes that were affecting our economies and that dictated changes in the practice of our profession. We reread the article recently and were struck by two things: 1) The 1989 factors still make the 2008 top-five list: advances in information and communication technologies; the globalization of the economy; energy costs; the importance of quality of life factors and 2) The rate of change has accelerated beyond any expectation in that earlier time. Think China, India, energy costs.

The rate of these changes has made the role of the economic developer both more difficult and more critical. We are at the front lines of understanding what these factors will mean to our economies and of developing economic development strategies that will succeed in this new environment. Old tools, old approaches, and old investments can't meet the needs of this new world.

We find this definition of economic development to be most helpful in focusing local leaders on their true role:

Economic development is choice; it is willed from within an economy. Economic development occurs when local leaders choose to identify, invest in, and develop their own set of comparative advantages to enable workers, firms, farms, and industries to better compete in regional, national, and international markets.



Business Coach Nancy Glaubke with her young Ord, Nebraska entrepreneurs. Ord and Valley County are examples of entrepreneurial development within Nebraska's HomeTown Competitiveness (HTC) development framework and process. With the help of HTC, Valley County has engineered an impressive economic turn-around.

So, what choices should we make? What investments? What new economic development strategies will work? How can we lead our communities to make smart choices?

The RUPRI Center for Rural Entrepreneurship believes that part of the answer lies in understanding the roles that entrepreneurs play in the growth

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of our economies. This article will make the case for an entrepreneurial strategy; outline the elements of a successful program; cite examples of communities where this approach is delivering proven results; and provide resources that can guide and support you as you consider developing a strategy that fits your community, your needs, and your resources.

THE CASE FOR AN ENTREPRENEURSHIP ECONOMIC DEVELOPMENT STRATEGY

The first step on the road to an entrepreneurship development strategy is to convince yourself and your constituents that investing in new choices will bring about desired results. There is substantial research that can be used to support such an argument. Take a look at these findings:

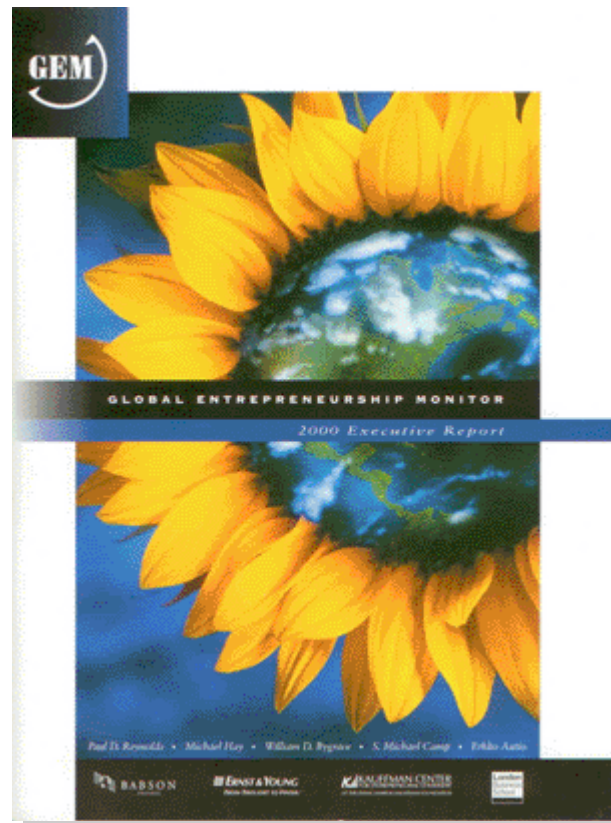
Birch and Cogenics. Old news now, but in the 1970s Dr. David Birch, then with the Massachusetts Institute of Technology, demonstrated that more and more American job creation was coming from small and medium-sized entrepreneurial companies. He now estimates that 55 percent of job creation comes from existing business growing; 45 percent from new business startups (a significant increase over a decade ago); and that only 1 percent of job creation comes from business relocation.

GEM. In one of the most extensive studies of recent times, The Ewing Marion Kauffman Foundation (in partnership with Babson College, Ernst & Young, the London Business School & researchers from dozens of developed countries) completed the *Global Entrepreneurship Monitor Report (GEM)*. This landmark study explored the relationship between economic growth and entrepreneurship in 21 of the world's leading industrial economies. They found the following results: *"The level of entrepreneurship activity in a country explains 70% of the difference in economic growth among these nations. All nations with high levels of entrepreneurial activity have above average rates of economic growth. Only a few nations that have above average rates of economic growth have low levels of entrepreneurship."*

National Commission. Several years ago, Patrick Von Barga and Erik Pages with the National Commission on Entrepreneurship expanded on the findings of GEM and explored the unique role that "high performing" entrepreneurial companies play in the U.S. economy. They concluded that about 4-7 percent of all American businesses (generally smaller to medium-sized entrepreneurial businesses) generate two-thirds of all business growth and job creation and that well over 50 percent of all business innovation comes from smaller entrepreneurial businesses.

Lowe. The Edward Lowe Foundation of Michigan and the U.S. Small Business Administration (SBA) completed landmark research several years ago investigating the relationship between entrepreneurs and regional economic growth in the United States. Lowe looked at nearly 400 regional economies across America and found the following striking results when comparing the most entrepreneurial regions with the least entrepre-

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Landmark 2000 Global Entrepreneurship Monitor Report.

neurial: new firm birth rates were 1.9 times greater; firm growth on average was +1.6 percent per year compared to minus 2.4 percent; job creation rate was 1.7 times greater; wage growth was 14 percent higher; and productivity growth rates were 50 percent higher. Lowe's research clearly explains why some regional economies in the United States are doing better than others.

Competitiveness Council. The U.S. Council on Competitiveness recently released their annual report, *Competitiveness Index: Where America Stands*. The Council concludes that four factors are central to America's economic future: innovation, entrepreneurship, education, and energy. On entrepreneurship, the Council writes: *"Entrepreneurship is a critical driver of success in the modern economy. New companies and their subsequent growth create most of the new jobs in the United States. New companies also provide an increasing share of knowledge creation, an area that has traditionally been dominated by large companies and their substantial R&D expenditures."*

Jack Schultz (author of *Boom Town*). Since World War II, business attraction has been a core, if not primary, economic development strategy for rural America. Following World War II, American industry sought lower cost places with capable workforces to locate branch plants, warehousing operations, and regional corporate headquarters. Relocations fueled economic growth in thousands of mid-sized rural communities nationwide.

Jack Schultz (a leading rural economic development expert) tracks business relocations nationally. Today, he argues that an estimated 300,000 economic development organizations are chasing 300 major relocation opportunities. Costs have risen and the opportunity for business attraction (at least in the traditional sense) has dramatically declined as industry is moving more and more operations off-shore.

The RUPRI Center's web site provides more information on the latest research supporting the development of an E strategy.

ELEMENTS OF AN ENTREPRENEURIAL DEVELOPMENT SYSTEM

Some common principles emerge from RUPRI's experience with successful entrepreneurial development systems.

Community and asset-based. Brian Dabson and the staff of the Corporation for Enterprise Development, with support from the W.K. Kellogg Foundation, published its landmark study, *Mapping Rural Entrepreneurship*, and identified several principles important to a successful entrepreneurship development system. The first was that it should be community based and community driven and that communities need to

identify and build on their assets. RUPRI's experience also supports the concept of this asset-based development approach. Simply stated, asset-based development focuses on those assets that a community or region already has available and builds from this starting point.

Regionally oriented. Many smaller communities lack the resources to create a robust system. CFED observed that the cooperation of regional institutions can provide the sufficient scale, resources, and expertise to enable individual communities to play their full role.

Entrepreneurial leadership. Successful systems require civic entrepreneurs, community leaders who recognize opportunities to take a different economic development approach, and who are able to champion the cause and assemble the critical mass of political and policy support to build a robust system.

Systems approach. CFED noted that systems thinking is required to align and deliver the plethora of training, technical assistance, and financing programs to meet the variety of needs of entrepreneurs and their different levels of education, skills, and maturity. RUPRI's experience mirrors this observation . . . that successful programs organize systematically to deliver services in a more effective and seamless way.

Entrepreneurial environment. Successful communities create an environment that supports entrepreneurs, including an awareness of their important role; recognition and acceptance of the fact that there will be failures along the way; and delivery of quality of life factors that are important to entrepreneurs and their families and workers.

Once a community has made the commitment to create an entrepreneurial development system; has built the political support to ensure a continuing and robust effort; has inventoried the assets that it can build on; and has created a network of cooperating entities that can support entrepreneurs, what can a community do to actively support entrepreneurs?

There is no single set of actions that a community should adopt. However, we have found it useful to think about possible investments in three categories: **basic, advanced, and high performing** levels of support.

Basic Support Services

Investment in a basic support package is the starting point to building a broader and more sophisticated community support system for entrepreneurs.

- A community should address any issues related to creating a positive climate and strong infrastructure for entrepreneurs. The greatest entrepreneurship development program operating in a weak climate with poor infrastructure will come up short.
- Before public programs are created, a community should take stock of its current access to appropriate

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Ribbon cutting ceremony in O'Neill, Nebraska, a HomeTown Competitiveness Community.

business services (e.g., legal, marketing, production, financial, accounting). Access to the right services is important. Having these services within the community is great but not necessary to ensuring access.

- A community should create a focus on entrepreneurs, both public (those who build communities) and private (those who build businesses). Creating a focus on entrepreneurs might include raising the awareness level of community residents and leaders about the role of entrepreneurship within the community. Going a bit further, a community might identify entrepreneurs and provide periodic recognition for their contributions to the community. Most importantly, a community should value entrepreneurs and their unique role in building the community and the economy.
- Entrepreneurs themselves indicate that the most important support they can receive is networking with other entrepreneurs and access to mentors. Communities can create regular opportunities that encourage networking and mentoring.



Don Betts (GA), Dick Gardner (ID), and Don Macke (NE) discuss strategies to support entrepreneurs at the 2008 Economic Gardening Annual Gathering in Steamboat Springs, Colorado. Economic Gardening is emerging as a primary entrepreneur support system strategy in the United States and abroad (Australia and Japan are two examples). Economic Gardening is based on the development strategy that Chris Gibbons pioneered in Littleton, Colorado.

Advanced Support Services

Once the basic elements of a support system are in place, a community can consider a number of advanced activities to further energize entrepreneurs. More advanced support doesn't mean that things should become more complicated for the entrepreneur. Massive directories and complicated pathways for entrepreneurs to access support can be counterproductive. We urge communities at this level to create some kind of simple organization (probably using an existing entity) to ensure that entrepreneurial support efforts are understandable, easy to access, and seamless.

- A community should offer an entrepreneurial training resource such as FastTrac, NxLevel, or REAL (Rural Entrepreneurship through Action Learning). These programs are particularly helpful to start-up and early stage businesses.

To be a high performing community that is optimally supporting entrepreneurs requires considerable community commitment and investment.

- A community should ensure that an entrepreneur has access to appropriate financial capital beyond that provided by local banking institutions. The development of microlending services for smaller start-up entrepreneurs and revolving loan programs for growing and restructuring businesses are likely first steps in building a stronger financial capital system for entrepreneurs.
- A community should implement programs that increase local entrepreneurs' awareness of and access to new markets. In rural areas particularly, entrepreneurs may need assistance to develop strong skills in identifying market opportunities and assessing the commercial feasibility of various opportunities. Sending delegations to conferences, trade shows, and trade missions are all good ways to increase market awareness.
- Communities should consider programming that introduces youth (the younger the better, starting in kindergarten) to entrepreneurship. Young people are a driving cultural force in our nation and communities. Sooner or later, these same young people will form the backbone of our economies and communities. Creating opportunities for young people to engage in venture and community building is critically important.

High Performing Support

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- Communities should consider strategies that offer customized help to the full range of local entrepreneurs. It requires a major community commitment to hire skilled entrepreneurial facilitators or coaches who work one on one with entrepreneurs.
- Sooner or later, growing ventures need more sophisticated forms of capital, including access to equity capital. Communities should consider building on current financing resources by creating area-based angel investment networks and pathways to more traditional venture capital resources (generally external to the community). As entrepreneurial deals emerge and grow, the ability to help these ventures meet their capital needs is key to keeping these businesses within the community.
- High performing communities find ways to integrate entrepreneurial opportunities into the core curriculum of their K-16 educational systems. Trying to engage youth in entrepreneurship via extracurricular

activities is a real challenge and promises only marginal support. Quality time for entrepreneurship is a critical next step in building an entrepreneurial culture.

- Places with higher levels of entrepreneurial activity are often places with high capacity organizations dedicated to supporting entrepreneurs. These entrepreneurial support organizations are rooted in communities and provide a more comprehensive and sophisticated package of support that energizes start-up entrepreneurs and grows entrepreneurial growth companies.

This package includes advanced research in the areas of markets, competitors, suppliers, industry trends, product trends, and the like. Such systems are able to provide network access to higher end customized technical assistance including importing, exporting, joint ventures, outsourcing, and a wide range of issue areas.

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Finally, these advanced systems of support also address capital access providing avenues to seed, venture, and growth capital. For example, a more comprehensive system might offer micro-finance for small start ups all the way to linkages to venture capital for high growth companies.

Relatively few communities in rural America meet the standards for a high performing support environment. Places like Fairfield, Iowa; Littleton, Colorado; and Douglas, Georgia, come close. Many more rural communities are providing advanced support to their entrepreneurs and even more have in place the basic elements of support. The good news is that there are shining examples of how successful communities have organized to build their economies through an investment in an entrepreneurial support system.

Shining Examples

Although there are many shining examples, the following provide an interesting range of old and new high performing entrepreneurial development systems from around the country. The RUPRI Center's web site features case studies that go into far greater detail on these examples. (www.energizingentrepreneurs.org)

Nebraska's HomeTown Competitiveness. Nebraska's HomeTown Competitiveness (HTC) development framework focuses on smaller rural communities (as small as 400 residents) and provides a comprehensive entrepreneurial development support system. HTC addresses both business and social/civic entrepreneurial development. HTC has evidence of community turn arounds based on this development system.

Network Kansas. Network Kansas has done what other states have tried and failed to do – create a comprehensive system of entrepreneurial support on a statewide basis. The current resource world for entrepreneurs looks, feels, and works a lot like a grocery store where products have no logical organization and directory. Finding what you need is “hit and miss” at best.

Network Kansas employs the Kansas City SourceLink information management system as a core mechanism to rationalize all available entrepreneurial support resources. Network Kansas has also managed to expand quality business counseling and now offers a community entrepreneurial development system support program.



Main street in Sedan, Kansas. Sedan is part of a regional entrepreneurial development strategy called Quad Counties Enterprise Facilitation. This strategy is rooted in Ernesto Sirolli's Enterprise Facilitation approach. Sedan and Chautauqua County, once the poorest county in Kansas, are now achieving impressive business development and job growth. More needs to be done, but entrepreneurs are now making a difference in this very rural community in Southeastern Kansas.

Economic Gardening. Suburban Littleton, Colorado, pioneered what has become internationally known as Economic Gardening. Economic Gardening is a play on its inverse business attraction or as some call it “buffalo hunting.” Economic Gardening focuses on growing from within the local economy through a system of support for area entrepreneurs. A hallmark of economic gardening is provision of high end market research to client entrepreneurs. Wyoming has taken this idea and creat-

ed a statewide system of market research support. Founder Chris Gibbons is now working on a JumpStart service that could make advanced market research available to communities throughout the United States in the near future.

Michigan's Northern Initiatives. Northern Initiatives (NI) labors in extreme northern Michigan. NI is a long-standing economic development corporation associated with the University of Northern Michigan. It provides a wide range of business finance and technical support. NI continues to be a national innovator in the development of entrepreneurial development support.

Kentucky Highlands. Located in Appalachian Ohio, the Kentucky Highlands Investment Corporation is a long standing and highly evolved entrepreneurial development system. Kentucky Highlands provides a comprehensive range of services targeted to new startups


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Ord, Nebraska, was one of the first communities nationally to embrace the HomeTown Competitiveness development framework and process. In 2000, Ord did not even have an economic development plan, office or strategy. Today, Ord is putting up impressive economic development statistics in job creation, income growth, retail sales growth, and most importantly – population stabilization.

and to second-stage high-growth entrepreneurial companies. The Corporation has particularly developed a sophisticated set of business financing tools, including equity financing.

WHERE TO GO FOR HELP

The RUPRI Center for Rural Entrepreneurship is a leading resource for helping communities, regions, and states build stronger economies through entrepreneurship. Its team has studied leading rural entrepreneurship strategies throughout North America. The Center has developed a menu of services to help communities assess and design an E strategy, including an "E" Opportunity Assessment Service; "E" Strategy Process Service; as well as presentations, workshops, professional training, fund raising, mentoring and evaluation services. More information is available at the website. 

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