

Why Entrepreneurship?

A Vision and Policy Pointers for Maine


Brian Dabson, RUPRI

**Enterprise Development
Works! Policy Forum**

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Entrepreneurial Maine

- 43rd in Goetz & Freshwater Index of Entrepreneurial Climate; 37th in CFED Development Report Card for Entrepreneurial Energy...yet
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 - Discovery State, Maine Entrepreneurship Working Group, Kauffman Initiative (K-16), Downeast Initiative, Tribal Initiative, Maine Micronet, Coastal Enterprises Inc., Enterprise Maine, Maine Center for Economic Policy, Maine Department of Economic Development, Maine Small Business Center, University of Southern Maine, Maine Rural Partners, Maine Department of Education...

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Presentation Structure

- Entrepreneurship Fundamentals
- Framing and Principles
- Issues of Governance
- Importance of Measurement
- Models from Elsewhere
- A Vision

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Basic 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.*

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Differing Motivations

- **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



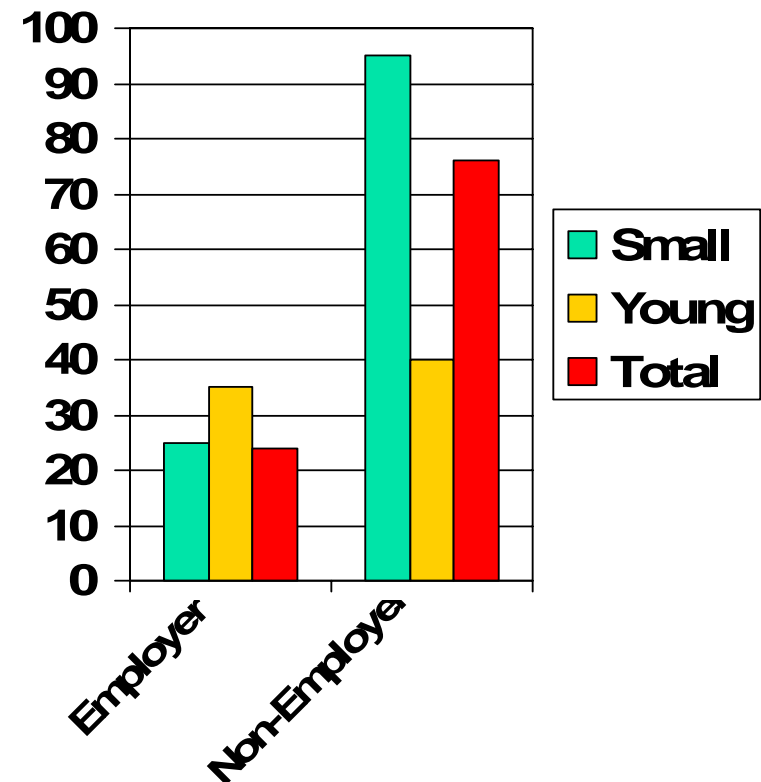
Further Definitions

- **Drucker**
 - *Entrepreneurs create something new, something different – show eagerness to innovate*
- **GEM**
 - Opportunity vs. Necessity
 - Entrepreneurial Life Cycle
 - **Nascent** – commits resources, starts a business
 - **New business owner** – owns & manages businesses and pays salaries >3 mo, <42 mo
 - **Established business owner** – owns & manages business in operation >42 mo
 - **Entrepreneurial Activity** – percentage of population in these three categories

Although young and small firms are large in number....

Davis, Haltwinger & Jarmin (2005)

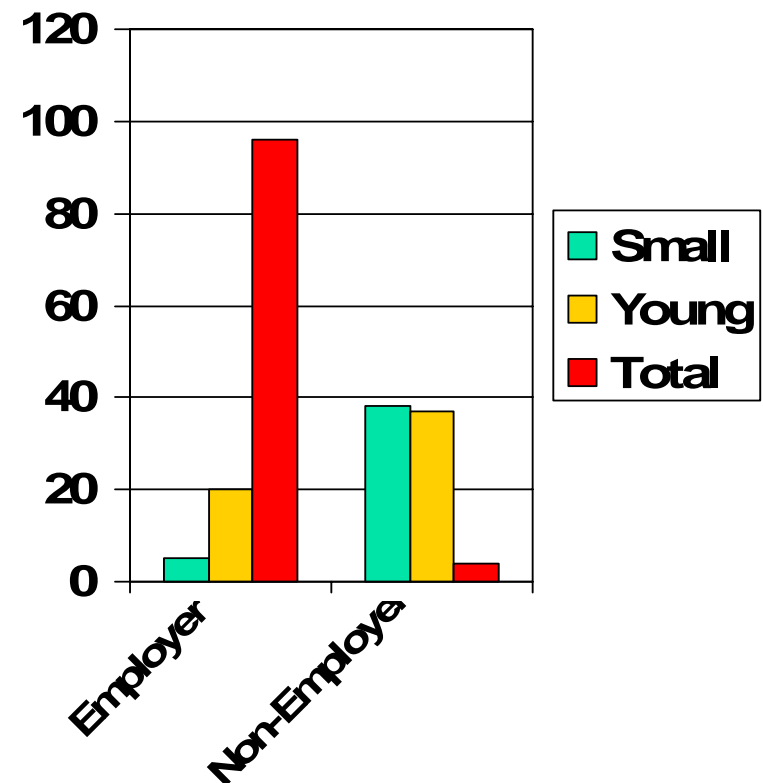
- Of **21 million firms** in US, 76% are non-employer firms
- **16 million small firms** (<\$90K); 25% of employer firms and 95% of non-employer firms are small
- **8 million young firms** (<4 years); 35% of employer firms, 40% of non-employer firms are young



...they have only a modest economic impact...

Davis, Haltwinger & Jarmin (2005)

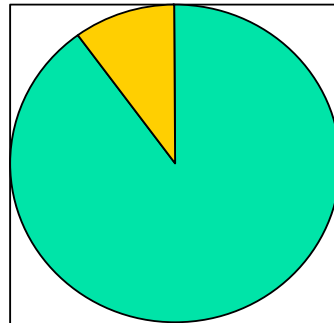
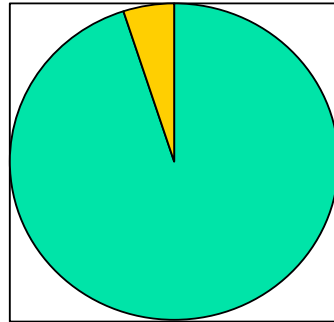
- Non-employer firms account for only 4% of *total* business revenues
- Small firms account for 5% of employer business revenues
- Young firms account for 20% of employer business revenues



...yet they are critical to US business dynamics



Davis, Haltwinger & Jarmin (2005)



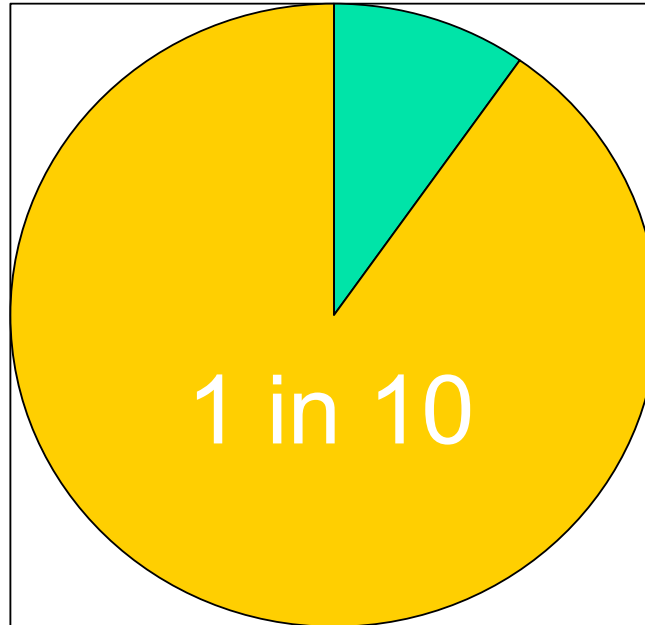
- 5% of non-employer firms with 10% of non-employer business revenues become employer firms within 3 years
- **750,000 businesses**

High Expectation

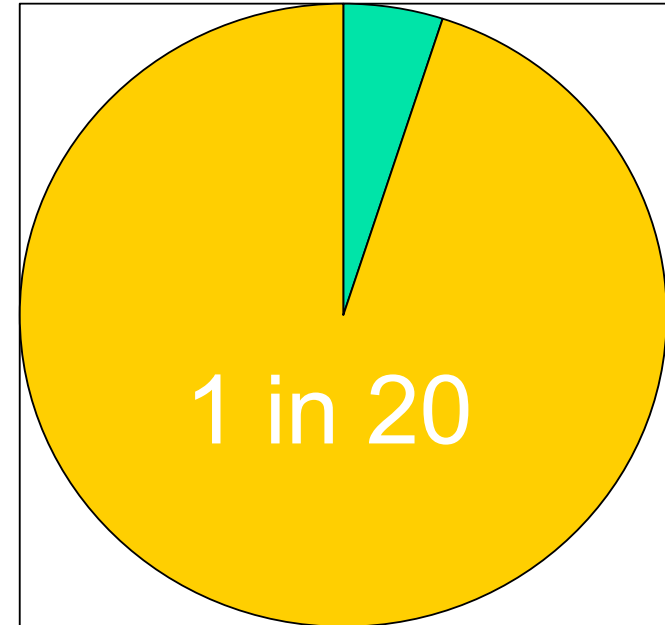
Entrepreneurial Activity (GEM)

Autio, Hancock, (2005)

20+ employees within 5 years



50+ employees within 5 years



Start-ups and newly-formed businesses

International comparisons

GEM (2005)

- Early-stage entrepreneurs: US 5th, 12.4% pop.
- Established business owners: US 26th, 4.7% pop.
- Survival rate: US 31st
 - Low Incomes + Weak Safety Net = High necessity, low survival
 - High Incomes + Strong Safety Net = High opportunity, high survival
 - US: High Incomes + Weak Safety Net = High opportunity & necessity, low survival

Entrepreneurship Development

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- Includes:
 - Entrepreneurship education
 - Access to debt and equity capital
 - Technical assistance and training
 - Entrepreneur networking
 - Entrepreneurial culture

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Policy Pointers

- Create a diverse pool of people wanting to create new businesses – no picking winners
- Create conditions for increased rates of survival and growth

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New Regional Framing

- Economic regions are basic unit of global **competitiveness** (Michael Porter)
- **Innovation** and **entrepreneurship** in *a regional context* are the engines of job creation, growth, prosperity (SACI Committee)
- **Creativity** is what distinguishes successful regions in new economy (Richard Florida)

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Competitiveness

- **Competitiveness** (Council on Competitiveness)
 - > sustained productivity growth > regional prosperity
 - = converting **assets** into intellectual capital, added value; \neq exploitation of location, natural resources, low cost labor
 - Depends on productivity of **all** industries and assets; productivity based on continuous **innovation**



Innovation & Creativity

■ Innovation

- Transformation of knowledge into commercial products, processes, services
- Can drive productivity in **every** sector – not just in “high tech” areas

■ Creativity

- Emergence of creative class and growing economic cleavage
- Successful regional economies have assets that attract creative people – 3 ‘Ts’ of Talent, Technology, Tolerance – certain metropolitan areas

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Rural Competitiveness

- A region's competitiveness depends on the productivity of **all** of its places, including rural
- Rural competitiveness, as everywhere else, depends on Innovation, Creativity and **Entrepreneurship**
- Three key principles for rural entrepreneurship development
 - **Regionalism**
 - **Systems**
 - **Assets**

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Principle #1: Regionalism

- **Effective rural entrepreneurship depends on regional framing at national, state, and local levels**
 - **Major shifts in rural America** – No ‘one size fits all’ policy, need for regional-specific approaches
 - **Urban and rural interdependence** – Economic, social, environmental – balanced and mutually supportive strategies (United Nations)
 - **Economic opportunity** independent of jurisdictional boundaries -- investments needed in leadership capacity, economic information, tools (Drabenstott)
 - **Regional connectivity** -- Entrepreneurs need connections to regional markets, regional collaborations, regional networks



Principle #2: Systems

- **Entrepreneurial climate can be improved by more effective support systems for entrepreneurship**
 - **Programitis** – No shortage of programs, agencies purporting to help entrepreneurs and small businesses; But often disconnected, categorical, competing, under-resourced, confusing
 - **Entrepreneurs have multiple needs** – Different education, skills, motivation (Lyons & Lichtenstein)
 - **Kellogg/CFED EDS** – Coordinated infrastructure of public/private supports; Integrates programs, tailors products to meet diverse needs; Premium on collaboration, comprehensiveness, flexibility, cultural sensitivity; Regional in scope

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Principle #3: Assets

- **All rural areas have assets that can be leveraged for economic prosperity**
 - **Many types of assets/capital** – cultural, social, human, political, natural, financial, built (Flora & Flora)
 - **Some well-endowed regions**
 - Entrepreneurship link to knowledge spillover from higher education, technology companies (Audretsch)
 - Creative class theory applies to rural America especially in high amenity areas and higher density counties with access to metropolitan areas (McGranahan & Wojan)
 - But evidence that it also applies in poorer areas

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Challenges to decision-making

- Regionalism, Systems, and Assets principles represent major challenges to the way decisions are made in rural America
- Coincides with other pressures
 - Under-resourced, overwhelmed elected officials
 - Tax structures that encourage wasteful cross-border competition, turf, and parochialism
 - Lack of vision for rural America

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New Rural Governance

- ***Governance: the process of making and carrying out decisions***
- **More than *government***
 - Voluntary, business, education, faith-based groups
 - Leadership development, community capacity-building
 - “Behind the scenes” and exclusive, or open and empowering
- ***New governance*** implies focus on three aspects
 - Collaboration
 - Engagement
 - Regional Resources

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Collaboration

- **Crossing sectors**
 - Bringing public, private, nonprofit organizations to the table – making formal, sustained commitments to work together
- **Crossing jurisdictional boundaries**
 - Bringing together all levels of governments; encouraging local jurisdictions to work together for a common regional advantage
- **Crossing functions**
 - Bringing together education, training, technical assistance, access to capital, networking

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Engagement

- **Welcoming new voices**
 - Identifying and encouraging new leaders to inject fresh life and ideas – newcomers, the reticent, the young – the entrepreneur
- **Visioning a different future**
 - Bringing new perspectives, achieving community commitment, giving hope
- **Strengthening local leadership**
 - Building capacities of elected officials, agency heads...

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Regional Resources

- **Identifying regional competitive advantage**
 - Building on regional assets, embracing urban *and* rural, cultural diversity
- **Engaging key intermediaries**
 - Making full use of regional assets – community colleges, regional foundations, rural nonprofit agencies
- **Building community equity**
 - Accumulating local resources to leverage external investment – community foundations

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Policy Pointers

- Frame support for innovation and entrepreneurship in rural areas as the means to transform assets into competitiveness
- Accept some rural areas better endowed than others but all areas can contribute with help – leadership, information, tools
- Make regionalism, systems, and assets the key principles for entrepreneurship development.

Measuring Entrepreneurial Activity

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- **Key Questions:**
 - **Entrepreneurial Activity:** new starts and early-stage entrepreneurs as compared with established businesses as percentage of population
 - **Entrepreneurial Motivation:** necessity vs. opportunity
 - **Churn Rate:** new starts and failures within three years
 - **Take-up rates** of selected programs
 - **By county, region, sector, over time**

Measuring Wealth-Creating Activity

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- **Key Questions**

- For firms within three and five years of formation
 - Number of jobs, size of payroll
 - Business revenues
 - Taxes paid
 - Nature, impact of program interventions
- **By county, region, over time**

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Policy Pointers

- Invest in specific outcomes measures that will inform policy
- Entrepreneurship is not a stand-alone policy but an integral part of economic opportunity and wealth creation strategies

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Models from Elsewhere

- **Entrepreneurship Development Systems**
 - Six Kellogg-supported initiatives putting key principles to the test – NC, NE, NM, OR, SD, WV
- **Hometown Competitiveness**
 - Mobilizing local leaders, energizing entrepreneurs, engage & attracting young people, capturing wealth transfer – NE +
- **Entrepreneurship League Systems**
 - Lyons & Lichtenstein – entrepreneur diagnostics, service delivery systems – WV, KY +

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Models from Elsewhere

- **Enterprise Facilitation**
 - Sirolli – support/counseling to entrepreneurs and linking to resources
- **Entrepreneurship Education**
 - REAL – K-12, community colleges – experiential learning for young people (and adults) – NC, GA, +
- **Rural Innovation**
 - Kentucky Innovation Fund – taking rural innovators to capital markets
- **Energizing Entrepreneurs (e2)**
 - RUPRI/CRE – training and tools for entrepreneurship development by communities

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What we still have to learn

■ Research agenda

- Returns to public investment in entrepreneurship development vs. conventional economic development
- Means of engaging urban-rural linkages
- Effective practices for regional collaborations
- Returns on system incentives vs. categorical programs
- Tools for identifying and translating rural assets into entrepreneurial opportunities
- Extent of innovation and entrepreneurial assets in less well-endowed rural places

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Policy Pointers

- No need to reinvent the wheel – good experience and lessons being learned across the country – keep abreast
- But much still to be learned – share knowledge

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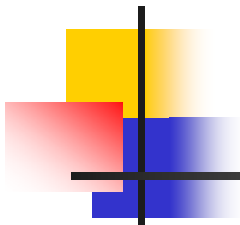
The Four Struggles

- **Homogenization**
 - The loss of rural identity and advantage
- **Commoditization**
 - The loss of diversity
- **Urbanization**
 - The loss of the “non-urban”
- **Resignation**
 - The loss of rural power

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The Entrepreneurial Vision

- Maine's renewed investment in entrepreneurship development will –
 - Provide an antidote to the four struggles
 - Turn Maine's assets and innovations into economic opportunity and competitiveness
 - Encourage and incent regional collaboration
 - Lead sustained and sustainable community and economic development across Maine



Brian Dabson

Rural Policy Research Institute

www.rupri.org

RUPRI Center for Rural Entrepreneurship

www.energizingentrepreneurs.org

(573) 449-5060