Entrepreneurship in Rural America: A Road to Prosperity

September 10, 2013

Organized by the Federal Reserve Banks of St. Louis and Kansas City

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The Connecting Communities® audio conference series is a Federal Reserve System initiative intended to provide timely information on emerging and important community and economic development topics with a national audience. The audio conference series complements existing Federal Reserve Community Development outreach initiatives that are conducted through our regional Reserve Bank offices and at the Federal Reserve Board of Governors in Washington, D.C.
Thank you to everyone for joining this session.

For today:

- This call is being recorded.
- An archived recording of this session will be available on the Connecting Communities® web site shortly after the session has taken place: www.stlouisfed.org/connectingcommunities/
- We will be taking questions via email during this session. Please direct your questions to communities@stls.frb.org. These questions may be part of the recorded archive for this session.
- In connection with this session, several of our Reserve Bank offices have posted links to a variety of additional resources on this topic. We encourage you to browse through this list and to contact your regional office if you would like additional information on any of these items.
Legal Notices and Disclaimer

The information, analyses, and conclusions set forth are those of the presenters and do not necessarily indicate concurrence by the Board of Governors of the Federal Reserve System, the Federal Reserve Banks, or members of their staffs.
Community affairs programs at the Federal Reserve Board and the 12 Federal Reserve Banks support economic growth by promoting community development and fair access to credit.

Community affairs offices at the Board and Reserve Banks engage in a wide variety of activities to help financial institutions, community-based organizations, government entities, and the public understand and address financial services issues that affect low- and moderate-income people and geographic regions.
Community Affairs (continued)

• Each office responds to local needs in its district and establishes its own programs to:
  – Foster depository institutions’ active engagement in providing credit and other banking services to their entire communities, particularly traditionally underserved markets
  – Encourage mutually beneficial cooperation among community organizations, government agencies, financial institutions, and other community development practitioners;
  – Develop greater public awareness of the benefits and risks of financial products and of the rights and responsibilities that derive from community investment and fair lending regulations
  – Promote among policy makers, community leaders, and private-sector decision makers a better understanding of the practices, processes, and resources that result in successful community development programs
Why Grow Your Own?

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http://kansascityfed.org/community
The mission of the Community Development function of the Kansas City Fed is to support the economic growth objectives of the Federal Reserve Act by promoting community development and fair and equal access to credit.

Our job is to serve as a neutral convener of resources between those who have and those who don’t, because we know all segments of the population, including the less advantaged, benefit from both economic growth and fair and equal access to credit.

The Grow Your Own Guide provides a high level overview of what it takes to conduct entrepreneurship based economic development.
Economic Development Defined

“The main goal of economic development is improving the economic well-being of a community through efforts that entail job creation, job retention, tax base enhancements and quality of life.”

International Economic Development Council

Note The Differences

“Fostering a dynamic environment where economic opportunities can be discovered, taken advantage of and maximized to their fullest extent to create balanced and sustainable economic growth, jobs, a positive sense of ‘place’ and an improved quality of life in a defined geographic region.”

Dell Gines
Why Traditional Economic Development Can Be Challenging

The traditional economic development model

Traditional economic development is a zero sum game with many competitors and only one winner.

ABC TV Show the Bachelorette
Why Traditional Economic Development Can Be Challenging (continued)

“Experience suggests that economic development strategies aimed at attracting large firms are unlikely to be successful – or only at a great cost.”

Kelly Edmiston, Senior Economist, Federal Reserve Bank of Kansas City. The Role Small and Large Business in Economic Development

“Whether incentives induce significant new investment or jobs—we simply do not know the answer. Since these programs probably cost state and local governments about $40–50 billion a year, one would expect some clear and undisputed evidence of their success.”

Peters & Fisher, 2004
Why Traditional Economic Development Can Be Challenging (continued)

Fun Fact

According to a field test to measure microenterprise service providers it was determined that the average cost per client was $2,292.00

If the “$50 Billion” or so spent on traditional incentives was spent on micro enterprise clients, it would equal 22,000,000 clients served. This would be the combined population of our top 9 cities - New York, Los Angeles, Chicago, Houston, Philadelphia, Phoenix, San Antonio, San Diego, Dallas!

Data Source:
http://fieldus.org/MicroTest/FY08PerformanceOverview.pdf
Where Do Jobs Come From?

Number of Firms by Employment Size of Firms

Our Sweet Spot

→ Stage 1 and stage 2 companies.

• 98 percent of all firms
• 35 percent of all employment
• 26 percent of all estimated receipts

Traditional Economic Development Targets

Over a recent 15-year period, small businesses created some 65 percent of the net new jobs in the private sector, according to conservative estimates cited in a new report from the SBA Office of Advocacy - "Where Do Jobs Come From? New Analysis of Job Gains and Losses from the Office of Advocacy (SBA), November 2010"

If one excludes startups, an analysis of the 2007 Census data shows that young firms (defined as one to five years old) still account for roughly two-thirds of job creation, averaging nearly four new jobs per firm per year. Of the overall 12 million new jobs added in 2007, young firms were responsible for the creation of nearly 8 million of those jobs. - "Kauffman Foundation Research Series: Firm Formation and Economic Growth Where Will The Jobs Come From? - 2009"
Why Focus on Models of Entrepreneurship Based Economic Development?

A few reasons why grow your own development is a powerful tool:

1. Entrepreneurs create jobs, increase local incomes and wealth (Henderson, 2002).
2. A higher ratio of entrepreneurial activity is associated strongly with faster growth of local economies (Barth, Yago & Zeidman, 2004).
3. Entrepreneurs connect communities to the larger, global economy.
4. Local entrepreneurs are more likely than branch plants to reinvest their wealth locally.
5. Entrepreneurs create a sense of place.
6. The cost of job creation is lower (Edmiston, 2006).
7. Entrepreneurship allows our emerging senior populations to continue to be productive and add economic value to local economies.
8. Grow your own development is a more feasible way to develop traditionally economically challenged areas.
9. Grow your own development helps create diversified economies.
10. This kind of development is just a better “fit” for certain communities.
Why Focus on Ecosystems?

“An ecosystem is a complex set of relationships among living resources, habitats, and residents of an area.

Ecosystems vary greatly in size and the elements that make them up. Everything that lives in an ecosystem is dependent on the other species and element.

When an ecosystem is healthy, it is sustainable. This means that all elements live in balance and are capable of reproducing themselves.”

Ecosystem focus is important because
1. It looks at the interconnectivity necessary to create a thriving economy.
2. It requires looking at the whole as opposed to each individual program.
3. It provides a basis for analyzing the needs of entrepreneurs from a variety of lenses.
4. It provides a community the capacity to create economic development strategy that fits their unique community needs.

Source: http://www.mtu.edu/forest/
The Five Cs of the Entrepreneurship Ecosystem

Capital
Financial Resources

Climate
Regulatory, Economic Development & Policy Environment

The Entrepreneur

Capability
Entrepreneurship Skillset

Culture
The local communities’ perception and support of entrepreneurship

Connection
Resource & Relationship Network
The Five Cs of the Ecosystem

Entrepreneur focused aspects of the ecosystem. These are otherwise known as:

• Financial Capital
• Human Capital
• Social Capital

We tend to over focus on financial capital as a solution to business problems but the ecosystem has to be in balance across the three forms of capital.
The Five Cs of the Ecosystem (continued)

Environmental aspects of the ecosystem.

Culture is critical to the development of an ecosystem. It sets the expectations of ownership, recognizes that failure and risk are part of the process and supports entrepreneurship as a normal way of life.

Climate determines whether entrepreneurs will be given the red tape or the red carpet. What are the taxes like? How easy is it to navigate bureaucracy to get permits and other legal items? Does the state, county or city demonstrably work to support small business owners through policy?
What makes a Michael Jordan Lebron James Entrepreneur?

1. Ability – They have natural talent that they develop formally and informally.
2. Actualization – They have a high internal drive to continue to grow, build and create.
3. Awareness – They know where there are opportunities, resources and education.
4. Access – They have access to markets, networks, capital.
5. Acceptability – Their community holds up entrepreneurship as a career possibility, a noble goal, and a recognized positive course of action.
6. Affirmation – Their community publicly affirms, celebrates and supports entrepreneurs.
The Entrepreneur Focus (continued)

Not all entrepreneurs will be Michael Jordan entrepreneurs! But all entrepreneurs can add value.

**The Entrepreneur Continuum**

Hobby self-employment  High growth gazelle

To have a sustainable and balanced ecosystem it must be organized in such a way the needs of all types of entrepreneurs are addressed, even if certain types of entrepreneurs are a priority focus.
Are entrepreneurs able to easily navigate through the variety of providers and services that exist to help them start and grow a business?

One of the largest complaints we hear from individuals seeking to start or grow a business is that the service system is complex and hard to navigate.
The Dense Ecosystem

Are the programs, policies and activities sufficient in number and type to meet entrepreneurship based economic development goals?

Ecosystem #1 - Sparse

- Microloan
- Networking
- Business Plan
- Mentoring

Ecosystem #2 - Dense

- Microloan
- Policy Group
- Business Plan
- K-12 Education
- Venture Capital
- University Support
- Mentoring
- Market Research
- Community Business Celebration
Opportunity Cost

The strongest entrepreneurship development ecosystems do the best job of allowing existing and potential entrepreneurs to spend more time and energy:
1. Focusing on building the business, and
2. Becoming more effective business owners rather than wasting time figuring out how to get support, information, and resources to build the business.
Effective Ecosystem Model

- Quality policy
- Supportive culture
- Appropriate information & resources
- Struggle to access
- Difficult to navigate
- Slow responsiveness

- Quality policy
- Supportive culture
- Appropriate information & resources
- Easy to access
- Easy to navigate
- Rapid responsiveness

- Poor policy
- Resistant culture
- Lack of information & Resources
- Struggle to access
- Difficult to navigate
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Entrepreneurs…
Pathway to Prosperity

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Big Picture
Great Recession

The most significant economic event in our lifetime!

A new economic and social world will emerge from this recession.
Space exists in our economy and society for creativity and innovation that can lead to a new round of economic and social progress and prosperity.

The Long Depression of the 1870s and the Great Depression of the 1930s is evidence that this can be the case with the Great Recession.

This is called the Great Reset!
The Reset Process

- Prosperity
- Crisis Unraveling
- New Ventures
- Opportunity Space
- New Innovation

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Illustration – 1995-2001

The Great Expansion
The 1990s were a remarkable period in American economic development history. During the 1990s, household net worth grew by a remarkable $22 trillion. No other decade since World War II posted such wealth creation in United States including the 1950s, 1960s and the 1970s.

By the Numbers

- Businesses
  - +3.7 million (30 percent)
- Jobs
  - +28 million (19 percent)

*Nearly 390,000 net new jobs per month over six years!*

- Sales
  - $5 trillion (35 percent)

www.youreconomy.org
Edward Lowe Foundation
Illustration – 2001-2009

By the Numbers

• Businesses
  – +5.9 million (37 percent)

Net gains in new businesses actually rose!

• Jobs
  – -11 million (-6.4 percent)

For the 96 months during this period net job destruction averaged nearly -- 115,000/month

• Sales
  – -$973 billion (-5.0 percent)

Digging Deeper...

• Job Changes...
  – Non-Resident
    • -7.1 million
  – Largest Employers
    • -9 million

• Smallest
  – +8.0 million

• Self-Employment
  – +3.2 million
  – 91 percent Increase

www.youreconomy.org
Edward Lowe Foundation
Employment Shifts
Three Waves

Pre-World War II
– Self-employment – Smaller local employers

World War II into the 1990s
– Large corporations, government and non-profits

1990s through to today
– Swelling self-employment and smaller ventures
Entrepreneurial Communities
Why Does this Matter?

No community can take its future for granted. Remember Detroit? Every community must create its future. Development is a local responsibility. Central to community success in the 21st century is creating and supporting an environment for entrepreneurial behavior.
Outcomes of an Entrepreneurial Community

Economic Opportunity Broadly-Held Community Wealth

Entrepreneurial communities are typically better at generating three important economic, social and civic outcomes. These are:

1. Economic and social diversity
2. Resilience from shocks
3. Higher and sustained prosperity
Three Kinds of Entrepreneurs

**Business**
- People who create private sector economy.

**Social**
- People who create quality of life.

**Civic**
- People who create trusted government.
Five Attributes of an Entrepreneurial Community

1. All three kinds of Entrepreneurs
2. Culture
3. Infrastructure
4. Human talent
5. Youth
Entrepreneurial Culture

It’s Entrepreneurial...
- A key attribute of successful entrepreneurs is that they focus on opportunities.

It’s Positive...
- This is asset-based development and it creates hope based on opportunities.

It Leads to Impact...
- It works!
Entrepreneurial Infrastructure

- Robust support network
- Business coaching
- Access to capital
- Access to market research
- Access to places and spaces
- Access to real time technology
- Access to human talent
- Other entrepreneurs
The Entrepreneurial Pipeline

1. No Action
   - Tire Kickers/Pre-Venture
     - Consume Resources, No Impact

2. Failure
   - Necessity
     - Opportunity
       - Breakout
         - High Growth

3. Survival/Struggling
   - Lifestyle
     - Move to Basic Markets, Moderate Impact
       - Large-Scale Impact

4. Entrepreneurial Pathways
   - Both Basic and Secondary Market Ventures
     - Consume Resources, Low Impact
Youth... Energizing Force
Smart Strategy

Right Strategy

Experience & Learning

Smart Game Plan

Research

Genuine Opportunity
The areas with “STARS” are locations where the Center has completed projects.
These four projects taught us a great deal about entrepreneurs post Great Recession.

- Florida’s Research Coast
- Montana’s Missoula Region
- Sahuarita Arizona
- Fond du Lac Wisconsin

Florida to Missoula

Great recession impacts
Reset lessons learned
New kinds of entrepreneurs
Challenge of finding entrepreneurs
Importance of coaching
Resource networks
Access to capital and research

Communities and regions are struggling to find the right formula for economic success in the post Great Recession period.
Kansas is one of the most promising landscapes for entrepreneur-focused development today!

NetWork Kansas

*Kansas is building one of the most robust and sustainable entrepreneur-focused economic development game plans in North America.* There is a system of support that includes NetWork Kansas, the Kansas Small Business Development Centers, communities from urban to rural and hundreds of specialized resource providers.

**Chronology**
- 2004 Legislation
- 2005 Center Created
- 2006 NetWork Kansas
- 2007 First E-Communities
- 5 ½ Years of Experience

**Impact**
- 39 Communities
- 339 Business Deals
- $54 Million Deal Flow
- 1017 Full-Time Jobs
- 816 Part-Time Jobs

*Kansas is growing an entrepreneurial eco-system one community at a time. We are in the process of capturing this story (Fall 2013).*
Like so many rural counties, Chase County experienced chronic and severe depopulation beginning with the Great Depression. This period preceded by the classic boom, bust and boom cycles.
Economic Rebound

Nonfarm Proprietors, Chase County, Nebraska

- Nonfarm proprietors' income: real 2010 dollars
- Number of nonfarm proprietors

Income (thousand dollars)
Employment

- $0 to $16,000
- 1969 to 2011

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There are relatively few rural counties in the entire Great Plains Region posting sustained positive population growth.
Do you have questions?
E-mail us at:
communities@stls.frb.org
Wrap-up/Closing

Thank you to today’s presenters and to all participants for joining this session.

Next steps:

• All session materials are available on our web site and in the next few days we will be posting an audio file of today’s session.

• Additional Federal Reserve System resources related to this topic can be found on our web site along with links to your local Federal Reserve Community Development office.

• If you have topical suggestions for future sessions, or any questions about this program, please feel free to contact us at communities@stls.frb.org.

• Information about future sessions will be posted on our web site along with archived materials from past sessions: www.stlouisfed.org/connectingcommunities/.