

Building Entrepreneurial Communities: the Appropriate Role of Enterprise Development Activities

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Abstract: This article examines the concept of building entrepreneurial communities as a strategy for community economic development. It begins by attempting to define what is meant by the term “entrepreneurial community” and to clarify how economic developers go about trying to create such places – using activities known as the “enterprise development” to help entrepreneurs grow new business. The article then critiques the current approach to enterprise development and explains why it is incapable of producing entrepreneurial communities. The authors conclude by calling for a systemic and transformational approach to enterprise development that can truly yield community-wide economic development.

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Introduction

Enterprise development is growing in popularity as an approach to community economic development. Its goals are to create wealth for owners and employees by helping entrepreneurs start and grow their businesses. Enterprise development is arguably more sustainable, more cost-effective and more attuned to community development than its sister economic development strategies of business attraction and business retention/expansion (Harrison & Kanter, 1978; Dabson, Rist, & Schweke, 1994; Lyons & Hamlin, 2001).

Recently, the discussion about enterprise development has begun to shift from asking how communities can help entrepreneurs to raising a much broader and more inspiring question – how can we build entrepreneurial communities? This, of course, leads to a number of other questions: What is an entrepreneurial community? Can they be created and, if so, how? And why have our current approaches to enterprise development not been successful in producing such communities across the country?

This paper seeks to address these questions by first offering a definition of *entrepreneurial community*. We then examine the current major approaches to enterprise development in light of this definition, pointing out their limitations. Our conclusions are based on in-depth diagnoses we have conducted in dozens of different regional and community settings – urban, rural, high-tech, manufacturing-oriented, disadvantaged, etc. – throughout the world. Finally, we offer a set of guiding ideas, based on years of specific action research projects, as to how local communities might realistically organize themselves to become entrepreneurial communities (see Argyris, Putman Smith, 1985; Bourdieu, 1990; Bourdieu & Wacquant, 1992; Lewin, 1951; Schon, 1983; Schon, 1987; Whyte, 1986; Whyte et al., 1991, regarding action research methods and their scientific foundations).

What is an ‘Entrepreneurial Community’?

In order to answer the question about what is an “entrepreneurial community,” we must first define the term “entrepreneur.” Klein (1977, p. 9) characterizes an entrepreneur as someone who acts “as a marriage broker between what is desirable from an economic point of view and what is possible from a technological [i.e., operational] point of view.” This definition highlights two important attributes of the entrepreneurial process: opportunity and innovation. To put these into perspective, “an entrepreneur’s goal is to create or capitalize on new economic opportunities through innovation – by finding new solutions to existing problems, or by connecting existing solutions to unmet needs or new opportunities” (Lichtenstein & Lyons, 1996, p. 21). What is considered innovative will depend on the context in which the activity takes place (Lichtenstein & Lyons, 1996).¹

In our view, entrepreneurial communities are distinguished by certain kinds of behaviors or activities. First, they possess a critical mass of entrepreneurs² who are actively engaged in capturing new market opportunities. Their contribution must be

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sufficient to continually replace any decline in economic activity from existing businesses within the community.

Second, there is a group of entrepreneurs that constitute a distinct and recognizable community within the community. This group, characterized by a network of relationships through which support, resources, know-how and business passes, provides its peers with the conditions necessary to grow their firms. The observation that it takes a village to raise a child applies here as well; it takes a community to develop an entrepreneur and his venture (Lyons, 2002).

Third, the community as a whole is entrepreneurial, not just some of its parts. The community is open to change and invests in the conditions necessary to encourage entrepreneurship. Referred to sometimes as entrepreneurial spirit or entrepreneurial culture (labels which tend to obfuscate or mystify what is going on), this characteristic is specifically reflected in the actions taken by various members of the community to support the entrepreneurial process, such as making bank loans to startups, passing favorable legislation, welcoming new members and including them in social and economic networks, etc. If an area is going to be successful in encouraging entrepreneurship, the entire community must support it.

The emerging literature on entrepreneurial communities offers a smorgasbord of ideas and prescriptions about what it takes to foster business entrepreneurship in a community. Much of it draws upon case studies of communities that are widely perceived to be successful in spawning and sustaining entrepreneurial activity – Silicon Valley in northern California, Route 128 in Boston, the Research Triangle in North Carolina and Emilia Romagna in Italy, among others. This literature cites the importance of “social capital” to the success of communities that have created environments that foster entrepreneurship (Putnam, 1993; Flora et al., 1997; Lichtenstein, 1999; Lyons, 2002). This social capital may be in the form of regional networks among entrepreneurs and their companies, as in Silicon Valley (Saxenian, 1996). It may take the form of geographically based clusters of businesses by industrial sector a la Route 128 (Porter, 2000). It might also manifest itself in partnerships between the community’s private and public sectors, as in the case of Tupelo, Mississippi (Grisham, 1999).

Other researchers emphasize different factors. Florida (2002) asserts that human capital is the key to an “entrepreneurial society.” He cites the diversity of the local population as an essential ingredient to a community’s ability to attract and retain business activity. He believes that communities must adopt policies that yield investment in skilled people, that encourage immigration from elsewhere, that provide an infrastructure for human and business development, and that bring the public and nonprofit sectors into the entrepreneurial mix. Rogers and Larson (1984) and Malecki (1997) have also argued for the importance of nurturing human capital development as a strategy for enhancing local entrepreneurial activity.

Feldman (1994) uses the example of Baltimore to make the point that a strong research university (Johns Hopkins), alone, does not ensure an entrepreneurial

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environment. She argues that an entire “innovative infrastructure” must also be in place, including such elements as a critical mass of activity in one or more industrial sectors, adequate business support services, and a culture of encouraging entrepreneurship. Sirolli (1999) argues for the importance of personal relationships in encouraging entrepreneurial activities in a community. Specifically, he advocates a function he calls an “enterprise facilitator,” the purpose of which is to find prospective entrepreneurs, encourage them to pursue their dreams, counsel them and connect them to other sources of assistance.

These discussions have identified a number of factors that seem to contribute to local entrepreneurial success. Yet, these factors are like unassembled pieces of a puzzle. The question remains, “How does one go about building an entrepreneurial community?”

At the local level, the answer to this question has been to engage in *enterprise development*. In the next section, we examine this strategy and its relationship to community development.

What is Enterprise Development?

Koven and Lyons (2003, p. 100) define enterprise development as “...assistance to entrepreneurs in support of the creation, growth and survival of their businesses.” It is an economic development strategy that seeks to create a supportive environment in which new ventures can flourish. In this way, it is viewed by many to be the strategy of choice in the pursuit of entrepreneurial communities.

The infrastructure for pursuing enterprise development includes a host of nonprofit, private and public organizations – entities that we call “service providers” or “assistance providers.” Among these organizations are youth entrepreneurship programs, microenterprise programs (342 programs in the U.S. as of 1999), business incubators (over 950 in North America), manufacturing networks, entrepreneurship networks, small business development centers (over 63 centers in the U.S. with over 1,100 service locations), angel capital networks, venture capital clubs and funds, revolving loan funds, Service Corp of Retired Executives (SCORE) chapters and technology transfer programs, to name but a few. Most communities or regions boast one or more of these entities.

Enterprise development lends itself well to community economic development for several reasons. First, it is a strategy that targets *development*, not simply growth for its own sake.³ Second, the focus is on developing local companies in order to build local wealth. Third, it is economically sustainable because local companies tend to use local inputs, they export goods and services and import income to the community, and they tend to remain loyal to their community of origin, being less likely to be lured away to another community (Koven and Lyons, 2003).

Despite its intentions, enterprise development has, thus far, failed to consistently produce entrepreneurial communities, as evidenced by the fact that examples of success in the U.S. are few in number and limited in impact. The next section addresses the reasons behind this disappointing performance.

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Why enterprise development as it is currently practiced fails to build entrepreneurial communities

Over the last twenty years, we have worked with close to one thousand entrepreneurs and more than one hundred entrepreneurship assistance providers on a variety of applied and action research projects. On the basis of these experiences and data, we have diagnosed at least eight shortcomings of the current approach to enterprise development as practiced in the U.S. that limit our country's ability to create entrepreneurial communities.

1. Activities are tool driven, not needs focused.
2. Activities are fragmented and categorical.
3. There is too little focus on execution.
4. The learning cycle is broken.
5. The focus is placed on the business, not the entrepreneur.
6. There is a missing function – responsibility for the community's supply of entrepreneurs.
7. Funders, not clients, drive the operations.
8. The impact is not scalable.

In the following section, we examine each of these shortcomings.

Shortcoming #1: Tool Driven, not Needs Focused

Most enterprise development activities are driven by the use of a particular tool, rather than by meeting a particular entrepreneurial need. In other words, they are supply rather than demand driven. The process for adopting a new activity usually involves the discovery of an approach or program that is being used someplace else and seems to be working. A decision is then made to bring that tool whole cloth, or with only minor modification, to the community searching for solutions.

The belief that proposed enterprise development programs will work is frequently based on the fact that they have been tried elsewhere and have received a lot of attention, not on the basis of proven success nor demonstrated demand (either latent or expressed). Without being grounded in the needs of entrepreneurs, many initiatives are hit or miss affairs – solutions in search of a client base.

A recent study of enterprise development activities in the state of Maine conducted by the Kauffman Foundation, demonstrates the conflict between the perspectives of entrepreneurs and service providers. While service providers were convinced that they were providing what entrepreneurs needed, entrepreneurs were not. They believed that providers were promoting solutions they had to offer, rather than what entrepreneurs needed (Kayne, 2002).

In another case, a minority oriented community development venture fund closed its doors after ten years, having only completed six deals in that time. The post mortem

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indicated that there was insufficient demand. In reality, the fund was providing a higher level of service than many minority entrepreneurs in the community were prepared to use at the time. We believe these examples are fairly common. They occur because the voice of the customer – the entrepreneur – is missing.⁴

Rarely are enterprise development programs initiated on the basis of a rigorous analysis of the needs of actual, prospective or potential entrepreneurs in the community. Usually the need that the proposed solution is designed to address is assumed, and whatever case is made for funding it only involves demonstrating the program's feasibility. Where needs assessments are attempted, they suffer from a number of serious flaws that make the validity of their conclusions questionable.

One problem is that entrepreneurial needs are almost never framed precisely or researched in ways that enable them to be properly proven. For example, the answer by entrepreneurs to a question about their need for financing, or whether or not they would be willing to utilize below-market priced space, would obviously be 'yes.' But whether or not an entrepreneur would claim to be willing to use a resource or a program is not the issue. The issue is whether the need represents a significant obstacle to the entrepreneur's success and development. In the case of space, for example, a more precise and useful question would be, "Is the unavailability and unaffordability of space a significant obstacle to starting or growing your business? How and in what way?"⁵

In the current approach to enterprise development, assessments, when conducted, are generally very selective and arbitrary in their choice of entrepreneurial needs to be examined. For example, financial needs are given a great deal of attention, whereas marketing needs are relatively ignored. In the U.S., as compared to many other countries, internal obstacles – those that have to do with the entrepreneur's willingness and ability to use a particular resource – are often a more serious problem than the accessibility of resources. However, this class of obstacles is largely ignored in enterprise development.⁶ We believe the reasons for this situation have to do with the experience and perspectives of the individuals or organizations undertaking the assessment. This behavior may be the result of unintentional bias or an emphasis on activities that are easier to perform or where the necessary expertise is more readily available. It may also be a result of the fact that the field (at least until recently) has lacked an approach to diagnosing needs that is both multi-dimensional and comprehensive.⁷

Entrepreneurial needs are difficult to determine for several reasons. First, entrepreneurs cannot always clearly articulate the needs they have; they understand the symptoms of the problems they are experiencing, but not always the cause. Second, most entrepreneurs do not sufficiently trust the individuals asking the questions, whom they do not know personally, to be honest about their most important problems and needs. Fourth, surveys are rarely effective in getting useful answers. Either there are communications issues that cannot be overcome by an arms-length format, such as confusion over the meaning of the terms used in the questionnaire,⁸ or the issues are too complex and messy to lend themselves to such a simple format. Surveys also fail to capture the difference between what entrepreneurs say and what they actually do.⁹ In our experience working

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with entrepreneurs, we often find that the exact nature of the need cannot be determined until an action is taken to address the problem and the results observed.

Finally, as a group, entrepreneurs (both actual and prospective) are often difficult to reach – they are not always visible (some operate informally until their business is more developed), easy to find even when they are known to exist, nor willing to cooperate. They also are not organized, so there is no intermediary that can help in the process of collecting information.¹⁰

Shortcoming #2: Fragmented and Categorical

Enterprise development activities are fragmented and categorical in terms of the needs addressed and the population served. Most service providers specialize in a particular functional area or on a particular population, without anyone having responsibility for the individual business or the community as a whole.¹¹

The issue is that business problems are complex and multi-dimensional. They are not always amenable to a simple, single solution nor are they exclusively financial, marketing, managerial or operational in nature.¹² At best, specialized approaches tend to produce partial solutions; in the worst cases, they contribute to the failure of the firm by doing the right things, but in the wrong order.¹³

These service providers tend to function in remarkable isolation of one another within their local communities, an isolation that is reinforced by the fact that each provider has its own culture, jargon, operating practices, professional associations, performance standards and funding streams. Entrepreneurs in these communities face a disjointed and ad hoc collection of agencies. Any effort to integrate their services must be undertaken by the entrepreneurs themselves, if they possess the awareness and the skills necessary to do so (abilities that are rare among all but the most skilled and experienced entrepreneurs).

Notwithstanding the increasing calls to link financial assistance with technical assistance (and the initial attempts to do so),¹⁴ the fragmentation in enterprise development is truly staggering. Paul Reynolds and Sammis White, two leading entrepreneurship researchers, report for example that “in the summer of 1992, it was possible to identify at least 456 programs providing assistance in 28 different categories, for a total of 752 distinct offerings in Wisconsin” (Reynolds & White, 1997, p. 27).

While the issue of fragmentation in enterprise development has not received any detailed treatment by scholars (largely because the research tends to focus on individual tools or programs), it is a hot topic in the business community, and to a more limited extent, among the service providers themselves.¹⁵ What entrepreneurs see when they look at these offerings is a maze, with no entry point and no clear exit. The result is confusion about where to go for assistance and underutilized services whose impact is far less effective than it could be.

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Another source of fragmentation comes from differences among providers in the populations of entrepreneurs they serve within the community. Certain service providers, like microenterprise programs or targeted incubators, may focus on a broad array of needs but serve only one type of firm or entrepreneur. In some cases, specialization by client population makes sense; in others, it is highly problematic. For example, under pressure from sponsors for immediate results and self-sufficiency, some programs focus on “high-impact clients” (Bates, 1995; Servon and Bates, 1998). This leads them to work exclusively with high-growth ventures (usually technology-oriented) referred to as “gazelles” that are expected to generate very substantial results (i.e., revenues and jobs) in extremely short periods of time. We believe that this practice, cynically referred to as “creaming” or “skimming,” is growing.

There are a number of serious problems with this approach:

1. It is extremely difficult to pick winners on the basis of gross generalizations such as which sector is “hot” (e.g., wireless, biotechnology, telecommunications, etc.).¹⁶ Serious misallocation of resources invariably occurs under these conditions.
2. Firms that demonstrate the potential for high-growth are usually able to secure both funding and technical assistance from private sector sources within the community or outside of it. By working with such firms, non-profit economic development agencies are competing directly with the private sector and diverting scarce resources away from other entrepreneurs who need them and have fewer options for securing them.
3. A dynamic economy requires firms of various sizes representing different market segments. By focusing exclusively on one group, the rest are ignored. It is the equivalent of suggesting that we field an entire team of quarterbacks because, as the most important position, it is the only one that matters. That begs the question, “Who is going to catch the ball?”
4. Even if such a strategy succeeds in helping grow a small number of high-impact companies, it has limited effect on the other firms in the community. In other words, this strategy lacks what we refer to as a “developmental multiplier” – any direct benefits to, or influences on, other entrepreneurs or stakeholders in the community.¹⁷
5. This approach excludes potential clients who might require more effort or time to produce results. It involves reaping rather than sowing, working with firms that are ripe and whose assets are ready to be picked rather than investing in growing new ones. It favors quick returns rather than patient capital.
6. It breeds a winner-take-all mentality, in which everyone else is considered to be losers.

There is definitely a role within a community for such an approach; the problem is that it is often pursued as a solitary strategy. If successful, the results can be quick and perhaps significant, but they will be short-term and short-lived. The question is what will

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the community do for its next act? This strategy, moreover, has increasingly become non-viable. The major complaint of providers with a “high-impact” focus is that there are not enough entrepreneurs in the community with whom to work.¹⁸ This conclusion is simply not true. There are plenty of entrepreneurs, just not enough which fit the providers’ highly exclusive definition.

Underlying such statements about the limited supply of entrepreneurs is a deeply held and often unexamined belief that entrepreneurship is innate and as a result, the supply is fixed. If individuals must be born with the “right stuff” in order to be successful entrepreneurs, any strategy that involves sitting back, waiting to see who rises to the top and focusing one’s resources only on those candidates is eminently sensible. This thinking, which we believe is seriously flawed, does, however, help make sense of the intensely unproductive competition, the duplication of effort as well as the major gaps in the availability of certain kinds of services that we observe among enterprise development service providers in many communities.¹⁹

In contrast to this belief that entrepreneurship is innate, we argue that entrepreneurship is a skill that can be developed; and therefore, entrepreneurs are made and not born (Shefsky, 1994). Efforts can be made to increase the supply and to improve the quality of entrepreneurs in a community. There is a workable alternative to chasing gazelles; it involves building a pipeline of entrepreneurial talent and successful companies.

There are other forces of enterprise development fragmentation at work in our communities as well. Microenterprise programs and certain types of inner-city business incubators, for example, have an exclusive focus on low-income individuals. This emphasis serves to balance the extreme focus just discussed; and yet, this approach too, in isolation, has its limitations. Graduates of these programs have reported being satisfied with their experience; but are left afterwards with a sense of being in “limbo,” not having anywhere to go for support in their next stage of development.

For example, a microenterprise program in the southeast U.S. provided excellent support to its clients in the start-up phase; however, when these clients were ready to move to the next level of business development, the program did not have the capacity to assist them in meeting the accompanying set of new challenges. Despite the fact that some of these companies had been in business for as many as eleven years, they were still stuck in the start-up phase, and their entrepreneurs had no idea where else to go for help that they could afford.

Some foundations, in keeping with their philanthropic missions, tend to unwittingly exacerbate this fragmentation by their exclusive emphasis on “low-income communities.” They want people to work their way out of this stratum and be able to join the economic mainstream. To do so, members of the community need a pipeline or a ladder from where they presently are to where they want to be. Yet, many such programs limit their attention to members of this segment of the economy. With the best of intentions, this merely creates a path to nowhere. Without any linkage to the broader

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economy, low-income entrepreneurs will continue to be isolated and enjoy limited success.

Similarly, sectoral strategies have their benefits (e.g., certain economies of scale, collective content expertise, etc), but at the same time become negative when the firms and participating service providers operate exclusively within these silos, unwilling to interact with other segments of the economic community. Such exclusivity reduces the opportunity to capture business opportunities that can exist between sectors as well as those that cut across different markets.²⁰

Shortcoming #3: Too Little Focus on Execution

A third problem with enterprise development today is that *there is insufficient focus on execution*. Far too much attention and resources are devoted to studying the problems and talking about ideas, rather than implementing them.²¹ Many reports describe the nature of the problems, document their impact, but contain no *actionable* recommendations.²²

Each year, various gurus crisscross the country to offer their analyses or prescriptions and then walk away leaving their listeners inspired, but struggling to figure out how to make use out of the concepts they have just paid so dearly to hear. There is a certain magical, black box quality to many of these proposals. They are strong on vision, but devoid of details about how to implement or operationalize them.

It is this vast gap between ideas and execution that must be closed. The critical, but missing, piece is the ability to turn ideas into reality. The first step is to begin to value this activity more fully. As one person has suggested, we should stop giving prizes for forecasting rain and, instead, give them only for building the ark.

Shortcoming #4: The Broken Learning Cycle

The field as a whole has failed to use its experiences, of both successes and failures, to build a body of action-usable knowledge about what works, why and under what conditions in order to improve the practice of enterprise development. This is another reason why the discussion tends to stay focused on ideas; the knowledge of what is learned in practice is rarely articulated, captured, organized or disseminated. For a variety of reasons, this know-how remains largely hidden.

One example of this problem is the numerous attempts to identify a set of “best” practices. We believe this effort is fundamentally misguided, because there are no practices that are best for everyone, in all cases, at all times. Instead the goal should be to identify “successful” practices and to specify the conditions under which they are or have been successful. The difference in terminology is more than just a matter of semantics. Like everything in life, certain practices work “best” under particular conditions, and it is those conditions that must be specified as a part of the description of how the practice works. Information about these conditions is invariably absent in these efforts.²³ As a

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result, the field continues to lack a more scientific basis for enabling people to make better choices among various alternatives, given the different and unique circumstances they face.²⁴

Shortcoming #5: Focus on the Business, not the Entrepreneur

The focus of enterprise development efforts is on the business, not the entrepreneur. They are not one and the same, and the lack of attention to the entrepreneur, as distinct from the business, has become a source of failure. Service providers can provide numerous stories where the proper assistance was delivered but it had no impact on the business at all, because (as is commonly recognized after the fact), the entrepreneur was either unwilling or unable to take the necessary actions to grow the business.

The entrepreneur drives the business and when he or she does not – by not doing the right thing or by letting the business drive them – the venture is in danger of failing (Gerber, 1995). Successful investors recognize that the right entrepreneur is the key to success, because a skilled entrepreneur can succeed even if the product or service is not exactly right, where a less skilled entrepreneur can kill a business even with the perfect offering.

When service providers focus exclusively on the business, they are missing half the equation and in some respects, the more important half. Not only must they attend to the entrepreneur, they must insure that there is a fit between the business opportunity and the skill set of the entrepreneur as well.

The focus on the business both contributes to and is reinforced by the short-term, arms-length interaction between service providers and their clients. It also causes service providers to lose sight of the fact that, such transactions by themselves are incapable of producing deep and substantial changes in entrepreneurial skills and ability – in other words, in transforming individual business talent and community economies to higher levels of performance. To accomplish that, a deep and longer-term relationship with the entrepreneur is required.

Shortcoming #6: The Missing Function – Responsibility for the Community's Supply of Entrepreneurs

Under current conditions, no one in the community is responsible for the community's supply of entrepreneurs. Enterprise development programs are essentially reactive in nature. They typically wait for individuals to start a business and to walk through the program's doors asking for assistance.

What is missing is any effort to *create* customers for enterprise development services by influencing both the quantity and the quality of the entrepreneurs in the community.

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This function of creating a pipeline of entrepreneurs is a transformational, rather than transactional, undertaking; that is, it involves work that is long-term and developmental. As a result, it cannot be the responsibility of the service providers, but must be the role of an entirely new entity that bears responsibility for enterprise development at the community-wide level.

Shortcoming #7: Funders, not Clients, Drive the Program

A number of problems in enterprise development today are caused by the fact that funders, not the clients, drive the program. This arrangement, also common in fields such as social service and education where clients are limited in their ability to pay, distorts the operations and shifts the focus from the needs of the clients to the priorities of those who write the checks. This results in:

- Funding for bricks and mortar projects that offer ribbon-cutting opportunities, but not for the soft costs of programs, such as staffing highly skilled enterprise development positions. For example, local, state and federal governments provide generously for the construction and rehabilitation of incubator facilities, but little, if anything at all, for the costs of delivering management and technical assistance.
- Funding for new initiatives and pilots, but little for replication or to expand successful programs (Schorr, 1997).
- Decreases over time in on-going operational support, regardless of demand, based on the argument that enterprise development activities should be self-sufficient.
- Funding for activities that produce quick results (e.g., recruiting of branch plants that pick up and move in search of even more favorable tax climates), rather than long-term outcomes (e.g., home-grown enterprises that stay). “Indeed, a 1998 survey found that entrepreneurial development programs accounted for less than 1% of the more than \$2 billion in annual state economic development investments” (NASDA, 1998).

Shortcoming #8: Impact is not Scalable

Enterprise development is rarely done on a scale that is sufficient to create any significant impact on the community’s economy. Yet, if creating entrepreneurial communities is our goal, then scale becomes crucial. Our efforts must have community-wide impact. Due to the fragmentation discussed above, the impacts tend to be incremental, generated on a service provider-by-service provider basis. Because no one is responsible for the entire community, no one is tallying impacts across service providers in order to ascertain a total impact. Furthermore, the manner in which enterprise development is done makes it cost-prohibitive to scale it up. Most programs serve a very small clientele and as a result, their impact is rather limited.

What must we do to build Entrepreneurial Communities?

There are at least five critical strategies for building entrepreneurial communities:

1. Take a systems approach to enterprise and community development
2. Customize the enterprise development system for each community
3. Focus on developing entrepreneurs
4. Develop new roles, skills, and tools
5. Operate as a “transformation business”

In this section, we explore each of these strategies.

Strategy #1: Take a systems approach to enterprise and community development

A major reason for the shortcomings in this field is that enterprise development does not operate as a *system* whose performance is greater than the sum of its parts. In some communities, critical components are missing; others may have all of the parts, but they are operating in isolation of one another and achieving limited impact.

Enterprise development is not thought of as a system. Even the terminology itself sounds strange, much as referring to the “health care system” might have sounded more than 30 years ago.²⁵ But in fields such as health care, education, and social services, the need to create a system out of disparate programs and agencies is at least well recognized in principle, if not yet achieved in practice.

Communities need to take a systems approach to enterprise and community economic development. This means two things: that enterprise development programs must work with businesses in a holistic rather than a piece-meal fashion and that they must work with and for the entire community, not just a select part of it.

Many enterprise development professionals genuinely believe that they are taking a systems approach or are making the effort. But as explained in the previous section, this is simply not the case. However, we do believe that in many communities, practitioners are being asked to do so.

Communities are constantly looking for the “magic bullet” or the “holy grail” – the one new initiative that will single-handedly solve all of their economic problems. In many cases, these enterprise development programs are being asked to achieve the impossible or to achieve the possible under impossible conditions. Business incubators, just to take one example, are often called upon to reuse old industrial facilities and revitalize abandoned areas by working with small, high-risk start-up enterprises. They are supposed to charge these firms below market rates while operating free of outside financial support and, at the same time, to provide clients with a high-level of technical and management assistance. Finally, incubator managers are often held accountable for generating jobs and tax revenues when they have no control over the business decisions that produce these outcomes. Such expectations are simply unrealistic.

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The 80's and 90's witnessed a steady parade of new initiatives – enterprise zones, empowerment zones, business incubators, manufacturing networks, industrial districts, clusters, peer-lending groups, community venture funds, etc. – all pursued with these same hopes and promises. Each new solution, in turn, was accompanied by great fanfare and high expectations and then faded into the background as it proved to be incapable of accomplishing the impossible – exhibiting a certain faddishness that continues to plague the field.²⁶

At the same time, we have repeatedly observed ambitious public entrepreneurs who take on these assignments with the primary goal of establishing model programs that would bring accolades to themselves and their sponsors. These initiatives then become competitions for attention, fueled by a talent for publicity, not performance. In these situations, such individuals act alone, under the belief that they can do it better than and without the help of anyone else in the community and under the need to do so in order to garner all of the glory. We refer to this phenomenon as the “messiah syndrome.”²⁷ This behavior often results in program failure, professional burnout and disillusionment and individuals who leave the field, usually at the point that they have finally learned enough to make a substantive contribution.

Why do these public entrepreneurs (many of whom are incredibly dedicated and energetic) engage in such behavior? We believe it has to do with flaws in the current system, not the participants. This is the nature of the game. The premise of the game is that there is only room within the community for one service provider at the top. This ultimately leads to self-defeating, competitive and non-systemic behavior.

This occurs when a single program or service provider attempts to assume the responsibility or is improperly given the burden for a mission that should belong to the entire enterprise development “system.”²⁸ Given the partial and obviously limited focus of each provider (as explained in the previous section), the result of their efforts can never be sufficiently global. The claim that a single program is or should be benefiting the whole community, all the while operating in a manner that can never be holistic, is a setup for failure.

Individual programs have their benefits and their place within the community's enterprise development system. However, each operation needs to be seen in the context of the community as a whole. The partial perspectives and competition must be replaced by an integrated system in which each participant has their role to play – complementing one another in a synergistic manner. Only when that happens will enterprise development become a system capable of *benefiting the entire community*, not simply the few clients in a single program.

Strategy #2: Customize the enterprise development system for each community

Each community must customize its enterprise development system to meet their own needs and circumstances. Since no single program will fulfill all of a community's

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needs, an enterprise development system will have to be assembled from a variety of possible programs or program elements. Although components may be common to other communities, the complete recipe for each will be unique. It is critical that the enterprise development activities selected be linked to and result in community development. Enterprise development is focused on incubating businesses (and also, we would argue, entrepreneurs). However, for this to result in community development, it must be done in a way that will lead to the transformation of the entire community's economy, not just some small and select segment.

Enterprise development activities must be selected on the basis of their ability to provide both direct benefits to the client population and have an economic as well as "developmental" multiplier or impact on the rest of the community. This can be achieved for example, by focusing on enterprises that trade outside of the community or have the potential to be tightly linked operationally with existing firms.

Strategy #3: Focus on developing entrepreneurs

Communities should concentrate their efforts on developing a supply or pipeline of entrepreneurs capable of building successful companies and improving their ability to successfully identify and capture new market opportunities. Development is a competency, an ability to deal with new circumstances: "It is an increase in capacity and potential, not an increase in attainment" (Ackoff, 1981, p. 35).

The quantity and quality of the community's entrepreneurs are the crucial factors in determining how entrepreneurial it is and has the potential to be in the future. The supply of entrepreneurs is not something that should be taken for granted, and there are many things that can be done to develop them (see Lichtenstein and Lyons, 2001).

Enterprise development is an investment in a community's future. The challenge is to strike a proper balance between investments in the present and the future. One example that highlights this challenge comes from the corporate world. In the early '60s, the DuPont Corporation of Wilmington, Delaware launched a new ventures program in order to identify and invest in new market opportunities. In 1970, they scrapped the program, after its detractors successfully argued that the return was insufficient to justify their investment. A subsequent study of DuPont's sales in 1982 showed that the 60-70 lines of business started by the new ventures program in the 60's accounted for over 50% of the company's total profits and 50% of its cash flow (Pinchot, 1985). Investments in the future take time to pay off. Being developmental in nature, such investments require a different decision-making calculus than that used for quick returns.

In order to build entrepreneurial communities, we must proactively engage as well as invest in a set of activities that are focused on developing entrepreneurs who can capture new market opportunities, not simply on preserving the success of existing businesses.

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Strategy #4: Develop new roles, skills, and tools

Building entrepreneurial communities requires a new set of skills, roles, strategies and tools. Missing from the current system is someone with the responsibility for creating and managing the supply or pipeline of entrepreneurs and new ventures within the community. This “incubation” function – through its control of various enterprise development activities and its focus on new versus existing business or revenue – should be accountable for the community’s economic future.

Strategy #5: Operate as a “transformation business”

This incubation function should be evaluated on the basis of the efficiency, effectiveness, equitability and sustainability of its performance, as well as the scale of impact on the community’s economy. These criteria clearly indicate that ***the enterprise development system must be operated as a highly specialized business whose bottom line is defined by the quantity and quality of entrepreneurial and community transformations it produces.***

The unique nature of this enterprise development system’s business is defined by a new type of economic offering. According to Pine and Gilmore (1999), there are five different types of economic offerings whose value increases in relation to one another: commodities, goods, services, experiences, and transformations.

An example illustrates the differences among these offerings. When they first appeared, the value of business incubators to entrepreneurs was claimed to consist of low-cost (below market) space – a commodity whose only source of value was the price. Slowly, it was recognized that incubators provided additional benefits or “goods” – flexible leasing terms, a variety of sizes, shared physical resources – that were not readily available. Then, incubators began to provide business services – e.g., business planning, accounting, office support. More recently, entrepreneurs have begun to recognize the value of the experiences they have in incubators – the opportunity to interact with peers and advisors (Lichtenstein, 1992). The next, newly emerging level of economic offering is to facilitate entrepreneurs in developing the necessary skills to build successful companies – in other words, to guide entrepreneurial transformations (Lichtenstein & Lyons, 2001).

Conclusion and Implications for Action

Success in building entrepreneurial communities can produce jobs, wealth, personal development, and an overall improvement in quality of life. But enterprise development as it is currently practiced, fails to build such communities because it is tool-driven, fragmented, improperly focused, not scalable and unaccountable to the entire community.

Building entrepreneurial communities involves more than simply implementing one or a number of current enterprise development programs. If we are truly serious

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about building entrepreneurial communities, we must make the following critical changes. We must:

- Take a systemic approach to our enterprise and community development efforts by creating a community-wide *enterprise development system*.
- Customize our enterprise development system to the specific needs of our community.
- Focus our efforts on developing a supply or pipeline of highly skilled entrepreneurs capable of building successful companies. We must also institutionalize these efforts, so that the community can sustain a constant flow of entrepreneurial activity.
- Develop new roles, skills and tools for managing and implementing our enterprise development system.
- Operate this system as a “transformation business” – one that seeks to transform our entrepreneurs, their companies and, ultimately, the community’s economy.

None of these changes will be easy to implement, nor will the process be quick. It will require leadership from the public and private sectors of our communities. It will require political will to stay the course while the enterprise development system is designed, staffed, and becomes productive. A community-wide entity will need to be created to facilitate the integration of these activities. Throughout this process, the community’s vision of its desired outcome will need to be continuously maintained.

Although space does not permit an in-depth description, many of the strategies presented here are or have been implemented in a number of different settings – a service providers network for minority entrepreneurs in Louisville, Kentucky, a social-capital building initiative in Philadelphia among more than 150 inner-city manufacturers, peer networks among high-tech entrepreneurs in Philadelphia, analyses of enterprise development service providers in Asheville, NC and Advantage Valley, WV and production networks among garment industry micro-enterprises in Johannesburg, South Africa. These initiatives are at various stages in their development. The impacts of these new strategies are just beginning to appear and detailed case studies are in preparation.

An entrepreneurial community is one in which everyone – residents, business people, politicians, and government officials – think and act entrepreneurially. Merely exhorting people to behave in this manner will not make this happen. Building an entrepreneurial community requires a conceptual framework as well as a practical operating system that helps people to understand the larger vision, their role in achieving the vision, and the rules for successfully interacting with one another to achieve this outcome.²⁹

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ENDNOTES

¹ While these definitions focus on entrepreneurship as it relates to business, the term “entrepreneur” has wider application as a label for a set of behaviors that represents opportunism (in the positive sense of that word) and innovation. Thus, we can and do talk about public as well as private entrepreneurs.

² The importance of critical mass arises from the fact that behavior is often influenced by how many others are behaving in a similar way. (Schelling, 1978)

³ Growth focuses on achieving an increase in quantity – be it jobs, firms, tax revenues, etc. without respect to the nature or quality of those items. When focusing on development, the nature and quality of those items are critical – for example, whether the jobs pay living wages, whether they are located within commuting distance, whether such positions represent a set in a promising career path, etc.

⁴ One of the reasons that entrepreneurs have limited status within the current system is that they are not the source of the funding that drives the program.

⁵ Obviously, to arrive at an acceptable answer, more detailed follow-up questions would have to be directed to the entrepreneur.

⁶ These include self-awareness, accountability, emotional, capability and creativity obstacles. See Chapter 2 of *Incubating New Enterprises* (Lichtenstein and Lyons, 1996) for a complete discussion.

⁷ See *Incubating New Enterprises* (Lichtenstein and Lyons, 1996) for such a diagnostic tool; it is the only comprehensive approach to assessing entrepreneurial needs of which we are aware.

⁸ In a research project undertaken by one of the authors, over 30% of the entrepreneurs interviewed gave a negative response to the question about whether they “networked” with other entrepreneurs in the incubator in which they were located. However, when pressed for any examples of talking or interacting with their peers, all of them responded in the affirmative with descriptions of numerous activities. The term used in the question had no meaning to them, but the opportunity to follow up with questions referencing specific actions, enabled us to clarify their first responses. Otherwise, the results would have been highly inaccurate.

⁹ All too often there is a difference between what people say and do. For this reason, the best marketing research, for example, is based on consumers’ actual purchasing behavior, not their response to surveys. For example, in answers to surveys, almost no one admits to buying tabloid newspapers such as *The National Inquirer*, and yet that paper sells approximately 4 million copies a week.

¹⁰ This has proved to be a problem, for example, for evaluators of business incubators who are seeking to examine the long-term impacts of such programs at the request of funders. Incubators have significant difficulty tracking the progress of clients who have graduated and moved from the facility because the relationship between the program and the client has been severed.

¹¹ Even service providers such as SCORE or Small Business Development Centers (SBDCs), who typically have the capability to address many different entrepreneurial needs, tend to have individual counselors who are specialists, not generalists. Although each counselor has access to the other specialists in the organization, the question is whether or not they tap into that expertise and whether or not that is done in an integrated or fragmented way.

¹² As reflected in the parable of the blind men and the elephant, each person knows only that part with which they are in touch, thinking that is the nature of the whole beast.

¹³ In several cases, we are aware of technical assistance efforts to implement cellular manufacturing methods on a production line in order to improve efficiency and throughput time. These particular efforts resulted in the bankruptcy of the client because the project was undertaken without first identifying whether the improvements were something that would help them keep existing customers or win new ones. They were not, and the firms were unable to recover from making such a substantial and ineffective investment. The proper procedure would have been to first assess their market and customers and then to determine the appropriate production configuration.

¹⁴ The questions that remain to be answered by these efforts are: how are they attempting to link financial and technical assistance and how well is it working? The goal of such a linkage is a good one, but current

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descriptions of such efforts only suggest that different aspects or perspectives are being taken into account; not that they are truly being integrated – an accomplishment of a completely different order.

¹⁵ The source for this information is our interaction with firms, economic development agencies, numerous focus groups, etc. over repeated attempts in various states to re-organize their services in response to criticism from the business community. Typically these efforts only succeed in adding another layer of bureaucracy and confusion to an already chaotic situation.

¹⁶ “ Even after extensive due diligence and monitoring, many VC investments yield disappointing returns: One study of venture capital portfolios by Venture Economics, Inc. reported that about 7 percent of investments accounted for more than 60% of the profits, while fully one-third resulted in a partial or total loss.” (Bhide, 2000:145). More commonly cited is a statistic that no more than 1 in 100 venture capital investments yield a home run – that is, significant returns on investment.

¹⁷ This is particularly true of recent efforts by venture firms to work in the inner city – they focus only on the most successful and profitable firms. Often these firms are forced to leave the city – at the request of their new investors in their desire to have them operate out of a better location. In either case, whether the firms stay or leave, the community as a whole has only benefited marginally.

¹⁸ This information was obtained through personal conversations with local venture capitalists and participants at the Community Development Venture Capital Alliance conference in Baltimore, 1997.

¹⁹ A study done of enterprise development service providers by one of the authors in one location identified a number of services that were missing: angel capital, affordable legal and accounting assistance. In many other locations, we’ve observed a lack of mentorship and peer networking opportunities as well as any services that deal with problems entrepreneurs have with personal maturity.

²⁰ In one region, we were unable to overcome industry biases and this silo mentality to systematically link software firms and area manufacturers who would have been both able and willing to employ their products on a test basis for the benefit of both parties.

²¹ We have seen incubator feasibility studies that were funded at higher levels than the subsequent operating budgets of the business incubators they were recommending.

²² By “actionable” we mean recommendations that are operationalizable – that is, can be directly put into action because they specify who, what, where, when and how in their statements.

²³ “The Council of State Policy and Planning Agencies, conducting field research into “best practices” in anti-poverty programs, “peeled away the layers of the onion, asking why some programs worked and others did not.” The working group found very little that held true regardless of context. At their core, “Successful programs recognize the need to respond to the needs of the community; they reflect the character of its people...they build capacity in people and in neighborhoods...” The council concluded that “‘best practices’ are whatever works in a given context.” (Schorr, 1997: 7-8).

²⁴ Even information about practices that didn’t work would make a contribution to the field because nothing is ever a total failure. There are important lessons to be learned from these experiences that should be captured.

²⁵ Web searches have revealed less than a dozen uses of the term “enterprise development system” other than references to information technology.

²⁶ See *Demanding Medical Excellence* for a discussion of faddishness in medicine – a field considered to be more scientific in its foundation than business: “The history of medicine is littered with therapies that were enthusiastically endorsed by the best practitioners of the day and then subsequently abandoned and demonstrated to be not only useless but sometimes harmful.” (Millenson, 1997:104)

²⁷ We have been present in meetings where sponsors have urged program managers to seek publicity for having a “model” program, even before the program had opened its doors to clients! In other situations, program managers have been urged to become the number one source for entrepreneurial assistance in their community or to go out and find exemplary clients (entrepreneurs that are already far along on the road to success) and then claim them for credit with sponsors.

²⁸ In system terms, the part is improperly being given the responsibility for the whole.

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²⁹ See the following sources for more information on one such system: Lichtenstein, G.A. and T.S. Lyons (2001). The entrepreneurial development system: Transforming business talent and community economies. *Economic Development Quarterly*, 15, 1, 3-20; Lyons, T.S. (2002). The Entrepreneurial League System®: Transforming your community's economy through enterprise development Washington, DC: Appalachian Regional Commission; Lyons, T.S. 2003. Policies for creating an entrepreneurial region. Proceedings of the Main Streets of Tomorrow: Growing and Financing Rural Entrepreneurs Conference, Kansas City, MO: Federal Reserve Bank of Kansas City.