

State Policy Brief

Energizing an Entrepreneurial Economy

Abstract

States play an important role in economic development. Despite the fiscal crisis and other challenging issues, states are considering policies that can support an entrepreneurship-focused development strategy. This policy brief summarizes both short-term and long-term policy approaches for states.

Introduction

The past few years have been hard in most states. Federal devolution coupled with no new revenues, the 9-11 crisis, deficits, budget cutting and so much more have combined to create challenges for state policy makers as we enter the 21st Century. There are now some signs of improvement. The war on terrorism continues, but states are adjusting. Devolution and unfunded mandates continue, but states are learning how to deal with them. The times of deficits and budget cutting are not over, but the worst may be behind us. While the timing may not be right for massive new state initiatives (it may never be), states want to move forward with entrepreneurship strategies. This ***State Policy Brief – Energizing an Entrepreneurial Economy*** is designed to provide guidance to state policy makers as they consider entrepreneurship strategies.

The rate of economic change is striking. Entire industries are restructuring in the span of a few years. Once proud Fortune 500 Corporations disappear more quickly these days. Entrepreneurs are the ones seeing new opportunities, perceiving emerging threats, and evolving ventures that succeed in these turbulent times. Regional economies with thriving entrepreneurial communities are doing better than those with less entrepreneurial energy. A key, if not the key, to economic success in the first half of the 21st Century may be entrepreneurs.

Why Entrepreneurship?

“In the 21st century, we will increasingly rely on the lean and agile entrepreneurship of the small, growth-oriented business – rather than the resources, scale and market size of the large corporation – to fuel our economic growth through the creation of jobs and innovative goods and services.”

The E Generation

The next section summarizes five short-term policy actions that states can undertake in the coming year to begin the process of building an entrepreneurship economic development strategy. The following section provides the basics for evolving a longer-term and more substantial state policy on entrepreneurship.

Short-Term Policy Considerations

Given all the challenges our states face today, we have developed a list of five policy actions that states can implement in one year to begin the process of building an entrepreneurship economic devel-

opment strategy. These five short-term policy considerations are:

- ❑ Create Focus and Awareness.
- ❑ Support Innovation Projects.
- ❑ Facilitate Service Provider Networks.
- ❑ Implement Categorical Program Flexibility.
- ❑ Undertake Documentation and Evaluation.

Create Focus and Awareness. It all begins with focus and awareness. There are many ways states can support efforts to raise awareness about the importance of entrepreneurs and entrepreneurship as an economic development approach and thereby focus energy and initiative on entrepreneurship strategies.

Summits. Many states are employing summits, conferences, regional meetings and other types of gatherings to raise awareness about entrepreneurship as a development approach:

- ❑ West Virginia sponsors an annual summit in Charleston.
- ❑ Georgia is hosting its second annual summit in early 2004 in partnership with its new Governor.
- ❑ Maine has used policy academies and service provider gatherings to stimulate interest.
- ❑ North Carolina is employing both summits and training workshops to reach interested parties.
- ❑ Minnesota hosts an annual summit with training embedded in the program.

- ❑ Iowa has hosted regional workshops to increase awareness among community leaders.
- ❑ The states of Kentucky, Tennessee and Indiana through the Council of State Governments hosted a convening that focused in part on entrepreneurship.

Organizations. States are considering a wide range of organizational approaches to create focus and energy around entrepreneurship:

- ❑ Georgia is looking at both a Blue Ribbon Commission and an Office of Entrepreneurship.
- ❑ Wisconsin has recently created a Bureau of Entrepreneurship in its development agency.
- ❑ West Virginia is recommending an Office of Entrepreneurship.
- ❑ Nebraska has formed a private/public partnership called Home Town Competitiveness.

- ❑ North Carolina through its non-profit Rural Economic Development Center has created the Institute for Rural Entrepreneurship.

Recognition. Entrepreneurship is as much a part of American culture as apple pie. However, there is an ongoing need to hold up and celebrate the role that entrepreneurs play in our communities and economies. There are a number of places to look for model ideas:

Community Based
Most economic development is local. Economic development occurs when individuals and communities elect to invest in enterprises that create impacts like new jobs, tax base and multiplier effects. A key consideration for any state wishing to energize entrepreneurs as a development strategy should seriously consider communities as key partners.

- ❑ Most Universities now have centers for entrepreneurship. Many centers run business plan competitions, award programs for successful entrepreneurs and other types of recognition activities.
- ❑ The U.S. Small Business Administration (SBA) runs a program recognizing outstanding small business owners.
- ❑ Some states (e.g., West Virginia, Georgia, Minnesota, etc.) recognize entrepreneurs as part of their summit activities.
- ❑ Many entrepreneurship conferences feature entrepreneurs on panels, as guest speakers, and even in videos, sharing their vision and story with others.

Assessments. Some states are using research through assessments to gain insight into their entrepreneurial environments:

- ❑ Arkansas through the Corporation for Enterprise Development completed a comprehensive assessment complete with recommendations.

- ❑ North Carolina recently completed extensive research involving both entrepreneurs and service providers. Interviews and focus groups were conducted to gain insight into the climate for entrepreneurship, particularly in rural counties.
- ❑ A number of states participated in the National Governors' Association's Entrepreneurship

Policy Academy.

This process supported state efforts to craft entrepreneurship-focused policy strategies.

Fostering Regional Collaboration

As we talk with policymakers around the country a hot topic of discussion is regional collaboration. Policymakers understand the need for regional cooperation as a counterpoint to local parochialism. One untapped policy tool would be to voluntarily move responsibility for various federal programs like the Community Development Block Grant Program to willing regional organizations. Metropolitan areas receive these funds on an entitlement basis while rural communities must compete for them through state administered programs. Devolving authority of these resources to regional organizations could greatly enhance their role and value to area communities.

Support Innovation Projects.

Innovation is all around us. Innovation rates are rising in rural America as communities and development organizations are seeking to find new economic development approaches. State policy makers would be well served to identify and understand the innovation occurring within their states. Modest programs

can be developed using existing resources to not only provide seed support to these initiatives, but to encourage other communities to consider entrepreneurship as a development approach. For example, the planning provision within the Community Development Block Grant program can be used to provide "capacity building" grants to

communities evolving entrepreneurship initiatives.

Facilitate Service Provider Networks.

States do not really control most of the economic development programs and resources important to building a stronger entrepreneurial climate. For example, many of the most important services are not even public; they are private business services ranging from accounting to legal to marketing expertise. Even within the public sector, many resources are not directly part of state government. Many are based in non-profit organizations that may receive state funding, but are independently governed and managed. Others are based in higher education with separate governance structures. Despite this lack of direct control, states have many tools that can help evolve a more integrated and effective network of services for entrepreneurs.

- ❑ Convening and Facilitation. Possibly the most important thing a state can do is provide a venue for convening both public and private service providers. Most service providers are interested in achieving the greatest impact. With active and appropriate support, the states can foster service provider cooperation through this convening and facilitation process.

- ❑ Community Capacity Building. Entrepreneurs, particularly entrepreneurs in smaller ventures, do not have the time or capacity to fully understand the range of development services that might be available. But the development organizations within the communities where they live are capable of playing this role. One option is for the state to support capacity building in communities so that local development organizations can better network their entrepreneurs to the most appropriate and best resources.

- ❑ Strategic Budgeting. Directly or indirectly, most public services receive some state support. Intent language and performance standards can be incorporated into funding programs that encourage service providers to cooperate in a state supported system approach.

Implement Categorical Program Flexibility.

Economic development programming is like the old house that has experienced many additions. It works, but each room was added with a specific need in mind, not the flow of the whole house. The same is true with many economic development programs. They were created with a specific need or opportunity in mind. As times change, the

Support What is Working!
Chances are there are initiatives in your state that are focusing on entrepreneurship. Often these initiatives are promising, but under funded. An early state step should be to identify the best entrepreneurship programs already in place in your state and explore how new investment could be leveraged to increase their capacity and scope of service. Limited but strategic investments in these organizations can often allow them to expand their service area or scope of service enhancing the state's ability to energize its entrepreneurs.

value and appropriateness of these programs shift. States can create administrative flexibility within existing categorical programs to make these resources more relevant in support of entrepreneurship. Here are just a few examples:

- ❑ Maine has altered its workforce programs to allow self-employment as an option for retraining.
- ❑ Kansas is using Community Development Block Grant funds to support community based entrepreneurship programs employing the Sirolli program.
- ❑ Nebraska is using social service funds to support microlending and self-employment strategies.

Undertake Documentation and Evaluation.

Sound and sustainable policy is rooted in clear and strong documentation and evaluation. In the early stages of policy formation, states should consider partnering with higher education or non-profits to create the capacity to document and evaluate entrepreneurship programs and initiatives. Such a commitment will provide more objective information necessary for informed policymaking in the long term.*

**Note – The Center provides model evaluation approaches and can assist states in building the necessary capacity for documentation and evaluation.*

Long-Term Policy Considerations

For those states with the capacity and political will to fundamentally reshape existing or create new economic development policies and programs, the following five long-term policy considerations are offered:

- ❑ Entrepreneur Focused.
- ❑ Regionally Based.
- ❑ Market Specific.
- ❑ Systems Approach.
- ❑ Capital Access.

Entrepreneur Focused. Remaking existing business development or attraction programs into “entrepreneurship” programs is not enough. There is a fundamental need to create an “**entrepreneur focused**” strategy. By entrepreneur focused we mean a strategy that addresses the critical development needs of specific entrepreneurs. Such an

approach requires building the capacity to identify, visit and partner with thousands of entrepreneurs. In a sophisticated program, it would also mean the capacity to work with a wide range of entrepreneurial talent ranging from startups to high growth.

How the Center Can Help

No state has yet developed a comprehensive, well-financed and effective long-term entrepreneurship development policy. Yet many states are now exploring how to evolve such policies. The Center is tracking these developments in order to share insights on what states are doing to build stronger economies through entrepreneurs. The Center’s team has extensive state policy experience and can provide policy services ranging from assessment research to strategic development to evaluation. For more information on the state activities described in this brief, please contact us at the Center, www.ruraleship.org.

Regionally Based. Ultimately economic development is local. A second policy element addresses the geography in which the state supports development efforts. We strongly recommend a regional approach that encourages the communities and jurisdictions to partner thereby enabling a more robust, sustainable and meaningful entrepreneurship strategy to evolve. Supporting existing regional structures (e.g., councils of governments, resource conservation and development districts, development districts, planning commissions, etc.) makes great sense in tight fiscal times. States should directly support capacity building in regional organizations to craft and implement entrepreneurship programs.

Market Specific. Effective state entrepreneurship policy must recognize the concept of entrepreneurial talent*. There is a wide range of entrepreneurs within our states. The needs of bright-eyed startups are fundamentally different from those entrepreneurs who have growth potential. From an impact standpoint, we need to focus early on growth-oriented entrepreneurs because they are more likely to generate economic development. Longer-term we need to actively support startups if we are to expand the pool of entrepreneurs over time. State initiatives should be market focused and work to address the specific needs and opportunities of different kinds of entrepreneurs.

The Center has a development tool called **Understanding Entrepreneurial Talent that can be helpful in understanding the range of entrepreneurs found within our states. This tool can be found at www.ruraleship.org under "Tools."*

Systems Approach. Entrepreneurs do not want or need programs. What they want and need is specific real time assistance with the challenges impacting their ability to succeed and grow. They want a system of support. The landscape is populated with an alphabet soup of private and public programs. Most are general in nature and few can address the needs of high growth entrepreneurs. States should explore strategies to evolve regionally and state based systems of support through the integration of existing public and private programs.

Capital Access. Increasing meaningful capital access is fundamental if states want to build stronger economies through entrepreneurship. This challenge is more than a supply side issue (e.g., increasing the amount of capital.) It also requires increasing quality deal flow and developing a more sophisticated system that provides capital in the right forms and amounts based on the nature and size of regional deal flow.*

**For more on capital see our Monograph at www.ruraleship.org, Rural Eship Library, Rural Eship Monographs.*

Conclusion

As never before we live in a global economy and society. Creating and sustaining successful state economies brings new challenges to policymakers. The key in the 21st Century is energizing a generation of entrepreneurs who are able to compete in this new global marketplace. As Richard Florida aptly points out, this "creative class" is the difference between economic success and failure in our new century. The time is now for states to formulate policies focused on energizing entrepreneurs who are at the heart of the new economy.

Important Reads. . .

Entrepreneurship has been a fundamental part of the American dream for centuries, but 10 years ago most economic development policy guides hardly referenced entrepreneurs. Today things have changed as most of the major state and local jurisdictional organizations now recognize entrepreneurship as strategic for the 21st Century. Here are some of the more important recent policy guides worth reading:

Main Streets of Tomorrow, Growing and Financing Rural Entrepreneurship. Kansas City, MO: The Center for the Study of Rural America, Federal Reserve Bank of Kansas City. October 2003, <http://www.kc.frb.org/RuralCenter/Conference/ruralconfmain.htm>.

Promoting Economic Development in Vulnerable Communities. Denver, CO: National Conference of State Legislatures. May 2003, www.ncsl.org.

Innovative State Policy Options to Promote Rural Economic Development. Washington, D.C.: National Governors' Association. Issue Brief, February 2003. <insert web cite>

American Formula for Growth, Federal Policy & the Entrepreneurial Economy, 1958-1998. Washington, D.C.: The National Commission on Entrepreneurship. October 2002, <http://www.publicforuminstitute.org/nde/>.

Entrepreneurship, A Candidate's Guide. Washington, D.C.: The National Commission on Entrepreneurship. August 2002, <http://www.publicforuminstitute.org/nde/>.

Nurturing Entrepreneurial Growth in the State Economies. Washington, D.C.: The National Governors' Association. 2000, http://www.nga.org/center/topics/1,1188,D_678,00.html.

State Entrepreneurship Policies and Programs. Kansas City, MO: The Ewing Marion Kauffman Foundation. November 1999, www.ruraleship.org, Rural Eship Library, Reference Library, Policy.

About the Center

The Center for Rural Entrepreneurship is a RUPRI or Rural Policy Research Institute national research and policy center with founding support from the Ewing Marion Kauffman Foundation of Kansas City, Missouri. Our mission is to *enable every rural resident to achieve his or her full entrepreneurial potential*. This mission will be achieved by collaborating with individuals and organizations engaged in the study, practice and policy of rural entrepreneurship. The Center supports research, field work, and policy development through collaborations with national, state and community interests. For more information on the **Center for Rural Entrepreneurship** contact Taina Radenslaben at 402-323-7336 or taina@ruraleship.org.

