National Commission on Entrepreneurship

Entrepreneurship
A Candidate's Guide

Creating Good Jobs in Your Community

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An Initiative of the Ewing Marion Kauffman Foundation

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Introduction

As a candidate for an elected position, you are expected to offer reasoned opinions on nearly every issue under the sun. Yet ultimately, most voters vote their pocketbooks. Therefore, one of your primary challenges as both a candidate and an elected official is to help generate economic development and create jobs in your community.

“Bringing home the bacon” in terms of generating new local economic activity has always been a tough job, and it’s not getting any easier. Twenty or thirty years ago, public officials worked to bring home new branch plants and other major facilities that would transform a local economy. The new Mercedes-Benz plant located in Alabama –thanks to millions in public subsidies – is a classic example of this practice.

While winning a new manufacturing facility may be a home run in economic development terms, these home-run opportunities are becoming scarcer every day. As a result of globalization, technological evolution, and other economic changes, fewer communities are hosting large facilities that provide lots of jobs over long periods of time. Rapid change has become the name of the game, meaning that the life span of companies is becoming shorter and the commitment of these firms to stay in one place is becoming weaker.

At the same time, small and medium-sized businesses are growing in importance. These firms represent 98 percent of all businesses in the United States, and employ a majority of Americans. Entrepreneurial growth companies – fast-growing new businesses – account for at least two-thirds of net new jobs in the American economy. Yet, in our desire to hit economic development "home runs," we have largely ignored the needs of these vital entrepreneurial ventures. These firms will drive the future of innovation and prosperity in nearly every American community, and, thus, should become the focus of our economic development efforts. Instead of only swinging for the fences, candidates and elected officials should start hitting for singles in their efforts to promote local economic development.

This candidate's guide seeks to provide you with some ideas about how to go about promoting entrepreneurship in your town, region, district, or state. There is no single cookie-cutter approach or a silver bullet that will instantly transform your economy. Fostering entrepreneurship is a long-term strategy that can supplement other ongoing projects. Yet, we believe that entrepreneurial development offers the best means to transform local economies and prepare them for a tough competitive environment in the 21st century.

This Candidate's Guide consists of several parts:

- A review of what entrepreneurs do and how they can positively affect local and national economies
- Key issues for entrepreneurs: what do they want?
- What can you do to help?

This guide seeks to offer some answers and best practices in the field of entrepreneurship, but it cannot answer every question you might have. If you are interested in other information, the staff of the National Commission on Entrepreneurship is available to assist you and your team (see our contact information on the back cover).

PART I

What Do Entrepreneurs Do and Why Does it Matter?

The term "entrepreneur" was coined in 15th century France, but entrepreneurs have existed throughout history. Many important historical figures, like Johannes Gutenberg, the inventor of the printing press, ran entrepreneurial ventures. We can all list more recent entrepreneurs, such as John D. Rockefeller, Andrew Carnegie, and Bill Gates, all of whom became business titans.

While entrepreneurs, indeed, go back a long way, their economic importance today is unparalleled. We are living in a new "Entrepreneurial Age" – in which entrepreneurs and their companies are transforming the economic landscape. New and emerging entrepreneurial growth companies generate the vast majority of new jobs and innovations in our economy.

Before discussing the impact of entrepreneurs and their ventures, some definitions are in order. While many people often refer to all business leaders as entrepreneurs, our definition is more restricted. We view entrepreneurs as those men and women who lead small companies that are based on an innovation and are designed to grow quickly – at an annual rate of 15 to 20 percent. The key characteristics of an entrepreneurial firm – often known as "gazelles" – are the interest in fast growth and the focus on innovation. This innovation need not be based on technology. It can be a new service, process, or marketing technique. After all, Starbuck's is one of the most exciting entrepreneurial companies of the last decade.

Understanding entrepreneurial ventures may be easier if we contrast them with two other categories: aspiring entrepreneurs and lifestyle businesses. Aspiring entrepreneurs are those individuals with a strong desire to start a new business, and who have begun preliminary plans to do so (e.g., writing an initial business plan). This group is surprisingly large. Polls show that somewhere between six to nine percent of the U.S. adult population is involved in planning for a new business.

Lifestyle businesses are often what we think of when we use the term "small business." Lifestyle businesses appear in all sectors. Their main characteristic is that the owner is primarily focused on providing employment to himself and his immediate family. While the owner welcomes fast growth, the business' primary intention is self-employment. Other terms for these companies are "Mom and Pops," or "Main Street" businesses. The vast majority of small businesses in America fall into this category – they are the real core of the American economy.

In contrast, entrepreneurial firms form a relatively small portion of the country's business base. New fast-growth companies comprise around 350,000 firms out of a total of six million U.S. businesses with employees. Yet, this small base of companies (5 to 15 percent of all U.S. businesses) created two-thirds of net new jobs during the 1990s. Moreover, these firms are the leaders in generating new products and services. According to one study, small entrepreneurial companies are responsible for more than half of all innovations, 67 percent of inventions, and 95 percent of all radical innovations created since World War II. Our lives have been permanently transformed due to innovations like air conditioning, the airplane, frozen foods, and high capacity computers – all brought to us by small entrepreneurial companies.

New and emerging entrepreneurial growth companies generate the vast majority of new jobs and innovations in our economy.

Entrepreneurs not only create jobs and new products and services; their companies have a real-bottom line effect on our international competitiveness. Recent research indicates a close correlation between a region's entrepreneurial capacity and its economic prosperity. In fact, studies by Babson College and the London Business School have found that varying levels of entrepreneurial activity account for nearly one-third of the difference in national economic growth rates.

What do Entrepreneurs Look Like?

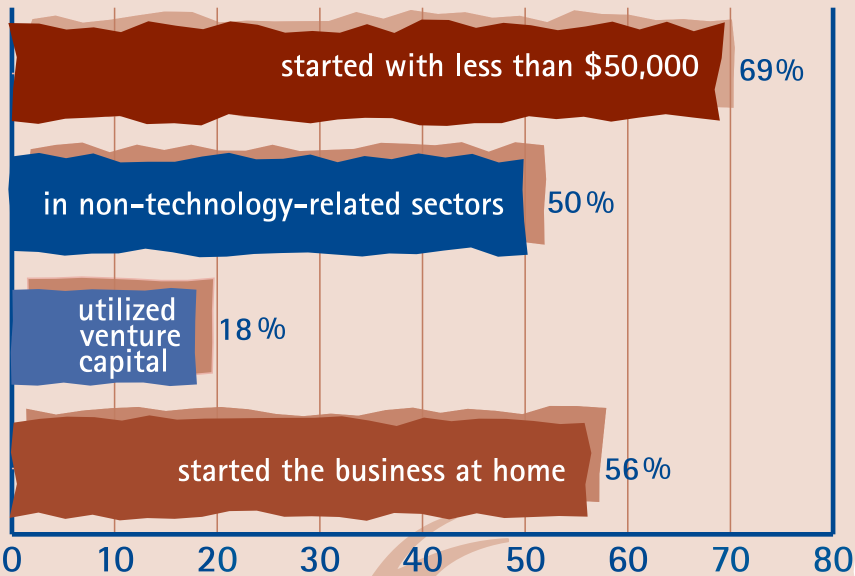
There really is no such thing as a "typical" entrepreneur. Entrepreneurs come from all walks of life and have all sorts of backgrounds. But we do have a very good picture of the demographics of entrepreneurship in the United States thanks to research conducted by the Kauffman Center for Entrepreneurial Leadership.

In many parts of the world, most new businesses are launched by people between the ages of 25 and 44. The United States is no exception, as people in this age group account for more than 50 percent of entrepreneurial activity in America. The United States is different from most other countries in that we have many more entrepreneurs in older age groups – those between 45 and 64 account for 36 percent of entrepreneurial activity (compared to a global average of 22 percent).

At the other end of the age spectrum, young people in the United States are greatly interested in entrepreneurship. In fact, polls indicate that nearly two-thirds of high-school students have an interest in starting a business.

Inc 500 Statistics

The Inc 500 — the fastest-growing private firms in the United States — includes some of America's top entrepreneurial companies. These firms are the best of the best among entrepreneurs, growing at an average rate of 1,933 percent over five years. Their experiences offer a compelling snapshot of America's high-growth companies.



The United States also is unique due to the participation of many women entrepreneurs. In fact, there is one female entrepreneur for every 1.5 male entrepreneurs. This compares with global averages of one female entrepreneur for every two males. And it’s likely this gap will continue to close since women are starting businesses at faster rates than men. Women-owned businesses grew at an average rate of 16 percent per year during the 1990s. Meanwhile, total U.S. businesses grew by only 6 percent. While women are starting businesses at faster rates, they find it harder at the outset to grow their businesses and access venture capital. These issues may warrant your attention as a candidate.

Minorities

Entrepreneurship is booming among American minority groups. According to the latest U.S. Census Bureau data, the number of minority-owned firms grew more rapidly than businesses in general from 1992-1997. During that period, the overall number of new firms grew at a rate of seven percent. Meanwhile, the number of African American-owned firms grew by more than 26 percent and Hispanic firms grew by 30 percent. While the raw number of firms has skyrocketed, the rate of growth of receipts among African American-owned firms has not kept pace. Overall, business receipts grew by 40 percent between 1992 and 1997, while African American-owned businesses experienced only a 33 percent increase. Meanwhile, Hispanic-owned businesses outpaced the national rate as business receipts grew 49 percent. Finally, minority-owned businesses tend to be smaller than average. Five percent of all U.S. firms had receipts in excess of $1 million, but only one percent of African-American owned firms and two percent of Hispanic owned firms achieved that level.

Regional

While America is among the world's most entrepreneurial nations, this dynamism is not equally shared around the country. Entrepreneurial activity exists in all regions, but certain hotspots, like Silicon Valley, Austin, and Boston, tend to dominate. The real challenge is that many parts of the country, especially rural regions and distressed inner-city communities, are not fully participating in the entrepreneurial revolution. Data on venture capital investments offer one disheartening snapshot. Nearly 70 percent of all U.S. venture capital investments are concentrated in five states: California, New York, Massachusetts, Colorado, and Texas. Meanwhile, the vast majority of states received only token venture capital investments in 2001.

Q&A

Why do women and minority business owners, while starting relatively more businesses than other business owners in general, experience less success in growing their businesses or attracting investment dollars?

Not surprisingly, there is not a simple, easy answer. Researchers are still trying to gather the data to draw useful conclusions. While a single cause has not yet been identified, several theories have gained the most attention. Researchers have pointed to several explanations: women and minorities may not have the necessary managerial skills due to differing educational opportunities; they are more interested in “lifestyle” businesses rather than entrepreneurial ventures; or they do not have the background in engineering and science that can lead to starting technology companies. These suppositions, however, may miss the mark. One more likely explanation is that large numbers of women and minority-owned businesses are still a fairly new phenomena. As such, these business owners may still be consumed with getting their businesses off the ground and supporting themselves and their families. With the large number of new businesses, more and more women and minority-owned businesses are likely to succeed in making the leap to rapid growth opportunities.

How can you tell the difference between a "lifestyle business" and an "entrepreneurial business?"

When a company is first starting out, it is extremely difficult to determine whether it will become a high-growth firm. At this point, the most important issue is the owner/founder's intention. If she is seeking fast growth (as opposed to self-employment), she will require different types of assistance and will face different challenges. Moreover, it is unlikely that a firm can grow fast unless it offers some sort of productivity gain via its products or services. But even with different intentions, firms will look similar at the start. They only begin to differ after a company hits the fast-growth stage.

Aren't all entrepreneurial businesses focused on technology?

While many fast-growing firms are in technology sectors, entrepreneurial firms exist in all fields. The key criterion is the ability to grow fast, and this characteristic is not limited to technology firms. For example, firms like Outback Steakhouse and Jiffy Lube have prospered through innovations in service and marketing as opposed to the creation of some new technology.

How do current levels of entrepreneurial activity compare with previous decades? Do these firms matter now that many dot-coms have gone bust?

We have been in the midst of a major entrepreneurial boom for the last several decades. As change in technology and global markets has accelerated, the number of entrepreneurial opportunities has also grown. Because of these structural changes in the economy, more people are starting businesses and more people are employed by small businesses than at any time in our history. And these firms are becoming increasingly important to future economic growth.

PART II

What's Important to Entrepreneurs?

If you ask entrepreneurs what they would like the government to do, you're likely to get the classic answer – "Leave me alone." While this knee-jerk reaction is common, it does not really paint an accurate picture of what entrepreneurs want from public officials or initiatives that seem to be most helpful for those starting or growing new businesses. Indeed, once you scratch below the surface of the initial laissez-faire attitudes of entrepreneurs, you'll find some very interesting and thoughtful ideas about how government can help nurture the entrepreneurial economy.

Based on numerous focus groups with entrepreneurs and projects in dozens of states, the following issues have consistently ranked at the top in terms of importance to new and growing businesses:

- Access to Talent
- Access to Capital
- Networks
- Infrastructure

Access to Talent

Finding and retaining quality people at all levels – management, technical, and entry level – is the biggest challenge facing entrepreneurs. This finding has been true in both good and bad economic times.

Many attribute this problem to today's tight labor markets and low unemployment in many regions of the country. Yet many entrepreneurs believe that this shortage of workers stems from a more deep-seated structural change in the economy. They do not believe their problems finding qualified workers will be solved even when the more general labor shortage is alleviated. Structural changes – the shift to a knowledge-based economy, businesses starting at Internet-speed – are affecting labor markets at all levels from customer service representatives to highly educated biotechnology researchers.

The personnel challenges entrepreneurs face are part of a larger economic transformation. For a variety of reasons, "knowledge workers" (i.e., those people whose jobs are based on developing or using knowledge or data) are now becoming the key ingredient to business success and regional economic development. Leading high-technology growth regions are now characterized by high concentrations of knowledge workers and an ability to attract and retain these workers. For example, 85 percent of technology executives in Silicon Valley cited access to talent as a key factor in determining their firm's location. Old advantages, based on natural resources and other more stable factors, have faded in importance as the role of regional clusters has become more critical.

These trends mean that your region's future economic competitiveness will be directly correlated with its ability to train, retain, and recruit talented employees –workers ready and willing to work for entrepreneurial companies. Success in these missions will ensure that your community is not only supportive of entrepreneurs, but that it is also a good place to live and raise a family.

Access to Capital

Anyone who has worked with entrepreneurs for some time becomes an expert in issues related to access to capital. Until quite recently, access to financing was the primary problem for small business and entrepreneurs. Today, access to capital has been trumped by concerns over human capital, quality of life, and other issues. While some regions and business sectors still have trouble accessing capital, the overall environment for funding start-up businesses is fairly positive. For example, venture capital investments have hit regular records in 1999 and 2000. 2001 was considered a year of retrenchment, yet even during this so-called crash, more than $31 billion was invested – the third best year on record.

Capital has become somewhat easier to access thanks to a host of financial market innovations during the 1970s, 1980s, and 1990s. The rise of venture capital, securitization of loan portfolios, the use of high-yield bonds, and the expansion of small business loans programs have all made it easier to get funding for a new business.

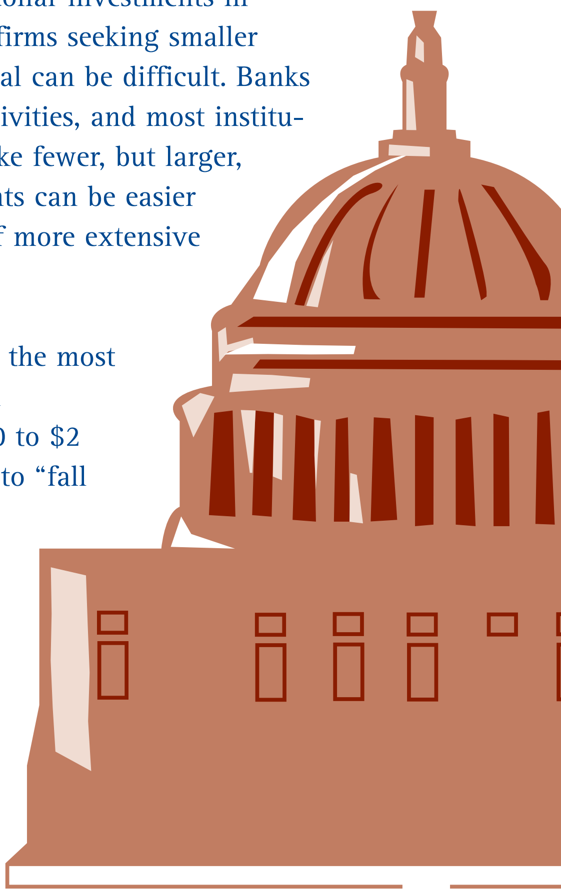
Nonetheless, the picture is not completely rosy. First, certain types of entrepreneurs – especially women and minorities – face trouble accessing funds, especially equity finance. For example, women own 38 percent of all businesses in the United States, yet they receive less than five percent of all venture capital investments. For minority-owned firms, the picture is no more promising. Minorities own about 14.5 percent of all businesses in the United States but they received only 1.5 percent of traditional venture capital in FY 1999 and about three percent of Small Business Investment Companies (SBIC) program funds in FY 2001.

Regional disparities also exist. While the overall U.S. economy is the world leader in innovation and entrepreneurship, these resources are not evenly distributed. A few regions, especially California's Silicon Valley, dominate the entrepreneurial economy. Many parts of the

United States have fewer resources and capabilities to support entrepreneurial companies. These challenges can be particularly acute in rural communities where investment capital is limited, distances between firms can be great, and the total number of entrepreneurs is small. In these communities, it can be difficult for entrepreneurs to network with one another and access the resources and services commonly found in urban and suburban regions.

Finally, and most importantly, accessing seed financing has proved to be a challenge in all regions of the country. As a company grows, its capital needs also grow. Larger firms can access funds through banks and from institutional venture capital funds, which are willing to make million dollar investments in emerging companies. However, for firms seeking smaller amounts of support, accessing capital can be difficult. Banks are reluctant to fund these risky activities, and most institutional equity investors prefer to make fewer, but larger, investments. These larger investments can be easier to manage and offer the prospect of more extensive financial gain.

Entrepreneurs report that they face the most difficulties in obtaining seed capital investments in the range of $50,000 to $2 million. Funding at this level tends to "fall between the cracks" of existing capital markets. In fact, most entrepreneurial companies are founded with less than $50,000 in start-up capital. Many entrepreneurs raise initial funding through a variety of sources such as savings, credit cards, and loans from friends and family.



Angel investors – individuals who invest in new companies – play a critical role in providing financing for new companies. These angels exist throughout country, and have even organized into groups and clubs in some regions.

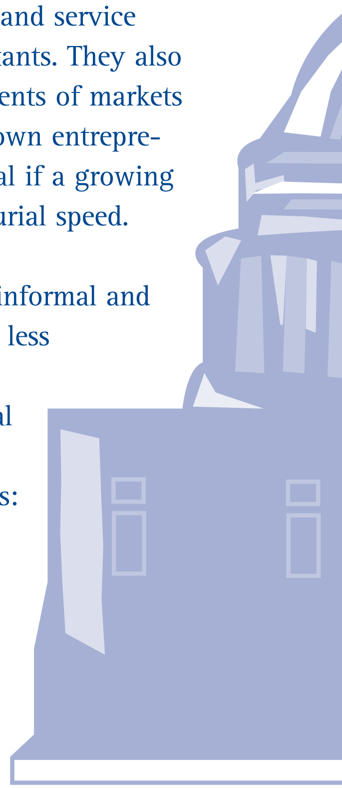
Networks

Entrepreneurs are classically depicted as rugged individualists, who single-handedly build great companies. In reality, successful entrepreneurs are consummate networkers who thrive in communities. Entrepreneurs know it is critical to their success that they have access to networks of their peers.

Networks are essential because they are the links to potential sources of capital, new employees, strategic alliance partners, and service providers – such as lawyers, accountants, and consultants. They also allow entrepreneurs to share information and assessments of markets and technology as well as lessons learned from their own entrepreneurial experiences. These links are absolutely essential if a growing company is going to travel successfully at entrepreneurial speed.

Thriving regions generally boast a wide array of both informal and formal networking structures. Formal groups assume a less important role in regions as they become more entrepreneurial. In strongly entrepreneurial regions, informal networks seem to dominate. Two factors may contribute to the emergence of these informal networks:

- Scale – a greater number of entrepreneurs fosters more opportunities to network, i.e., the emergence of a regional cluster.
- A more open culture of information sharing and networking.

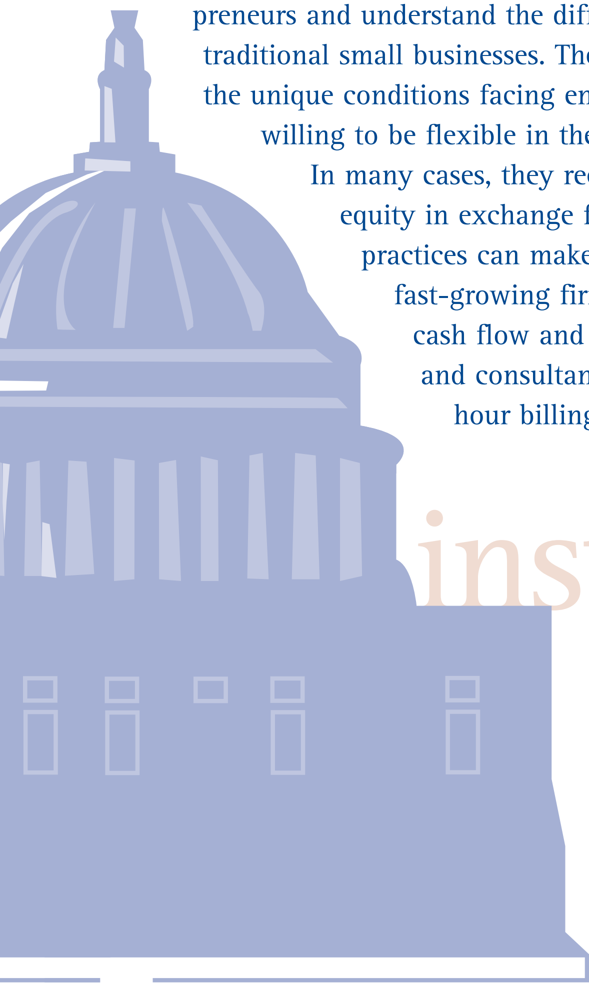


infrastructure

Infrastructure and Institutional Support for Entrepreneurs

A final issue of concern to our focus groups is the level of local institutional support provided to entrepreneurs. This support often takes the form of classic public infrastructure like good highways, proximity to airports, and high speed internet access.

Booming regions also enjoy a strong people-based infrastructure that supports entrepreneurs. These regions have a solid core of experienced service providers who know how to work with entrepreneurs and understand the differences between these firms and traditional small businesses. These service providers understand the unique conditions facing entrepreneurial firms, and are often willing to be flexible in their terms for payment and service. In many cases, they receive, and sometimes demand, equity in exchange for provided services. These practices can make a crucial difference for new, fast-growing firms, which often have limited cash flow and may not be able to hire lawyers and consultants using traditional pay-by-the-hour billing practices.



institutional

Q&A

Why is talent so important to entrepreneurial firms?

Unlike big established firms, entrepreneurial firms have few tangible assets and few standard operating procedures. This means that they mainly rely on one asset: the intelligence and resourcefulness of their workforce and leaders. A large firm can often compensate for the effects of weak employees. New firms don't have this luxury, so they cannot survive without talented and skilled people in place.

Why is equity financing more important than debt financing?

Because they are new, most entrepreneurial firms have very few assets or a long track record – the primary prerequisites for a bank loan. Nor do most banks find it profitable to lend amounts less than $1 million, especially when these new companies require extensive due diligence. For small loans, many small businesses rely on the U.S. Small Business Administration, but most entrepreneurial companies do not qualify because they do not have the collateral the SBA requires. Thus, new and growing firms must access other sources of equity financing. These funds come from a variety of sources including friends and family, credit cards, and outside equity investors like angel investors and venture capital firms. Most new companies obtain funding from these sources as they begin operations.

We have business groups like the Rotary Club and local Chamber of Commerce. How are entrepreneurial networks different?

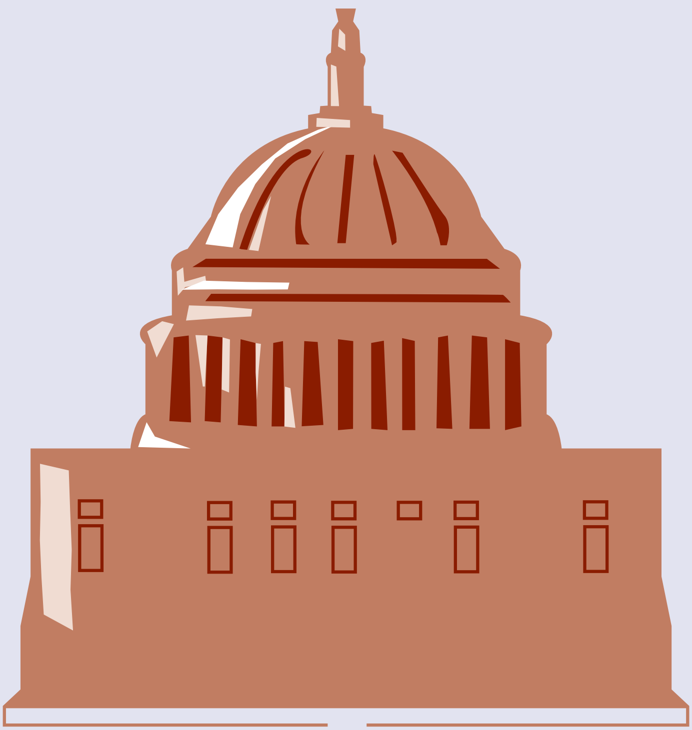
Entrepreneurial networks often look like classic business support groups, but they have a few twists. First, they do not serve companies. Their members are individuals – either those already running companies or those who wish to do so. Second, they have only one main purpose: to help people start and grow businesses. Most networking groups do not engage in political advocacy and other projects often managed by Chambers of Commerce and other groups. Instead, they primarily focus on the nitty-gritty details of starting and running a business.

Is it possible to teach entrepreneurship?

Teaching entrepreneurship is not only possible, it is highly effective. Reams of studies show that people who take entrepreneurship training (at any level — from kindergarten to adulthood) are more likely to start a business and to succeed at it. Moreover, there are even benefits for those who decide not to start a company. After training, these people tend to be better employees and have better job skills than their counterparts.

Why do entrepreneurs tend to cluster in certain regions?

Contrary to many stereotypes, entrepreneurs are not lone wolves. They prefer to locate where they can best access customers, partners, and employees. Thus, they tend to congregate where other companies are located. Moreover, these communities boast a wide range of services and support needed by new and growing companies.



PART III

What can you do?

All of the factors described above feed into what some observers like to call the entrepreneurial eco-system: the whole confluence of factors that determine whether a region helps support and nurture entrepreneurial companies and individuals. Creating such an eco-system is a long-term project. It requires a mix of good programs, a good quality of life, and a culture that encourages people to take risks and start new ventures. If you succeed in creating such an eco-system, the benefits are indeed great. What emerges is a virtuous cycle: entrepreneurs start businesses that succeed and grow (creating jobs, revenue, etc.); their employees and peers then build on this success and create other new businesses; these businesses succeed and the wealth generated in the process is reinvested in new businesses, community assets, and philanthropic activities. The end result is a thriving community where both economic and civic capacity is strong.

If you examine the history of U.S. economic policies since World War II, one striking point emerges. The U.S. government, often without intending to do so, introduced a number of new policies that transformed the landscape for emerging companies and made it much easier to start and grow a new business. For example, a number of late 1970s changes in pension law helped create the modern venture capital industry.

This experience yields one important lesson: good public policy can have a profound effect on entrepreneurship. On the flip side, bad public policy can cripple entrepreneurship. Recent research indicates that Japan's dismal performance in terms of start-up activity can be partially attributed to overly strict bankruptcy laws that deter people from risk-taking. If the price of business failure is too high, few people will be willing to make the leap to starting a new firm.

Thus, your job as a candidate and an elected official is to do what you can to nurture and encourage entrepreneurial activity, or, at a minimum, do no harm. Below, we offer a list of various entrepreneur-friendly policies and programs that you could support or undertake at all levels of government. The ultimate mix of programs and policies will depend on the needs of your community and the competitive strengths of local businesses. All of these programs are based on proven, successful models and thus can be replicated and tailored to the needs of nearly any community.

recognition

Recognition — Creating a Culture of Entrepreneurship

Supporting entrepreneurship often means working to change your local business climate or culture. Like all humans, entrepreneurs want to be respected and supported. Simply acknowledging their critical role in your local economy can have a huge effect. This is especially true in communities where older and declining industries have dominated the economic landscape. Low-cost projects like an Entrepreneur of the Year awards program or site visits to new firms will reward local innovators and encourage others to make the leap to business ownership. Supplementing these awards with local business plan competitions can further reinforce the message that your community is "entrepreneur-friendly."

Recent American experience yields one important lesson: good public policy can have a profound effect on entrepreneurship.

Woman-Owned Businesses: The Boom Continues

One of the more interesting trends in business circles today is the boom in entrepreneurship among women. Women are starting firms at a much faster rate than men — new woman-owned firms grew by 13.9 percent (between 1997 and 2000), while the overall growth rate for new businesses was 9.1 percent.

Despite this evidence, conventional wisdom continues to portray the "typical" woman entrepreneur as someone who starts a service business on the side while raising kids. The truth is that there is no such thing as a typical woman entrepreneur. They run small businesses and they run big businesses. In fact, the fastest-growing segment of women-owned businesses is in large firms — those with more than 500 employees. The number of these firms run by women grew by nearly 125 percent between 1997 and 2000.

These woman-owned companies exist in all industrial sectors. And here again, bigger is better. The number of woman-owned firms with $10 million or more in revenues grew by 36.8 percent between 1997 and 2000 — triple the growth rate of all firms during this period.

Source: Center for Women's Business Research

Entrepreneurship Education and Training — Creating More Entrepreneurs

One of the best ways to grow your local economy is to encourage more people to become entrepreneurs. And the best way to achieve this goal is via education and training. Entrepreneurship curricula exist for all levels, starting in kindergarten and going all the way through graduate school. In addition, both children and adults can learn about entrepreneurship through after-school clubs and programs (like 4-H and Junior Achievement) or adult training programs (like the Ewing Marion Kauffman Foundation's FastTrac program or training provided by many Small Business Development Centers). Research on the programs' impact is clear: those who receive such training are more likely to start new businesses and more likely to succeed in growing them.

Networks

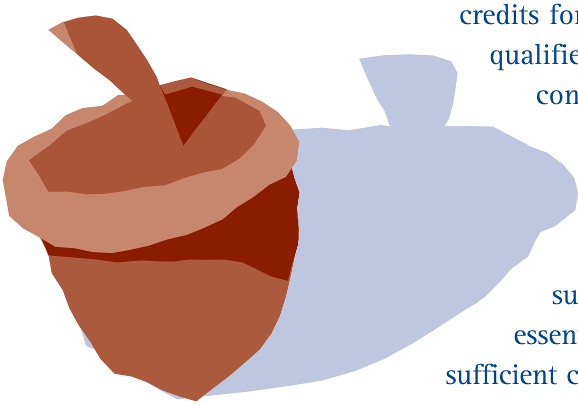
Networks are the single most critical factor for a strong entrepreneurial region. But these informal local networks of entrepreneurs (and for entrepreneurs) — the key building block of an entrepreneurial economy — reflect something of a "chicken and egg" problem. If a region does not yet have a "critical mass" of entrepreneurs to build such networks, how can they be started in order to create a "critical mass" of entrepreneurs?

There is no magic bullet that can jump-start this networking effort. Sometimes local networks organize around a public institution affiliated with a local government or university. For example, in Atlanta, Georgia Tech's Atlanta Technology Development Center is a key local networking resource. But these "seed" institutions can also be privately run, such as Northern Virginia's Netpreneur program or at the Center for Entrepreneurial Development in Research Triangle Park, North Carolina.

These institutions share a number of characteristics, but one stands out — each of these groups sees itself primarily as a networking resource. While most of these organizations offer some set of programs (such as technical assistance), they also offer a venue where entrepreneurs can informally meet and share ideas and interests. Something as simple as a monthly happy hour where entrepreneurs share information (about access to capital, people, technology, and support infrastructure) can have a dramatic effect in fostering a strong entrepreneurial spirit in the community.

Seed Capital

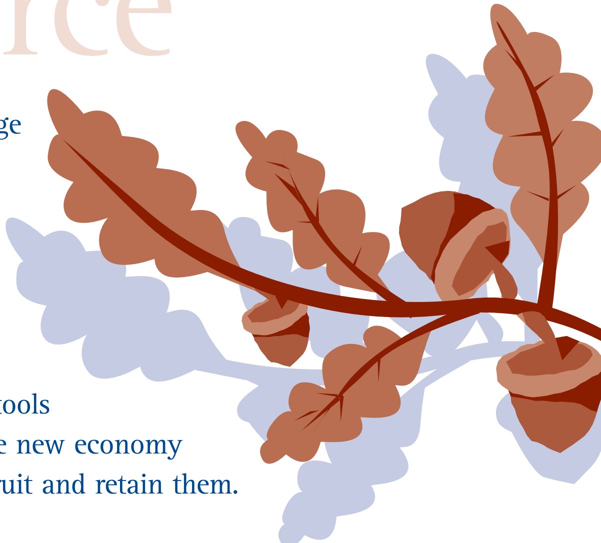
Hundreds of small business loan programs exist throughout the United States. Supporting and sustaining these efforts will help many entrepreneurs. Candidates might also consider other targeted models that provide seed financing (in the range of $50,000 to $2 million) for new and emerging businesses. Several states, such as Oklahoma and Connecticut, have established successful, state-sponsored venture capital funds and other seed financing sources. The Oklahoma Technology Commercialization Center has succeeded in setting up a host of angel investor networks across the state. In addition, many states and the federal government provide tax credits for those who invest in qualified small businesses or who contribute to investment funds for these firms.



But business financing is not just about the supply of capital. It is also essential that your region has sufficient capital demand from entrepreneurs who are credit worthy and whose businesses are attractive to investors. Existing resources for business training, capital literacy, and similar services (both public and private) can play a big role in ensuring that local businesses can access the money they need to start and grow.

Workforce Issues

Without a doubt, finding good people is the number one challenge facing America's entrepreneurs. It also is clear that these problems are not limited to this fast-growing portion of the economy. Business leaders and policymakers must devote substantial effort to finding new tools that better prepare workers for the new economy and that enable businesses to recruit and retain them.



Efforts to improve K-12 education and training in math and science can have a huge positive impact in this area. Since the greatest labor demand and the greatest shortfalls are in high technology sectors, efforts to emphasize technology training make sense.

Given the intensity of today's labor shortages, these long-term remedies must also be supplemented with more short-term measures. In the past, expanding programs for immigration of technically skilled personnel, such as the H1-B visa program, have served as a short-term fix to labor problems in some sectors. At the same time, businesses need to be more creative in their employment practices. For example, many firms have enjoyed great success by hiring employees from the growing population of senior citizens or by taking advantage of telecommuting to enlist workers from outside traditional commuting areas.

Infrastructure

Entrepreneurs recognize that federal, state and local governments can help create a support infrastructure for new firms. They also strongly embrace programs where public sector value is achieved through, or in partnership with, the private sector. Examples include the Small Business Investment Companies (SBIC) program, the transfer of rights to universities of federally funded technology; and the seeding of local institutions, such as business incubators, that help jumpstart networks in some regions. These programs can have the biggest impact in regions that lack a history of start-up companies or that suffer from severe economic distress. For example, the Rensselaer Incubator in Troy, New York has helped create numerous technology companies in upstate New York.

Reinventing Government

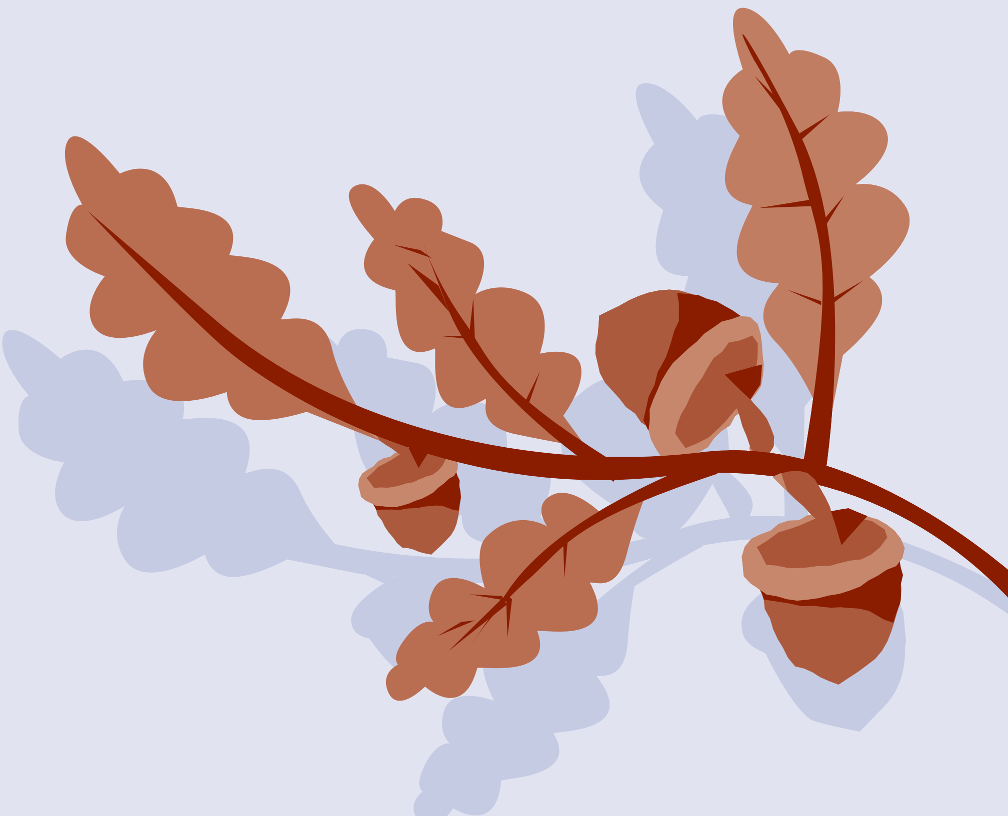
Much of your work with entrepreneurs will not be about designing new programs. Smart government agencies also work to ease the creation and growth of new firms. Simplified licensing procedures and streamlined rules and regulations fit this category. Also, entrepreneurs work a 24/7 schedule. They seek government agencies that can provide support on a similar schedule. This does not necessarily mean 24-hour staffing, but it does mean that forms, licenses, and how-to guides should be on-line and always accessible.

Entrepreneurs from all regions feel strongly that governments should act more like businesses. In other words, agencies must act faster, be more transparent, and be more flexible. How can government make it simpler to comply with legitimate regulations? How do we reduce the number of forms and the number of offices to file with? Can the complexity of multiple regulations by multiple jurisdictions be made less severe? Entrepreneurs seek clear uniform regulations and interaction with only one or relatively few government offices.

Q&A

How do I get started in setting up an entrepreneurship initiative?

The first step is to assess how your community is doing. Ask local businesses about your local business climate and for suggestions on change. Use your leadership position and convening power to encourage local entrepreneurial leaders to participate and spread the message. Then, get started and soon! Start small with cheap, high-visibility efforts like a local awards program. Then move forward by starting local networking groups before you graduate to full-scale programs like seed funds. Each community has different existing resources and different needs. These small steps will provide you with an opportunity to learn over time about what works best and what truly provides added value.



What tax policies will best stimulate entrepreneurship?

Entrepreneurs unanimously applaud the reduced rates for long-term capital gains taxes that help stimulate investment in their firms. However, it is not clear that further capital gains tax rate cuts will have a huge impact since these investments already are heavily favored. State and local tax credits for investors also have proved useful. One other promising idea is legislation called the BRIDGE Act (now pending before the U.S. Congress), which allows new, growing companies to "bank" existing revenues in a tax-deferred account for later use.

It sounds like all of this will take time. What if I need quick results?

Building an entrepreneurial eco-system does take time, and one should not expect immediate results. First, be sure to publicize the small steps of the program. For example, you might build a media event around the launch of a new network. Second, it may make sense to use entrepreneurship strategies as a supplement to other economic development programs. Experts often speak of a "three-legged stool" of economic development: growing new businesses, retaining existing businesses, and recruiting outside businesses. Each leg is required. Entrepreneurship is the long-term portion of this program, and the foundation for future prosperity. Your visibility in supporting entrepreneurial firms sends a strong message that you are working for the long-term prosperity of your community.

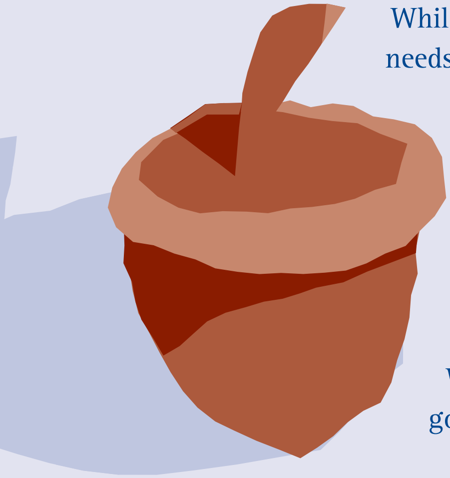
Most start-ups fail. Am I setting people up for failure if I encourage them to start new companies?

Failure rates for new businesses are high, but that does not mean that people should be discouraged from trying. Aspiring entrepreneurs need to take calculated risks. They need to understand the challenges of building a business, as well as the many benefits that come from success. The appropriate role for a community leader is to ensure that people have the necessary tools and knowledge to succeed. Community leaders, of course, cannot guarantee success or prevent failure.

In many ways, entrepreneurial development programs require a mentality akin to portfolio investments. One cannot expect 100 percent success rates with new companies. Failures will occur, but, if the program works, the number of successful businesses will far outweigh the number of failures.

What other policies seem to help?

Of special note during this campaign cycle is the new focus on corporate governance and accountability practices. Recent corporate disclosures of accounting problems have shocked investors and underscore the importance of transparent and trustworthy financial markets. At a time when some of the nation's most well-known corporations are being called to task for faulty accounting, entrepreneurial companies can expect extra scrutiny as they try to raise investment dollars or build a customer base to support a new technology or recruit the best and brightest scientists and engineers. Entrepreneurs have a large stake in a set of public policies that can rekindle the nation's trust in business. Policymakers need to take steps to reassure investors – from large pension funds to individual holders of 401(k) accounts – that corporate governance and accountability policies will be strong and reliable while at the same time giving entrepreneurs the tools and credibility they need to build their businesses.



While entrepreneurial firms have some unique needs, many of their demands are similar to those of other businesses: good roads, good schools, a clean environment, access to new markets, and the like. Much of your entrepreneurship strategy can be subsumed under the whole set of programs and initiatives that strengthen overall community vitality and health. What's good for Peoria will generally be good for Peoria's entrepreneurs!

Other Reading

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Online Resources

National Commission on Entrepreneurship (*www.ncoe.org*)

Kauffman Center for Entrepreneurial Leadership (*www.entreworld.org*): A vital organization and comprehensive website that provides a host of resources for entrepreneurs.

Center for Rural Entrepreneurship (*www.ruraleship.org*): A great resource on supporting entrepreneurship in rural communities.

Consortium for Entrepreneurship Education (*www.entre-ed.org*): The association for youth-entrepreneurship educators.

Council for Entrepreneurial Development (*www.cfed.org*): This site has lots of interesting information on entreprise development and and individual asset building. It's also well-known for the annual Development Report Card of the States.

National Foundation for Teaching Entrepreneurship (*www.nfte.com*): A good site for learning about youth-entrepreneurship education.

U.S. Small Business Administration (*www.sba.gov*): Not just advertisements for goverment programs, SBA's site has tips for entrepreneurs and lots of great data on the state of small business.

The National Commission on Entrepreneurship, an initiative of the Kauffman Center for Entrepreneurial Leadership at the Ewing Marion Kauffman Foundation, was established to provide local, state, and national leaders with a roadmap for sustaining and expanding a flourishing entrepreneurial economy. Entrepreneurship is the critical force behind innovation and new wealth creation—the key drivers of our country's economic growth. Through research, publishing, conferences and other events, the Commission promotes an agenda that helps grow a successful entrepreneurial economy into the 21st Century.

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