



Why Entrepreneurship?

Making the Case for Entrepreneurship!



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Content Guide

- **Introduction** – Economic Crashes
- **Part 1 - The Need** for Entrepreneur-Focused Economic Development
 - Communities' Primacy Role for Economic Development
 - Where Rural Communities are in Their Economic Development Journey
 - The Need for Economic Development
 - The Need for Entrepreneur-Led Economic Development
- **Part 2 - The Opportunities** for Entrepreneur-Focused Economic Development
 - Your Community has Entrepreneurial Talent
 - Entrepreneurship Fits Rural Scale
 - Entrepreneurship is Scalable and More Cost Effective
 - Entrepreneurship Enables Community-Centered Economic Development
 - Entrepreneurship Can Be Transformative
- **Access and Use of e2U Materials**
- **How e2 Can Help**

Introduction

Economic Crashes

Typically, rural economies and societies are less diverse when compared to urban and particularly metropolitan areas. Every economy and society experiences crashes, but more diverse communities and regions are inherently more resilient and able to weather these crashes when compared to less diverse communities. Crashes range from the loss of a dominate industry, major employer or disruptions caused by natural disasters (e.g., hurricanes, wildfire, flooding, etc.). Because socio-economic crashes typically stress less diverse rural regions more, we have developed a special paper, [Economic Crashes, Mini-Case Studies](#), providing additional background on economic crashes.

We continue to find that entrepreneurship-led economic development is not mainstream. Communities looking at entrepreneurship as a development strategy face serious challenges from the status quo where business attraction and retention of large employers rein as king. We answer why entrepreneurship continues to be paramount for most communities.

Entrepreneurship is probably particularly important whether your community is starting out, making progress, or even demonstrating impact but not sustainability. In this paper we provide our most current thinking around answering the question, **Why Entrepreneurship?** and how to make the case for entrepreneurship. This paper is organized into two parts:

- I. The Need for Entrepreneur-Focused Economic Development
- II. The Opportunities for Entrepreneur-Focused Economic Development

e2 Perspective

We believe each and every community in America is primarily responsible for its own development and prosperity. Because of this imperative, it is essential for every community to find its optimal economic

development strategy capable of ensuring competitiveness in a global economy and community building at home.

This **Why Entrepreneurship?** paper articulates with other content. We reference and hyperlink to other papers that your community might find useful as you formulate your own case for entrepreneurship.

Part I - The Need for Entrepreneur-Focused Economic Development

In this section we provide the rationale for entrepreneurship through the lens of the need for more effective and impactful economic development. In this section we will explore the following topics:

- Communities' Primacy Role for Economic Development
- Overview Where Rural Communities are in Their Economic Development Journey
- The Need for Economic Development
- The Need for Entrepreneur-Led Economic Development

The first three topics are contextual and provide a foundation of understanding for the final part that lays out the case for entrepreneurship as your community's primary economic development strategy. We explore each of these topics next.

Communities' Primacy Role for Economic Development

We begin our journey exploring why entrepreneurship as a development strategy is foundational to your community's future by focusing on the primary role that local communities have in their own economic development. Strong, vibrant and wealth creating economies just do not happen. Unique circumstances might drive economic development (e.g., World War II and the growth of California or development in North Dakota due to the Bakken oil boom) but over the long-term (i.e., generations) each and every community has the primary responsibility for its own development.

Etched into the stone of my Nebraska home state's Capitol Building is a quote from Aristotle:

A COMMUNITY LIKE AN INDIVIDUAL HAS A WORK TO DO

The United States is unique among the world's developed economies where local communities are primarily responsible for their own development and prosperity. In most other developed economies national and provisional governments play a much more significant role in fostering regional and local community economic development. It is foundational that America's communities and regions assume this responsibility to ensure their future.

Keeping in mind that no one else is responsible for your community's economic development and future vitality, we explore where rural communities are today in this journey.

Where Rural Communities are in Their Economic Development Journey

Based on e2' unscientific but extensive field experience we categorize communities and particularly non-metropolitan communities into one of three buckets with respect to their economic development game plans. In Figure 1 on the next page we summarize our field-based analysis of where communities are in their economic development journey.

We believe too many and possibly most rural communities (particularly those that are smaller and more isolated) are **not in the economic development game**. These communities do not really have a meaningful commitment to, capacity for or serious game plan to ensure their own development.

The next largest group of rural communities including many larger area cities and micropolitan areas are still focused on **traditional development** investing in attraction first, generally a strong commitment to larger employer retention and expansion and some more marginalized activity related to small business development.

Figure 1 – The Economic Development Landscape

<p style="text-align: center;">Not in Game</p> <p>Too many rural communities and urban neighborhoods do not really have an economic development game plan. They are not in the game and they need to be leading.</p>	<p style="text-align: center;">Traditional Development Focus</p> <p>Most communities in the economic development game are still largely investing most of their efforts with traditional development such as attraction and retention of large employers.</p>	<p style="text-align: center;">Considering Entrepreneurship</p> <p>A growing number of communities are now actively exploring, considering, and testing entrepreneurship as an economic development strategy. Some have maturing strategies with impact.</p>
<p>Economic Development Challenges Today</p>		
<p style="text-align: center;">Under Capitalized</p> <p>Given the size of our economies and the need for aggressive economic development, most economic development strategies are grossly under-capitalized. Lack of resources and consistent funding undermines the effectiveness of all economic development. See our paper Funding Economic Development.</p>	<p style="text-align: center;">Wrong Focus</p> <p>Economic development should be:</p> <ul style="list-style-type: none"> • Opportunity-Focused • Asset-Based • Community-Centered <p>Too often communities are rooted in what worked in the past but does not work well today. Also, rural communities tend to mirror urban strategies that are mismatched with rural capacity.</p>	<p style="text-align: center;">Token Support</p> <p>With a traditional development focus on attraction and retention of larger employers there is often a strategy focused on small business. In some cases, these strategies are real and even robust. But too often this is a token commitment to local small businesses and nowhere close to an entrepreneurship game plan. Intentional entrepreneurial ecosystem building is still relatively rare.</p>

The last and smallest group of rural communities are embracing entrepreneurship and range from communities actively exploring entrepreneurship as a development strategy to those with establishing entrepreneurship related development efforts to a very small group of rural communities that have robust and impactful entrepreneurial ecosystems.

An important step for your community to honestly assess where you are at in the continuum of economic development commitment and engagement outlined in Figure 1. Once you have completed your assessment you can begin to use content in this paper to build your case for entrepreneurship.

Jay Kayne – Early Entrepreneurship Thought Leader

Jay Kayne, when he was a leader with the Ewing Marion Kauffman Foundation, would often make the point that while entrepreneurship was hot as a topic, unfortunately the vast majority of state and local economic development funding was still targeted to business attraction and industrial development. He would argue that less than 10% of all economic development funding in the United States could be linked to entrepreneurship and the balance was focused on more traditional economic development strategies such as business attraction. It has been over a decade since Jay was arguing this point and we



are not sure of the current funding allocations. But our field work throughout North America strongly suggests that Jay's allocation is more right than wrong even in today's development environment. What support for entrepreneurship that is present is largely focused on programs (e.g., incubators, micro financing funds, business counseling) and not intentional ecosystem building? While these programs are valuable, they are not same as sophisticated entrepreneurial ecosystems.

Bottom line, what this means for your community is that chances are good that additional work needs to be done to make the case for entrepreneurship or answering the question, why entrepreneurship? A potential key to energizing your community for entrepreneur-focused economic development may be rooted in helping your community find its answer to "why entrepreneurship?"

The Need for Economic Development

A community's first commitment towards greater vibrancy and prosperity is its commitment to economic development. The next commitment focused on what is the economic development strategy(s) that makes most sense for your community based on your genuine development opportunities, assets, and preferences. Unless communities make smart, deep, and sustained commitments to their own economic development there is little opportunity to change the direction of your community for the better.

Community-Centered Economic Development

If your community has not really committed to economic development as a local responsibility, then we encourage you to review our paper, [Community-Centered Economic Development](#). This paper is a recommended read as you spend time with *Why Entrepreneurship? Making the Case for Entrepreneurship!* Combined, these two papers can help your community make the case for deeper and smarter investments into entrepreneurship-led economic development.

Later in this paper we discuss what we mean by community-centered economic development. Foundational to successful entrepreneur-led economic development is a deep, robust, and smart commitment to economic development.

The Need for Entrepreneur-Led Economic Development

One of the two foundations for why entrepreneurship-led development is needed is failing traditional economic development. The other foundation is rooted in the opportunity for stronger and more competitive and diverse economies.

Failing Traditional Economic Development. For nearly 70 years, or following World War II, rural economic development has been defined by one of three strategies:

1. Industrial Recruitment and Business Attraction
2. Larger Employer Retention and Expansion
3. Natural Resource Based Industry Development

For much of this period these strategies propelled communities through some of the best economic times in American history (1950s into early 1980s). However, beginning in the 1970s and into the 1980s opportunities associated with all three traditional economic development strategies became more limited and more expensive. But making fundamental change is hard with such a long-term commitment to how we have done economic development business. For two generations local economic developers,

their boards and stakeholders were educated in traditional economic development. Foundational to moving to new development opportunities like entrepreneurship requires fundamental change on the part of development groups and the communities they serve. At e2 we have become convinced over the 40+ years of our field work that making the shift to entrepreneurship as our primary development strategy is essential.

In ***Community-Centered Economic Development*** we document that traditional economic development is failing with respect to rural communities. The data is dramatic as rural community after rural community is experiencing chronic and severe outmigration and depopulation, unemployment, poverty, or a combination of all three indicators of community distress. Despite that traditional development is not adequately enabling thriving economies and communities, communities are struggling to find pathways forward to prosperity. We believe based on our field work and available research entrepreneurship is a foundational solution.

Erosion of Support for Area Economic Development. We are not aware of comprehensive research or analysis documenting this observation, but our work with multiple regions of the U.S. and rural communities demonstrates there has been an erosion of community commitment to economic development. Since World War II community stakeholders (e.g., cities, counties, banks, major employers, and others) funded local economic development out of civic concern but primarily out of self-interest.

If economic development (i.e., business attraction) results in more residents, more spending, more economic activity, expanding local tax bases and the like, then economic development is valuable for area banks, the city, and other stakeholders. There was a strong implied **return on investment (ROI)** relationship between stakeholder funding and attraction success. The local professional economic developer was one of the highest paid professionals in a community, often receiving bonus pay with attraction wins. As attraction wins slowed down and, in many cases, disappeared, these stakeholders began to question the ROI and began disinvesting.

Today, we rarely find that the local economic development professional is highly paid and there appears to be very high turnover in staffing. This disconnect between results and investment make sense from a self-interest standpoint and undermines the ability of communities to engage in other economic development like entrepreneur-led development.

The Great Jobs Creation Debate. Since World War II economic development in America has largely equated with business attraction and commitment. As industry began to move from the coasts and larger cities to more rural locations first with the World War II and then driven by cost considerations, attraction became our default development game plan. For 70 years this is what rural communities and regions largely pursued as their primary opportunity for growing a larger and more dynamic economy. The math was simple, create good jobs through attraction and the rest of the economy will do well contributing to community and resident betterment.

For the past 40 years of e2's experience with economic development, **job creation** has been the gold standard for economic development success. Job creation, or the primary way our communities' residents make a living, is important. In today's environment where the U.S. has large numbers of residents who are working poor or low income (e.g., they do not have a living wage or middle-class standard of living), the quality of jobs (e.g., compensation, benefits, security, etc.) is increasingly important. For rural communities there is an additional consideration related to the kinds of careers

associated with the jobs being created. If a rural community's economy is only creating a narrow range of lower-skill jobs in agriculture or manufacturing, chances are good that most of that community's children and grandchildren will leave the community and not return.

Rural youth are leaving because we are creating jobs, not careers.

Often well-educated young people graduating from our local high schools are seeking careers in a wider range of fields (e.g., communications, human resources, logistics, finance, management, marketing, etc.). Unless our rural economic development strategies can create these kinds of careers, our chances of attracting home our most likely human talent is marginalized.

Today, if rural communities and regions are to achieve higher levels of prosperity, including the ability to attract, develop and retain human talent, the communities must create more diverse economies with wider career/job offerings. This is a high bar that entrepreneur-led development can realize.

The great jobs debate is contextually important background as we explore the case for entrepreneurship versus traditional economic development.

Jobs! The Economic Development Bottom Line

For the past 50 years the bottom-line outcome for economic development is job creation. The theory of change was simple... create jobs and all else in the economy and community would be fine (i.e., trickle-down theory). Job creation and retention continues to be an important outcome metric for economic development. But today with community-centered development we need more from economic development than jobs such as careers, competitive positioning, and the like. Nevertheless, job creation remains important and thus the **great jobs creation debate** is important. Determining who is creating jobs – small business, large ventures, growth entrepreneurs – is an important question. Your community's development strategy should be built with an understanding of the **jobs creators** as one of your key metrics.

Overcoming Habit and Status Quo. Up until the early 1980s there was ample evidence that the attraction strategy worked. Almost any community of any size can point to industries, offices, warehouses, and other economic activities that were attracted to their community. Unfortunately, beginning in the 1970s these same activities that were once moving into more rural areas were now moving offshore and the attraction opportunity was becoming less of an opportunity and increasingly expensive. But the economic development habit of focusing on attraction was hard wired into most local, area and state development strategies. Moving to entrepreneur-led development requires breaking or moderating the attraction habit and moving to where there is greater development opportunity or entrepreneurship.

The need for more effective economic development is one consideration. But without meaningful opportunities communities are stranded in where they should invest in economic development. Based on our multi-decade search for economic development solutions in rural America, we believe that entrepreneur-led development offers an optimal jobs/careers alternative for those communities where traditional development is no longer viable and is a strong complimentary strategy to those larger communities where there is still traditional economic development play.

Jobs Research. There is extensive research, analysis, and debate over job creation in America. Here is some potential good reads that might help you and your community gain consensus on this all-important metric for economic development.

- *Who Moved My Smokestack?* Don A. Holbrook, 2008, ISBN: 978-1-4363-6393-5&8
- *A Future of Good Jobs?* Timothy J. Bartik & Susan N. Househman Editors. 2008. ISBN-13: 978-0-88099-331-9.
- *Take this Job and Ship It*, Senator Byron L. Dorgan. 2006. ISBN-13: 978-0-312-35522-7.
- *The Great American Jobs Scam*, Greg LeRoy. 2005. ISBN-10: 1-57675-315-8.
- *The Coming Jobs war*, Don Clifton, Chairman of Gallup. 2011. ISBN: 978-1-59562-055-2.

Economic Policy Institute (EPI)

The Economic Policy Institute (www.epi.org) was founded in 1986 as a nonprofit and non-partisan research and analysis center. Over the years EPI has authored a number of policy papers evaluating economic development policy in the United States including America's overreliance on business attraction and the use of government funds to incentivize companies to move from one U.S. location to another. They have argued this is a zero-sum game where economic activity is simply moved from one state and community to another with no net gain in economic activity and at great cost to localities and states providing tax abatements and other incentives.

Thirty years ago, the assumption that the job creators were larger businesses began to be challenged by David Birch and others arguing that smaller entrepreneurial ventures were the drivers of job creation. What we have learned since is there is massive churn with lots of startups and associated job creation and nearly an equal number of closures and job destruction. Today, attraction accounts for less than 1-5% of net new jobs in rural America (Source: www.youreconomy.org). While fueling the startup pipeline is important, we know two other segments are even more important:

1. Growth-Oriented Entrepreneurs
2. Existing Business Transitions

Growth and growth-oriented entrepreneurial ventures (including for-profit, nonprofit, and governmental enterprises) are the real drivers of net new job creation. Through their expansive work with Economic Gardening, Chris Gibbons and Christine Hamilton-Pennell have really made this case. In addition, the [Edward Lowe Foundation's](#) work with Stage 2 (i.e., 10-99 employees) growth entrepreneurs further supports the points made by Chris and Christine. These ventures also tend to create better jobs and a wider range of careers essential for rural community people attraction, development, and retention. Check out our papers on [Growth-Oriented Entrepreneurs](#) and [Help Your Community Become Growth Obsessed, A Guide for Rural Growth](#).

Part II - The Opportunities for Entrepreneur-Focused Economic Development

As you engage your economic development stakeholders and community in a conversation on what your community's economic development priorities should be, consider these five foundational opportunity-based rationales for **making the case for entrepreneurship**.

1. Your Community has Entrepreneurial Talent

Foundational to each and every community's economic development opportunity is **entrepreneurial talent**. The following statement is critically important as we consider the opportunity for entrepreneur-led development.

*“Entrepreneurs are universal.
Entrepreneurial ecosystems are not.”*

Andy Stoll
Ewing Marion Kauffman Foundation

Every community has entrepreneurial talent. Even communities with weak entrepreneurial traditions (e.g., company towns for example) or are experiencing chronic distress (e.g., the Lakota Sioux Nation and the Rosebud Reservation in South Dakota) have entrepreneurial talent. The talent present may be smaller and less developed, but it is there. The key to recognizing your community has entrepreneurial talent is to find it, support it and grow it over time. Unless there are other genuine development opportunities, the path forward to greater community prosperity is building on what you have available to your community to energize your entrepreneurial talent. We have witnessed this in very distressed areas from border refugee communities in Arizona to hard-hit coal country in central Appalachia.

Three Kinds of Entrepreneurial Talent. As your team makes the case to your stakeholders and community that entrepreneurship must be a foundational economic development strategy, remember that your community has three kinds of entrepreneurial talent based on how these ventures are legally organized:

For-Profit Businesses – We recognize for-profit businesses as foundational entrepreneurial development opportunities ranging from essential businesses like a grocery store in a rural community. But it is important to remember there are two additional entrepreneurial development opportunities including nonprofit ventures and governmental or civic enterprises.

Nonprofit Ventures – One of the fastest growing sectors within the America economy are nonprofit ventures ranging from local museums to social service agencies to major healthcare facilities. Just because these ventures are organized as nonprofit organizations does not mean there are not entrepreneurial development opportunities. A fast-growing nonprofit community healthcare system can be just as important to a community as a rapidly growing manufacturing company.

Governmental or Civic Enterprises – There are also governmental or civic enterprises that can be significant entrepreneurial development opportunities. During on our work in the Klamath Falls region of South-Central Oregon, we recognized the anchoring role of Crater Lake National Park within a recreational tourism cluster. Government provides significant services ranging from Medicare to job training funding. While these are non-traditional entrepreneurial development opportunities, for some communities they are foundational.

In a community-centered and opportunity-focused development approach, embracing all entrepreneurial development opportunities can be important for optimal impact.

eTalent Attributes. Entrepreneurial talent, when energized through smart and robust entrepreneurial ecosystems, do more than create more successful ventures, they also grow an entrepreneurial culture that can be transformative for communities both now and well into the future. Consider the following

five key attributes of entrepreneurs (there are more but these five we believe are the most influential in growing an entrepreneurial community culture).

Opportunity Focused. Every problem, challenge and issue can be reframed as a solution or opportunity. One of the key attributes of successful entrepreneurs is their ability to perceive opportunities that might fit their capacity to address and capitalize. Having a cluster of opportunity focused entrepreneurs in your community is a powerful force particularly with respect to change which is often framed as weaknesses and threats. The ability to reframe weaknesses as opportunities is empowering creating positive energy in organizations, businesses, and entire communities.

Team Builders. Successful entrepreneurs, particularly those with growth aspirations, learn early on that team building is foundational to success. One of the glass ceilings holding many promising entrepreneurs back is their inability to “let go” and empower the teams necessary for scale up and larger success. Again, having entrepreneurs in your community who are great at the art and science of team building is an amazing asset and resource. These team building skills can carry beyond the venture and help communities get better at team building for community betterment.

Resource Mobilizers. We can live in a world of perceived scarcity or abundance. At any given point in time we often lack enough resources (e.g., talent, money, facilities, etc.) to move to the next level. The third core attribute of successful entrepreneurs is their ability to mobilize resources. Resource mobilization is central to enabling growth. Rural communities, even very distressed rural communities, have more resource capacity than they perceive. Communities, through their entrepreneurial ecosystems, can reduce barriers in this space. By growing ecosystems where access to capital, talent, facilities, etc. are enabled more readily and cheaply through the community’s entrepreneurial ecosystem, we can facilitate resource mobilization.

Problem Solvers. Doing something special, whether growing a community healthcare system, a remarkable competitive venture or a landscape that is walkable contributing to resident health, always encounters problems. Successful entrepreneurs become very adept at problem solving. Despite all the challenges, problem-solving entrepreneurs find ways to resolve these challenges so they can move on and grow. In distressed communities with many challenges having a cluster of problem-solving entrepreneurs can enable this kind of behavior across a community.

Positive. Successful entrepreneurs tend to be optimists. Sometimes this optimism can cloud better judgement and create problems and even failure. Nevertheless, for many rural communities that have been challenged and even in decline for decades, entrepreneurial positive thinking is an antidote for overcoming a culture of negativity and hopelessness. A culture of failure is well established in the sporting world. Often times, despite relative talent, the difference between winning and losing is the culture of success or failure. Developing a culture of hope and success can be energized by a community’s entrepreneurs.

When these entrepreneurial behaviors are in action they not only create more and better ventures in your community, they also can support community building and evolve an entrepreneurial culture that embraces and practices these attributes in daily work and life.

Great Recession

Toward the end of the Great Recession (2007-2009), e2 completed national analysis employing the YourEconomy database (www.youreconomy.org). This analysis speaks to the role entrepreneurship plays during a deep economic downturn but also to the underlying structural changes with larger employers (e.g., outsourcing, offshoring, automation, etc.).

- Challenged 2000's:
 - 6.7 million jobs destroyed
 - \$500 billion dollar sales contraction
 - BUT... 6.4 million more businesses
- Impacts by Venture Size:
 - Largest employers shed 9.5 million jobs or 99,000 jobs per month on average
 - Smallest employers created 8.8 million net new jobs or 92,000 jobs per month
 - Self-employment grew by 93%

As large and medium-sized ventures shed jobs and contracted, two countertrends picked up steam during and following the Great Recession. First, the smallest ventures (i.e., Stage 1 or 2-9 jobs and Stage 2 or 10-99 employees) actually expanded. Second, as wage and salary jobs were destroyed, unemployed persons embraced self-employment and entrepreneurship as a necessity play. Some of these necessity entrepreneurs (we cannot estimate the total number) remained as entrepreneurs as the Great Recession Recovery (beginning slowly in 2010) began creating more wage and salary jobs. Bottom line, entrepreneurship serves as a kind of “shock absorber” during deep economic contractions by providing shorter-term economic opportunities for displaced wage and salary workers and longer-term, more Americans playing in the entrepreneurship space.

Successful entrepreneurs also bring value to communities in many ways. Consider our favorite top-four contributions of entrepreneurs in rural communities.

Rooted Ventures. Unlike “footloose” industries and businesses, these entrepreneurial ventures tend to be rooted. The entrepreneurs behind these ventures make a location decision that goes beyond a business location but also a commitment to a place where one wants to live, work and play. Family and friend connections become important. Communities that have rooted ventures are less vulnerable to footloose industries and jobs. Additionally, where communities have a growing number of rooted small corporations, additional benefits are generated including wealth creation, increasing rooted wealth, expanded community philanthropy, leadership, volunteers, and broader local tax bases. Check out our paper, [Rooted Corporations: Growing an Entrepreneurial Economy](#).

Much of rural America that benefitted from the great industrial migration (urban to rural) beginning with World War II into the early 1980s ultimately became overly dependent on what evolved into footloose industries. Decisions about these businesses are made in corporate centers nationally and internationally, not locally. Even successful local plants or business centers may be downsized or relocated based on optimal capital use by these corporations. As these industries continued to move, and often to offshore locations, rural communities and regions were adversely impacted.

Footloose Jobs & Urbanization

For more information on footloose jobs and industries, check out [Footloose Jobs & Urbanization](#), a policy brief by the **Center for Business and Economic Research** at Ball State University. Focusing on the University's home state of Indiana and national analysis, three important conclusions were reached:

1. Clear decline in the number of footloose jobs.
2. Growth of more than 90 million non-footloose jobs.
3. Employment growth confined exclusively to larger urban counties, with significant job losses in rural and mid-sized towns.

Wealth Creation, Rooted Wealth and Community Philanthropy. Entrepreneurial ventures are often rooted with local and area ownership. There is a powerful connection between fostering entrepreneurship, the creation of both personal and community wealth, and an increased opportunity for community philanthropy. Check out our November 2019 paper, [Entrepreneurship and Community Philanthropy](#). When we connect economic development with community betterment and resident wellbeing goals, then rooted wealth creation is foundational. Communities with rooted personal (i.e., estate wealth) and community wealth (e.g., place-based foundations) have better outcomes and increased development opportunity and resiliency.

Does Local Firm Ownership Matter?

Stephen Goetz and David Fleming with the Northeast Regional Center for Rural Development (Penn State - Pennsylvania State University) have published a number of research and analysis papers titled **Does Local Ownership Matter?** (2010 & 2011). The bottom line from this work is: "Resident-owned small firms, with 10-99 workers, have a statistically significant and relatively large positive effect on income growth, regardless of the county's size or whether it is rural or urban."

In her thought paper, **Business Ownership Will Close the Wealth Gap** (2016), author Claudia Viek, then CEO of the California Association for Enterprise Opportunity, makes the case that smaller scale entrepreneurial venture ownership is a pathway that can help women, minorities and other groups with less wealth compared to white males and can close the wealth gap.

Community Leadership, Volunteers and Community Engagement. Rooted entrepreneurs, their workers, and families (i.e., entrepreneurial clans) live in their host communities and areas. Often times these ventures are rooted and there is a strong connection between community wellbeing and venture wellbeing. These entrepreneurial clans care about their hometowns. They want great schools, exceptional recreational opportunities, good cafes, brew pubs and broadband services. There is a strong connection between rooted ventures and increased participation in the community through engagement, community philanthropy, leadership (e.g., running for office, serving on boards, etc.) and volunteerism.

Entrepreneurial Clans

While we are not sure this is the right term, we are coining the term "entrepreneurial clans" to represent a cluster of people closely associated with entrepreneurial ventures including the entrepreneurs, their workers, and families. These clan members typically have strong attachment to their hometowns and areas. They are more likely to become actively engaged in community

betterment activities. When entrepreneurial ventures thrive, there is often an increase in both higher-level leadership and philanthropy as the entrepreneurs have the freedom to engage in community building activities (e.g., larger venture teams allowing both entrepreneurs and their workers to take work time to engage in the community).

Economic Development is Generated. Entrepreneur-based economic development also generates desired economic development outcomes:

- Investment
- Increased Economic Activity
- Job and Career Creation
- Local Tax Base Expansion

Communities with high levels of entrepreneurial activities clearly create economic development outcomes. This is particularly true for smaller rural communities where other economic development options are less viable. Our pending case study, *Ord, An Entrepreneurial Community*, and our case study on NetWork Kansas, [Creating Entrepreneurial Communities in Kansas](#), provide compelling evidence of the “economic development differential” when entrepreneurial communities are compared with similar, but non-entrepreneurial economies.

Less Dependence on Abatements and Incentives

Compared to traditional larger-scale business attraction and industrial recruitment, entrepreneur-led development typically uses less community and state financed abatements and incentives. For rural communities, this reality is very important. The scale of development is more measured (e.g., smaller investments and job creation over time) generally not qualifying for abatement programs. Communities with smaller economic development “war chests” face less fiscal strain to foster development. Because rooted entrepreneurial ventures are less footloose, there is also less risk of losing development over time. One concern communities should consider is being smart about tax increment financing (TIF) and forgivable loans that can create the same kinds of tax base losses and fiscal stress even with smaller ventures.

Now that we have explored the primary asset (eTalent) central to entrepreneur-led economic development, let us next consider how entrepreneurship better fits the scale of rural communities.

2. Entrepreneurship Fits Rural Scale

In America, every community is vested with its own development and prosperity. That means communities like Chicago (with massive capacity and opportunity) and my hometown of Mullen, Nebraska (population 459 in 2017 with far less capacity and opportunity) must find their own ways forward to prosperity. Scale matters and in today’s global environment larger places with greater capacity and opportunities have clear advantages over smaller and more rural places. Many economic development strategies simply are not viable for most rural communities that are possible in larger communities. Here are three examples...

1. Business attraction requires scale and capacity. Smaller and more isolated communities do not have the workforce, infrastructure, and development tools to be in the recruitment game.

2. Business retention and expansion is an important development strategy. But for it to be viable your community or area has to have larger employers (e.g., Stage 3 ventures – 100 to 499 employees or Stage 4 – 500+ employees). While smaller ventures employing 15 to 100 workers can benefit from this strategy, the absence of larger employers in most rural communities minimizes this strategy's potential.
3. Large-scale development projects like malls, housing subdivisions, business parks, healthcare complexes, entertainment complexes and the like require both larger markets and private/public capacity to development them. While these kinds of larger development projects are possible and do happen in rural communities, the opportunities are more limited.

So, it is essential to find economic development strategies that better fit the scale, capacity, and opportunities of rural communities. Entrepreneur-based development fits all scales of communities and may represent the best strategy for rural communities even including micropolitan and rural-based small metropolitan cities.

Economic development outcomes from entrepreneur-led development are incremental. Each year entrepreneurial ventures make new investments and hire some employees adding modest pressure on a rural community's ability to accommodate growth (e.g., housing, schools, childcare, etc.). As entrepreneurial ventures grow, other entrepreneurial ventures build capacity to expand housing, childcare and other essentials to support work and population growth. Because entrepreneurial development typically does not require large tax abatements, local tax bases expand with this kind of growth, enabling cities, counties, and school districts to grow accommodating economic and population growth.

Entrepreneurial Ecosystems Make a Difference

Central to becoming a more successful entrepreneurial community is growing a smart and robust entrepreneurial ecosystem (e.g., aligned with the needs and opportunities of local entrepreneurial talent). Entrepreneurial ecosystem building fits rural scale and capacity. Check out our paper [Entrepreneurial Ecosystem Building 101 – Lessons from Northwestern Missouri](#) and our more in-depth paper [Entrepreneurial Ecosystem Building in Rural America, Four Decades of Learning](#), outlining the design elements of entrepreneurial ecosystems for more information. Our **Assessments to Strategy Guide** provides even more comprehensive information on entrepreneurial ecosystems.

Just as entrepreneur-led development better fits the scale of rural communities, it also lends itself to scalability.

3. Entrepreneurship is Scalable and More Cost Effective

Typically, rural communities and many urban neighborhoods do not have the scale or the capacity to undertake multiple development efforts at the same time. Less populated communities with smaller key organizations (e.g., municipalities, counties, development corporations, chambers, etc.) simply must be smarter in where to engage in development given their capacity. Over time, more capacity can be grown creating greater opportunities to pursue additional development opportunities.

It is for this reason that **scalability** is so important. Large-scale projects (e.g., attraction of a large industry for example) require communities to rapidly scale up their capacity and infrastructure (e.g., ranging from housing to schools to development spaces and the like). This can tax a smaller community and put it potentially at risk if the development proves to be footloose or fails. Entrepreneur-led

development is more incremental. Using Tom Lyon's baseball analogy, with entrepreneurship there are more singles, base stealing, bunts and the like that generate lots of small wins over time. For a community of 5,000 residents, there is a huge difference between one development project quickly creating 500 jobs compared to 50 entrepreneurial ventures growing, each creating ten more jobs over a five to 10-year period.

Based on a community's capacity, development can start small focusing on entrepreneurship and downtown revitalization. This entry point allows the community to effectively focus its development capacity on one opportunity, learn how to work with entrepreneurs more effectively and demonstrate benefits to the community more quickly. With early success, there is a case to be made for the community to invest more in its entrepreneurship strategy, building capacity to focus on more opportunity areas such as tourism, growth-orientated entrepreneurs, farm-to-table agriculture, and the list goes on. Check out our paper, [Likely Entrepreneurial Development Opportunities for Rural Communities](#), for a more complete development opportunity set for rural communities.

By focusing on a smart entry point where there is strong community support and energy, and then building out your strategy to other opportunity areas, you can also grow your community's or area's entrepreneurial ecosystem. No need early on to develop entrepreneurial resources that your community does not need right now to support your focused strategy. But as you work with other entrepreneurial opportunities, you can expand your ecosystem to include resources relevant to those opportunities. This incremental and scalable approach is an inherent attribute of entrepreneur-focused development.

Now let us explore a bit more deeply the connection between community-centered economic development and how entrepreneurship enables community betterment and resident.

4. Entrepreneurship Enables Community-Centered Economic Development

If we embrace the idea that traditional economic development efforts create jobs, there would be multiplier and trickle-down effects contributing to community betterment and resident wellbeing. There is truth, based on past experience, that traditional economic development did create positive multiplier and trickle-down outcomes. However, just as with the macro U.S. economy, these historic relationships have become strained and we no longer can assume they will always be true, let alone robust. Let us explore two examples:

Walmart Comes to Town. You are a community of 4,000 residents and Walmart has decided to put a super store in your community. Assume your community even manages this attraction win without providing significant abatements to Walmart (unlikely, but possible based on corporate targeting). You assume that this win will be transformative for the better. There is a boost in your community's property tax base, there are increased sales tax revenues for the municipal government and there is even more traffic coming to town. Yet, there is no transition to a higher level of community prosperity. You might ask why. The answer is rooted in Walmart's business model that focuses on spending very little locally and being very efficient at extracting revenues from each store to the corporate level. The multiplier effects are much more limited when compared to locally owned main street stores. Finally, Walmart has probably driven a number of locally owned retail and service business out of business thus contracting your community business sector.

The Agriculture Economy is Booming. Ironically, during the Great Recession commodity agriculture (e.g., large scale production of corn, soybeans, cotton, and the like) was actually booming with record production, prices, and over-the-top net farm earnings. Across the country where commodity agriculture was king, we observed an interesting pattern. While booming agriculture did translate to stronger overall area and state economies in places like my home state of Nebraska; outmigration, depopulation and stress on communities continued. And while the benefits of a booming agriculture impacted producers, businesses allied with agriculture and did provide some boost to local communities, the spread of these benefits was relatively limited and insufficient to stop and change net population loss.

Entrepreneurship grows numerous ventures that are typically owned locally. Because of high rates of local ownership, there is strong civic and social concern about community betterment and resident wellbeing. Entrepreneurship, when undertaken within our [Rural Community Prosperity Development Framework](#), ensures greater intentionality around how a community invests in its own economic development contributing to a wider range of community and resident outcomes.

Based on e2's values an economy exists to serve society and its residents. Therefore, economic development should be intentional about not only growing an economy but growing an economy that directly contributes to community betterment and resident wellbeing.

Our next stop is our final point focusing on the transformative change potential of entrepreneur-led development.

5. Entrepreneurship Can Be Transformative

In economic development our goal be should exceptional communities that offer both economic opportunity and high quality of life amenities. We now have strong documentary evidence that entrepreneur-led development can be transformative, e.g., moving a community from distress to higher levels of prosperity. While transformative change does not occur quickly, it can move a community to greater vitality within a decade or less based on our work with selected communities across America.

Tupelo, Mississippi to Ord, Nebraska

In 1999 when author Vaughn L. Grisham, Jr. and the Kettering Foundation published *Tupelo, The Evolution of a Community*, an entire generation of community economic developers, leaders and policymakers were inspired that even the most distressed communities can realize transformative change. As some leaders in Tupelo, Mississippi embraced the idea that African American residents were a development asset and not a threat, Tupelo moved from one of the poorest and most distressed communities in America to one of the best performing.

The transformative change in Ord, Nebraska is comparable to the Tupelo story. The more we capture and document the Ord and Valley County Region story we are convinced that transformative change is happening. We are learning the formula and the ingredients essential for rural community transformation through entrepreneurship. Stay tuned for our story, *Ord, An Entrepreneurial Community* (expected fall 2020).

Like raising a child or creating a great business or organization, time and dedication are required to grow an entrepreneurial economy where transformative community change becomes possible. In these times where we can feel so much is out of our community's control e.g., international and national mega

trends (read [Mega Trends Influencing the Future of America's Rural Communities](#)), one of the attributes of entrepreneur-led development is so much of it is within our control. Our communities have entrepreneurial talent to be developed, entrepreneurial resources available to support such development and the overall cost (relative to attraction-based economic development) is much less than traditional development.

Conclusion

Each and every community exploring entrepreneur-focused economic development must answer the question of **Why Entrepreneurship?** Those advocating for entrepreneurship must **Make the Case for Entrepreneurship** to development stakeholder groups, community leaders and residents. It is our hope that this paper provides both a framework and useful content for making the case for entrepreneurship.

In this paper we addressed the case from two lenses. First, we explored the need for entrepreneur-led development. We outlined how conventional or traditional economic development is no longer the optimal development strategy, particularly for most rural communities and regions. Then we focused on the opportunities associated with entrepreneur-focused development.

We want to hear from you. Do share by sending your perspectives and resources to Don Macke at don@e2mail.org.

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Kansas and Nebraska Users. Nebraska and Kansas have played an extraordinary role in evolving our e2 development framework. Access to e2 University resources is available free of charge to end users through [NetWork Kansas](#) and Nebraska Extension in Nebraska.

A Condition for Access and Use of e2 University Resources

In all cases e2 asks users to execute a **use agreement**. As part of this agreement, we require a commitment from you to share your learning back with e2. We need user feedback to continue our learning so that e2 can support entrepreneurship ecosystem building and future resources for users yet to come.

Additional Help

Don Macke is not currently accepting new advising and consulting work. However, based on scheduling availability, Don is willing to do an exploratory call to better understand your needs and expectations, and recommend pathways forward. Contact him at don@e2mail.org.

How e2 Can Help



e2 Entrepreneurial Ecosystems helps communities increase prosperity through entrepreneur-focused economic development and ecosystem building. Led by [Don Macke](#), e2 has a national team of practitioners who bring research, coaching, incubation, market intelligence and other expertise to this work.

What We Do

- ✓ **Mentoring.** We mentor and coach new practitioners seeking to pursue entrepreneur-led development. We provide advice and support for building eEcosystem strategies that work.
- ✓ **Analytics Support.** e2 helps communities and regions understand their entrepreneurial potential through research and data. Explore some of our research tools and reports [here](#).
- ✓ **e2 University (e2U)** is our platform for sharing guides, papers, stories, tools, and resources with communities wanting a deep dive into eEcosystem building. Don Macke leads the e2U team with analytics support from **Cathy Kottwitz** and report preparation from **Ann Chaffin**. Special recognition for their e2U legacy contributions goes to **Dana Williams** and **Deb Markley**, LOCUS Impacting Investing.
- ✓ **Fostering the eMovement.** We support the national entrepreneurship movement along with our partners including the **Federal Reserve Bank of Kansas City**, **SourceLink**, **Edward Lowe Foundation**, **Kauffman Foundation**, and **NetWork Kansas**. We are a founding member of [Start Us Up: America's New Business Plan](#), a coalition dedicated to strengthening entrepreneurship across America. Together, we continue to advance the foundational ideas of building entrepreneurial ecosystems and entrepreneurship-led economic development.

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[NetWork Kansas](#), a 501c3 nonprofit organization dedicated to developing an entrepreneurial ecosystem in Kansas, is the home for e2 Entrepreneurial Ecosystems. NetWork Kansas connects aspiring entrepreneurs, emerging and established businesses, to a deep network of business building resource organizations across the state.

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