



# **Entrepreneurship and Community Philanthropy**

November 2019

## Background and Introduction

For many the title of this paper may seem odd. What does community philanthropy and entrepreneurship have in common?

**e2 Entrepreneurial Ecosystems**, an initiative of NetWork Kansas, is the continuation of [pioneering work](#) by the national Center for Rural Entrepreneurship. At its core, the Center for Rural Entrepreneurship had two lines of business – entrepreneurship and community philanthropy.

Years of extensive work in both fields demonstrated the strong and powerful linkage leading to e2's current thesis that every community and region in North America can build their community development strategy to include both entrepreneur-led development and community philanthropy.

## Community Prosperity Change Model

America, always the land of opportunity has drawn people from across the globe... millions of new residents from Europe, Asia, Africa and the Americas. During and following World War II, the United States was among a few countries that were stronger. During the war we rapidly developed our industrial, economic, government and societal foundations. For the ensuing decades all the way into the 1980s we took prosperity for granted. But since the 1970s real earnings by the Middle Class have stagnated and poverty continues to remain. Upward mobility when compared to other countries has eroded in the United States over the past four decades. Even in prosperous communities like my current hometown of Lincoln, Nebraska nearly 50% of our children are food insecure.

In e2's **Community Prosperity Development Framework** we challenge every community and region to aspire for greater and more broadly shared community prosperity. How can we create economies and communities where every resident has meaningful pathways to greater personal prosperity--not just the size of residents' estates, but a sense of belonging and where meaningful work is possible?

**Community Prosperity Defined.** Every community should aspire to being prosperous. Our operational definition of community prosperity includes certain critical attributes such as:

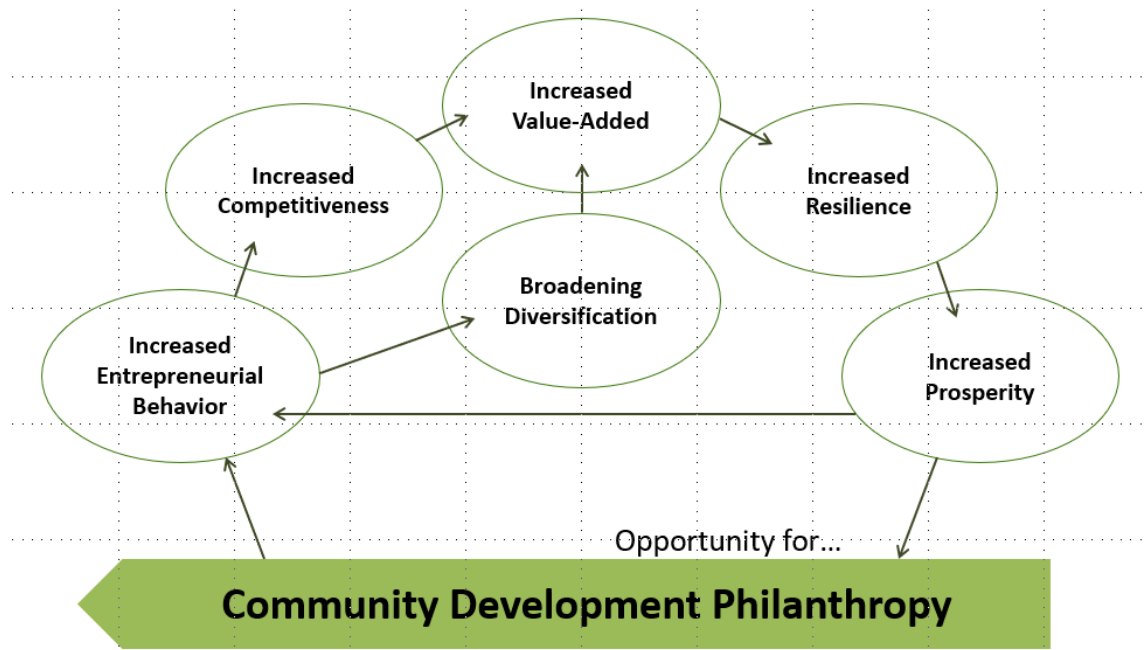
**Robust – Sustainable – Widely Shared – Opportunities for Mobility – Inclusive**

Community prosperity can be measured but it is also like art or a beautiful sun rise...you feel it when you experience it.



These two communities are just a short drive from each other. The first picture conveys a powerful image of a distressed community. Run down building, no activity and the kind of street where you are unlikely to stop and get out of your car. The second picture also conveys a powerful image of a place where you want to stop, walk around and maybe even live there. There are all sorts of metrics we can use to measure community and resident prosperity. But images like these two create a deeper meaning of community vibrancy.

The following illustration provides e2's **Community Prosperity Change Model** or theory:



Our communities exist in an increasingly competitive and inter-connected global market economy and society. Traditional industries like agriculture, manufacturing, energy and the like continue to be very important today. But often these legacy industries can no longer ensure robust and sustained community prosperity.

If the goal is increased community prosperity, then e2 would suggest the stimulus is increasing entrepreneurial behavior in communities and regions. When entrepreneurial behavior is grown among business, civic and social entrepreneurs, a sequence of very important outcomes occur with increased impact over time:

***Increasing Competitiveness – Broadening Diversity – Rising Value-Added***

When increasing competitiveness, broadening diversification and rising value-added within economies and societies combine, community resiliency deepens. In today’s dynamic economic and climate environment, resiliency is foundational to sustained community prosperity.

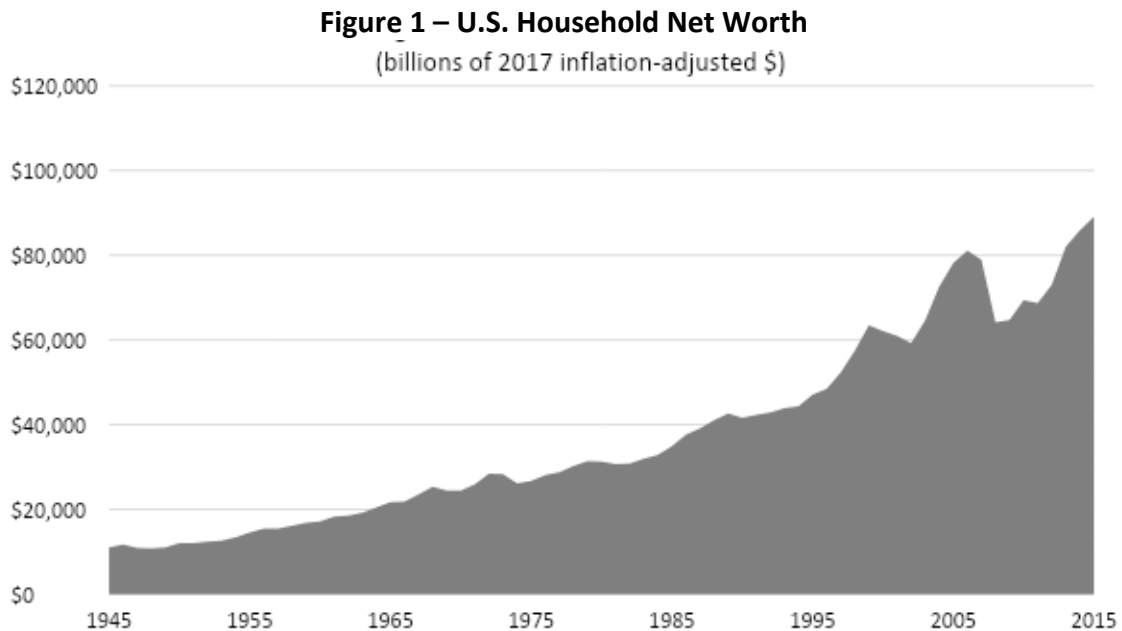
**Resiliency Defined.** Resiliency is the ability of a person, family, organization, community or environment to respond and recover when it is seriously stressed due to an economic recession or climate event like a tornado or wildfire. Serious damage is done, but the ability to recover is embedded in resiliency. Resilient people, organizations and communities typically come back stronger and better when stressed.

Prosperous communities create wealth in the form of leadership, organizations, foundations, tax bases and the personal wealth of residents. When wealth is created there is the opportunity for forward giving. There is a powerful “potential” connection between successful local entrepreneurs, philanthropy and the ability to secure robust and sustainable funding for entrepreneur-led development and entrepreneurial ecosystem building.

## The Entrepreneur Connection – Wealth Creators and Donors

America has a long and rich history of entrepreneurship. Entrepreneurs use innovative technologies and ideas to create commercial opportunities that generate and create wealth for themselves, their investors, employees and communities. This creative process is replicated in communities large and small across the United States.

The following graph illustrates U.S. household current net worth (i.e., assets less liabilities) from 1945 to 2015.



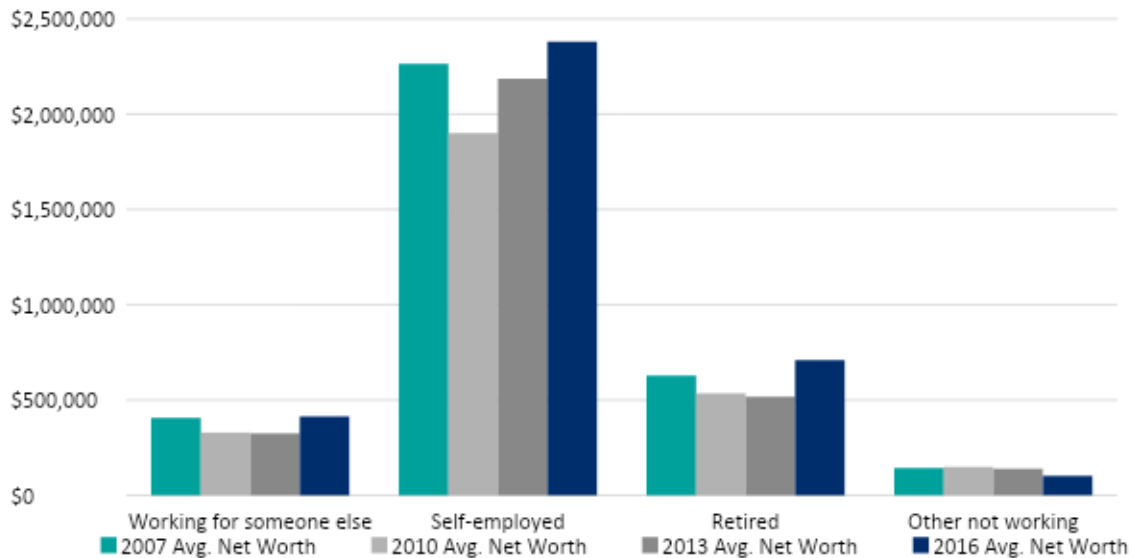
Source: *Financial Accounts of the United States*, Table B.1 – Derivation of U.S. Net Worth. Washington, D.C.: Board of Governors of the Federal Reserve System. Third Quarter, 2017.

Household wealth is created in many ways from hard working professionals to those with assets that generate returns (e.g., leased farm ground, rental prosperities, stocks, etc.) to business ownership. According the Federal Reserve’s *Survey of Consumer Finance* periodic survey, **the single greatest pathway today to personal wealth is through entrepreneurship.**

The graph on the next page highlights the average net worth by work status. Compared to those working for someone else and even retired, “self-employment” or

entrepreneurship is significantly higher. On average, entrepreneurs have personal net worth of nearly \$2.5 million. This places entrepreneurs in the top 5% of American households by wealth.

**Figure 2 – Average Net Worth by Work Status**



Source: *Survey of Consumer Finance*

The potential connections are significant...

1. We have successful entrepreneurial families in every community across America.
2. These families have significant wealth capacity.
3. Very often they are rooted and love their hometowns.
4. They represent potential endowment donors and impact investors.
5. Their passion is entrepreneurship and they often care about supporting newer generations of entrepreneurs.

### **Hypothetical Community Scenarios**

What if...we focus on a micropolitan area community with 25,000 residents in America's heartland. Over the years there have been hundreds of successful entrepreneurial families. They are engaged and committed to their communities. Chances are good these families have supported community philanthropic activities like their church, favorite nonprofits and their community foundation.

What if twenty-five of these entrepreneurial families were asked to come together to capitalize a fund within their community foundation to support entrepreneur-led

development and ecosystem building? Say each of these families commits to contributing \$50,000 over five years to start this fund thus creating \$250,000 per year or \$1.25 million over five years. Say 50% of these funds or \$625,000 (e.g., \$125,000 per year) was made available to support this work and the balance was placed in a dedicated endowment. \$125,000 could capitalize an important start to a very robust entrepreneurship strategy leveraging other funding from government, education and regional development organizations.

At the end of five years the “entrepreneurship endowment” would have over \$660,490 capable of generating nearly \$30,000 per year, and it would be forever inflation protected. Over a generation, even without further contributions, this endowment would grow to over \$1 million and have generated over \$800,000 in initiative support.

**Figure 3 – Entrepreneurship Endowment Illustration**

Year	New Gifts	Return	Payout	Fund Balance
1	\$125,000	\$8,750	\$5,625	\$128,125
2	\$125,000	\$8,969	\$5,766	\$256,328
3	\$125,000	\$17,943	\$11,535	\$387,736
4	\$125,000	\$27,142	\$17,448	\$522,430
5	\$125,000	\$36,570	\$23,509	\$660,490
6	\$0	\$46,234	\$29,722	\$677,003
7	\$0	\$47,390	\$30,465	\$693,928
8	\$0	\$48,575	\$31,227	\$711,276
9	\$0	\$49,789	\$32,007	\$729,058
10	\$0	\$51,034	\$32,808	\$747,284
11	\$0	\$52,310	\$33,628	\$765,966
12	\$0	\$53,618	\$34,468	\$785,116
13	\$0	\$54,958	\$35,330	\$804,744
14	\$0	\$56,332	\$36,213	\$824,862
15	\$0	\$57,740	\$37,119	\$845,484
16	\$0	\$59,184	\$38,047	\$866,621
17	\$0	\$60,663	\$38,998	\$888,286
18	\$0	\$62,180	\$39,973	\$910,493
19	\$0	\$63,735	\$40,972	\$933,256
20	\$0	\$65,328	\$41,997	\$956,587
21	\$0	\$66,961	\$43,046	\$980,502
22	\$0	\$68,635	\$44,123	\$1,005,014
23	\$0	\$70,351	\$45,226	\$1,030,140
24	\$0	\$72,110	\$46,356	\$1,055,893
25	\$0	\$73,913	\$47,515	\$1,082,291
<b>Cumulative Payout</b>			<b>\$823,123</b>	



Of course, through close collaboration with this community’s foundation and business families, additional gifts would be made. Once a donor has given to a capital campaign and evidence of impact is demonstrated, many donors will provide for larger gifts as part of their estate plans. Our second scenario illustrates what is possible when this dynamic occurs over time:

**Figure 4 – Revised Entrepreneurship Endowment Illustration**

Year	New Gifts	Return	Payout	Fund Balance
1	\$125,000	\$8,750	\$5,625	\$128,125
2	\$125,000	\$8,969	\$5,766	\$256,328
3	\$125,000	\$17,943	\$11,535	\$387,736
4	\$125,000	\$27,142	\$17,448	\$522,430
5	\$125,000	\$36,570	\$23,509	\$660,490
6	\$1,000,000	\$46,234	\$29,722	\$1,677,003
7	\$0	\$117,390	\$75,465	\$1,718,928
8	\$0	\$120,325	\$77,352	\$1,761,901
9	\$1,500,000	\$123,333	\$79,286	\$3,305,949
10	\$0	\$231,416	\$148,768	\$3,388,597
11	\$0	\$237,202	\$152,487	\$3,473,312
12	\$750,000	\$243,132	\$156,299	\$4,310,145
13	\$0	\$301,710	\$193,957	\$4,417,899
14	\$0	\$309,253	\$198,805	\$4,528,346
15	\$250,000	\$316,984	\$203,776	\$4,891,555
16	\$0	\$342,409	\$220,120	\$5,013,844
17	\$100,000	\$350,969	\$225,623	\$5,239,190
18	\$0	\$366,743	\$235,764	\$5,370,169
19	\$3,000,000	\$375,912	\$241,658	\$8,504,424
20	\$0	\$595,310	\$382,699	\$8,717,034
21	\$0	\$610,192	\$392,267	\$8,934,960
22	\$1,500,000	\$625,447	\$402,073	\$10,658,334
23	\$0	\$746,083	\$479,625	\$10,924,792
24	\$200,000	\$764,735	\$491,616	\$11,397,912
25	\$0	\$797,854	\$512,906	\$11,682,860
<b>Cumulative Payout</b>			<b>\$4,964,148</b>	

*These two scenarios assume an average annual growth rate of 7% and an average annual payout rate of 4.5%.*

With just eight estate gifts the overall endowment grows to nearly \$12 million generating nearly \$5 million in payout over the generational period of 25 years. The annual sustainable support to this community’s entrepreneurship initiative grows from about \$24,000 in year five to over one-half million per year by year 25.





## Power of Entrepreneurial Ecosystem Building



Andy Stoll, Senior Program Officer, Entrepreneurship, [Ewing Marion Kauffman Foundation](#) is known to say, *“Entrepreneurial talent is universal. Entrepreneurial ecosystems are not.”*

Andy’s observation is spot on in our opinion. The same can be said for students and educational systems, talented artists and the list goes on. A collection of resources and programs is not sufficient to empower transformative change. Ecosystems create dynamic and healthy environments that can stimulate more entrepreneurial behavior and grow a pipeline of success entrepreneurs. But high impact ecosystems don’t just happen. They must be grown requiring serious commitment and investment.

## The Entrepreneurial Ecosystem Challenge

For the past four years the Ewing Marion Kauffman Foundation has hosted a national conversation in Kansas City, Missouri focused on entrepreneurial ecosystem building. Victor Hwang with the Foundation and in his book series, [The Rainforest](#), makes the case for entrepreneurial ecosystems. If we want to growth entrepreneurial people, communities, regions and nations – we must invest in ecosystem building. These national conversations not only identify paths forward in building stronger and more vibrant entrepreneurial ecosystems but point out key challenges.

One of the greatest challenges facing ecosystem building and more dynamic and prosperous communities, is the lack of funding for ecosystem builders and building. Often there is funding for programs, resources and capital. But finding robust and reliable funding for ecosystem building has proven very challenging based on the findings of the Kauffman summits and our own e2 work across North America.

**Ecosystem building takes staffing and patient and sustained funding.  
e2 believes community philanthropy is an answer.**

## Additional Resources

### [A New Domain for Place-Rooted Foundations: Economic Development Philanthropy](#)

This paper originally appeared in the September 2016 *The Foundation Review* special issue, "The Future of Community," and was co-authored by the Center for Rural Entrepreneurship's Deborah Markley and Don Macke and the Aspen Institute's Janet Topolsky, Travis Green and Kristin Feierabend. In it they assert that economic development philanthropy is a new domain for place-rooted foundations and that foundations have an important role to play in this development. They also provide insights into what it will take to build a movement of place-rooted foundations to embrace social entrepreneurship and advance an economy that works.

### [Entrepreneurship and Community Development: What Matters and Why?](#)

An essay written by Thomas S. Lyons for *Community Development*.

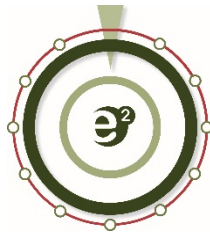
### [Kauffman Playbook 3.0](#)

The Kauffman Foundation's guide to entrepreneurial ecosystem building.

### **Philanthropy and Community Building in the 21st Century (5-part series):**

Don Macke shares his perspectives from the field in this article series written in 2017 for the Center for Rural Entrepreneurship newsletter:

1. [Intro](#)
2. [America's Transfer of Wealth Opportunity](#)
3. [Entrepreneurs and American Wealth](#)
4. [Realizing Broadly Shared Prosperity in America](#)
5. [Wealth Trends and Implications for Philanthropy](#)



## How e2 Can Help

**e2 Entrepreneurial Ecosystems** can help communities increase prosperity through entrepreneur-focused economic development and ecosystem building through:

- **Mentoring.** We mentor and coach new practitioners seeking to pursue entrepreneur-led development. We provide advice and support for building entrepreneurial ecosystem strategies that work.
- **Analytics Support.** E2 helps communities and regions understand their entrepreneurial potential through research. Please view a sampling of our research tools at: <https://www.energizingentrepreneurs.org/solutions/start.html>
- **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.** Together, we continue to advance the foundational ideas of building entrepreneurial ecosystems and entrepreneurship-led economic development.

**Our emerging vision includes the following solutions:**

- **e2 Institutes.** Explore our new generation of e2 Institutes where teams come together, learn from each other and explore the expanded world of strategies, tactics and resources needed in entrepreneurial ecosystem development work.
- **National e2 Resource Network.** e2 offers a resource network capable of connecting those seeking help with those who can help across North America.

**e2 Entrepreneurial Ecosystems** (formerly the Center for Rural Entrepreneurship) is led by Don Macke, who has more than 40 years of community economic development and policy experience. We have a national team of practitioners, both inside and outside e2, who bring research, coaching, incubation, market intelligence and other expertise to this work.

## Questions & More Information



Don Macke

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The mission of **e2 Entrepreneurial Ecosystems** is to help communities and regions connect, learn, and share best practices for building sustainable entrepreneurial ecosystems across North America. With more than 25 years of field experience, particularly in rural America, e2 is the preferred resource for communities of all sizes wanting to pursue prosperity.

For tools and resources, visit our online library at  
<https://www.energizingentrepreneurs.org/library/>.

To learn more about e2, go to [www.energizingentrepreneurs.org](http://www.energizingentrepreneurs.org).

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