

Spurring Entrepreneurship: Roles for Local Elected Leaders

Nancy Stark

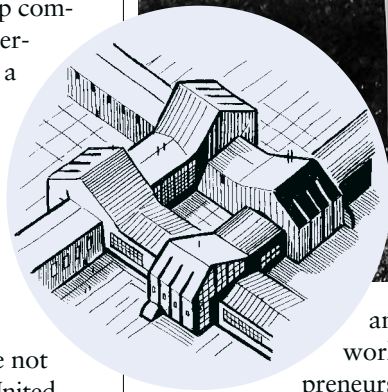
According to business economist David Birch, every community loses 7 to 8 percent of its jobs each year from a combination of bankruptcy, death, acquisition, and other causes. About 55 percent of all new jobs arise from expansions of existing businesses. Only 1 percent of net new jobs occur as a result of business relocations. As a result, approximately 44 percent of new jobs are created by start-up companies, usually one-person undertakings that begin with zero or a handful of employees and—if things go well—grow into larger, successful enterprises.

Recent research shows that entrepreneurial activity is strongly associated with overall economic growth in a community or a region. However, the benefits of entrepreneurship are not evenly spread throughout the United States. Compared with urban and suburban areas, rural communities and distressed inner-city neighborhoods are home to fewer and less-successful entrepreneurial ventures.

According to the Center for Rural Entrepreneurship, there are four primary obstacles to creation of new businesses in rural places:

- A rural culture that does not support entrepreneurship
- Distance to markets, service providers, and other entrepreneurs
- A limited number of entrepreneurs to act as role models, to mentor others,

The author is director of the Rural Governance Initiative, a joint undertaking of the Rural Policy Research Institute (RUPRI) and the Corporation for Enterprise Development (CFED). Contact her at nancy@cfed.org.



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and to build networks among entrepreneurs

- Difficulty in acquiring business financing, especially venture or equity capital

Local government officials can help reduce or remove these obstacles to rural entrepreneurship. In collaboration with others—local schools and community colleges, regional development organizations, chambers of commerce, local banks, service clubs, government agencies, and neighboring communities—local leaders can build a supportive environment for entrepreneurs.

To help spawn and support new businesses, elected officials (and partners) might do the following:

- Assess the needs of current and potential entrepreneurs through site visits, surveys, and focus groups
- Scout for entrepreneurial opportunities arising from spin-offs from

Small businesses like Cinelli's Pizzeria and Restaurant are important to a community's economy. Cinelli's just opened in a fifth location in the Research Triangle region.

existing businesses or joint ventures among local firms

- Act as nurturers and conveners, helping new firms form networks and learn from one another
- Build training in entrepreneurial skills into the region's workforce development program
- Serve as brokers of resources for business assistance, so that entrepreneurs become knowledgeable about the programs and the services available to them
- Encourage local lenders to offer financing to small businesses, to aid the community and to strengthen their own Community Reinvestment Act rating

North Carolina's Institute for Rural Entrepreneurship

North Carolina is the envy of many other states for its rich infrastructure of support services for small businesses. Yet many current and aspiring entrepreneurs around North Carolina are unaware of the resources available, and those who are aware of them see needs for improvement, including more training, networking, and capital opportunities.

These findings, from twenty-two focus groups that the North Carolina Rural Economic Development Center sponsored last year, were one impetus for its decision to create the Institute for Rural Entrepreneurship in October 2003.

Another impetus was the realization that, since the 1980s, small businesses have been creating nearly all the *net* new jobs in America's national and state economies. For example, between 1998 and 2002, businesses with 250 or more employees eliminated 43,000 more jobs than they created in rural North Carolina, while businesses with fewer than 50 employees added nearly 27,000 more jobs than they eliminated.¹

The mission of the Institute for Rural Entrepreneurship is to help North Carolina's eighty-five rural counties create and sustain small and entrepreneurial businesses. The institute is pursuing its mission through the following activities:

- Facilitating the Business Resource Alliance, a coalition of more than thirty public and nonprofit organizations in North Carolina that provide direct services and training to entrepreneurs in both rural and urban areas.
- Developing and maintaining a 100-county database, which includes data (number, payroll, sales, receipts, etc.) on such variables as firms with few employees, firms owned by minorities and females, and farm enterprises.
- Administering, guiding, and monitoring community entrepreneurship demonstration grants (funded largely by the North Carolina Department of Commerce) in several rural communities that are using entrepreneurship as an economic development strategy.
- Designing and overseeing a collaborative program to assist displaced workers who may be interested in starting a business. The Department of Commerce funds training scholarships through the federal Workforce Investment Act, and thirteen Small Business Centers (operated by the North Carolina Community College System) provide assessment and recommend appropriate training.
- Conducting a statewide inventory of entrepreneurship training and education programs, with an eye to

increasing and improving those offerings over time in response to demand from entrepreneurs.

- Enabling e-commerce and promoting networking opportunities for entrepreneurs in rural areas, in partnership with the e-NC Authority's four current and four planned business and technology centers.² (For a list of the four current centers, see the sidebar on page 34.)
- Recognizing farmers as entrepreneurs and helping them innovate.
- Improving current and aspiring entrepreneurs' access to capital.
- Developing policy to support a strong state business climate for entrepreneurship.

Consistent with the historical strengths of the Rural Center, the institute's primary focus is on helping build the capacity of rural communities. In particular, it helps communities around the state understand and pursue entrepreneurship as an economic development strategy.

Volunteers affiliated with the Business Resource Alliance are currently working on two activities of high priority:

- Developing a seamless network of business service providers, with "no wrong door" for aspiring or existing entrepreneurs at any point in their development
- Developing policy statements for the North Carolina General Assembly about a more balanced portfolio of economic development investments for the state, including industry recruitment, services to existing industries, workforce development, and formation of new enterprises

For more information, visit www.ncruralcenter.org/ entrepreneurship, or contact Leslie Scott, director, Institute for Rural Entrepreneurship, (919) 250-4314, lscott@ncruralcenter.org.

—Leslie Scott

Notes

1. Using data from the North Carolina Employment Security Commission, the research staff of the North Carolina Rural Economic Development Center compiled these figures for the eighty-five rural counties in the state and presented them at the Rural Partners Forum in October 2003.

2. The e-NC Authority is "a grassroots initiative to encourage all North Carolina citizens to use technology, especially the Internet, to improve their quality of life and their economic prospects." For more information, see <http://e-nc.org>.

- Partner with nearby development organizations to create a revolving loan fund that will provide small loans (\$50,000 or less) at near-market rates to qualified businesses¹
- Serve on the board of a local or regional nonprofit organization that provides expert one-on-one assistance (for example, facilitation of enterprise) to potential entrepreneurs
- Simplify the local government's business licensing procedures, streamline rules and regulations, and make applications and instructions available electronically
- Develop a plan to attract "lone eagles"—successful professionals who are leaving congested regions and setting up business operations in smaller, slower-paced communities
- Incorporate entrepreneurship training into the local high school or community college curriculum, or into youth service clubs (for example, 4-H), to inspire an entrepreneurial spirit in the community's young citizens
- Publicly recognize local entrepreneurs for their role in stimulating local economic growth

- Develop a directory of all products and services offered by local start-up businesses, to generate demand among local consumers

The following sections explore several of these local leadership strategies in more detail.

1. Scout for entrepreneurial opportunities.

A common picture of entrepreneurship is individual firms sprouting in garages and basements, as Apple Computers did from Steve Jobs's solo efforts at home. But not all firms actually begin this way. Most new enterprises originate as spin-offs from existing businesses or from joint ventures among several firms that ultimately split into two or more free-standing companies. Compared with stand-alone start-up companies, spin-offs and split enterprises grow more rapidly and are more likely to survive.

Local leaders can promote creation of small businesses by scouting for and supporting budding opportunities among existing firms for new businesses, wherever they may sprout. Through a local business-visitation program, community leaders might learn about new ventures being considered by company managers and owners. Perhaps a group of existing firms wants to form a new line and now needs a separate operating facility, preferably in town. Maybe a home-based entrepreneur is looking for a small loan to expand her business and hire her first full-time employee.

2. Act as nurturers and conveners.

Marketing, management, and financing are probably the three cornerstones of profitable enterprises. Local economic development leaders need not be experts in these areas. Instead, they can act as nurturers, conveners, and resource brokers for entrepreneurs.

Perhaps the least expensive and most affirmative way in which communities can nurture entrepreneurs is to provide opportunities for them to network among themselves. Starting a new company from scratch or from an existing

enterprise can be extremely challenging and isolating. Especially for the home-based business owner, the days—and the nights—often are tiring and discouraging. Having an opportunity to meet with similarly situated people, even once a week, is tremendously encouraging and empowering.

For hundreds of communities, business incubators are providing this essential networking function, along with other useful services. "Incubators" usually are public or nonprofit facilities that offer shared services to start-up companies. Even without physical incubators, leaders can provide the networking function of an incubator by

hosting weekly forums for the region's entrepreneurs and by providing a place for them to gather. In addition to the psychological support derived from sharing

experiences with other business creators, entrepreneurs gain access to markets, contacts, resources, financing, marketing strategies, and new ideas on business management practices.

3. Broker resources that provide assistance to businesses.

The creators of new enterprises rarely begin with diverse expertise. Entrepreneurs often are skilled in manufacturing a product or providing a service but know little about managing employees, identifying and developing markets, and turning a profit, all at the same time. Most new and expanding companies require two kinds of assistance: general management support (accounting, finance, marketing, use of computers, human resources, and business law); and scientific or technical assistance (engineering, product design, and product testing). Nearly all entrepreneurs need reinforcement to craft a business plan worthy of external financing.

In partnership with economic development agencies and organizations, local development leaders can strengthen and promote assistance programs for small businesses in a variety of ways:

- Research the services and the programs available in the region to help

entrepreneurs (for information about an important new resource, see the sidebar on page 32)

- Collect the brochures of organizations and agencies that provide assistance to businesses, and attractively display them in prominent locations—for example, the town hall, the public library, grocery stores, the motor vehicle administration office, and other frequented spots
- Make sure that the local economic developer incorporates entrepreneurial development into its mix of income and job-generating strategies
- Engage the local newspaper, television, or cable company in doing a series on how to start a business
- Organize an Entrepreneurship Information Expo featuring information booths on issues of interest and concern to prospective entrepreneurs: licensing, zoning, technical assistance resources (the Small Business Development Center, the community college, SCORE, cooperative extension services, etc.), and financing²
- Cosponsor a special seminar series on topics requested by growing businesses

4. Work with local lenders and others to offer debt and equity financing to small businesses.

The lack of financial capital is a crucial issue to entrepreneurs and existing small businesses, especially in rural and isolated areas. Consolidation within the banking industry has robbed many small towns of their local, independent financial institutions. Venture capital and risk capital also are woefully lacking in these areas.

By definition, start-ups are risky, so bank financing is a challenge. Also, early-stage risk capital is lacking, so equity is missing. Further, capital often is as important as technical assistance (advice on marketing, business finance, management, etc.). Therefore, combining access to capital with technical assistance is a good strategy.

Local officials can help address all these problems in various ways:

Marketing, management, and financing are probably the three cornerstones of profitable enterprises.

- Encourage local financial institutions to launch a small-business lending program, using the programs of the federal government's Small Business Administration and the state
- Encourage banks to participate in consortia of financial institutions to contribute capital and^o share the burden and the risk of lending to small businesses
- Encourage banks and investors to invest in a community development financial institution, such as a community development credit union, a community development bank, or a micro-enterprise loan fund; and ensure that technical assistance is a key ingredient
- Encourage local financial institutions to establish a bank community development corporation that takes an equity position in community and economic development projects (for example, ShoreBank in Chicago)
- Encourage the state or local government, or the regional planning and development district, to begin a revolving loan fund, capitalized with public monies, that makes loans to small businesses
- Encourage the state or local government, or nonprofits, to create micro-enterprise lending programs, a form of revolving loan fund that makes small loans to very small businesses and often has peer review and technical assistance
- Advocate for local access to a Small Business Development Center at the local college, university, or community college

5. Incorporate youth entrepreneurship into school curriculum.

Across rural America, community leaders lament the mass exit of young people. Outmigration of youth affects a region's entrepreneurial development, especially if—as many claim—those leaving town often are the best and the brightest.

Although all young people have a desire and perhaps a right to expand

Existing e-NC Business and Technology Centers

Blue Ridge Business Development Center (Alleghany County)

Grantee: New River Community Partners

Blue Ridge Business Development Center (main site)
21 North Main Street
Sparta, NC 28675
Phone (336) 372-1529

E-NC Telecenter (Duplin, Jones, and Onslow counties)

Grantee: Duplin County Economic Development Commission
e-NC Telecenter (main site)

WestPark Business Technology Center
946 Penny Branch Road
Warsaw, NC 28398
Phone (910) 293-2521

Northeast Business and Technology Center (Martin County)

Grantee: North Carolina's Northeast Partnership

Northeast Business and Technology Center
415 East Boulevard
U.S. Highway 13/17/64
P.O. Box 310
Williamston, NC 27892
Phone (252) 792-2044

Tri-County Community College Telecenter (Cherokee County)

Grantee: Tri-County Community College

Tri-County Community College Telecenter
4195 U.S. Highway 64 West
Village Center Shopping Center
Murphy, NC 28906
Phone (828) 837-6810

their horizons, many rural regions are experimenting with strategies to retain and inspire students. Incorporating youth entrepreneurship into the local high school or community college curriculum instills an entrepreneurial

spirit in the community's young citizens. Also, because entrepreneurs tend to start businesses between the ages of twenty-five and forty, youth entrepreneurship training can incubate new firms either soon after a student graduates or when he or she returns home, a little later in adulthood.

REAL, which stands for Rural Entrepreneurship through Action Learning, offers high school and community college courses in entrepreneurship that guide students through planning, creating, and operating small businesses of their own design.³ Beginning in North Carolina and now operating in nearly a dozen states, REAL provides curriculum materials, professional development for educators, program evaluation, and technical business assistance. In 2004, REAL became a program of the Corporation for Enterprise Development.⁴

Youth entrepreneurship programs, operated by REAL and other entities, push students to solve real problems without a textbook or an answer sheet. The best programs encourage students to focus on products and services that solve annoying problems. Students think creatively and work in teams, practicing the same skills and cooperation required in the workplace. The accent on student-directed learning brings about some surprising results in interest and performance. Sometimes the poorest-performing students in a traditional curriculum shine in a youth entrepreneurship course.

Notes

This article is adapted, with permission, from one that appeared in the Fall 2003 issue of *Small Community Quarterly*.

1. A fund "revolves" when an initial pool of capital is loaned and then is gradually replenished as borrowers repay principal and interest.

2. SCORE is a program of the federal government's Small Business Administration. Through the program, retired executives are available for business advice.

3. For more information, see www.realenterprises.org.

4. For more information, see www.cfed.org.