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Building Entrepreneurial Communities: Examples in Michigan

Understanding Entrepreneurs – Those with the Vision to See Opportunities, the Ability to Solve Problems, and the Drive to Make a Difference

Communities, more and more, are viewing entrepreneurship as a key strategy to stimulate their local economy, and the motivated individuals we call entrepreneurs are in heavy demand. They span all demographic segments, cultures, and business sectors, and they exist in urban and rural communities. There is no single profile or personal temperament that describes all entrepreneurs, nor is there any one set of attributes or a single predictor of who will succeed. What do we know about them?

People choose to act on their entrepreneurial urges at any time in life; some begin as children, others wait for retirement, and most dabble at it for years before taking the leap. Some are motivated by economic necessity and may desire to earn just enough to support their families. Others are almost instinctively “called” to this lifestyle of calculated risk taking. They are happiest when building an enterprise, testing their abilities, and meeting challenges. The motivation to have an impact, make a difference, improve lives, or prove themselves drives them.

Economic opportunity, coupled with entrepreneurial aptitude, propels a select number of companies into the gazelle category of entrepreneurs. These enterprises grow in size (by sales or number of employees) by more than 20 percent per annum during each of three to four consecutive years (Birch 1987). The least prevalent—serial entrepreneurs—excel at starting and selling (sometimes failing) multiple enterprises. Collectively, all these categories of entrepreneurs are relevant in building a diverse pipeline of talent; all are important in economically healthy communities (Center for Rural Entrepreneurship 2011).

Most often, an individual starts a new small business for the freedom to be his or her own boss (Shane 2008, 43). That business likely mirrors one in which the founder has previous experience. If, for example, he or she was a baker, odds are that he or she will start a bakery. That new bakery may be in the same town, competing for the same customers and adopting the same technology and system as the former business. While it may be a new business, this type of business startup is not very entrepreneurial. In this example, the opportunity to grow in size and become a significant source of jobs is unlikely. Not to minimize its importance as a component of local economies, we also need a few companies that can reach external markets, with growth potential, and that can capture new wealth. Entrepreneurs can do that.

Not every new small business is entrepreneurial or represents entrepreneurship. While all small businesses assume risk, entrepreneurs create something new, something different; they change or transform something of value. Not all entrepreneurial ventures are small businesses, nor are they all economic institutions. Consider universities, hospitals, or nonprofit organizations such as Alcoholics Anonymous or the

American Red Cross and the impact they have had on our society. Not all entrepreneurs own companies either; many are found working as employees, creating something new and innovative that produces value within the company (Drucker 1985):

Entrepreneurs see change as the norm, and as healthy. Usually, they do not bring about the change themselves. But—and this defines entrepreneur and entrepreneurship—the entrepreneur always searches for change, responds to it, and exploits it as an opportunity.

She or he does so by *applying purposeful innovation* to solve a problem and creating value (Drucker 1985).

Consider individuals in your community who see an opportunity and visualize a different outcome; apply an innovation to solve a problem; build a new enterprise; and create value for others. These are your entrepreneurs, your *change agents*. These individuals build and grow companies that spur job creation and economic development, they stimulate innovation within existing enterprises, they lead social and civic causes, and they are comfortable with change and ambiguity. Most regions need more of these people, and the best place to find them is right within our own communities. This is the core concept behind Economic Gardening, an entrepreneurial approach to economic development that seeks to grow the local economy from within (Hamilton-Pennell 2011).

How Entrepreneurial Are We?

The Kauffman Foundation Index of Entrepreneurial Activity measures the rate of business creation at the individual owner level. These data capture all new business owners, including those who own incorporated or unincorporated businesses, and those who are employers or non-employers. They calculate rates from the Current Population Survey (CPS), a monthly survey conducted by the U.S. Bureau of the Census and the Bureau of Labor Statistics. The study considers adults, defined as those aged 20-64, who do not own a business as their main job.

In 2010, in the United States, 0.34 percent of the adult population (or 340 of 100,000 adults) created a new business each *month* (Fairlie 2011). Breaking this down by age groups, the rates are 0.26 percent (ages 20 to 34), 0.40 percent (ages 35 to 44), 0.35 percent (ages 45 to 54), and 0.39 percent (ages 55 to 64). Examining the index by nativity, the rate of entrepreneurship for native-born individuals is 0.28 percent; and for immigrant individuals, it is 0.62 percent. The rates for men and women are 0.44 and 0.24 percent, respectively. Clearly, rural communities today can benefit from greater entrepreneurial activity in all demographic groups.

Entrepreneurship – Why It Matters to Communities

Entrepreneurs are leading the growth of American business. According to Carl Schramm (2011), president and CEO of the Kauffman Foundation for Entrepreneurship, “Entrepreneurs are still the primary engine of job creation in the United States. In the last 30 years, literally all the net job creation in this country has taken place in firms less than five years old.” Entrepreneurs start those firms and create jobs, often hiring just one or two employees. Those small enterprises add up, forming the backbone of strong local economies.

Communities can glimpse an overview of business activity through resources available from the Edward Lowe Foundation. Data provided at their website, www.youreconomy.org, describe the size of companies by stage, based on the number of employees. The progression of growth, from self-employment, to stage one (2 to 9 employees), to stage two (10 to 99 employees), to stage three (100 to 499), up to stage four (over 500 employees)

is one way to view this pipeline of entrepreneurs. At each stage, the needs of those entrepreneurs are different.

As communities support aspiring entrepreneurs and startup companies, the deal flow increases, with entrepreneurial activity filling the pipeline. Some startups fail, while some succeed. Those in the self-employment stage move into stage one. Those in stage one move into stage two, the stage in which job creation occurs at a higher rate, and so on. Simply put, the more companies that form, the more companies in a community will achieve growth and create more jobs. Not all companies must *grow* to sustain a community’s local economy; those that continuously provide self-employment, or create one or two jobs, are important contributors to the overall stability and diversity of the economy as well.

But another, perhaps less obvious, reason that entrepreneurship matters to communities is that entrepreneurs make things happen. They see possibilities that others

do not see. They act on opportunities for which others would hesitate to take the initiative. If your community is to expand, adapt, become more sustainable, become more competitive, AND create more jobs, it should welcome and

encourage entrepreneurs. Social and civic entrepreneurs enrich the community with programs and projects that improve the sense of place, and they make the community a stronger magnet to attract New Economy talent.

The CEC Program – Local Economies Supporting Entrepreneurs

The Creating Entrepreneurial Communities (CEC) program at Michigan State University is a long-term and comprehensive approach to economic development for local economies. Our key strategy is to develop entrepreneurs through local entrepreneurial support ecosystems and to cultivate a more entrepreneurial culture. We do that through community coaching and through educational programs aimed at developing the knowledge and capacity of core leadership teams. We understand that community-based programs take time and that the success of any sustainable, local initiative is based on the commitment, talent, and connections of local leaders.

Entrepreneurs are most effectively supported when no one program attempts to serve as a single portal. Their

experience, aptitude, business idea, assets, stage of readiness, and cultural context influence what resources they need at any given stage of business development. A mindset of “just in time, only what I need, and when I need it” is common with entrepreneurs who often work full-time while starting a business, have limited time, and juggle a variety of startup needs. For that reason, an ecosystem model, wherein each potential contact person or agency in the system is ready to make referrals and direct the entrepreneur to the most appropriate resources at that time, is critically important. That requires broad collaboration, communication, and cooperation among a variety of entrepreneurial support organizations and professionals in addition to public and private partnerships.

Program Elements

The CEC program begins with basic training developed by the Energizing Entrepreneurs (e2) Institute, a program of the Center for Rural Entrepreneurship that provides a flexible training tool used in communities and regions across the country (www.energizingentrepreneurs.org). Topics include a deep understanding of who entrepreneurs are, what types of enterprises they create, the role they play in local economies, economic and community development, and community asset mapping. Attention is given to team development and building a solid base of community support for the program.

Communities in the CEC program support entrepreneurs by removing barriers and by increasing assets in each of four CEC Hallmarks of Entrepreneurial Communities: (1) Resources for Entrepreneurs, (2) Social Networks for Entrepreneurs, (3) An Entrepreneurial Culture, and (4) Policies Supporting Entrepreneurship. They were developed as a result of best practices from the 2006-2008 pilot CEC program and summarize attributes of researched communities that best support entrepreneurs. Collectively, they form an integrated framework, or ecosystem, in which each Hallmark supports the others.

CEC communities design specific projects in each Hallmark based on their local and regional asset base, the specific needs of their entrepreneurial population, the talents and interests of their core teams, and their community’s readiness to develop projects. We recommend that communities start with one project in each Hallmark, then begin to connect them as they add more and systematically integrate programs into a more seamless communitywide ecosystem. Project examples include the following:

Resources

- Small business and microenterprise loan programs
- Business resource centers
- Incubators (virtual as well as bricks and mortar)
- Business coaches and mentors
- Education and training programs

Social Networks

- Business and professional organizations
- Entrepreneur meet-ups
- Neutral places where people gather informally
- Business centers that accommodate remote workers
- Events promoting entrepreneurship, innovation, and idea sharing

Culture

- Awards and recognitions for entrepreneurial activity
- Youth entrepreneurship programs that engage and develop talent
- Communications and media that tell stories of entrepreneurs
- Branding and promoting local CEC program initiatives
- Cultivating a spirit of collaboration and tolerance within the community

Policies

- Small business advocacy at the local level
- Advisory boards between local government and business
- Review of regulations and policies that impede small business

- Coaches that assist entrepreneurs in complying with regulations
- Review of public investments that support small business activity

As teams progress through the three-year program, they develop a communications and branding campaign to promote to entrepreneurs the support programs, resources, and opportunities available to assist them. They learn more about the needs of the entrepreneurs over time, and they identify gaps in services, so the process of securing and leveraging resources and developing the entrepreneurship support ecosystem is ongoing.

The 2010-2013 Network

The CEC program currently serves six communities, ranging in population from less than 4,000 to more than 68,000, with some spanning more than one county and multiple jurisdictions. This group of communities, called the 2010-2013 Network, launched in the fall of 2010, has completed its first year of the three-year program.

The program is based on work with community teams. Core teams generally consist of five to eight leaders, with one serving as champion. As they become more active in program development, teams expand to include subgroups responsible for specific projects. Roles within teams evolve over time. Most successful teams are diverse and mirror the demographics of their community, with backgrounds that include business, community development, youth, economic development, arts and culture, education, tourism, agriculture, local government, and nonprofits. The

variety of talents and social networks within teams affords a broad asset base of resources, which enables buy-in by the community. Team members may have had no previous experience in business or local government, but they have a passion and commitment for their communities that is essential to building grassroots investment. Most are volunteers; in some cases, the team champion is a paid professional from a local nonprofit agency or municipality; and in other cases, core team members donate time through their current job or organizational affiliation (i.e., Chamber of Commerce, economic development association, or public school).

In the CEC program, core team members actively work on the CEC project in their community, attend all CEC 2010-2013 Network events, and commit to serving three years on the project.

Program Calendar

While CEC communities work on different projects in each of the Four Hallmarks, they are guided through similar processes and steps along the way. The benchmarks are designed to build on one another, beginning with the establishment of a strong local team and an educational retreat called a “boot camp.” From there on, the coach works with community teams to develop and achieve their individual three-month program objectives. As part

of a six-community cohort, teams share their experiences and discuss common challenges and solutions with one another. To facilitate that community peer-to-peer networking, the program structures quarterly meetings and sessions to report back at the end of each benchmark period, using a mix of communications technologies and “face to face” retreat events.

Community Coach

Teams benefit from working with a community coach. An increasingly popular strategy for sustainable community development, the core distinction about coaching is that coaches help unlock what already exists in people and groups, and they help them frame their own solutions (Emery, Hubbell, and Polka 2011). The additional benefit of having a single coach serve all CEC communities is that she or he is able to make connections and referrals across the group, facilitating the communication and collective asset base. The coach participates in team meetings, attends CEC community events, publishes a monthly newsletter, trains teams on the use of distance technologies, develops resources, provides referrals, and helps problem solve. The following are the primary coaching functions:

- Help teams get clarity about their work and focus on outcomes.
- Provide tools and strategies to analyze situations and solve problems.
- Facilitate group decisionmaking and strategic planning.
- Offer reflective and honest feedback to the team.
- Encourage diverse, collaborative, and inclusive participation.
- Ask thoughtful and provocative questions to stimulate progress.
- Recognize breakthroughs, achievements, and headway toward goal attainment.

Communities in Practice – What Works

Building a more entrepreneurial community takes more than an effective ecosystem of partners, service providers, and active clusters of entrepreneurs. It cannot be sustained without a community culture that embraces and believes in the importance of entrepreneurship, and cultural change takes time. We have learned in the five years working with the CEC program that developing a more entrepreneurial culture requires the following:

- Distributed leadership—One or two people cannot sustain community change alone.
- Personal relationships with entrepreneurs who are “listened to” so that barriers can be removed and assets obtained for small business growth
- Grassroots volunteers who are committed to their community’s future
- A change in the conversation from negatives to opportunities and possibilities

- Promotion of the opportunities and programs for entrepreneurs that currently exist
- Celebration of the successes of entrepreneurial companies and their founders—Build local pride and establish local role models.
- A long-term view and the understanding that it takes many small steps, by many people, to get there
- Engagement of youth early on—They are the next generation of entrepreneurs who will build the pipeline.
- Appreciation for the unique heritage and assets of community from which entrepreneurs will grow enterprises
- Partnerships that include business organizations, higher education, public libraries, intermediate school districts, community foundations, faith-based organizations, civic and service organizations, Chambers of Commerce, Convention and Visitors Bureaus, professional service providers, and others that offer assets for small business development

Light a Spark

Communities interested in programs such as those described above are encouraged to just start, wherever they are. No one way is best, and no time is ideal. Find those change agents in your community and invite them

to coffee. Let the conversations begin, and find the energy that comes from innovation. It will start the community down a unique path. Be bold. Others are counting on you.

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