

Rural Research Report



20th Anniversary Edition

Summer 2009
Volume 20, Issue 3

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Published by the Illinois
Institute for Rural Affairs

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Community-Based Entrepreneurship Development

Introduction

At first thought, it may seem unclear what roles local leaders can play in generating entrepreneurship in the community and, ultimately, creating local economic development. Are community actions integral to the local entrepreneurial environment? When the local economy starts to stagnate or dips into retrenchment, can governmental and community decisions help stabilize the downturn or, better yet, foster revitalization?

Focusing on community-based entrepreneurship is a change from the traditional economic development approach of wooing manufacturers and industries into a community. Global changes have forced both economic development practitioners and communities to rethink their approach. Small enterprises create most of the jobs and innovations in the economy—both in urban and rural settings (Birch 1987). But fostering an entrepreneurial-friendly environment within rural environments is often more challenging than in their urban counterparts. Rural communities may not always possess a “culture” that continually supports new business development; rural places are more isolated from markets, service providers, and other entrepreneurs; and rural communities often have limited opportunities for mentoring and networking and a lack of capital and support infrastructure.

Despite these challenges, many rural communities successfully create environments that foster innovation and add vitality. Their innovative approaches provide valuable lessons for other communities to consider.

Building Local Entrepreneurial Capacity

Encouraging entrepreneurship has been a topic of discussion for those interested in rural development for many years (Birch 1987; Emery, Wall, and Macke 2004; Hanham, Loveridge, and Richardson 1999; Johanisson 1991; Walstad 1994). Despite this interest, the approach has generally failed to capture substantial resources from mainstream policymakers (Loveridge 1996). The main focus of local and state economic development programs continues to be industrial recruitment and business retention. These traditional approaches must be reassessed as increased competition from countries with lower wages in both manufacturing and services makes successful recruitment and retention more difficult. This new challenge is shifting the focus of local development to the role of amenities in creating jobs (Florida 2002; Green 2001) and fostering a renewed attention to the role of entrepreneurship in local development (Von Bargen, Freedman, and Pages 2003; Walzer 2004, 2007).

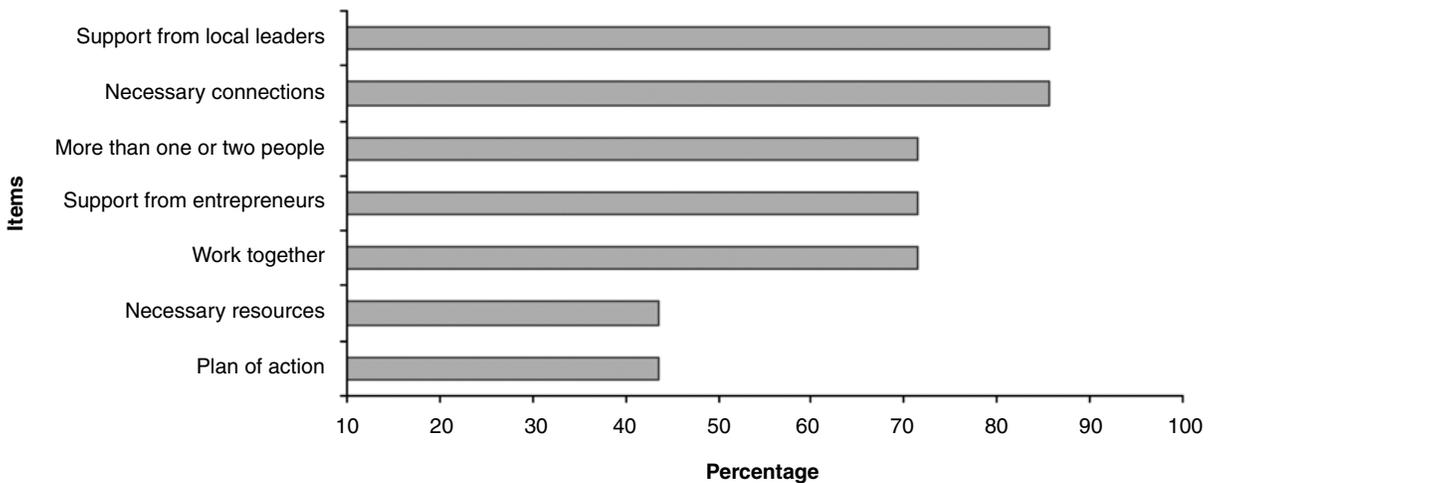
Altering the role entrepreneurship plays in local development was a focus of a two-year capacity-building pilot program launched by Michigan State University Extension in 2007. The initiative, entitled “Creating Entrepreneurial Communities,” involved nine

primarily rural communities geographically dispersed throughout the state. Each community sent a local-based team of three to five individuals to a weeklong training program (using the Energizing Entrepreneurs curriculum) to learn about community-based models/approaches. To assist in developing community plans, each community was assigned a “coach” to assist in community planning, identify potential resources, and offer encouragement while keeping the team on task during planning processes.

Prior to beginning their coaching responsibilities with their respective communities, individuals assigned as community coaches participated in trainings to enhance their facilitative and local capacity building techniques. Additionally, a primary role of the community coach was

to assist in building long-term local capacity, thus assisting the initiative to become more sustainable. Despite differing “cultures” among communities, coaches reported that there were similar factors necessary for long-term success of projects, including gaining support and credibility from local policymakers, enhancing connections between entrepreneurs and existing service providers, and maintaining an engaged and representative (more than two committee members) local coordinating committee to guide activities. Coaches found these activities more linked to the initiative’s long-term sustainability than a plan of work or pursuing desired new resources identified by local entrepreneurs. Figure 1 summarizes those factors identified by coaches as necessary factors for sustainable success.

Figure 1. Necessary Factors for a Sustainable Entrepreneurship Initiative: Percentage of Coaches Who Rated the Team for Its Sustainability as “Agree” or “Strongly Agree”



Note: Table represents results of phone survey of community coaches to assess importance of differing factors to long-term sustainable success of community-based entrepreneurship initiatives.

Community-Based Approaches

While the community coaches in the Michigan “Creating Entrepreneurial Communities” initiative worked with their local coordinating committee to build long-term capacity, they also relied on the literature to guide their community-based approaches, including the findings of Loveridge (2007), Emery et al. (2004), and Rightmyre, Johnson, and Chatman (2004).

Loveridge (2007) reviewed recent studies related to entrepreneurship to identify 41 ways that communities can foster a more entrepreneurial climate. The vast majority of the techniques use specialized studies of particular policies or

communities. The 41 techniques can be grouped into the following broad categories:

- Community Systems and Networks
- Finance and Regulations
- Training and Mentoring Systems

The **community systems and networks** techniques relate to items such as creation of peer-to-peer support and idea generation, a single-mission organization focused on the community’s entrepreneurial climate, coordination across service providers, systems to welcome new entrepreneurs, and fostering knowledge clusters.

The **finance and regulations** techniques include loans for start-ups, individual development accounts, tapping external assets for planning entrepreneurial businesses, assistance in recordkeeping, and business transitions.

The **training and mentoring systems** techniques include items such as increasing the supply of entrepreneurs, exposing youth to entrepreneurial career options as part of their formal training, club-based entrepreneurial activities for youth, job shadowing with entrepreneurs, fostering spin-off businesses, rotating job responsibilities within the firm, mentoring, focusing on training for entrepreneurs on implementation, and using advanced products and processes.

Other research has supported the categories summarized by Loveridge (2007). Emery et al. (2004) identified three primary elements of entrepreneurial communities: (1) **enhancing business skills among entrepreneurs**; (2) **developing relevant resource centers that focus on entrepreneurs needs in a seamless fashion**; and (3) **strong networks and collaborations between and among entrepreneurs**. Rightmyre et al. (2004) identified a larger set of both tangible and intangible factors necessary for small business and entrepreneurial growth. Tangible components include necessary physical infrastructure (including Internet connectivity),

financial resources, business services, and human resources. Less tangible factors identified include government and institutional support, market performance (identification of local needs), networking, quality of life, and community attitudes and beliefs toward business success. Their research, funded by Missouri Rural Partners, provided specific community entrepreneurship strategies, grouped by intensity of effort (i.e., basic, advanced, and high performing).

Although both the Loveridge (2007) and Emery et al. (2004) findings supported the establishment of networks to foster entrepreneurial growth, it was not identified as a key factor for a sustainable community-based approach among the Michigan coaches. Subsequent interviews with the Michigan coaches revealed that they fully recognized the importance of networking opportunities to creating a local entrepreneurial culture, but felt that building local capacity was a necessary first step in creating a sustainable approach. Once the local coordinating committee was more established and had gained credibility among local entrepreneurs, peer-to-peer entrepreneur networks could then be better pursued.

Using the key areas identified by Loveridge (2007) and Emery et al. (2004), Rightmyre et al. (2004) suggest the community strategies discussed in the sections that follow.

Financial Resources

Basic Support (What Every Community Can Do): Contact area lenders and identify which business financing tools they currently utilize. Gather references from numerous business lending programs. Make both sets of information available to current and potential entrepreneurs.

Advanced Support: Bring representatives from state and federal small business programs to your community and explain how their financing programs can be valuable to your lenders and entrepreneurs. This includes identifying

the types of “pre-seed” capital funding that may be available within the state. Develop a website with links that can help citizens identify and access available financing programs.

High-Performing Support: Ensure access to a variety of debt and equity financing options that a business may need to achieve its market potential. Explore creating an area-based angel investment network that could provide equity capital to worthy businesses.

Human Resources

Basic Support: Identify programs that local schools and organizations have in place to foster interest in entrepreneurship among youth. Establish a listing of distance-learning business training resources and promote these to potential participants.

Advanced Support: Offer business education programs (such as *FastTrac* or *NxLevel*) to individuals interested in bringing an innovation to the marketplace. Offer monthly seminars on

how to start a business. Encourage youth to start a business (young talent creates four out of five new businesses).

High-Performing Support: Establish a scholarship fund to support a community member with an innovation to receive the necessary training to successfully launch a new business enterprise. Establish a mentoring program that matches potential entrepreneurs with existing business leaders within that sector.

Networking

Basic Support: Create strategic (not social) networking opportunities for entrepreneurs if none currently exist. Encourage the local chamber of commerce to start or expand networking experiences for the business community. Numerous successful models exist, including the Wisconsin Inventor & Entrepreneur Clubs (see *Rural Research Report 20[1]*, Winter 2009) or the National Commission on Entrepreneurship's (2001) study on *Building Entrepreneur Networks*.

Advanced Support: Encourage local business, government, and education leaders in your community to meet and identify ways in which they can support innovation development.

High-Performing Support: Host regular meetings that bring together those with business ideas and those with funding for small businesses. Some business ideas may be considered too risky for commercial lenders and are more appropriate for venture or other capital funds.

Community Beliefs and Attitudes

Basic Support: Create a community-wide campaign to increase awareness of the value that small businesses provide. Work with the local media, the chamber of commerce, the faith community, and others to highlight the contribution that entrepreneurs make to a community. Help the community understand the needs and realities of entrepreneurs.

Advanced Support: Identify a community that is experiencing success in supporting entrepreneurs and plan to visit that community for a day. Take notice of local attitudes and what types of activities and programs have been initiated, who in the community is involved, and what results have been achieved through their efforts.

High-Performing Support: Hold a public issues forum to discuss community beliefs and attitudes that can act as deterrents for business enterprise creation. Public issues forums provide a mechanism to better understand community issues and to begin to develop consensus to move forward on attitudes that are more conducive to the type of change community residents seek.

Gaining support from local leaders was identified as the most important factor by the Michigan community coaches for long-term sustainability of a community-based entrepreneurship approach. As one coach noted, "gaining credibility among local officials was a necessary first step in building a community-wide attitude that is supportive of entrepreneurial development."

Putting It Together: One Best Practice Community Example

Lambe (2007) highlighted the successful approaches of a number of rural communities, including Fairfield, Iowa, considered a national best practice entrepreneurial community. Fairfield (pop. 9,500) is located in southeastern Iowa. As a county seat in a rich agricultural region, the community has a heritage of innovation and entrepreneurship. William Loudon, one of Fairfield's early entrepreneurs, designed and manufactured the first manure spreader, the first modern dairy barn, and other agricultural innovations. At the same time Loudon was designing manure spreaders, another entrepreneur—A. K. Harper—was selling sewing needles door to door throughout the region. Today, Harper Brush calls Fairfield home and generates more than \$60 million in annual revenues. More recently, the incorporation of broadband communications has diversified Fairfield's

economy as the town has become headquarters for more than 70 mostly homegrown companies.

Higher education also has a footprint within the community. In the late 1870s, a Presbyterian school, Parsons College, was founded on the outskirts of town. The college had nearly a century-long existence until it closed in 1973. Although the departure of Parsons College, which served as an economic engine in the community, was a major setback, the community took an entrepreneurial approach to reoccupying the 260-acre campus by arranging a sale to an alternative university in California. Maharishi International University purchased the facility in 1974. Now known as the Maharishi University of Management (MUM), the college attracts a diverse student body from more than 60 countries. The mixing of Fairfield's traditional Midwestern values with the

diverse student population from MUM has led to a contemporary culture that values creativity and civic engagement.

Fairfield's economic development strategy is to support entrepreneurship and the expansion of small business by facilitating the creation of networks among entrepreneurs. The goal of the strategy is to link entrepreneurs with a community of colleagues and to provide them with support, through various public education programs, for establishing and expanding their business. The strategy is almost entirely volunteer-driven and is supported by two main organizations: (1) the Fairfield Entrepreneurs Association and (2) the Fairfield Economic Development Association—each organization populated by diverse leaders from throughout the community (one of the Michigan findings for long-term sustainable success). The main objective of the entrepreneurs group is to create networks among entrepreneurs. This networking activity is supported by programs and resources based within the economic developers group.

Fairfield exemplifies the success approaches cited in the entrepreneurial community literature. Consistent among the findings of Loveridge (2007), Emery et al. (2004), and Rightmyre et al. (2004) were three primary elements routinely present within entrepreneurial communities: (1) strong networks for entrepreneurs, (2) relevant business support systems, and (3) diverse financial resources. In Fairfield, the economic development strategy is to support entrepreneurship on each of these levels.

The community-based entrepreneurship approach dates to 1989 when a group of successful entrepreneurs launched the Fairfield Entrepreneurs Association to provide more support to early-stage companies in order to increase their survival rate. Every month, the group sponsors one to two workshops, which are broadcast on public access television. The association also matches successful business entrepreneurs with early-stage entrepreneurs and hosts

conferences and boot camps that attract investors from all over the country. In addition to holding networking events, the group also operates a revitalization loan program, an entrepreneur relocation program, and an entrepreneur-of-the-year award program. The revitalization loan program is managed by a coalition of community organizations and local banks and provides up to \$100,000 for major capital purchases such as real estate, remodeling, equipment purchases, and expansions.

The entrepreneur relocation program is designed to attract early-stage entrepreneurs to Fairfield by offering discounts on rents, telecommunications, and trainings, and access to capital. The association also convenes an angel investor roundtable, which is composed of successful Fairfield entrepreneurs looking to reinvest in local companies. Start-up entrepreneurs are given the opportunity to present their business ideas and solicit financing from local investors.

Attracting recognition as an entrepreneur-friendly community requires a significant amount of public relations and marketing. The entrepreneurs association, the developers association, and the Chamber cooperate to tout Fairfield. Each organization promotes the same brand—"Fairfield is the entrepreneur capital of Iowa." It is this brand that strengthens the attitudes of both community leaders and local citizens toward entrepreneurial development—a key factor advocated by Rightmyre et al. (2004) and a necessary sustainability factor identified in the Michigan initiative.

The results of Fairfield's approach are impressive:

- More than \$250 million invested in start-up companies since 1990, nearly one-third of Iowa's overall venture capital investment
- 2,000 new jobs since 1990
- Ranked among the top five nationally in per-capita giving

Conclusion

Economic development is no longer strictly about attracting big business to the community. Communities across the country are achieving vitality by developing local systems that support entrepreneurial development. Their approach is built through engaging community groups while enlisting the support of local leaders. Their activities are focused on meeting

the needs of the entrepreneurs as they grow their businesses through resources, capital, and strong networks. Setting the stage to capitalize on the entrepreneurial spirit of a community while building community capacity to enhance that spirit can go a long way toward fostering local business enterprises and, ultimately, creating local economic prosperity.

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