

# Entrepreneurship in Rural America: A Road to Prosperity

September 10, 2013

*Organized by the Federal Reserve Banks of St. Louis and Kansas City*

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The **Connecting Communities**<sup>®</sup> audio conference series is a Federal Reserve System initiative intended to provide timely information on emerging and important community and economic development topics with a national audience. The audio conference series complements existing Federal Reserve Community Development outreach initiatives that are conducted through our regional Reserve Bank offices and at the Federal Reserve Board of Governors in Washington, D.C.

# Welcome

Thank you to everyone for joining this session.

For today:

- This call is being recorded.
- An archived recording of this session will be available on the **Connecting Communities**® web site shortly after the session has taken place: [www.stlouisfed.org/connectingcommunities/](http://www.stlouisfed.org/connectingcommunities/)
- We will be taking questions via email during this session. Please direct your questions to [communities@stls.frb.org](mailto:communities@stls.frb.org). These questions may be part of the recorded archive for this session.
- In connection with this session, several of our Reserve Bank offices have posted links to a variety of additional resources on this topic. We encourage you to browse through this list and to contact your regional office if you would like additional information on any of these items.

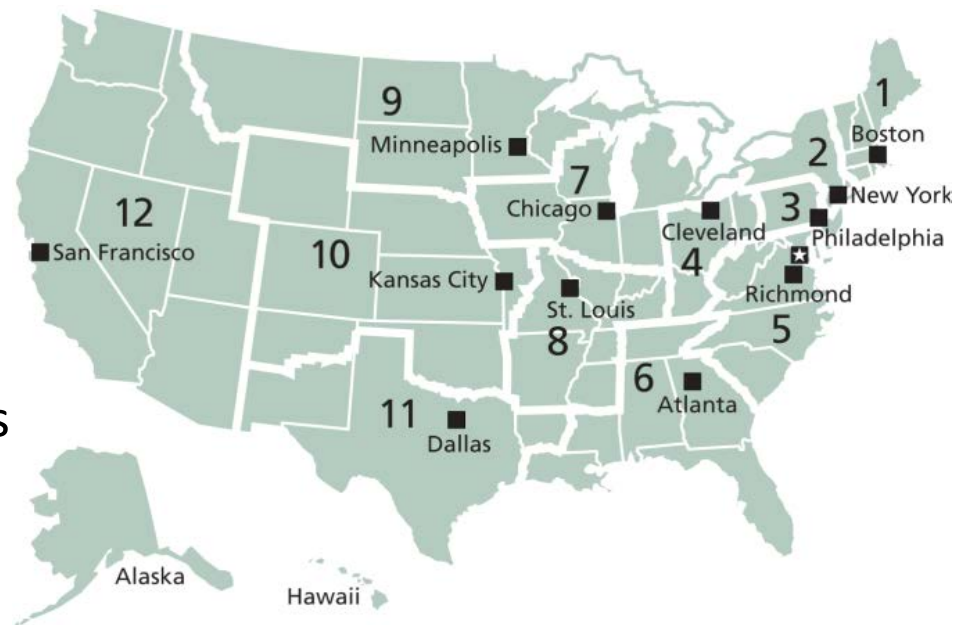
# Legal Notices and Disclaimer

The information, analyses, and conclusions set forth are those of the presenters and do not necessarily indicate concurrence by the Board of Governors of the Federal Reserve System, the Federal Reserve Banks, or members of their staffs.

# Community Affairs

Community affairs programs at the Federal Reserve Board and the 12 Federal Reserve Banks support economic growth by promoting community development and fair access to credit.

Community affairs offices at the Board and Reserve Banks engage in a wide variety of activities to help financial institutions, community-based organizations, government entities, and the public understand and address financial services issues that affect low- and moderate-income people and geographic regions.



# Community Affairs (continued)

- Each office responds to local needs in its district and establishes its own programs to:
  - Foster depository institutions' active engagement in providing credit and other banking services to their entire communities, particularly traditionally underserved markets
  - Encourage mutually beneficial cooperation among community organizations, government agencies, financial institutions, and other community development practitioners;
  - Develop greater public awareness of the benefits and risks of financial products and of the rights and responsibilities that derive from community investment and fair lending regulations
  - Promote among policy makers, community leaders, and private-sector decision makers a better understanding of the practices, processes, and resources that result in successful community development programs

# Why Grow Your Own?

**Dell Gines**

**Senior Community Development Advisor  
Federal Reserve Bank of Kansas City**

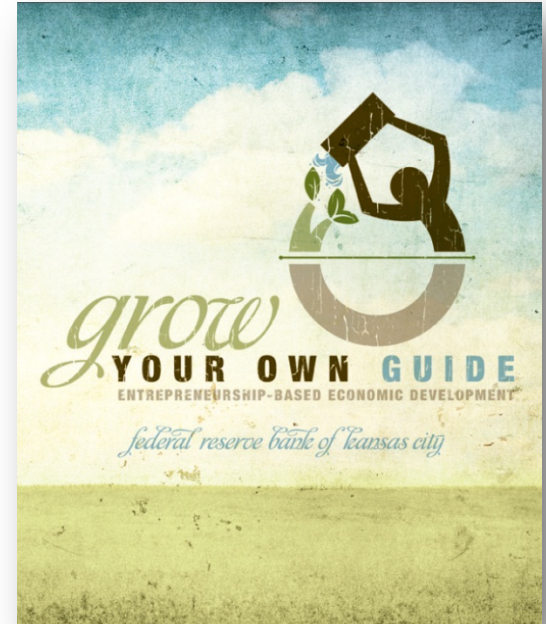
[dell.gines@kc.frb.org](mailto:dell.gines@kc.frb.org)

<http://kansascityfed.org/community>

# The Federal Reserve Bank of Kansas City Perspective

The mission of the Community Development function of the Kansas City Fed is to support the economic growth objectives of the Federal Reserve Act by promoting community development and fair and equal access to credit.

*Our job is to serve as a neutral convener of resources between those who have and those who don't, because we know all segments of the population, including the less advantaged, benefit from both economic growth and fair and equal access to credit.*



The Grow Your Own Guide provides a high level overview of what it takes to conduct entrepreneurship based economic development.

# Economic Development Defined

“The main goal of economic development is improving the economic well-being of a community through efforts that entail job creation, job retention, tax base enhancements and quality of life.”

International Economic Development Council

## Note The Differences

“Fostering a dynamic environment where economic opportunities can be discovered, taken advantage of and maximized to their fullest extent to create balanced and sustainable economic growth, jobs, a positive sense of ‘place’ and an improved quality of life in a defined geographic region.”

Dell Gines



# Why Traditional Economic Development Can Be Challenging

The traditional economic development model



*ABC TV Show the Bachelorette*

Traditional economic development is a zero sum game with many competitors and only one winner.

# Why Traditional Economic Development Can Be Challenging (continued)

“Experience suggests that economic development strategies aimed at attracting large firms are unlikely to be successful – or only at a great cost.”

Kelly Edmiston, Senior Economist, Federal Reserve Bank of Kansas City. *The Role Small and Large Business in Economic Development*

“Whether incentives induce significant new investment or jobs—we simply do not know the answer. Since these programs probably cost state and local governments about \$40–50 billion a year, one would expect some clear and undisputed evidence of their success.”

Peters & Fisher, 2004



# Why Traditional Economic Development Can Be Challenging (continued)

## Fun Fact

According to a field test to measure microenterprise service providers it was determined that the average cost per client was \$2,292.00

If the “\$50 Billion” or so spent on traditional incentives was spent on micro enterprise clients, it would equal 22,000,000 clients served. This would be the combined population of our top 9 cities - New York, Los Angeles, Chicago, Houston, Philadelphia, Phoenix, San Antonio, San Diego, Dallas!



Data Source:  
<http://fieldus.org/MicroTest/FY08PerformanceOverview.pdf>

# Where Do Jobs Come From?

## Number of Firms by Employment Size of Firms

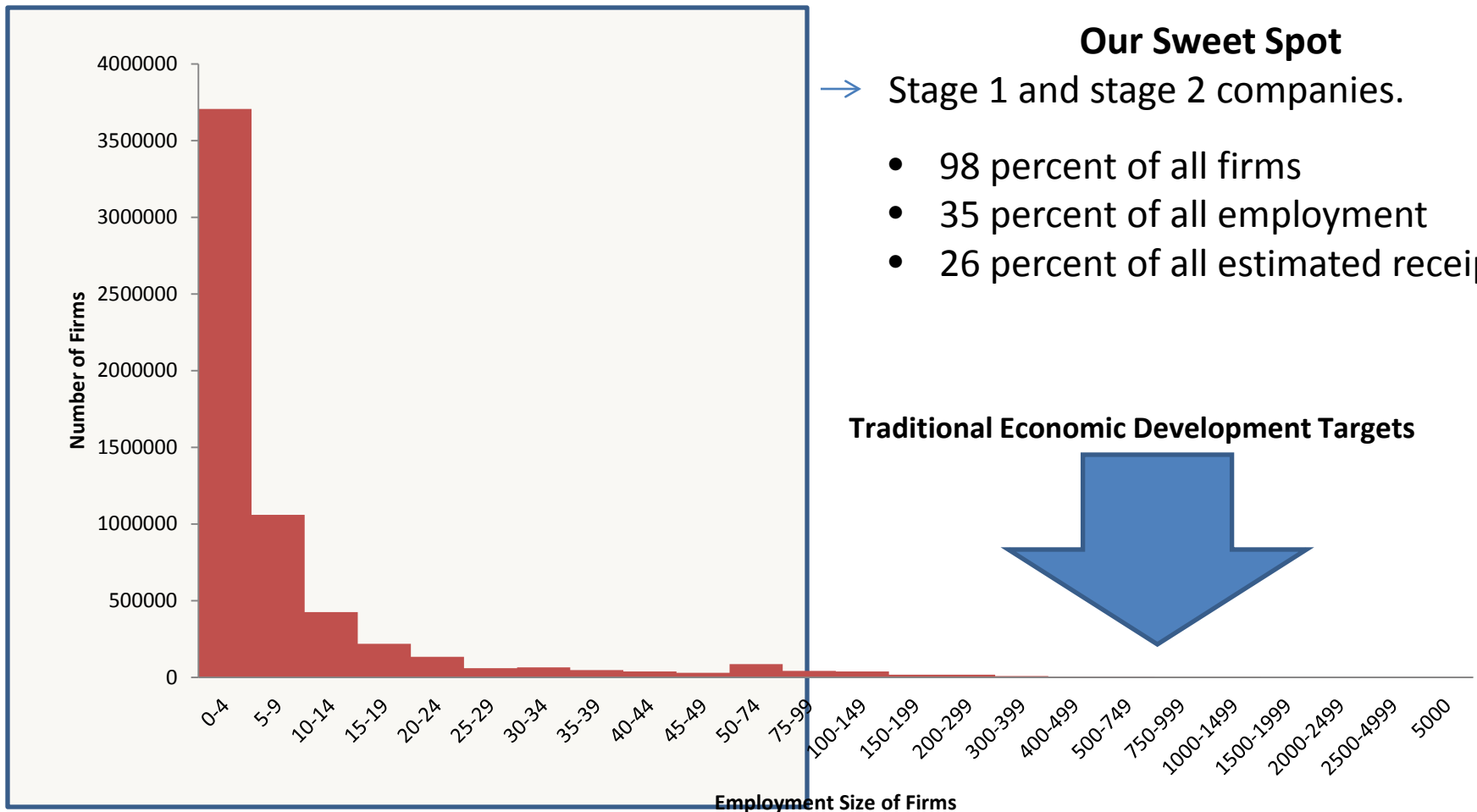


Chart Data Source: Small Business Administration. <http://archive.sba.gov/advo/research/data.html>

# Where Do Jobs Come From? (continued)

Over a recent 15-year period, small businesses created some 65 percent of the net new jobs in the private sector, according to conservative estimates cited in a new report from the SBA Office of Advocacy - [Where Do Jobs Come From? New Analysis of Job Gains and Losses from the Office of Advocacy \(SBA\), November 2010](#)

If one excludes startups, an analysis of the 2007 Census data shows that young firms (defined as one to five years old) still account for roughly two-thirds of job creation, averaging nearly four new jobs per firm per year. Of the overall 12 million new jobs added in 2007, young firms were responsible for the creation of nearly 8 million of those jobs. - [Kauffman Foundation Research Series: Firm Formation and Economic Growth Where Will The Jobs Come From? - 2009](#)



# Why Focus on Models of Entrepreneurship Based Economic Development?

A few reasons why grow your own development is a powerful tool:

1. Entrepreneurs create jobs, increase local incomes and wealth (Henderson, 2002).
2. A higher ratio of entrepreneurial activity is associated strongly with faster growth of local economies (Barth, Yago & Zeidman, 2004).
3. Entrepreneurs connect communities to the larger, global economy.
4. Local entrepreneurs are more likely than branch plants to reinvest their wealth locally.
5. Entrepreneurs create a sense of place.
6. The cost of job creation is lower (Edmiston, 2006).
7. Entrepreneurship allows our emerging senior populations to continue to be productive and add economic value to local economies.
8. Grow your own development is a more feasible way to develop traditionally economically challenged areas.
9. Grow your own development helps create diversified economies.
10. This kind of development is just a better “fit” for certain communities.

# Why Focus on Ecosystems?

“An ecosystem is a complex set of relationships among living resources, habitats, and residents of an area.

Ecosystems vary greatly in size and the elements that make them up. Everything that lives in an ecosystem is dependent on the other species and element.

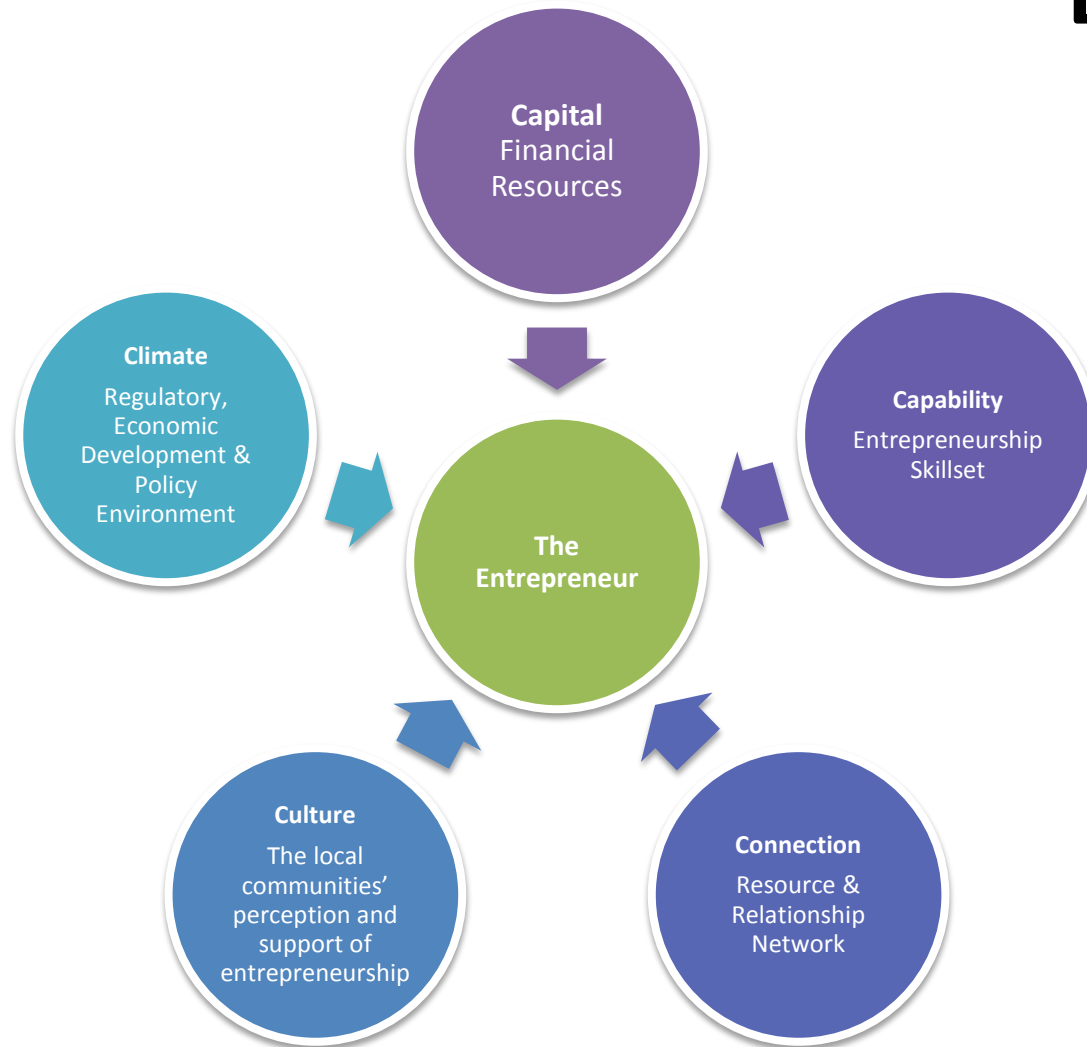
When an ecosystem is healthy, it is sustainable. This means that all elements live in balance and are capable of reproducing themselves.”

## **Ecosystem focus is important because**

1. It looks at the interconnectivity necessary to create a thriving economy.
2. It requires looking at the whole as opposed to each individual program.
3. It provides a basis for analyzing the needs of entrepreneurs from a variety of lenses.
4. It provides a community the capacity to create economic development strategy that fits their unique community needs.

Source: <http://www.mtu.edu/forest/>

# The Five Cs of the Entrepreneurship Ecosystem



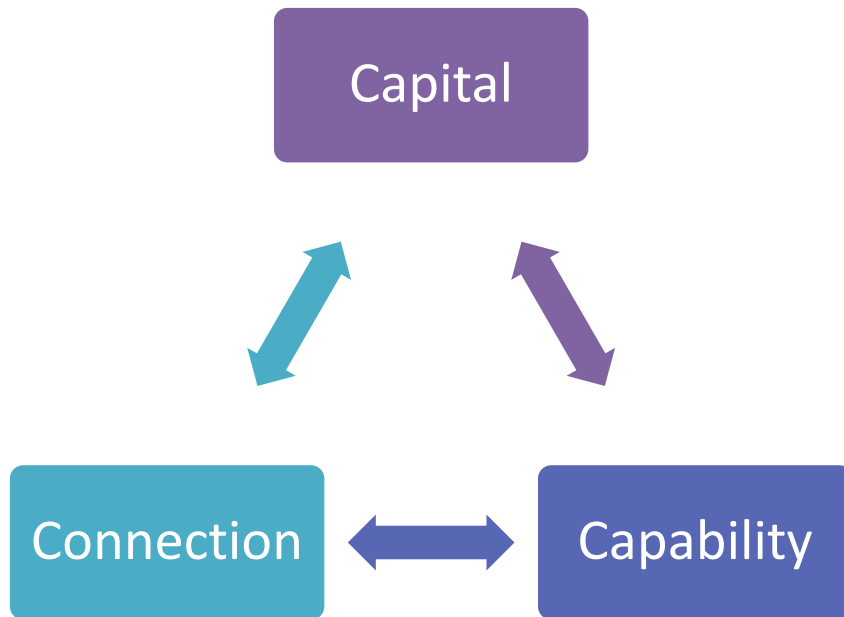


# The Five Cs of the Ecosystem

Entrepreneur focused aspects of the ecosystem. These are otherwise known as:

- Financial Capital
- Human Capital
- Social Capital

We tend to over focus on financial capital as a solution to business problems but the ecosystem has to be in balance across the three forms of capital.



# The Five Cs of the Ecosystem (continued)

## Environmental aspects of the ecosystem.



Culture is critical to the development of an ecosystem. It sets the expectations of ownership, recognizes that failure and risk are part of the process and supports entrepreneurship as a normal way of life.

Climate determines whether entrepreneurs will be given the red tape or the red carpet. What are the taxes like? How easy is it to navigate bureaucracy to get permits and other legal items? Does the state, county or city demonstrably work to support small business owners through policy?



# The Entrepreneur Focus

## What makes a ~~Michael Jordan~~ LeBron James Entrepreneur?

1. Ability – They have natural talent that they develop formally and informally.
2. Actualization – They have a high internal drive to continue to grow, build and create.
3. Awareness – They know where there are opportunities, resources and education.
4. Access – They have access to markets, networks, capital.
5. Acceptability – Their community holds up entrepreneurship as a career possibility, a noble goal, and a recognized positive course of action.
6. Affirmation – Their community publicly affirms, celebrates and supports entrepreneurs.



# The Entrepreneur Focus (continued)

Not all entrepreneurs will be Michael Jordan entrepreneurs!  
But all entrepreneurs can add value.

## *The Entrepreneur Continuum*



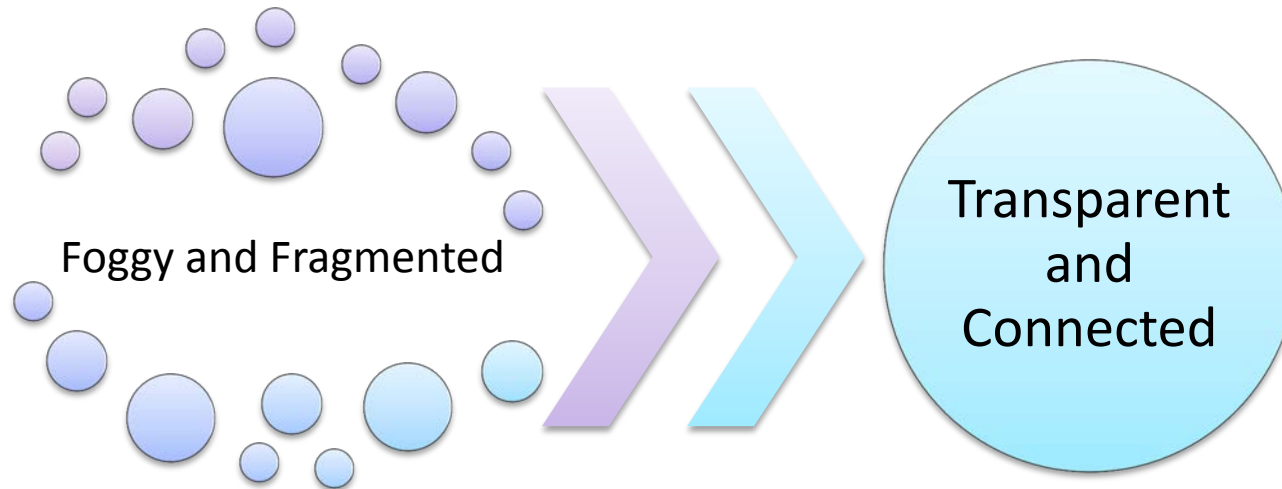
Hobby self-employment

High growth gazelle

To have a sustainable and balanced ecosystem it must be organized in such a way the needs of all types of entrepreneurs are addressed, even if certain types of entrepreneurs are a priority focus.

# The Transparent Ecosystem

Are entrepreneurs able to easily navigate through the variety of providers and services that exist to help them start and grow a business?



One of the largest complaints we hear from individuals seeking to start or grow a business is that the service system is complex and hard to navigate.

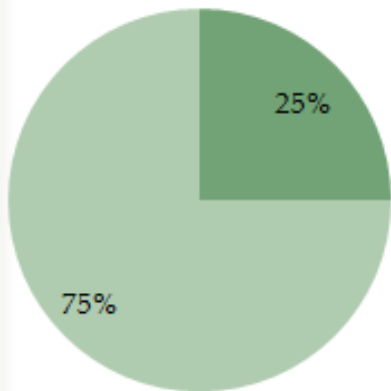


# Opportunity Cost

The strongest entrepreneurship development ecosystems do the best job of allowing existing and potential entrepreneurs to spend more time and energy:

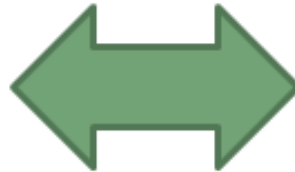
1. Focusing on building the business, and
2. Becoming more effective business owners rather than wasting time figuring out how to get support, information, and resources to build the business.

## Foggy & Sparce Ecosystem

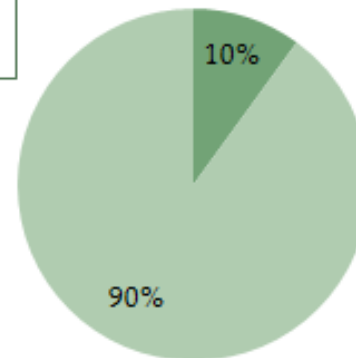


- Time and energy spent figuring out how to get support from the entrepreneurship ecosystem
- Time and energy spent working on building the business

*How more productive could our businesses be if they had more time and energy to focus on growing?*

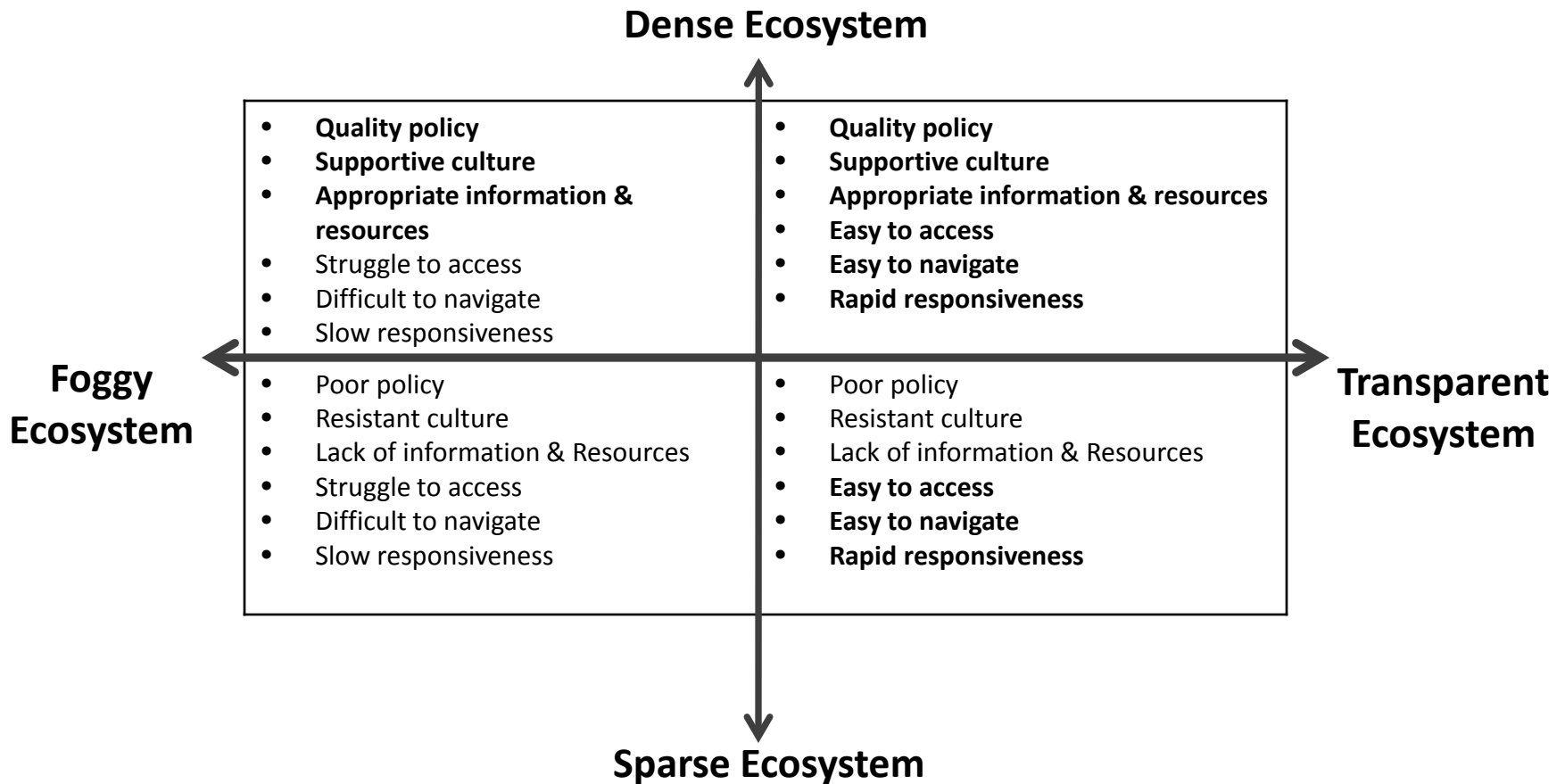


## Transparent & Dense Ecosystem



- Time and energy spent figuring out how to get support from the entrepreneurship ecosystem

# Effective Ecosystem Model





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# Entrepreneurs...

## Pathway to Prosperity

**Don Macke**

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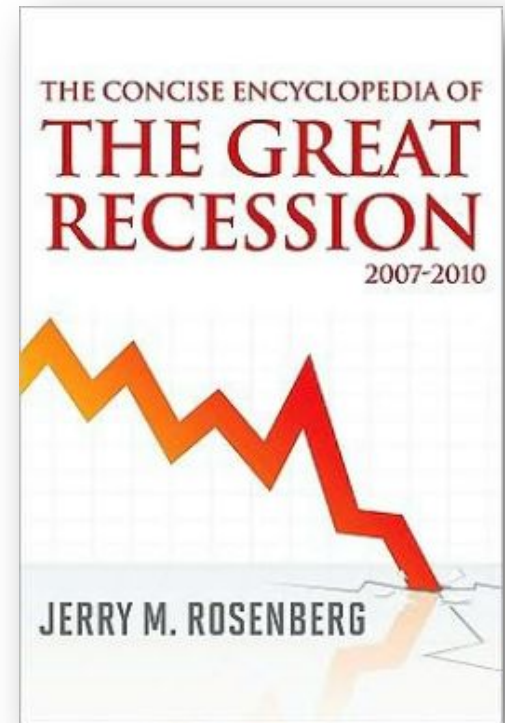
[www.energizingentrepreneurs.org](http://www.energizingentrepreneurs.org)

# Big Picture

# Great Recession

The most significant economic event in our lifetime!

A new economic and social world will emerge from this recession.

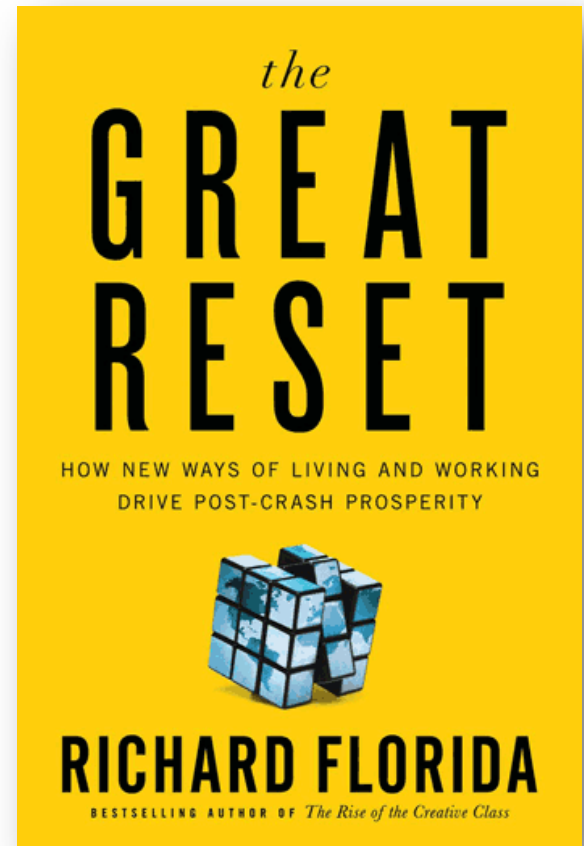


# Great Reset

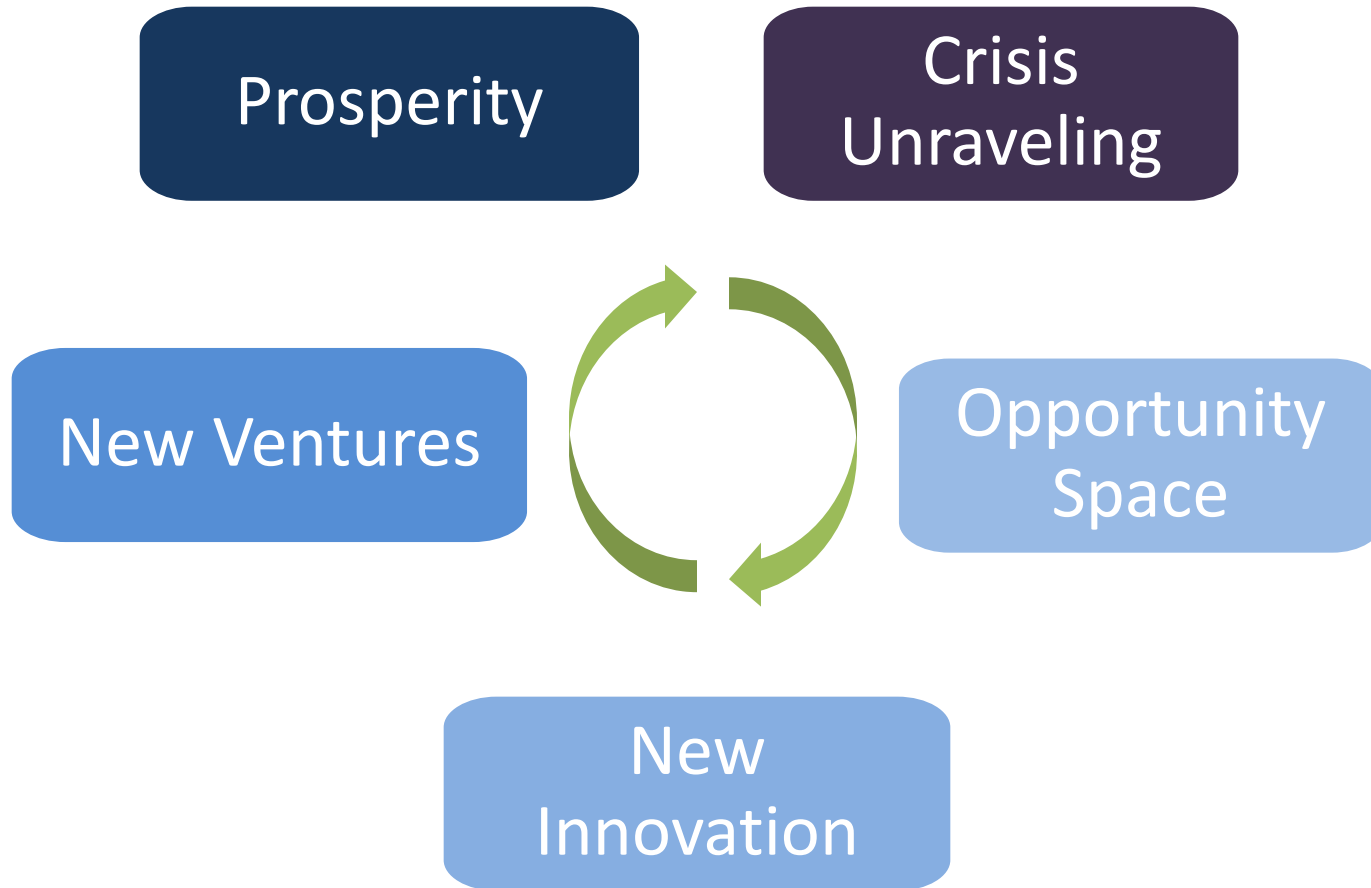
Space exists in our economy and society for creativity and innovation that can lead to a new round of economic and social progress and prosperity.

The Long Depression of the 1870s and the Great Depression of the 1930s is evidence that this can be the case with the Great Recession.

**This is called the Great Reset!**



# The Reset Process



# Illustration – 1995-2001

## The Great Expansion

The 1990s were a remarkable period in American economic development history. During the 1990s, household net worth grew by a remarkable \$22 trillion. No other decade since World War II posted such wealth creation in United States including the 1950s, 1960s and the 1970s.

## By the Numbers

- Businesses
  - +3.7 million (30 percent)
- Jobs
  - +28 million (19 percent)

*Nearly 390,000 net new jobs per month over six years!*

- Sales
  - \$5 trillion (35 percent)

[www.youreconomy.org](http://www.youreconomy.org)

Edward Lowe Foundation

# Illustration – 2001-2009

## By the Numbers

- Businesses
  - +5.9 million (37 percent)

*Net gains in new businesses actually rose!*

- Jobs
  - -11 million (-6.4 percent)

*For the 96 months during this period net job destruction averaged nearly -- 115,000/month*

- Sales
  - -\$973 billion (-5.0 percent)

[www.youreconomy.org](http://www.youreconomy.org)  
Edward Lowe Foundation

## Digging Deeper...

- Job Changes...
  - Non-Resident
    - -7.1 million
  - Largest Employers
    - -9 million
- Smallest
  - +8.0 million
- Self-Employment
  - +3.2 million
  - 91 percent Increase



**Supply Chain Companies**  
**Defense Contractors**  
**Government Contractors**

**Immigrant Talent**  
**Safe Harbor Immigrants**  
**Graduate Students**

**Entrepreneur  
Opportunities**

**Displaced Talent**  
**Under-Employed Talent**  
**Un-hired Graduates**

**Women**  
**Business Failures**  
**Retirees**

# Employment Shifts

## Three Waves

### **Pre-World War II**

- Self-employment – Smaller local employers

### **World War II into the 1990s**

- Large corporations, government and non-profits

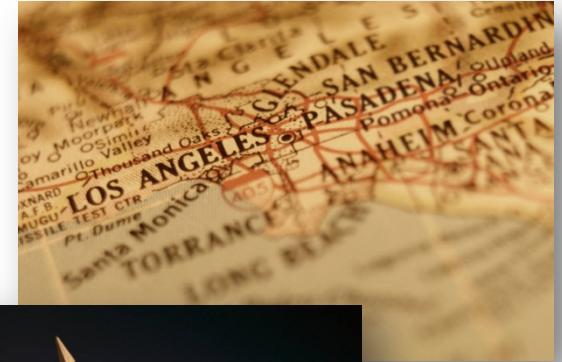
### **1990s through to today**

- Swelling self-employment and smaller ventures

# Entrepreneurial Communities

# Why Does this Matter?

No community can take its future for granted. Remember Detroit? Every community must create its future. Development is a local responsibility. Central to community success in the 21<sup>st</sup> century is creating and supporting an environment for entrepreneurial behavior.



# Outcomes of an Entrepreneurial Community

## Economic Opportunity Broadly-Held Community Wealth

Entrepreneurial communities are typically better at generating three important economic, social and civic outcomes. These are:

1. Economic and social diversity
2. Resilience from shocks
3. Higher and sustained prosperity

# Three Kinds of Entrepreneurs

## Business

- People who create private sector economy.

## Social

- People who create quality of life.

## Civic

- People who create trusted government.



# Five Attributes of an Entrepreneurial Community

1. All three kinds of Entrepreneurs
2. Culture
3. Infrastructure
4. Human talent
5. Youth



# Entrepreneurial Culture

## It's Entrepreneurial...

- A key attribute of successful entrepreneurs is that they focus on opportunities.

## It's Positive...

- This is asset-based development and it creates hope based on opportunities.

## It Leads to Impact...

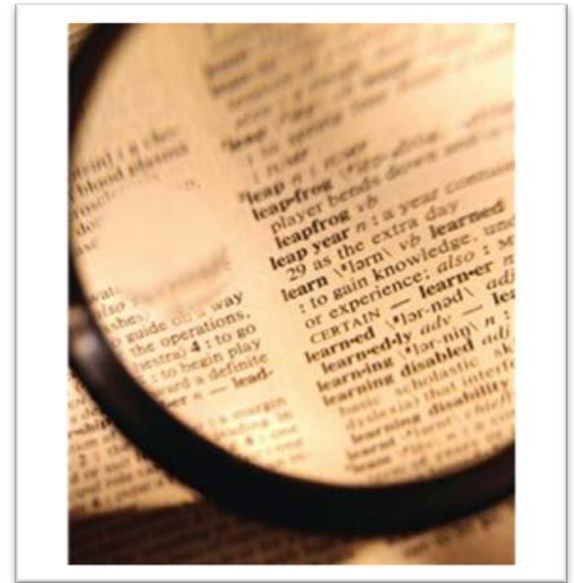
- It works!



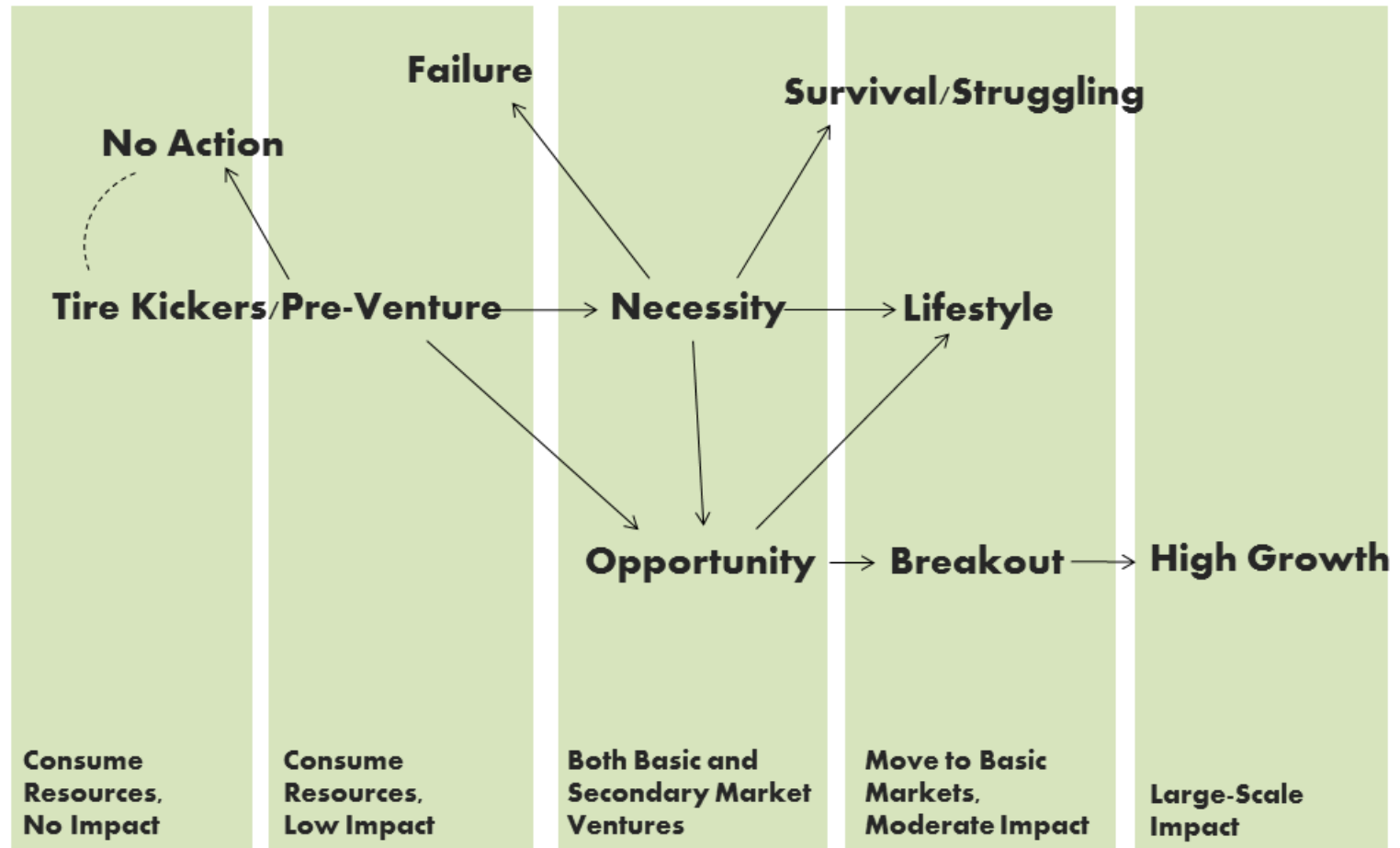


# Entrepreneurial Infrastructure

- Robust support network
- Business coaching
- Access to capital
- Access to market research
- Access to places and spaces
- Access to real time technology
- Access to human talent
- Other entrepreneurs



# The Entrepreneurial Pipeline



# Youth... Energizing Force



# Smart Strategy





**These four projects taught us a great deal about entrepreneurs post Great Recession.**

- Florida's Research Coast
- Montana's Missoula Region
- Sahuarita Arizona
- Fond du Lac Wisconsin

## **Florida to Missoula**

**Great recession impacts**

**Reset lessons learned**

**New kinds of entrepreneurs**

**Challenge of finding entrepreneurs**

**Importance of coaching**

**Resource networks**

**Access to capital and research**

*Communities and regions are struggling to find the right formula for economic success in the post Great Recession period.*

**Kansas is one of the most promising landscapes for entrepreneur-focused development today!**

## **Chronology**

2004 Legislation  
2005 Center Created  
2006 NetWork Kansas  
2007 First E-Communities  
5 ½ Years of Experience

## **Impact**

39 Communities  
339 Business Deals  
\$54 Million Deal Flow  
1017 Full-Time Jobs  
816 Part-Time Jobs

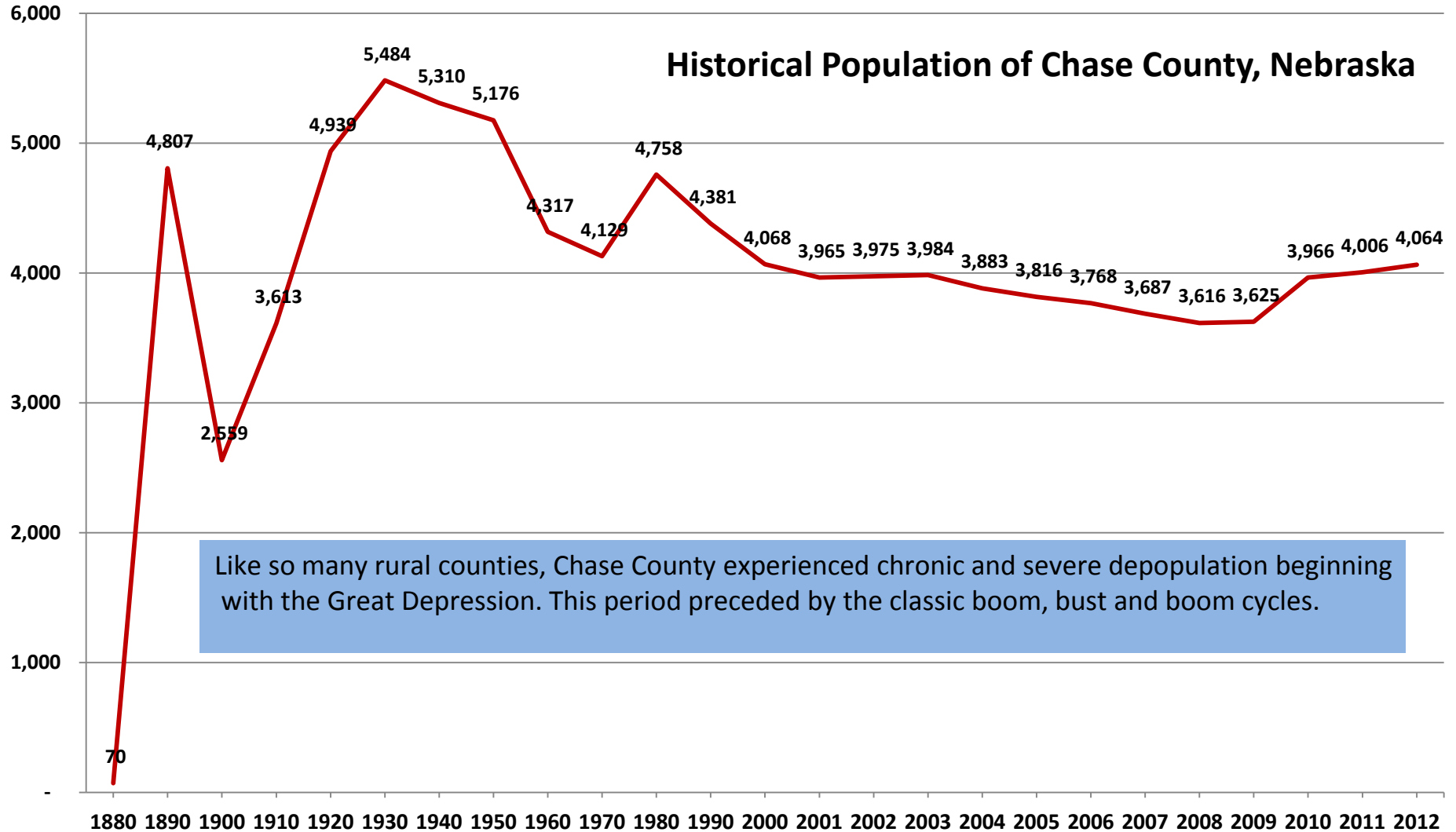
# **NetWork Kansas**

***Kansas is building one of the most robust and sustainable entrepreneur-focused economic development game plans in North America. There is a system of support that includes NetWork Kansas, the Kansas Small Business Development Centers, communities from urban to rural and hundreds of specialized resource providers.***

***Kansas is growing an entrepreneurial ecosystem one community at a time. We are in the process of capturing this story (Fall 2013).***

# Chase County, Nebraska

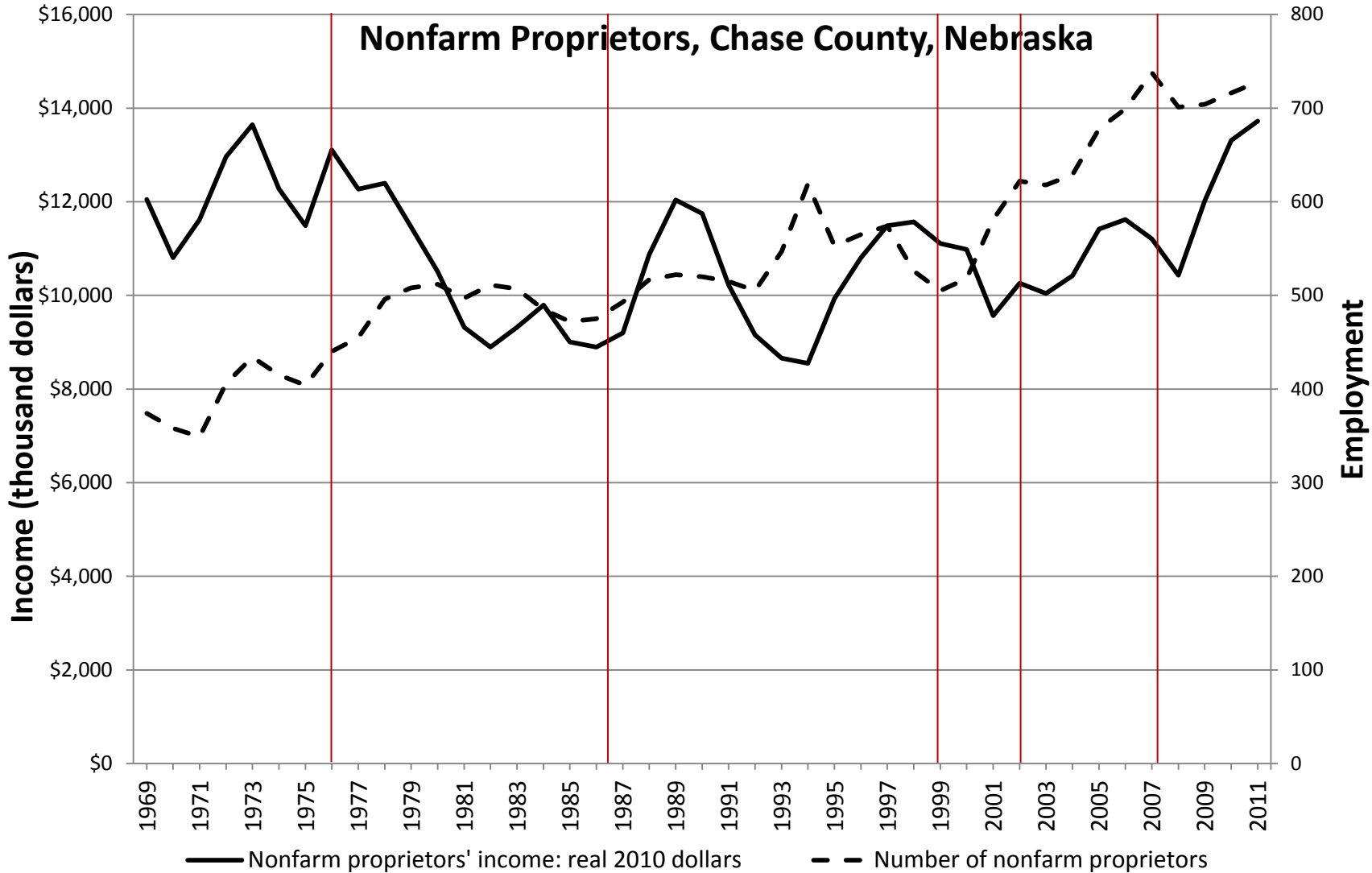
## Historical Population of Chase County, Nebraska



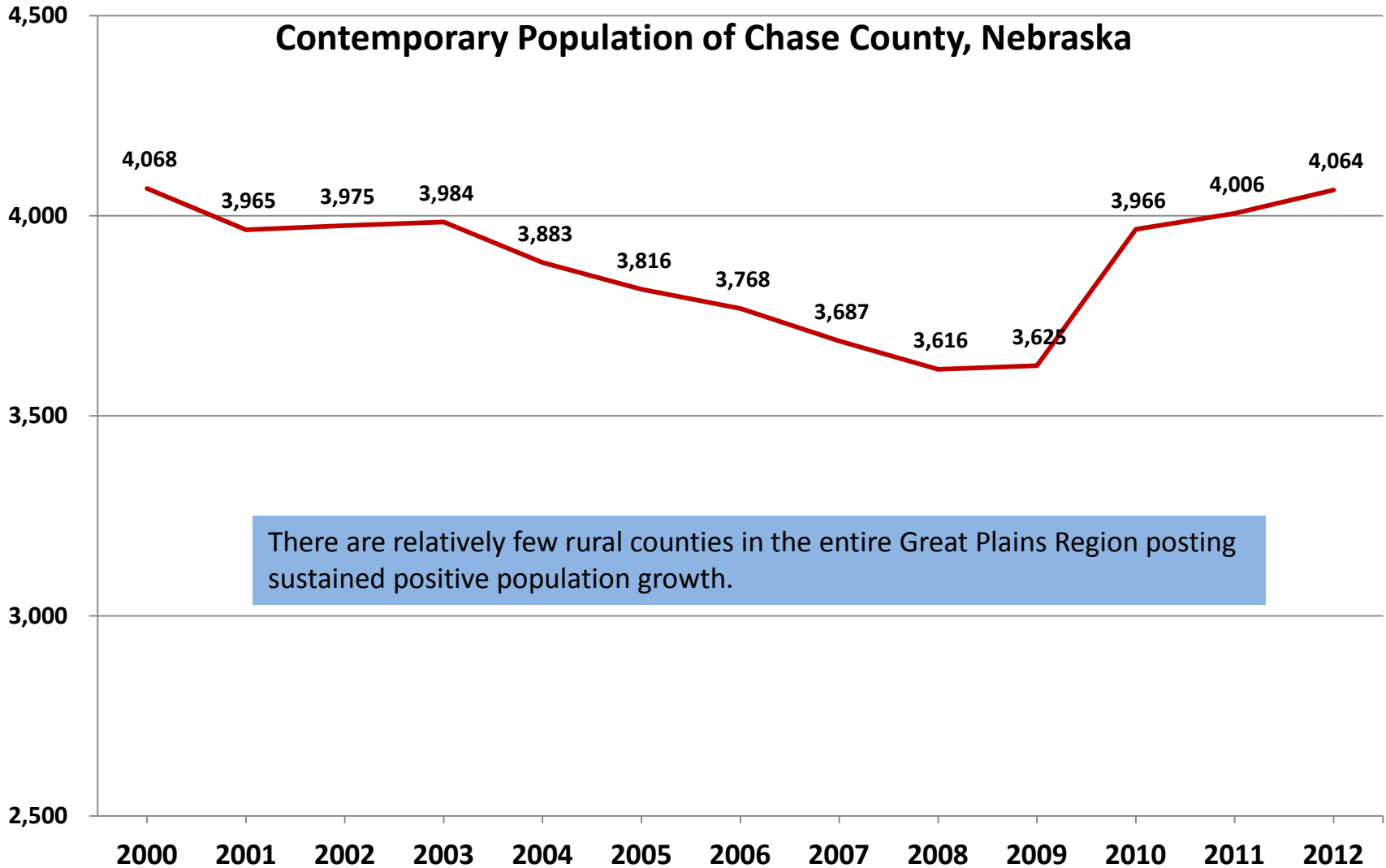
Like so many rural counties, Chase County experienced chronic and severe depopulation beginning with the Great Depression. This period preceded by the classic boom, bust and boom cycles.



# Economic Rebound



# Community Renewal



Do you have questions?  
E-mail us at:  
[communities@stls.frb.org](mailto:communities@stls.frb.org)

# Wrap-up/Closing

Thank you to today's presenters and to all participants for joining this session.

## Next steps:

- All session materials are available on our web site and in the next few days we will be posting an audio file of today's session.
- Additional Federal Reserve System resources related to this topic can be found on our web site along with links to your local Federal Reserve Community Development office.
- If you have topical suggestions for future sessions, or any questions about this program, please feel free to contact us at [communities@stls.frb.org](mailto:communities@stls.frb.org).
- Information about future sessions will be posted on our web site along with archived materials from past sessions: [www.stlouisfed.org/connectingcommunities/](http://www.stlouisfed.org/connectingcommunities/).