

2nd Quarter 2012| 27(2)

RESIDENTS SUPPORT ENTREPRENEURSHIP BUT POLICY LAGS

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JEL Classifications: O25, R58

Keywords: Community, Growth Entrepreneurship

With recent unemployment rates at above-normal levels, attention has naturally turned to methods for creating jobs at a faster rate. In elections, politicians promise tax breaks, energy programs, or other policies to create jobs. While short-term policy responses to address immediate needs have their place, sustained economic development may be enhanced through longer-term policies to encourage more entrepreneurship. Americans are, in general, "pro-entrepreneurship" (BBC World Service, 2011), with business leaders such as Henry Ford and Steve Jobs generally viewed as national heroes. As a nation, we are proud of our entrepreneurs but there is room for improvement in how we support them.

America is Well-Positioned for Business-Led Growth

We have highly developed transportation networks, most of us are native speakers of the world's preferred business language, and our immigrants provide the potential for entrepreneurs to link to export markets. Among our assets are the universities—training and innovation both support entrepreneurial businesses. Much of America's perceived decline in reality simply reflects rapid growth in countries that, after decades of failed policies, have begun to emulate the United States by unleashing the power of entrepreneurs. The world economy is shifting and reallocating opportunities, markets are booming in industrializing countries, so there are places for new business ventures in the economy. Increasing the number and performance of entrepreneurs can help maintain our position as the world leader in many arenas (Schramm, 2004).

Measuring Regional Differences in Entrepreneurial Attitudes

We can improve national prosperity by enhancing the performance of lagging regions. Positive attitudes should help encourage entrepreneurs within a region, but measuring entrepreneurial attitudes is not as straightforward as one might wish (Goetz et al., 2010). Focusing on start-ups as a measure is problematic because people may start a business only as a stop-gap measure under conditions of long-term unemployment (Koellinger and Thurik, 2011). One could also examine growth in jobs, income, or firms, but here again the relationship to attitudes is not straightforward: Growth is conditioned by the industrial mix and business cycles. Is North Dakota currently booming because the residents have entrepreneurial attitudes or is it because the state has fossil fuels now accessible by new extraction methods? One could also look at locations of high tech industries as an indicator of entrepreneurial attitude, but this is also not straightforward, as not all entrepreneurs are what Schulman and Rogoff (2011) define as technology-enabled. What about a person who has a better business model for a low tech business, such as Starbucks in its early years? This person is clearly entrepreneurial but would not be captured in measures of business innovation such as PhDs in the workforce or patents.

Given the complexities of measuring entrepreneurial attitudes indirectly, we surveyed Michigan residents. Respondents indicated their level of agreement with the following five statements:

1. How important is it for Michigan high schools to encourage young people to explore careers that involve starting a business?
2. Locally owned businesses contribute more to the overall welfare of a community than nationally and internationally owned businesses.
3. I would encourage a young person to be self-employed or start their own business instead of working for somebody else.

4. People who work for large employers are less likely to lose their source of income than people who work for small employers or are self-employed.
5. People who own their own business or who are self-employed can make just as good of a living as people who work for someone else.

Each statement was scored on a five point scale. A higher score implies more support for entrepreneurship. The results are shown in Table 1. The first insight that emerges is the very high level of agreement with several of the statements, with means near or above 4. Despite the high levels of agreement, a statistical test for differences in the means showed that attitudes vary across the six regions for items 1 through 4, but not 5.

Table 1

Mean Entrepreneurship Attitude Scores across Michigan Regions

	High Schools Should Encourage	Local Firms Contribute More	I would Encourage Youth	Small Firms are Riskier	Possible to Make a Good Living
Upper Peninsula	4.38	4.48	3.44	2.75	3.94
Northern Lower	4.36	4.3	3.79	2.55	4.07
Central	4.35	4.24	3.49	3.09	4.08
Southwest	4.3	4.18	3.49	2.95	4.06
Southeast	4.31	4.23	3.6	3.01	4.15
City of Detroit	4.75	3.86	4.21	2.89	4.07

Data source: State of the State Survey. Analysis by Loveridge et al., 2012. (n=918).

Detroit accounts for much of the difference across the regions. When we exclude Detroit, only item 4, about risk, is still statistically different across the remaining regions. We also explored the relationship between attitudes and local conditions: The structure of local employment does seem to matter in attitude formation, with respondents from areas with large firms less likely to equate large employers with income security.

From Table 1, we know that attitudes can differ by region. Can a region's entrepreneurial attitudes be changed by public policy? Much of the public dialog on increasing entrepreneurship focuses on reducing taxes. The opposing viewpoint is that reduced taxes entail service cuts that impact the business indirectly through poor schools, roads, etc. The empirical evidence about the effects of taxes on business growth is inconclusive (Markusen, 2007). Understanding that attitudes towards entrepreneurship vary by region may help explain why business response to changes in tax rates is mixed. Greater emphasis on low cost ways to enhance a region's entrepreneurial attitudes could potentially shift outcomes of other policies meant to enhance business growth.

Weak points in a region's entrepreneurial support infrastructure may vary from one place to the next. One place may put too much emphasis on small business start-ups, while another may need more start-ups. Lichtenstein and Lyons (2006) note the importance of considering a region's entrepreneurial pipeline, with entrepreneurs operating at every business size category. They argue that growth requires vibrant businesses of all sizes. Small businesses need large businesses as customers or role models, and larger businesses need small businesses as suppliers. Loveridge and Nizalov (2007) tested this notion in Michigan, finding the state is generally under supplied in firms with 1 to 4 employees relative to larger firms. Michigan has historically relied on large scale manufacturing to produce attractive jobs for high school graduates, and in this environment, incentives to start and grow small businesses are minimal. Thus Michigan may be missing a key link in its entrepreneurial pipeline due to its industrial legacy. Lichtenstein and Lyons (2010) and others note that a person's status as an entrepreneur is defined by his or her goals, not business size. If a business owner or manager wants to grow the operation, he or she is an entrepreneur. Thus efforts aimed strictly at "small business" may be inappropriate if the overall goal is growth of the local economy. While programs to help small or nongrowth oriented businesses may be needed to provide local amenities or critical businesses services, it is important not to conflate "small business" with entrepreneur. Also, not all entrepreneurs operate for-profit firms. For example, a non profit university may exhibit entrepreneurship by attracting stronger students or more funding. Perhaps a new word is needed in the economic development lexicon to distinguish between a small business owner and what Lichtenstein and Lyons consider an entrepreneur: growthineer. A growthineer designs and executes organizational growth in revenue, market share or employment.

Community-Based Models for Business Growth

Given our earlier observations that 1) attitudes may vary by place and 2) one should look across the business size spectrum to find growth oriented businesses, what actions are available to local groups seeking to enhance their

region's performance? A brief survey of models and areas for future development is provided here to help decision-makers begin to select strategies for their region.

Youth-oriented Models

A number of programs target youth of various ages on the theory that early exposure to business development ideas can seed future job creation and help youth explore careers. A partial list of programs includes both club-based and school-based 4-H programs, the national networks supported by the Council for Economic Education, Junior Achievement, and Rural Entrepreneurship through Action Learning. Despite their long histories, uptake of these programs has been modest. School funding has increased (NEA Research, 2009), but current emphasis is on “core” subjects (Stevenson, 2010), so these programs may be seen as add-ons that draw resources away from the focused objectives. Stronger federal incentives to embrace integration of entrepreneurship with core subjects in curriculum design could encourage greater uptake. Another possible reason for low levels of uptake of school-based entrepreneurship programs is that these programs, while modest in cost relative to other local economic development programs, may take up to a decade or more to impact jobs in the community—students must mature, make their way into the workforce, start a successful business and then grow it. All this takes time, and the public is impatient (Loveridge et al., 2010).

A strategy for those wishing to promote this type of program is to more directly tie the hands-on learning exercises in the activities to formal learning objectives established by districts seeking to improve their standardized scores. Mapping business development training to the basic learning objectives may earn school administrator buy-in faster than an add-on approach. For example, the math curriculum could emphasize business examples and activities. Students could create advertising in art and writing classes. History classes could teach how businesses have evolved over the centuries and their role in changing society. Business education need not come at the expense of core subjects.

Business Needs Assessments

Here again, the local decision-maker can select from a number of models. Economic development professionals often employ visitation programs to determine needs of major businesses in their area. The typical program is *ad hoc* in nature. Some university extension systems formalize the visitation process by integrating a broad-based survey with strategic planning sessions around issues raised in the course of visits. Sirolli (2004) proposes an “Enterprise Facilitation” model that breaks the retention and expansion work away from other professional economic developer functions such as marketing, infrastructure grants, and attraction. Sirolli calls for working full-time with growth-oriented local firms to address their management concerns and procure necessary growth resources (Macke, Markley, and Pages, 2005). Compared with “entrepreneurship” and industrial attraction, working with existing businesses likely offers the highest chance of immediate job creation payback for local dollars invested, but the odds work against dramatic immediate effects. More generally, externally-guided programs may lose focus once the nonlocal advisor moves on to the next community. To build a more sustainable system for supporting community-based entrepreneurship, Michigan State University offers the “Creating Entrepreneurial Communities” (CEC) Program. This program builds on notions from the popular “economic gardening” approach that grows businesses by giving them access to better information, stronger networks, and by focusing on local quality of life (Morgan, Lambe, and Freyer, 2009). The CEC program gives communities tools for creating support systems without imposing any predetermined sets of actions upon participants. Participants set priorities based on perceived needs and the passions of the local team, and a “coach” looks for resources to help in implementation. The expectation is that communities will more likely continue activities after the formal engagement with the university ends. The loose goal set also provides insights into which types of activities local leaders choose when they are in the driver’s seat. Results from the first year of the program indicate that participating teams are more interested or able to implement local networking activities than in changing local policies to become more business-friendly. Better policy change tools or ways of identifying local policy barriers may be needed.

Industry Targeting Models

While “industrial recruitment” has been the object of academic criticism, it continues to be a popular policy tool (Hodge, 2011) for various reasons (Loveridge, 1996). Some academics have begun to rethink industrial recruitment. While broad-based tax abatements for any industry are still viewed with skepticism, Goetz, Deller, and Harris (2009) place growth and attraction on the same plane by presenting stronger analytical tools and input-gathering mechanisms to inform targeted regional growth policies. Such policies include tax abatements to attract critical input supply or downstream firms. An example of this was identified by Kilkeny (2011): at Kansas State University (KSU), a recruiter brings firms that are already funding KSU research to town. Other targeting policies focus on seed capital, incubators for start-ups, or workforce training programs in selected sectors. These policies should be considered at a multi-county level as communities compete not with each other, but globally. Functional economic areas are

important for the analysis of rational policies to foster growth. While the Minneapolis-St. Paul area is an example of a region that shares tax bases to develop area-wide initiatives, more often than not regional cooperation encounters resistance due to travel time, age-old rivalries, and concern about fairness. These natural sources of resistance result in slow uptake of regional economic development initiatives. State and national policies to encourage greater coordination, such as United States Department of Agriculture Rural Development's Stronger Economies Together program or Housing and Urban Development's Sustainable Communities may help. While evidence from Canada's municipal consolidations indicates cost of delivering government services may be unaffected by regionalization (Douglas, 2005), a long-term benefit may be a stronger economy due to better coordination of business services for those sectors in which the region enjoys comparative advantage. A mixed model wherein many local services are delivered locally while economic development initiatives take place regionally may provide a more appropriate set of incentives.

Figure 1: Barry County, Michigan's comprehensive entrepreneurship support system. Image courtesy Erin Welker, Karen Health, and Ginger Hentz.



Policy Options

Entrepreneurship, broadly defined, enjoys remarkable support in public opinion polls. Academics who study economic development also view entrepreneurship favorably. However, these favorable perceptions do not match federal, state, and local actions to support businesses whose owners wish to grow, or strong programs to encourage more of those entering the workforce to chart a path towards growing businesses. The Small Business Administration's cut of \$10M from the budget for Small Business Development Centers in 2012 enjoyed bipartisan support. More attention to longer-term strategies to enhance the skills and opportunities of future growthineers could help policymakers willing to make appropriate investments sustain their organizations or gain reelection.

Much that is done on a local level is conditioned by foundations laid at higher levels of government. Higher levels of government can encourage place-based policies in conjunction with other national initiatives, such as funding work to produce, test and refine a model K-12 curriculum that integrates business principles across a wide array of subjects.

States could adopt and modify this curriculum in their pursuit of competency in core subjects while helping students gain intuition about basic business operations.

State and federal policy to encourage shared visions through regional collaboration in economic development initiatives such as targeting, or business information systems can facilitate local business formation. Such initiatives can also help form local attitudes and environments that produce and support more growthineers.

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Support for the research was from USDA National Institute for Food and Agriculture grant 2009-35900-05935 and MSU AgBioResearch. We thank Thasanee Satiamanon for assistance in analyzing the Michigan survey, and Barb Falls, Marsha Madle and Lisa Szymecko for a summary of Creating Entrepreneurial Community goals.

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