

2nd Quarter 2012| 27(2)

OUTREACH AND EDUCATION BOOST ENTREPRENEURS IN INDIANA

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JEL Classifications: Q16, R11

Keywords: Entrepreneurship; Education; Human capital; Outreach; Small business

A great deal of emphasis has been placed on the importance of entrepreneurs as a way to stimulate economic growth, as well as on the essential elements of successful new venture creation. Land grant universities and small business development centers throughout the United States routinely hold entrepreneurial workshops in an attempt to further educate entrepreneurs on factors considered to be key components of successful new business ventures.

The entrepreneurship literature recognizes three main factors of capital as essential elements of the entrepreneurial process: human, financial, and social. In an entrepreneurial context, human capital consists of the skills, experience, and education an entrepreneur brings to the venture. Financial capital includes the debt or equity funds an entrepreneur has available for venture startup and operations; and social capital encompasses family members, social and business networks, connections, etc. that may be helpful resources in new business creation.

Since human capital is the most accessible form of capital in terms of assistance strategies, Extension and other service providers who work directly to help startups and small businesses allocate a great deal of time and funds to develop this form of capital through skills training, record keeping, business planning, etc. Many studies have been conducted to determine the impact of human capital factors such as formal education, business planning, and industry and startup experience (for example see Bosma et al., 2004; Reynolds et al., 2004; Montgomery, Johnson and Faisal, 2005). However, earlier studies have not directly tied results to implications they may hold for future small business assistance strategies

We conducted two studies aimed at identifying the relative impact of human, financial and social capital on Indiana entrepreneurs who are approaching firm birth. We used data from a practitioner survey and an entrepreneur survey to identify the barriers to successful business startup. Results from the analyses provided information regarding the types of educational programming that would be most effective for entrepreneurs in the startup process and assisted us in deciding the best allocation of time and funds for entrepreneurial seminars and workshops.

The Entrepreneurial Process

Reynolds et al. (2002) indicate that three stages exist within the entrepreneurial process. The first stage includes the population of all individuals from which entrepreneurs are identified. During this stage, the first transition point occurs, which is named conception. Conception serves as a signal for when an individual decides to start a business. The second stage in this process has been deemed gestation, and has been found to have an average duration of approximately one year—although many entrepreneurs can take more than three years to start their venture. This stage consists of activities associated with the startup effort, many of which have to do with increasing entrepreneurial capital such as writing a business plan, going to educational workshops, networking and getting financing. The transition point of gestation is known as firm birth, which leads to the final stage of the process—infancy. Infancy is known to be the riskiest stage of the entrepreneurial process. For many firms this stage can last for approximately two years. At this stage it is imperative that the firm use the resources gained in the gestation period to its utmost advantage. From the infancy stage, there are three possible outcomes: firm growth, survival, or termination (Reynolds et al, 2002).

Many obstacles are present as firms transition through the entrepreneurial process. Most of the problems facing entrepreneurs originate from a lack of skill and/or information, insufficient financial backing, and inadequate social networks. A great deal of literature has been written that specifically addresses the issue of human capital and the unique challenge that it presents throughout the entrepreneurial process (for an extensive literature review see Peake

and Marshall, 2011). In particular, lack of human capital such as education and experience make finding and receiving financial backing difficult and decrease the amount of exposure to business networks needed to transition successfully to firm birth. Therefore, it appears that Extension and small business practitioners have a particular role to play in the gestation period where a critical amount of information and confidence have to be amassed in order for the entrepreneur to transition to firm birth.

Human Capital

Many studies have been conducted to determine the impact of human capital factors on entrepreneurship. In particular, a major focus has been placed on industry experience and general human capital in determining the success of entrepreneurs in starting a firm. The importance of education as a form of general human capital has been demonstrated in several studies. It has been found that higher education levels indicate an increased likelihood of starting a firm and demonstrate a significant impact on the performance of the new venture (Cooper, Gimeno-Gascon, and Woo, 1994; Robinson and Sexton, 1994; Bates, 1995; Reynolds 1997; Reynolds et al., 2002; Peake and Marshall, 2009). Although education as an indicator of human capital was shown to be relevant in startup participation, work experience has been inconclusive as a statistically significant factor in predicting participation in a startup or in predicting startup success (Davidsson and Honig, 2003; Peake and Marshall, 2011).

An argument can be made regarding the effectiveness of Extension and small business assistance programs in improving human capital. Chrisman, Gatewood, and Donlevy (2002) found that small business assistance programs were capable of addressing the needs of entrepreneurs. Most small business assistance programs can usually address two important needs as part of their programs: technical assistance and business startup experience. Often, as part of these programs and workshops, networking opportunities are provided between the entrepreneurs themselves and experts presenting at these programs.

Setting the Stage by Surveying Stakeholders

We conducted a food industry needs assessment for Indiana that was used as a foundation for the Food Entrepreneurship Program (FEP) (see Marshall, Bush, and Hayes, 2005). The objective of the assessment effort between the Agricultural Economics and Food Science Departments at Purdue University was to identify the needs of food entrepreneurs within the state of Indiana. To attain this objective, Extension Educators from 86 counties in Indiana were surveyed in 2002. Survey questions covered three subject areas: 1) resources that Purdue University Cooperative Extension might provide, 2) the number and type of inquiries made by food entrepreneurs to Extension Educators, and 3) food entrepreneurs' interests, and type of product they were planning to market. The number one need was help with food regulations followed by business startup, marketing, and product development.

To identify entrepreneurs in the gestation stage of the entrepreneurial process, surveys at two primary educational outlets for entrepreneurs were distributed: Purdue University affiliated entrepreneurship workshops and Small Business Development Center (SBDC) seminars across Indiana. Of the 231 Indiana entrepreneurs given the opportunity to participate in the study, 101 agreed to participate for the two year term (January 2004 – January 2006), which yielded a response rate of approximately 44%. The study was done over two years since the gestation stage can take up to two years. The survey requested information related to personal demographics, community characteristics, industry, human capital, financial capital, and social capital. A number of general conclusions emerged from the analysis. For example, not only did education and wealth play a role in firm birth but so did the act of trying to write a business plan and previous experience in the industry. However, we found that many nascent entrepreneurs did not have previous experience in the industry they wanted to enter.

We also found that focused workshops on particular themes were more helpful than general startup workshops (Peake and Marshall, 2009). For example, entrepreneurs who attended the specific food workshops that were offered by Purdue University were more likely to start their business than those who attended the SBDC's more generic startup workshops. Therefore, workshops that are industry related—for example goat breeding or organic farming—such as those offered by Extension and beginning farmer and rancher programs around the country would seem to be more conducive to actually starting a business than a more generic business startup program.

The entrepreneur survey and practitioner surveys led us to conclude that three main factors were inhibiting business startup: lack of industry experience or knowledge, lack of business planning, and lack of marketing knowledge. These were three factors that we could address through different types of educational programs.

Educational Programs for Entrepreneurs

Purdue University Cooperative Extension provides a number of impactful programs for entrepreneurs at all stages of the entrepreneurial process. This article focuses on three programs that are different in terms of audience and outcomes and deal with entrepreneurs in the gestation stage. First is the Food Entrepreneurship Program which is focused on food entrepreneurs and developed using information from the practitioner survey. Second is the New Ventures Team's *INVenture* program, which helps entrepreneurs in the business planning stage. Third is the Business Beginnings Program that is dedicated to Latino nascent entrepreneurs. The last two programs were developed using information gained about the gestation stage from the entrepreneur survey.

Food Entrepreneurship Program (FEP)

This interdisciplinary entrepreneurship program is designed to help potential food entrepreneurs make more informed business decisions on the viability of their ventures. The FEP provides educational materials and technical assistance to food entrepreneurs. The Agricultural Economics Department coordinates and provides the educational materials and technical assistance related to business management. The Food Science Department provides the educational materials and technical assistance related to food processing. A core output of the FEP is an annual workshop titled, *Introduction to Starting a Specialty Food Business in Indiana*. This one-day workshop features several experts from different state agencies such as the Indiana State Board of Health and university departments who discuss important topics related to starting a food business. Approximately 20% of the participants continue in the process of starting their food business.

Food entrepreneurs generally need technical assistance in product development, recipe scale-up, and marketing. Workshop attendees have continued to pursue product development, business startup, and marketing assistance from the FEP. Food entrepreneurs are required to take the *Introduction to Starting a Specialty Food Business* workshop before more one-on-one resources are provided, in order to establish that entrepreneurs have some basic understanding of what it takes to start a food business.

New Ventures for Food and Agribusiness for Indiana

New Ventures is a team of Purdue Extension specialists and educators whose mission it is to increase the viability and sustainability of small businesses in Indiana. The programmatic vision for the team is to provide research-based curricular material and training to entrepreneurs and other small business development practitioners. *New Ventures* merged with the Agricultural Innovation and Commercialization Center (AICC) to develop business management tools for entrepreneurs. A key output of the merger was *INVenture*, a business planning software, which is available for use free on-line at www.agecon.purdue.edu/planner. *INVenture* helps entrepreneurs think through the business planning process in the course of six interactive stages.

Why the emphasis on business planning? Based on results from the entrepreneur survey, approximately 30% of respondents had participated in a business startup, while the remaining 70% were still working to get their idea off the ground. Nearly two-thirds of respondents indicated that they had attempted to create a business plan; however, only one-quarter of those individuals indicating that they had attempted to create a business plan had actually completed it. Just attempting to write a business plan increased the chances of firm birth. Therefore, an effort was made to make the business planning process as straightforward as possible by creating an interactive software program that can be accessed from anywhere and tracks the entrepreneur's progress. As of July 2011, the program had over 8,000 registered users.

Business Beginnings

In collaboration with two Indianapolis based entrepreneurship programs, Business Owners Initiative and The Central Indiana Women's Center, a fee-based short course titled, "Business Beginnings", was developed for delivery in Spanish to the Latino community. Reaching under-represented groups is a new and important focus for Extension. This course provides much needed business management education to a new and ever growing Extension audience.

We experimented with recruitment methods such as brochures in public libraries and churches, talking to business owners in Latino neighborhoods, and ads in Spanish language papers. The most successful recruitment tool was using an Indianapolis Spanish language radio station to promote the course on a popular evening program. We also experimented with the times and offerings of this course to accommodate already working adults. This course began as a 20-hour course conducted on four Saturdays. This proved to be too much information in one day. The course finally settled on 18 hours taught on Tuesdays and Thursdays from 6-9pm for three weeks.

The course focuses on starting and managing a small business in Indiana and includes content such as business planning, financial management, organizational structure, and marketing. More importantly, the course also focuses

on the different types of regulations and documentation that an entrepreneur must navigate to start a business in Indiana. Minority and immigrant entrepreneurs specifically find this a high barrier to entry. As a result of the course, participants were able to identify key financial, marketing, and regulatory concepts and issues. Approximately 20% of the attendees have gone on to start a small business. Of those participants who already had a business, 100% said the course will help them manage their business better. Thirty percent of the participants decided to delay the start of their new venture to get better prepared. Many of those who needed more time cited needing to improve their language skills as a reason for the delay.

Concluding Remarks

The entrepreneur survey and practitioner surveys led to the conclusion that lack of industry experience or knowledge, lack of business planning, and lack of marketing knowledge were inhibiting business startup. After almost a decade working with entrepreneurs, these still appear to be key barriers to success. However, these are barriers that can be mitigated by creating and delivering educational and technical assistance programs.

The impact of many entrepreneurship programs is measured by the number of business startups and not necessarily the human capital gained through the programs. However, the number of entrepreneurs who held back or decided not to start the business is also an important and measureable impact. For example, roughly 25% of those attending the FEP workshop decided not to pursue their initial business venture after learning the details of starting a food business. This means that more viable firms are being established and individuals who might otherwise start a business are perhaps saving thousands of dollars. Nascent entrepreneurs will take the human *and* social capital gained at entrepreneurship programs and use it in different ways. Some will start a business within a year, while others will take three years and still others will not start at all. So a question for educators to think about is whether the real impact of these programs is the number of businesses started or the human capital gained from programs that may or may not result in a viable business.

For More Information

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