grow YOUR OWN

ENTREPRENEURSHIP-BASED ECONOMIC DEVELOPMENT FOR LOCAL COMMUNITIES

FEDERAL RESERVE BANK OF KANSAS CITY

FOREWORD AND INTRODUCTION

FOREWORD

The Federal Reserve Bank of Kansas City serves the seven states of the Tenth Federal Reserve District, which include Colorado, Kansas, Nebraska, Oklahoma, Wyoming, northern New Mexico and western Missouri. As the regional headquarters of the nation's central bank, the Kansas City Fed participates in setting national monetary policy, supervises and regulates financial institutions, maintains stability of the payment system, and provides financial services to banks and other depository institutions.

To succeed in each of these mission areas, the Federal Reserve relies on numerous resources, ranging from the most current economic and banking data to the analysis and expertise of its staff. One of the Federal Reserve's resources is its Community Development function, created in the 1980s following Congress' approval of the Community Reinvestment Act.

Community Development professionals take policymakers to the front lines of community issues through a range of initiatives, including forums, conferences, directed research and advisory councils. These initiatives position the central bank to respond effectively to emerging economic developments, long-term needs and new challenges confronting rural and urban low- and moderate-income communities.

The Kansas City Fed's Community Development department focuses its research, resources and programming on five primary areas: community development investments, financial stability for the underserved, neighborhood stabilization, workforce development and small business development. The Kansas City Fed understands the vital role small businesses play in growing the economy by providing jobs, building communities and being key innovators of new technology and processes. This guide was developed to assist communities throughout the Tenth District and across the nation explore the benefits of a grow your own approach to economic development.

INTRODUCTION

Quality economic development is important to the overall health and wellness of communities. And it's the responsibility of economic developers to determine and resolve the various economic demands of communities, which can stem from global, national and local shifts in demographics, economic forces and labor markets. The purpose of this e-book is to present an emerging model of economic development that focuses on using entrepreneurship as a primary economic development strategy to address these demands. Entrepreneurship-based strategies, which we call *grow your own* strategies, focus on supporting the creation and growth of local entrepreneurs and small businesses in order to create sustainable and balanced economic growth at the local level.

This e-book will provide *grow your own* strategies and principles that local leadership can use as a guide for their community. This e-book is organized in two main sections. The first section presents a case for entrepreneurship and small business as economic drivers in communities. The section also discusses why a *grow your own* economic development strategy can be a better fit for many communities. The second section examines the elements of *grow your own* models and what communities will need to implement these models as an economic development strategy.

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PART I
THE CASE FOR ENTREPRENEURSHIP AND *GROW YOUR OWN* ECONOMIC DEVELOPMENT

Communities seeking to grow their economy need to understand the impact entrepreneurship and small business play in economic growth. Part I will examine this impact and make a case for *grow your own* strategies that place an economic development priority on creating and growing local business.

THE IMPORTANCE OF ENTREPRENEURSHIP

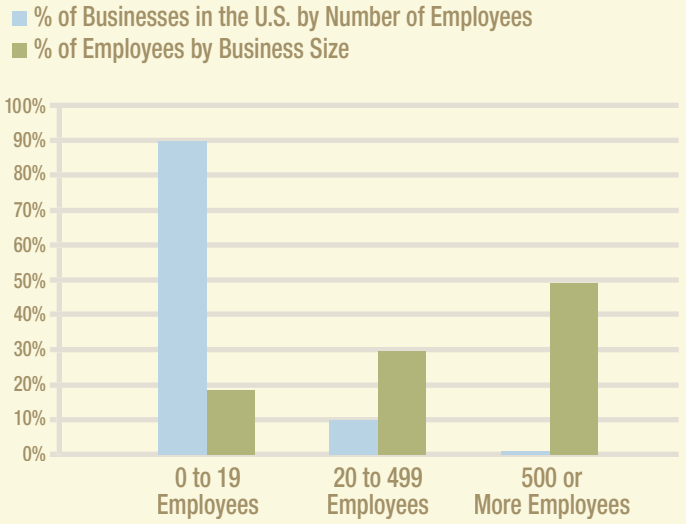
Small businesses are called the backbone of the U.S. economy because they create jobs, wealth and a local sense of place and community. This section will provide a more in-depth look at the importance of entrepreneurship and small business in the national economy.

SMALL BUSINESSES AND JOBS

One of the goals of economic development is job creation. Chart 1, using data from the Congressional Research Service, reflects the majority of all businesses in America are classified as small businesses. These small businesses employ a significant number of all U.S. employees.

CHART 1

U.S. BUSINESS SIZE BY NUMBER OF EMPLOYEES AND TOTAL EMPLOYMENT

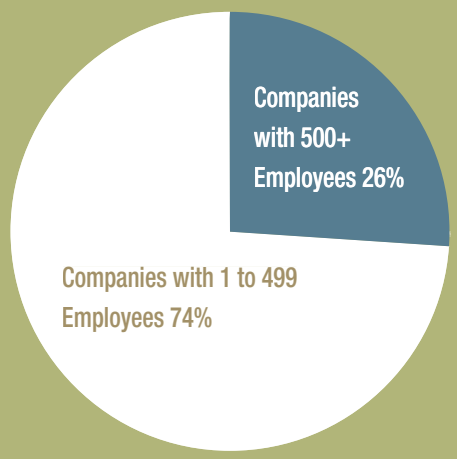


Source: Congressional Research Service

There are approximately 27.8 million businesses in the United States. Businesses with fewer than 500 employees represent 99.7 percent of all businesses in the nation. These small businesses employ 50 percent of all U.S. employees (Dilger, 2013). Small businesses also drive new job growth. Small businesses created 74 percent of all net new jobs since 2008, as shown in Chart 2 (Contreras-Sweet, 2015).

CHART 2

U.S. NET JOBS CREATED BY COMPANIES SIZE SINCE 2008



Source: U.S. Small Business Administration

POVERTY ALLEVIATION

Economic researchers often cite entrepreneurship as a tool to eliminate poverty. For example, a 2009 research study on Appalachia, one of the poorest regions in the United States, found that entrepreneurship and small business growth increases local employment and income levels (Mojica, 2009). Other research shows that helping low-income individuals become self-employed can lead them out of poverty and reduce welfare reliance (Rupasingha, Contreras, & Room, 2010).

SENSE OF PLACE

Cities, towns and communities are places where individuals interact, develop relationships and pursue quality of life, not just areas where economic activity occurs. Small businesses and entrepreneurs create a positive sense of place and culture in communities. According to research from the Federal Reserve Bank of Kansas City:

Lifestyle entrepreneurs provide many of the services needed by local residents, and, perhaps most important, they add to the personality and charm that characterize Main Street economies.

And,

Many times, these smaller businesses radiate a quaint charm that attracts people to America's Main Streets (Henderson, 2002).

While growth-oriented entrepreneurs drive employment, smaller businesses are often the drivers of local amenities, specialty services and culturally specific goods that give a community its unique identity and sense of place.

ECONOMIC STABILITY

Economic diversity is key to creating stable local economies. Communities that rely exclusively on one dominant industry or have limited industry diversification put themselves at risk. Economic diversity within a region offsets some of the risk of a general economic downturn. Having strong entrepreneurs and small businesses helps diversify local economies. Businesses and business creators bring new ideas and models to local communities (De Sousa-Brown, 2008).

MOVING TOWARD ENTREPRENEURSHIP-BASED ECONOMIC DEVELOPMENT

The aforementioned are a few reasons why supporting entrepreneurship and small business development is not only important, but should be an economic development priority for many communities. *Grow your own* strategies, however, require a shift in how economic development is conducted in the nation.

THE IMPORTANCE OF *GROW YOUR OWN* ENTREPRENEURSHIP-BASED ECONOMIC DEVELOPMENT

As explained previously, *grow your own* economic development strategies emphasis the importance of entrepreneurship and small business development. This section will first define economic development and other associated terminology. Next, the dominant model of economic development, attraction and recruitment-based economic development is examined. Finally, the section defines *grow your own*, entrepreneurship-based economic development and how it may be a better strategy than traditional economic development models for many communities.

ECONOMIC DEVELOPMENT DEFINED

The best known economic development education and certifying body, the International Economic Development Council (IEDC), defines economic development as:

… improving the economic wellbeing of a community through the efforts that entail job creation, job retention, tax base enhancements and quality of life.

IEDC points out that a community's economic development strategies will be defined by local needs and goals. As such, economic development goals are unique to the needs of each local community, state or region.

IEDC's economic development definition identifies a few key development functions:

- Development is about ensuring that a community has sufficient access to jobs to have a stable and growing economy.
- The role of economic development is to help bring in suffi cient tax revenue to support effective governance and infrastructure.
- Economic development is about creating a place where individuals within the community desire to live, work and play.

When social and demographic diversity is included, a more robust definition of economic development occurs. This definition states:

The fostering of 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.

These two definitions of economic development serve as a useful way of evaluating economic development strategy. If a strategy is effective it will accomplish these broad goals. With this in mind, an evaluation of traditional and emerging economic development strategies can occur.

ATTRACTION-BASED ECONOMIC DEVELOPMENT

Attraction-based economic development has been the industry dominant model over the past few decades. This development strategy emerged during the time of industrial expansion in the United States. It focuses on strategies designed to recruit large companies or plants to communities or regions to spur economic development. As this strategy evolved, states, regions and communities created economic development incentives to attract firms. These incentives are used to provide a community with a competitive advantage over other communities. This advantage occurs when a community lowers the cost of doing business for the relocating firm or provides support that improves the company's profitability.

Many of the incentives that communities offer reduce a company's operating and capital costs such as tax and utilities abatements, low cost property leases and other incentives. The general objective of the economic developer using an attraction-based strategy is to provide short-term incentives to attract businesses. The justification for this strategy is that the long-term economic gain provided by the relocating company will be greater than the cost of providing the company with incentives to relocate.

Although this model has been dominant in recent decades it is not without its critics. Research done in 2004 found that states spend billions on economic development incentives every year with limited evidence that, on-net, it is effectively creating economic growth (Peters & Fisher, 2004). An in-depth corporate incentive research article

by the *New York Times* found that more than $80 billion dollars went to corporations and other large firms to either attract or retain them in a given community (Story, 2012). States and communities often use incentives to either mitigate the risk of firms going overseas or to bring new jobs to the area. However, as both articles noted, many times firms remain or come to an area for a variety of reasons outside of local incentives. This makes attraction-based economic development risky considering the amount of economic rewards communities provide companies based on speculation. In addition, communities run the risk of firms relocating to other communities once incentives run out or the company receives a better offer.

Attraction-based economic development is a highly competitive, zero-sum game. Communities compete with each other for a new plant or re-locating firm but only one can win. Because of the competitive nature of attraction-based economic development, site selectors, individuals who represent corporations who are looking to locate firms, are diligent in searching out locations that will lead to company profitability. In a comprehensive survey of corporate executives looking for new sites, the following selection and quality of life factors ranked highest (Area Development, 2012).

Site Selection Factors:

1. Labor cost
2. Highway accessibility
3. Availability of skilled labor
4. Availability of advanced ICT (information, communication and technology) services
5. Occupancy or construction costs

Quality of Life Factors:

1. Low crime rate
2. Healthcare facilities
3. Housing availability
4. Housing costs
5. Rating of public schools

Site selectors and corporations use many variables to determine where they locate a plant or office. Certain communities will always be at a disadvantage when seeking to attract corporations because of how this evaluation occurs. Smaller rural and inner city communities often have trouble attracting companies. Rural communities are often far from transportation hubs and highways, have limited labor available and lack advanced technology. Inner city communities face quality of life and workforce barriers and often have lower skilled labor, higher crime rates and lower quality school systems.

For many communities, particularly smaller towns, researchers have characterized attraction-based development as both a risky and a costly model (Mayer & Knox, 2010). Research from the Federal Reserve Bank of Kansas City suggests that an alternative strategy of focusing on the growth of existing small businesses may be a more cost-productive economic development and job creation strategy than recruitment of new businesses (Edmiston, 2007).

GROW YOU OWN, ENTREPRENEURSHIP-BASED ECONOMIC DEVELOPMENT

Grow your own, entrepreneurship-based economic development is one of the emerging alternative strategies to attraction- and recruitment-based development.

Grow your own strategies can be designed to fit the unique needs of communities seeking to grow their economies. These strategies can be defined as follows:

Grow your own economic development strategies place the primary emphasis on the creation and support of local entrepreneurs and small businesses to achieve development goals within a defined geographic region.

Grow your own strategies create economic growth by focusing on developing local entrepreneurship and supporting local business growth. These strategies leverage the entrepreneurial potential of the existing population by connecting them to resources, networks and opportunities that increase new startups and enhance existing business growth. This local focus distinguishes *grow your own* strategies from attraction-based economic development strategies. Chart 3 demonstrates the differences between the two strategies.

CHART 3

ATTRACTION-BASED DEVELOPMENT	*GROW YOUR OWN* DEVELOPMENT
Recruiting to community	Starting and growing businesses in community
Corporate focused	Entrepreneurship focused
Development done by local development organization	Development done by multiple stakeholders through a local network
Visible victories when new firm is attracted	Long-term growth, less visible wins
Zero sum game, either the firm locates to your community or to another community	Over time some businesses will fail and others succeed, therefore it is a portfolio approach to growth
Competitive, each community seeks to be the winner	Collaborative communities can leverage shared resources to grow local businesses

Each community needs to evaluate its strengths and weaknesses and determine which strategy or how the strategies can be combined to achieve economic development goals.

WHY *GROW YOUR OWN* MODELS ARE IMPORTANT

Grow your own strategies provide certain communities the opportunity to create economic growth more effectively than attraction-based economic development strategies. Also, there are key trends occurring in the United States that *grow your own* strategies may be more affective in addressing. These key trends are:

1. Economic and population growth needs of rural communities
2. Economic development in low-income and inner city communities
3. The growth of the Hispanic demographic in America
4. The growth of the senior demographic in America
5. The retention and support of youth and millennials in America

RURAL COMMUNITIES

Many rural communities, particularly smaller rural communities, have consistently faced economic development challenges. An article prepared by the USDA titled *Poverty and Deep Poverty Increasing in Rural America,* states that what is known as "deep poverty" (defined as having cash income below half one's poverty threshold) is higher for rural communities than nonrural communities (Farrigan, 2015). Since 1976 rural poverty has been approximately 3 to 5 percent above urban poverty rates.

In addition, rural population growth, on net, has either slowed or declined in recent years. From 2010 to 2013, 61 percent of all nonmetro counties lost population (United States Department of Agriculture, 2014). Rural communities on average have older populations than nonrural communities. The average age in a rural community is 5 years older than the average age of a nonrural community. In addition, 20 percent of the rural population is over the age of 62 versus 15 percent for urban counties (Chinni, 2014). One reason for this increase in average population age is the outmigration of youth and young adults from rural communities.

These conditions make it difficult for many rural communities to attract businesses. When these conditions are coupled with lower population density and travel distances, economic development is more difficult. Rural communities with less educated populations, higher poverty rates and limited infrastructure have increased difficulty. It is for these reasons that *grow your own* strategies may be a better fit for many rural communities.

INNER CITY COMMUNITIES

Many inner city communities have intractable problems that cause economic development difficulties, including poverty, low education rates and crime. Often economic development does not occur in these communities without gentrification—the removal of the existing population in favor of a wealthier population. Even communities with the ability to attract new companies face challenges as often these new companies are ineffective at changing the economic conditions of low-income, inner city communities.

According to the Initiative for a Competitive Inner City, inner city poverty is 32 percent (Ferguson, 2014). This makes the inner city poverty rate:

- Approximately three times higher than the combined urban and suburban rate within the local metropolitan statistical area.
- Approximately two times higher than the national poverty rate as a whole, including rural communities.

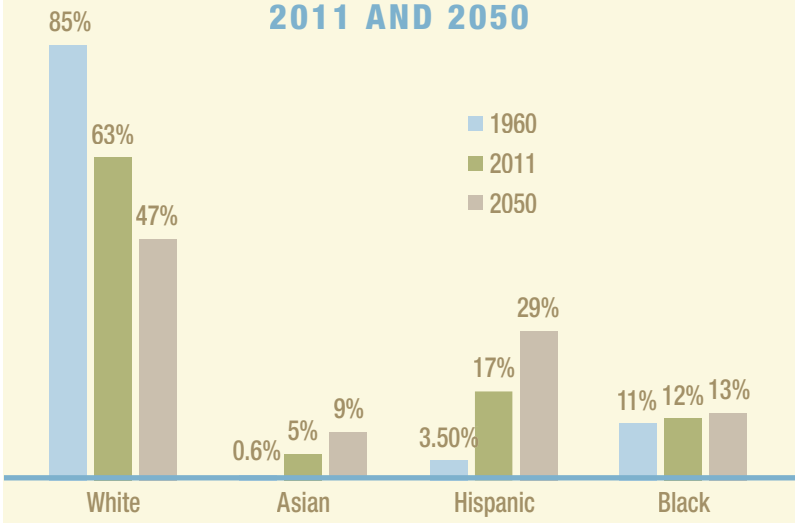
Strategies that use incentives to attract large companies may work for a city as a whole. However, these strategies are often not effective at developing low-income communities within the city. *Grow your own* strategies may be a more effective way to develop inner city communities, reduce poverty and improve quality of life.

THE GROWTH OF THE HISPANIC DEMOGRAPHIC

Over the next 35 years, America is projected to become a majority-minority nation. As Chart 4 demonstrates, the Hispanic community is expected to grow from 17 percent of the population to 29 percent during that time period. During this same period, the white population is expected to decline from 63 percent of the population to 47 percent (Passel & Cohn, 2011).

CHART 4

POPULATION BY RACE AND ETHNICITY, ACTUAL AND PROJECTED, 1960, 2011 AND 2050

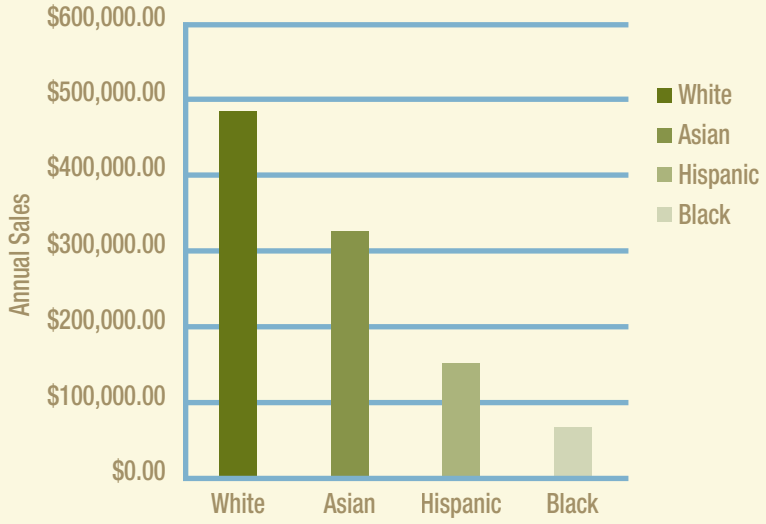


Source: Pew Hispanic Center

Hispanics have smaller and fewer businesses on average. As the Hispanic population percentage increases, this may create a future economic challenge for the nation. White businesses compared to Hispanic business have three times the annual sales and employ three times the number of people per firm. In addition, for every Hispanic owned business there are 20 individuals within the Hispanic population. For every non-Hispanic white owned business, there are 10 individuals in the white population. Small businesses play an important role in the national economy. This disparity in business size and numbers between a high growth Hispanic population and the declining white population can have significant long-term economic impact. (U.S. Census Bureau, 2007).

CHART 5

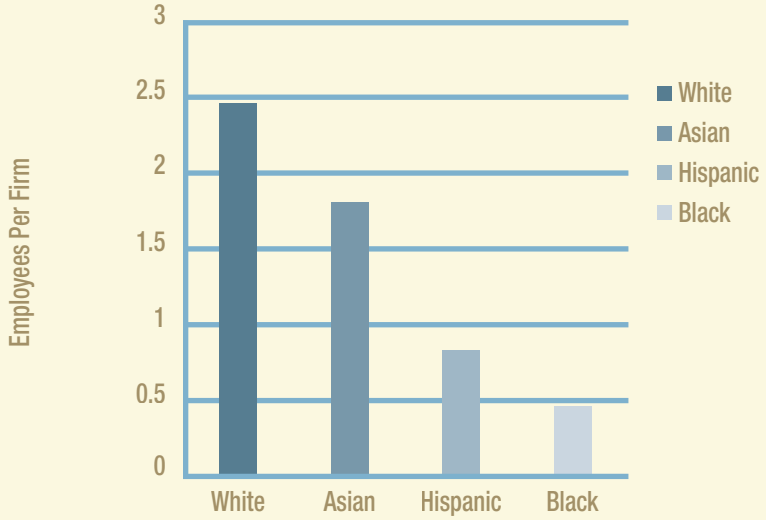
FIRM SIZE BY SALES RECEIPTS PER FIRM 2007 CENSUS SURVEY OF SMALL BUSINESS OWNERS



Source: U.S. Census Bureau's Survey of Business Owners, 2007

CHART 6

FIRM SIZE BY EMPLOYEES PER FIRM 2007 CENSUS SURVEY OF SMALL BUSINESS OWNERS



Source: U.S. Census Bureau's Survey of Business Owners, 2007

Closing the gap between Hispanic and white business ownership over time can be accelerated by *grow your own* strategies.

THE GROWTH OF THE SENIOR DEMOGRAPHIC

By the year 2030 the senior population in the United States, aged 65 and older, is expected to grow to 19 percent of the total population, up from 12.4 percent in 2000 (U.S. Department of Health and Human Services). This demographic group provides tremendous opportunities for communities and their economic development strategies. Seniors have a significant amount of human and financial capital and seek to be productive outside of traditional employment. Supporting senior entrepreneurship can help spur local development. For example:

- Working retirees are three times more likely than pre-retirees to own their own business (Merrill Lynch & Age Wave, 2014).
- One out of every four older adults is interested in entrepreneurship (Dickson, 2015).
- Start-up rates are higher for Americans aged 55-64 than they are for those in their twenties and thirties (Stangler, 2014).

According to Elizabeth Isele, founder and president of Senior Entrepreneurship Works and an international expert on senior entrepreneurship:

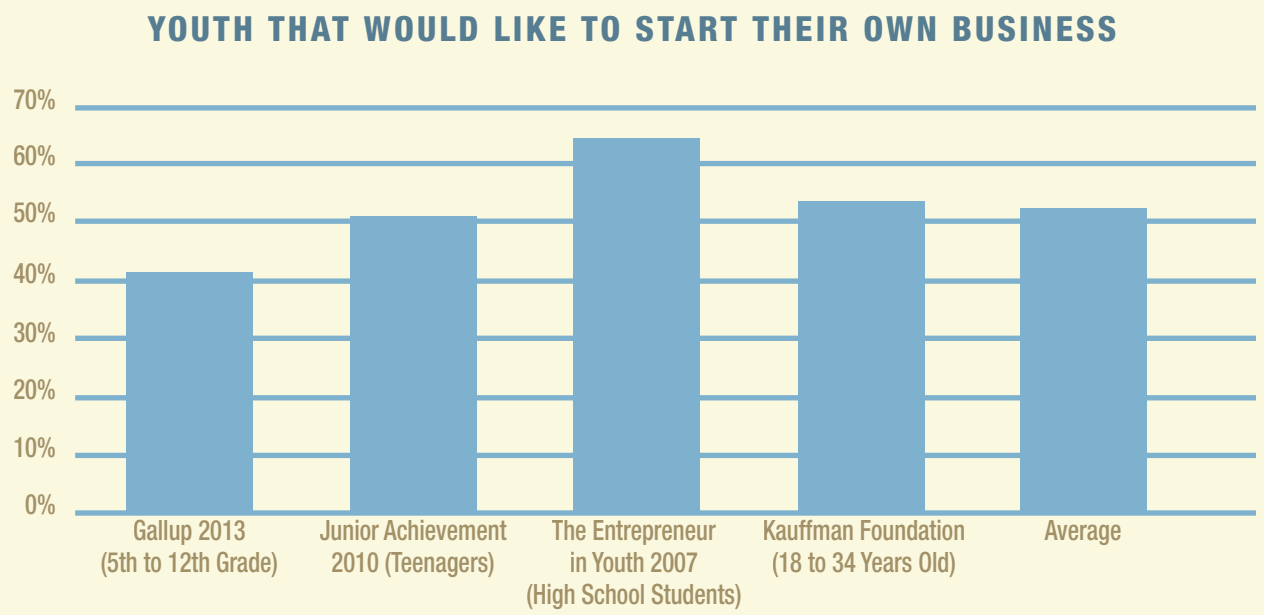
> We are on the leading edge of an extraordinarily powerful social change movement. Many of the complex societal challenges that we face require precisely that mix of life experience and understanding that older people have in abundance … We are creating strategies and means to harness seniors' potential to create not only their own economic self-reliance but, even more, the economic self-reliance and revitalization of their communities, indeed their nations.

Grow your own strategies help leverage the entrepreneurial capacity of the growing senior demographic. This is particularly important in rural populations that tend to have older residents living in their communities.

YOUTH AND YOUNG ADULTS

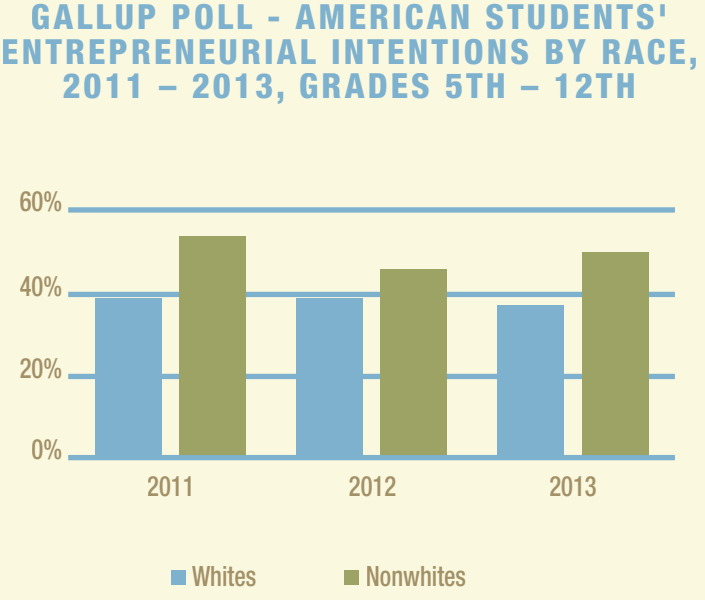
Entrepreneurship and business ownership are ways to reduce talented youth from leaving rural and inner city communities. Using a *grow your own* strategy can be an important role to address the desire of youth and young adults to own their own business in their local community (Walzer, 2007). According to multiple surveys, more than 50 percent of high school age students desire to start their own business. Students themselves are requesting more entrepreneurship education and information. According to a review of four major polls on youth entrepreneurship, more than half of all students surveyed said they would like to start their own business.

CHART 7



Minority students have shown even greater entrepreneurial aspirations than their nonminority peers, according to a Gallup poll (Myers & Sidhu, 2014).

CHART 8



Source: Gallup, Inc.

Only 47 percent of all students reported that they had classes in their school on how to start or run a business. This is consistent with other research that shows students are often not introduced, educated or provided with information and resources on entrepreneurship and self-employment (Schoof, 2006, p. 39).

Generation Y, commonly known as millennials, are individuals born between 1981 and 1997. This group currently has the largest presence in the labor force, but surveys suggest that they are not content to simply remain employees (Fry, 2015). A 2014 survey by Bentley University found that two out of three millennials stated that their goal was to own a business someday (Bentley University, 2014).

Small business ownership is important to both retain youth and young adults in communities that have economic development challenges. It is also important to support the general aspirations of this group. *Grow your own* can play a vital role in helping make the entrepreneurial aspirations of youth and young adults a reality.

MOVING TO GROW YOUR OWN MODELS

There are key national trends that *grow your own* strategies can help address, creating economic growth and opportunity. The next section examines the general principles of *grow your own* development in more detail.

PART II
ADOPTING A *GROW YOUR OWN* MODEL

The tremendous importance of entrepreneurship to both local communities and the nation as a whole was examined in Part I of this e-book. *Grow your own,* entrepreneurship-based economic development was presented as a strategy that could help grow economies. Part II will provide more detail on the *grow your own* model and provide a high level overview of how to pursue a *grow your own* strategy in a local community.

There is no one-size-fits-all grow your own strategy. A plan to grow the economy of a small town with 150 residents will differ from developing a plan to grow an urban neighborhood where one zip code alone may have more than 10,000 people. In spite of the uniqueness of each community there are key *grow your own* principles that can be applied regardless of local differences in size, geography or population. The three principles that will be discussed in this section are:

1. The Entrepreneurship Ecosystem
2. The Hub and Spoke Organizational Model
3. Leadership, Vision and Strategy

The bulk of this section will focus on the most important part of *grow your own* strategies: the entrepreneurship ecosystem. Communities that apply ecosystem principles will be well on their way to establishing a *grow your own* economic development system.

THE ENTREPRENEURSHIP ECOSYSTEM

Creating a strong entrepreneurship ecosystem is the core of a *grow your own* economic development strategy. One comprehensive definition of an entrepreneurship ecosystem that is useful comes from the Organisation for Economic Co-operation and Development, otherwise known as the OECD. They define an entrepreneurship ecosystem as:

> … a set of interconnected entrepreneurial actors (both potential and existing), entrepreneurial organisations (e.g. firms, venture capitalists, business angels, banks), institutions (universities, public sector agencies, financial bodies) and entrepreneurial processes (e.g. the business birth rate, numbers of high growth firms, levels of 'blockbuster entrepreneurship', number of serial entrepreneurs, degree of sellout mentality within firms and levels of entrepreneurial ambition) which formally and informally coalesce to connect, mediate and govern the performance within the local entrepreneurial environment. (Mason & Brown, 2014).

Breaking the definition down into practitioner language, the entrepreneurship ecosystem can be defined as:

> The organizations, institutions, formal and informational relationships, policies and cultures that support or hinder the creation of entrepreneurship and small business growth of all sizes and types in a specific community or region.

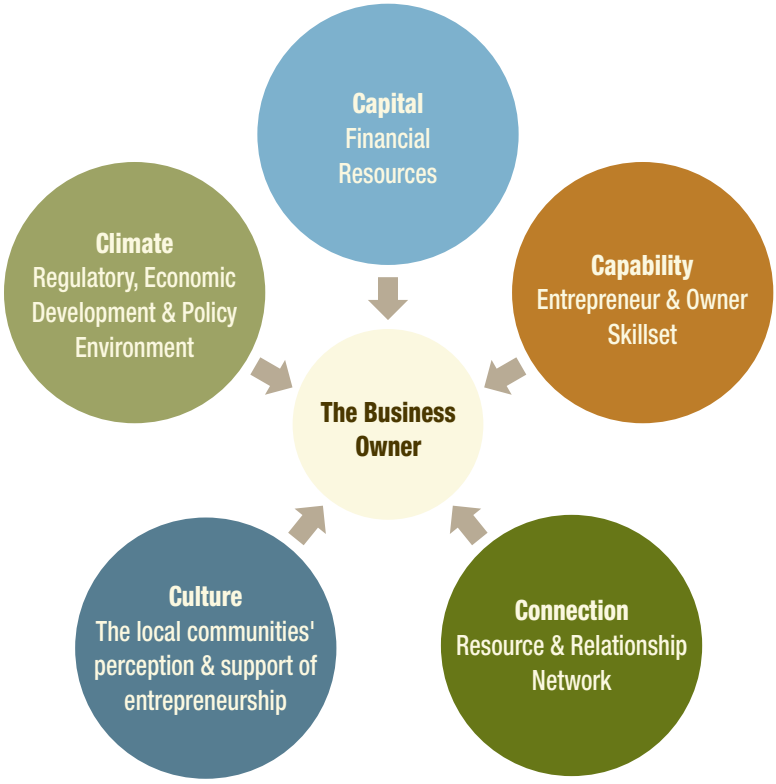
ECOSYSTEM DIMENSIONS

Daniel Isenberg, a leading researcher from Babson College, broke down the ecosystem into six primary components: policy, finance, culture, supports, human capital and markets (Isenberg, 2011). Don Macke and his counterparts at the Center for Rural Entrepreneurship have defined five key elements in an entrepreneurship ecosystem. These elements are entrepreneurial talents, entrepreneurial culture, entrepreneurial infrastructure, human development focus, and youth engagement (Macke, Markley, & Fulwider, 2014).

This e-book has taken the prior definitions and categories and broken them down into the 5 Cs of the entrepreneurship ecosystem:

CHART 9

5 C'S OF THE ENTREPRENEURSHIP ECOSYSTEM



Capital

Entrepreneurs and small business owners need access to funding to start and grow a business. Funding needs will vary by size and type of business. These funding sources could range from personal savings to large venture capital funding. An effective ecosystem has funding types that match the funding needs of local entrepreneurs and small business owners.

Capability

An owner's ability to effectively run and grow a business will determine the success or failure of the business. Owner's need both general business skills, such as basic marketing, operations, accounting and management, as well as technical skills specific to the industry they are in, such as retail, wholesale, manufacturing or service. An effective ecosystem has formal and informal sources of knowledge, education and technical assistance available to help foster the necessary business skills of local owners.

Connection

Formal and informal relationships that support entrepreneurs, create business relationships and opportunities and provide mentoring and support relationships help small businesses grow. These relationships can occur both within a specific industry, such as trade associations and industry networking groups as well as general networking and relationship building activities. An effective ecosystem provides a variety of ways for entrepreneurs to network and build relationships that increase business opportunities and growth.

Culture

Culture is often defined as the shared attitudes, values, goals and practices of a given community. An effective entrepreneurial ecosystem is one that values and supports entrepreneurship. Entrepeneurship is a celebrated and expected activity. An effective ecosystem positions entrepreneurship as a way to improve local quality of life and grow the local economy.

Climate

An effective ecosystem has a climate that facilitates entrepreneurship growth by removing unnecessary public sector barriers to entrepreneurship. It also uses policy to improve local entrepreneurship startups and small business growth by developing the appropriate infrastructure, tax policy and incentives.

AN EFFECTIVE ECOSYSTEM

An effective ecosystem has developed the capital, capability, connections, culture and climate to such a degree that entrepreneurship and small business growth is consistent and scalable. This is done in conjunction with the economic development goals of the local community. Ecosystem effectiveness is determined by the assessment of the economic developers and local stakeholders. However, the entrepreneurs and small business owners in a community are the ones that will ultimately determine whether an ecosystem is effective. This makes it important to develop an entrepreneurial ecosystem through the perspective of an entrepreneur.

There are two primary questions to ask when looking at the ecosystem from an entrepreneur's perspective. The first question asks whether the resources, connections and information an entrepreneur needs are available in the community. This is known as having either a sparse or dense ecosystem. The second question asks whether an entrepreneur is able to rapidly find the local support and resources that they need when they need it. This is known as having a foggy or transparent ecosystem.

SPARSE VERSUS DENSE ECOSYSTEM

Entrepreneurs and small business owners can struggle in what is known as a sparse ecosystem. In this ecosystem the types of services, products and activities that business owners need to start and grow effectively are not present. For example, a high micro-business (businesses with nine or less employees) oriented community may dramatically benefit from a small dollar business loan pool, but it may not be available. This lack of appropriate funding may cause small businesses in the area to not start, have slow growth or even fail from lack of appropriate financing. An effective ecosystem is a dense ecosystem. It has the resources, activities and opportunities to enable startup and small business growth and achieve economic development goals.

CHART 10

SPARSE ECOSYSTEM EXAMPLE

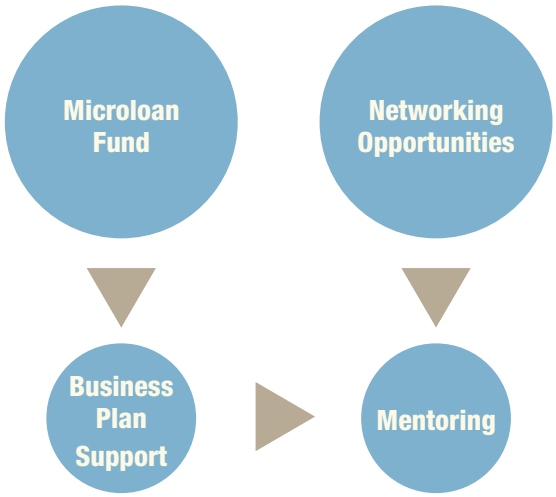
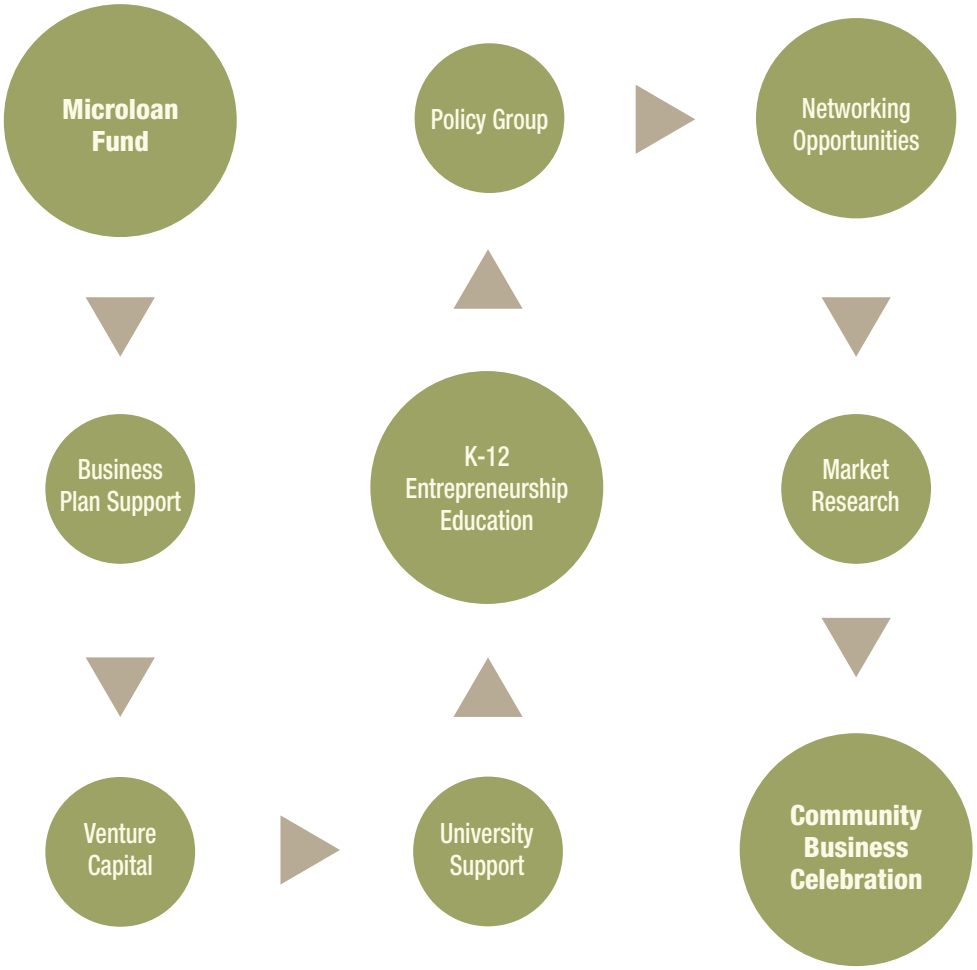


CHART 11

DENSE ECOSYSTEM EXAMPLE



FOGGY VERSUS TRANSPARENT ECOSYSTEM

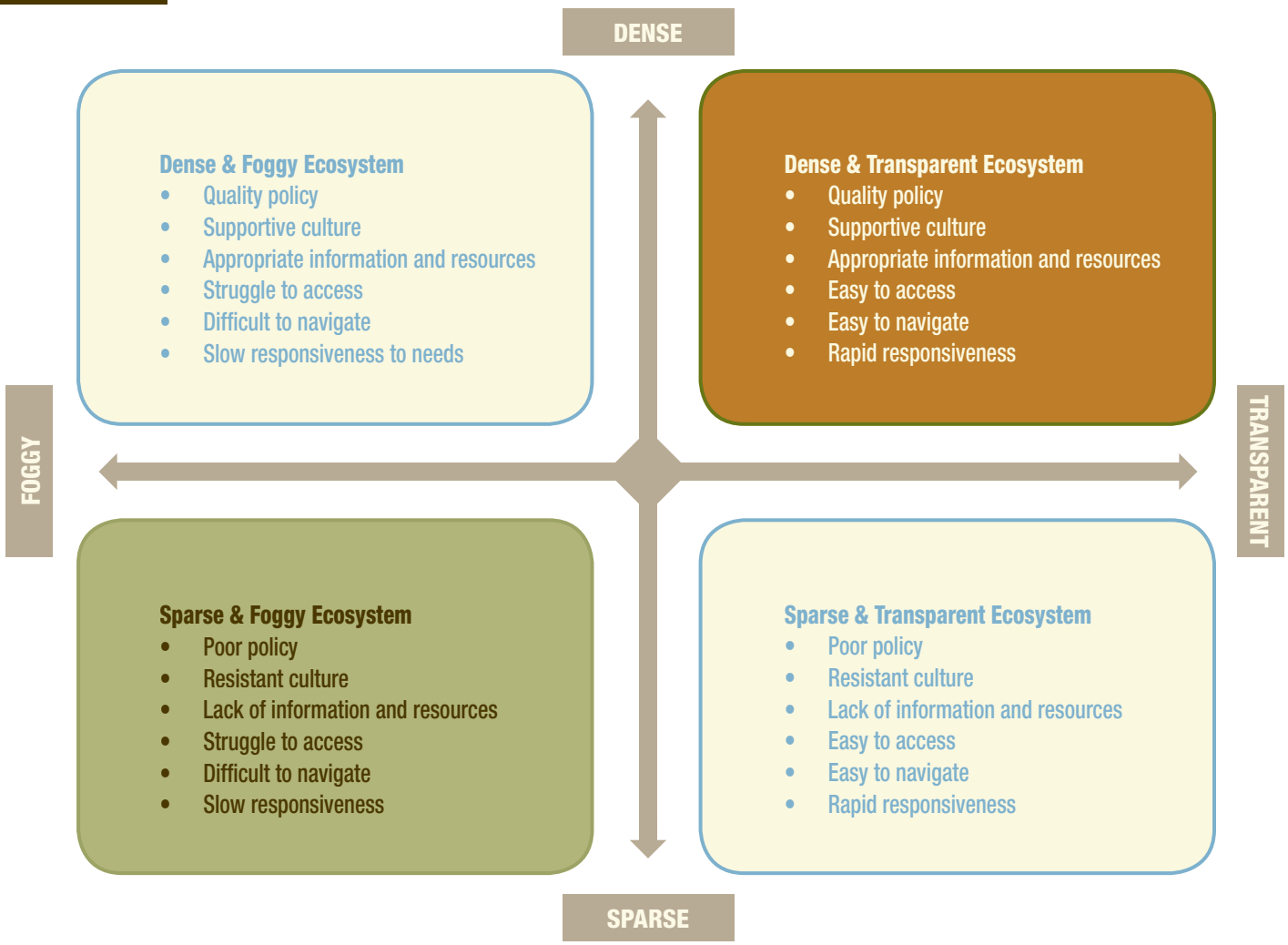
Business owners complain that entrepreneurship support services are hard to find and once found are difficult to navigate in many communities. When this complaint is heard, it is a good indicator that an ecosystem is foggy and fragmented. In many cases service providers are not communicating with each other, there is limited connectivity between government, banks, education and other organizations that help support entrepreneurs. This forces the entrepreneur to spend valuable time searching for support instead of using that time growing their business.

Effective entrepreneurship ecosystems seek to create the most transparent and connected ecosystem as possible. This means that organizations are highly connected, readily share referrals and help reduce the entrepreneur's time locating needed services within the ecosystem.

The best entrepreneurship ecosystems are dense and transparent. They have the activities, policies and support mechanisms necessary to support entrepreneurship growth. They also are easy to access, navigate and have providers that are responsive to the needs of local entrepreneurs and business owners. While not comprehensive, the following matrix provides a helpful view of strong ecosystems versus weak ecosystems.

CHART 12

ECOSYSTEM STRENGTH DIAGRAM



ASSESSING YOUR ECOSYSTEM

Assessing the strength of an entrepreneurship ecosystem can be challenging but important. The purpose of an assessment is to determine a baseline for small business and entrepreneurial activity and assess that activity in relationship to the factors that promote or hinder entrepreneurial growth. The end result of the assessment, however simple or complex, should be a document or a list of identifying factors in the ecosystem that can be improved, eliminated or maintained. This assessment can then be used to create a strategy developed to foster the entrepreneurship and small business growth necessary to achieve economic development goals.

The Aspen Institute assessed multiple models of entrepreneurship ecosystem and found five key factors of entrepreneurship ecosystem assessment (Aspen Network of Development Entrepreneurs, 2013).

1. Geographical Unit of Analysis – Often in smaller communities, the geographic analysis is either the town or the county. In metro areas, communities can often overlap and are influenced by local adjacent communities. This makes determining the geographical target a challenge and it must be done with thoughtful consideration to community location and history.

2. Depth of Analysis – Economic developers and stakeholders must determine the amount of information they will need to make intelligent economic development decisions. For most economic developers the depth of analysis will vary based upon time, funding and resources available to conduct analysis. At minimum a general assessment of the conditions in each of the five areas of entrepreneurship ecosystem above should be done. Some data and information may be easier to acquire than others when analyzing a local ecosystem. For example, often data is available on the number of existing businesses, size and sales. However, when attempting to evaluate entrepreneurial culture, new surveys may have to be created. Enough information must be gathered to have reasonable confidence that there is an understanding of the strengths and weaknesses of the existing ecosystem.

3. Domains of Interest – An economic developer who focuses on *grow your own* strategies in a low-income community may choose to prioritize supporting businesses that can be rapidly developed. Communities that have many very small businesses may determine that developing high-growth entrepreneurship should be a priority. Each assessment should be conducted based upon what the economic developer can actually influence and the primary objectives of the developer and stakeholder.

4. Identifying Rating Indicators – The Aspen Institute, citing the OECD, states that when rating the dimensions of an ecosystem, the indicators should be relevant, accurate and available. Relevant indicators are useful in making quality strategic decisions. For example, developing a rating to determine how difficult it is to access a small business loan may be relevant to assessing the capital dimension of the ecosystem. Conversely, developing an indicator to measure what type of savings or checking accounts small business owners use may have zero value in strategic decision making. Accurate indicators provide information that effectively describes what it is trying to measure. For example, the Census Bureau's Survey of Small Business Owners only occurs every five years. The lag between when the information is gathered and when it will be used for analysis may limit its accuracy in analyzing small businesses in a community. Depending on when the indicator is needed, it may be better to find an indicator that fits more appropriately with the economic development timeline, goals and measurements needed to determine if milestones are being achieved.

5. Data Collection and Analysis – Methods need to be put in place to collect ecosystem data and analyze it. One frequently overlooked resource in data collection and analysis is local university systems and libraries. These institutions often provide low cost or free research and can help minimize the cost of assessment.

Two free tools that can provide a community with a very basic entry assessment of the entrepreneurship ecosystem is the Census Bureau's County Business Patterns (CBP) online assessment tool and Policy Maps. The CBP allows a community to assess business changes by zip code or county level. This includes businesses by size, type and sales. Policy Maps is what is known as a geographic information system (GIS) mapping tool. This tool allows communities to find, sort and map a wide variety of economic, social and demographic data. The Federal Reserve Bank Kansas City offers this tool for free on its website. For a more comprehensive guide to evaluating entrepreneurship ecosystems the Aspen Network of Development Entrepreneurs provides a high quality overview as well as models of analysis that *grow your own* developers can use called the Entrepreneurial Ecosystem Diagnostic Toolkit.

UNDERSTANDING THE NEEDS OF THE ENTREPRENEUR AND BUSINESS OWNER

Like communities, no two businesses are the same. Each business has distinctive processes for doing business even if they are in the same industry. This makes it impossible for one organization to reach out and support each individual business in their community unless it is a very small community. It is important then to develop an entrepreneurship ecosystem that supports the needs of different types and sizes of businesses. As a general rule when a business grows so does the complexity of both its business systems and needs. The following charts show the general structure based upon size of company.

CHART 13

Stage 4 - 500+ Employees

- Well defined and highly sophisticated strategy, layers of expert management across divisions, needs access to highly developed workforce with sophisticated skill sets, clear and comprehensive business model, intense competition, often global for market share

Stage 3 - 100 to 499 Employees

- Defined strategy, expert management, owner as CEO, needs access to workforce markets, supply chains and financial expertise, sophisticated business model, sophisticated competitors for market share

Stage 2 - 10 to 99 Employees

- Refining core strategy, dealing with industry shifts, expanding markets, building management teams, embracing new leadership roles as owner shifts to CEO, growth becomes more intentional (Lowe Foundation), selling to broader market base

Stage 1 - 1 to 9 Employees

- Basic strategy, owner still wears many hats, limited 'specialized management', basic systems, strategy is day-to-day driven, simple business models, growth is more organic, direct selling to broader customer base

Self-Employed

- Limited strategy, owner wears all the hats, sells to a narrow audience, basic banking and financial requirements, direct selling to narrow customer base

Note: These are generalities and differ by revenue, industry type and business maturity.

An effective entrepreneurship ecosystem will support all sizes of businesses and their basic needs. However, economic developers may strategically focus on certain types, sizes and ages of business in order to achieve specific economic development goals.

ECOSYSTEM CONCLUSION

The entrepreneurship ecosystem should be the foundation of *grow your own* economic development strategies. The goal of *grow your own* economic development organizations should be to ensure that each of the 5Cs—capital, capability, connectivity, culture and climate—are coordinated and strong.

THE HUB AND SPOKE MODEL

In part I, a chart was provided that distinguished between an attraction-based model of economic development and a *grow your own* model. One of the benefits of attraction-based economic development is that it can be managed by a few organizations within a town, city or region. Often the local economic development organization or chamber of commerce takes the economic development lead. These organizations often work with site selectors, recruit key firms, are aware of available properties and incentives for businesses and field interest calls. Economic development activity can be somewhat centrally driven by these few organizations as they house the professional expertise and resources to pursue nonlocal companies.

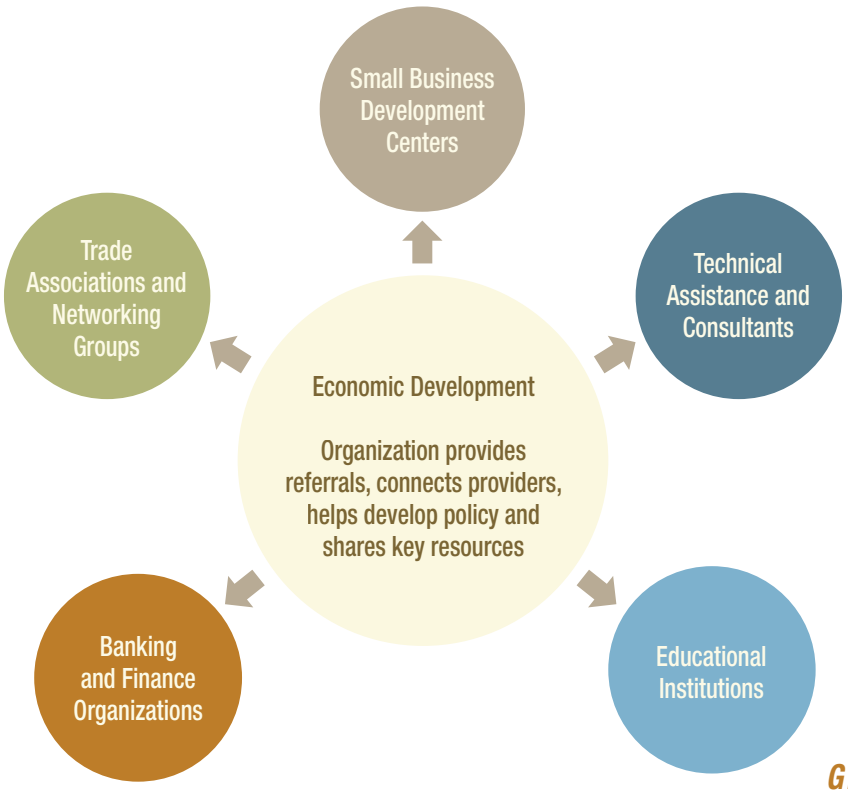
Economic developers using *grow your own* strategies are responsible for building a network of relationships and providing key research, tools and information to the network of entrepreneurship support providers and financers in a community. *Grow your own* strategies still benefit from a lead organization, but this organization functions very differently from a traditional economic development entity. The lead organization relies on cultivating a network of relationships across broad and diverse stakeholder groups to foster economic development. Relationships and networks are the essential element of *grow your own* strategies. The *grow your own* economic developer has no direct managerial control over the wide variety of other entrepreneurship and business-support providers. This makes *grow your own* economic developers significantly less centralized in their ability to directly influence economic development in their community. Instead, development is done through building a collective network of entities and individuals within the entrepreneurship ecosystem.

This connection of relationships and networks in *grow your own* strategies is most often driven by what is known as the hub and spoke model. The economic development organization sits at the center of the relationship and network building process of the entrepreneurship ecosystem. It facilitates connections and referrals among the entrepreneurship and business support providers within a given community. As the "hub," the economic development organization may also provide a key tool or resource for the entire network, which helps reduce costs to other stakeholders in a community (Sutherland Institute, 2011). An example of this could be the economic development organization purchasing a tool for advanced market research. This tool could then be used by other organizations in the network to enhance their programs at no additional cost.

The following is a very basic diagram of a hub and spoke model with the economic development organization at the center.

CHART 14

HUB AND SPOKE EXAMPLE



The economic development organization is tasked with becoming an entrepreneurial catalyst in its community. To accomplish this, it must both understand the ecosystem of their development territory and develop an organizational structure to help positively influence the ecosystem.

GROW YOUR OWN ECONOMIC DEVELOPMENT SKILLS

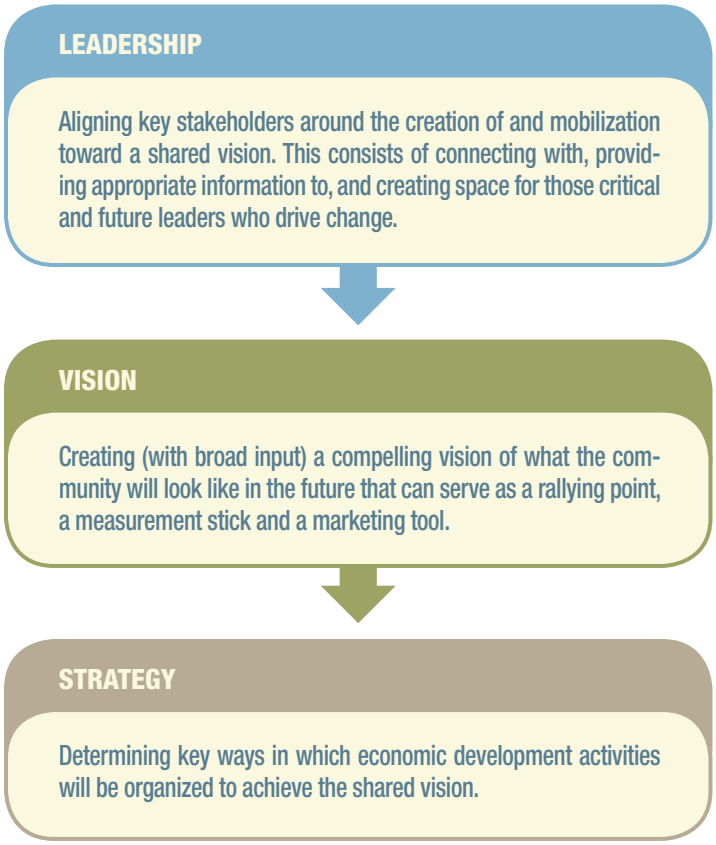
Grow your own strategies have different characteristics from traditional attraction-based economic development strategies. *Grow your own* economic development practitioners must develop nontraditional skills sets to be effective at this form of development. The following are some of the key skills that grow your own developers or development teams need to cultivate to be effective.

- Leadership facilitator – The ability to bring local leadership together to develop consensus.
- Vision oriented – The ability to help craft and keep stakeholders committed to a long-term economic development vision.
- Strategy guider – The ability to help prepare and execute strategic plans and adapt to changing circumstances.
- Network weaver – The ability to connect individuals together across the ecosystem and bring new stakeholders into the network that will strengthen the ecosystem.
- Information discoverer and broker – The ability to discover and share new information that will strengthen a community's ability to achieve economic development goals.
- Collaboration catalyst – The ability to reduce organizational silos and improve collaboration within the ecosystem.
- Culture transformer – The ability to support and grow an entrepreneurial culture in a local community.
- Policy advocate – The ability to be aware of and to advocate for policies that improve the local climate for starting and growing small businesses.
- Business spectrum champion – The ability to champion businesses of all size or type, while strategically focusing on businesses that achieve economic development goals.

LEADERSHIP, VISION AND STRATEGY

The adoption of a *grow your own* strategy requires the important elements of leadership, vision and strategy. The following chart provides a short summary of these key areas and how they influence the economic development process.

CHART 15



LEADERSHIP

Don Macke, director and founder of the Center for Rural Entrepreneurship, was asked why one community fails and another thrives even though they are very similar communities. Don's one word answer was, "Leadership." Economic development leadership consists of aligning key stakeholders around the creation of and mobilization of the community toward a shared vision. One of the most important tasks for *grow your own* economic developers is to develop strong local leadership. *Grow your own* strategies are nontraditional, emerging strategies. Because of their newness, many local leaders may either resist or be unaware of such strategies. Without strong local leadership, actively pursuing a *grow your own*-strategy may be difficult or impossible. This makes securing leadership support one of the highest priorities for an economic developer.

The National League of Cities states, "Dedicated leadership is needed to raise awareness, help develop and communicate a common vision, and motivate stakeholders into action" (McFarland & Seeger, 2010). In addition, the National League of Cities states:

> City leaders play a key role in economic development by establishing a locally-based vision and implementing this vision with coordinated public policies, strategic partnerships, supportive infrastructure and an efficient regulator environment. (National League of Cities)

Local leadership is a critical component to the success of a *grow your own* strategy. It is highly recommended that a strong support network of local political and community stakeholders be developed before pursuing this model.

VISION

Developing a clear vision for the long-term success of a community is imperative. The International Council of Economic Development states that:

> A realistic vision—reflecting the community will—sends a powerful message to internal and external stakeholders alike that efforts to improve the community are headed in the right direction, that complex problems are being addressed in a systematic manner, and that the community is operating under committed leadership. (Wilkins, Hackler, & Girdwood, 2011)

While having a strong vision is important to attraction-based economic development strategies, it is even more important in *grow your own* strategies. These strategies are driven by decentralized relationships and collaborative networks. Having a strong vision that is supported by key organizations and individuals within the entrepreneurship ecosystem is imperative. It helps stakeholders understand their role in the relationship, aligns collaborative activity, and keeps everyone in the network on a common path.

A strong vision is developed through consensus, creates a compelling picture of the future and can be used to frame strategic planning and economic goals. Policies, activities, funding, human resource management and other entrepreneurship economic development activities should connect to the implementation of the economic development vision for the community.

STRATEGY

Strategy is defined by Merriam-Webster's dictionary as, "… a careful plan or method for achieving a particular goal usually over a long period of time". Developing strategy and the plan to execute that strategy, or strategic planning, will enhance the development of a quality *grow your own* plan and program. Once an effective analysis of the current entrepreneurship ecosystem has been completed, creating a strategy to execute a *grow your own* plan can be created. Six features of a quality strategic plan are:

- Sets clear goals and objectives
- Serves as a basis for developing effective organizational policy
- Creates a platform for development programs
- Identifies potential barriers and obstacles to success
- Draws on available assets and opportunities
- Provide a method for feedback and evaluation

There are many books, training manuals and programs available to help economic developers construct a strategic plan. One recommended book is *Economic Development Strategic Planning* and is one of the International Economic Development Council's training manuals. While this book is not specifically geared toward *grow your own* economic development, it provides a high quality overview of economic development strategic planning that can be used for economic development strategies.

The Federal Reserve Bank of Kansas City offers a variety of informational guides that are available to local stakeholders and leaders about the *grow your own* model. A link to these guides and other economic development resources can be found at the conclusion of this e-book.

CONCLUSION

Entrepreneurship and small business development and growth are vital to local, regional and national economies. Entrepreneurship is a key driver of job creation, economic diversification and improving local quality of life. It is a tool for poverty reduction, reducing economic disparity and creating a positive sense of community. *Grow your own* strategies can help create strong entrepreneurship ecosystems that use the strength of entrepreneurship and small business growth to achieve economic development goals. This model uses the development of entrepreneurs as a primary strategy for economic development.

The primary goals of this e-book were to first share the value of entrepreneurship and small business. The second goal was to provide a high level awareness and understanding of the essential elements of a *grow your own* strategy of economic development. While this e-book is not intended to provide a comprehensive, step-by-step plan, it can be used as a conversation starter with local leadership, a tool to make a case for a shift in economic development strategy and as a reference guide when launching a new *grow your own* strategy.

For those who are interested in additional resources, research and information on entrepreneurship, economic development and *grow your own* strategies visit the Federal Reserve Bank of Kansas City's community development website at www.kcfed.org/community.

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For additional information on *grow your own,* including information and links to programs and communities practicing entrepreneurship-based economic development, visit www.kansascityfed.org/community/smallbusiness.

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