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The Power of Entrepreneurship

Country Needs Policies that Promote Homegrown Businesses

By *Andrea Levere*
President, CFED

Enterprise development and entrepreneurship have been at the core of CFED's mission and operating strategy since it was founded in 1979. The organization believed from the start that self-employment could be a route out of poverty for many Americans. CFED's work in this area helped to create the domestic field of microenterprise development and launched most of the national and regional intermediaries that serve the field.

CFED's *Development Report Card for the States* has promoted entrepreneurship as a primary strategy for improving economic development at the state level for the past 18 years. In addition, CFED has focused on product development activities to expand access to capital for businesses, ranging from initiatives that integrate savings and credit to one that seeks to lower the risk and operating costs of offering working capital lines of credit.

During the past two years, CFED's work in entrepreneurship has undergone a renaissance of sorts, with new program, product and policy ideas bubbling up through our research, consulting and technical assistance activities. We have identified many promising innovations in the field that offer new ways to deliver services to entrepreneurs. We understand the challenges of promoting affirmative policies to support entrepreneurship in a climate that favors expedient solutions, such as business incentives. We recognize the urgent need for more transparent data that measure the economic and financial impact of entrepreneurial activity. Organizationally, we have recommitted ourselves to strengthening our position as a leader in this field through a range of activities that link community practice, private markets and public policy in new and effective ways.

Fundamentally, opening doors to entrepreneurship will result in greater opportunities for Americans to pursue their dreams of self-employment. According to a 2003 survey commissioned by FedEx, 67 percent of Americans would like to own their own business and 56 percent would leave their jobs to pursue it if the opportunity existed. Personal passion for an industry ranked as the No. 1 motivation, followed by the opportunity to be one's own boss and then the flexibility that comes from being self-employed. CFED believes that it is time to harness this entrepreneurial spirit to expand economic opportunity for all.

Building an Environment for Entrepreneurship

There is growing understanding that economic development strategies

founded primarily on business recruitment are not in America's best interests and that there needs to be a renewed emphasis on homegrown development, especially in rural and inner-city communities. Many observers see entrepreneurship as being a critical, if not major, piece of economic development, although not all are convinced that entrepreneurship is likely to be an engine of economic growth in rural and low-income areas. However, there is a compelling argument that creating an entrepreneurial climate where all kinds of entrepreneurs can succeed lays the groundwork for the five out of 100 small businesses that evolve into the fast-growing drivers of the national economy.

Entrepreneurship will only take hold and succeed as an effective economic development strategy if the right type of enabling environment is created. CFED envisions this environment as built on two core elements: a pipeline of entrepreneurs and access to high-quality and comprehensive business development services. The core components that contribute to creating a pipeline of entrepreneurs include exposure to entrepreneurship education from kindergarten through post-secondary levels and the development of entrepreneurial networks. Enhanced business services include entrepreneur-focused training and technical assistance and access to capital.

The pipeline notion is based on the assessment of former CFED President Brian Dabson that "there should be an infrastructure of lifelong learning from elementary school to the golden age, based on the simple principle that it is never too early or too late to be an entrepreneur...The aim is to create a large and diverse pool of people, across a spectrum of entrepreneurial motivations, out of which there will flow a steady stream of high achievers with an interest in creating jobs and wealth in their communities." [1](#)

What distinguishes current thinking about entrepreneurial policy and practice from more traditional strategies is the nature of the delivery system and the principles on which it is grounded. Leading practitioners are delivering services through a coherent and integrated system (known as an entrepreneurial development system) rather than as disconnected, bureaucratic programs.

The design of an entrepreneurial development system is formed by five principles:

1. *Community-driven*: Local communities have the tools and resources to identify and build on their assets; to make choices that appropriately balance economic, social and environmental imperatives; to learn from the experiences of others; and to be open to experimentation and innovation.
2. *Regionally oriented*: Only through regional cooperation across multiple jurisdictions and through regional institutions can there be sufficient scale, resources and expertise to enable individual communities to play their full role. There are issues and concerns common to both urban and rural areas that can best be addressed through regional solutions; regions represent the economic engines and markets that enterprises have to serve.
3. *Entrepreneur-focused*: Systems thinking is required to align the plethora of training, technical assistance and financing programs to meet the variety of needs of entrepreneurs and their different levels of education, skills and maturity.
4. *Continuous learning*: Networks for peer support and learning are essential for entrepreneurs and for practitioners, community

leaders and policy-makers. Learning about entrepreneurship should be part of the K-12 school curriculum. The need for rigorous evaluation of the effectiveness of entrepreneurship strategies and returns on investment is pressing.

5. *Inclusive*: All entrepreneurs are welcome, which fosters a diverse pool of entrepreneurs with different motivations, whether for survival, lifestyle or wealth and increases the odds there will be some that become the fast-growth enterprises that bring improvement to economic conditions in rural and low-income communities and regions.

The success of entrepreneurial development systems also relies on support from four types of infrastructure: investment capital, policy advocacy, learning and training, and data collection and evaluation. Effective investment strategies create incentives and long-term investments that encourage urban/rural and regional collaborations and the development of effective and accountable systems of entrepreneurial support. Partners invest in capital access, innovations in networking, entrepreneurial education, and technical assistance and training that show promise for widespread replication.

Creative policy development and effective policy advocacy can unlock and channel resources into entrepreneurial programs and services. Demonstrating effectiveness and returns on investment is crucial for generating further support at federal and state levels. Leverage is key to effectiveness, as advocates must energize networks of organizations and institutions that can use the results of the investment and advocacy strategies to support wide entrepreneurship development.

Effective learning is essential to program development and involves rigorous evaluation of strategies, systematic case studies, training programs for elected officials and opportunities for peer exchanges. Advocates should encourage experiential education in schools, colleges, community centers and camps. Long-term support for entrepreneurship must be grounded in evaluative and statistical tools that adequately describe and measure entrepreneurial activity and climates, including report cards and other benchmarking and assessment tools.

Mario Alvarado owns “La Perlita,” a jewelry repair business that also sells handcrafted gold jewelry. He learned this trade from his father and grandfather in Mexico. He practiced the profession there for 15 years before coming to the United States in 1998 seeking a better life for himself and his family. Alvarado participated in the first Spanish-language REAL Entrepreneurship training at Randolph Community College in Asheboro, N.C. After his training, Alvarado received a loan that allowed him to open a jewelry sales and restoration kiosk at the local mall, where he is the first Latino tenant. He has hit all his benchmarks for projected sales and is repaying the \$10,000 loan punctually.

Educating for Entrepreneurship

Entrepreneurs are mostly made, not born. The new economy needs entrepreneurs to translate ideas and innovations into commercially viable propositions and to connect them to the marketplace. Experiential entrepreneurship education trains students to examine their communities to discover unmet commercial needs and then develop business plans to meet those needs. Incorporating entrepreneurship education into the traditional school system normalizes self-employment as a life goal, while exposing youths and young adults to entrepreneurship education outside of the school system allows them to think creatively about the economic challenges and opportunities in their area.

Entrepreneurship education provides a counterbalance to the economic rigidity bred by decades of dependence on farming, mining and textile production as unquestioned sources of income. It can also stem the tide of out-migration, a pressing issue in rural America. Young adults leave the areas they grew up in because they do not see potential for wealth creation. Entrepreneurship education allows youths in rural America to re-examine their hometowns from a new perspective, discovering bright niches of opportunity in what before appeared bleak.

Ann Pope, federal co-chair of the Appalachian Regional Commission, captured the essence of this type of impact when she commended award-winning entrepreneurship education programs targeted at rural communities across the region: "The educators receiving this award are inspiring Appalachian youth to reach as far as their imagination and energy can take them...By giving our young people the confidence and know-how to initiate their own business ventures, they are helping to prepare the region for the challenges of the 21st century." [2](#)

Colleges and universities often serve as training grounds for future entrepreneurs, with public community colleges serving as important anchor institutions in rural and low-income communities. Community colleges serve a greater percentage of minorities and women as compared with four-year institutions and tend to be employer-driven. Within the last decade, rural community colleges have increasingly diversified their programming to embrace entrepreneurship education as a local rural economic development strategy. Although there has been no formal analysis conducted on the scale and scope of these programs, recent research from the Kauffman Foundation found that 20 percent of the 1,300 community colleges have at least one course in entrepreneurship. [3](#)

Entrepreneurship education can be introduced even before college. Youth entrepreneurship education programs, such as CFED's REAL Entrepreneurship program, operate within as well as outside the mainstream educational system and introduce young people to entrepreneurship as an economic lifestyle. The REAL Entrepreneurship program was founded on the belief that entrepreneurship is a vital and realistic basis for economic development in rural America. Thus, while REAL Entrepreneurship offers a full range of entrepreneurship development products and teacher training services across the country, it is the only national program specifically developed for and targeted to a rural market.

Entrepreneurship education has wider aims than simply business creation. It can change students' perceptions about who can start businesses by showing them how they, too, can become entrepreneurs.

Entrepreneurship education can provide a fresh start for individuals with disabilities, criminal delinquency, low academic achievement or other factors that keep them out of the mainstream economic track. In a very real and immediate way, it builds job-readiness skills, including teamwork, goal setting, self-esteem, time management and public speaking. At the family level, entrepreneurship education allows families to share intergenerational messages about entrepreneurial success with legitimate businesses; new perspectives on how to succeed in the mainstream economy; and alternatives to drugs, crime and violence. In all these ways, entrepreneurship education is more than an economic development strategy. It is a community development strategy.

Food From the 'Hood at Crenshaw High School in Los Angeles is an example of a school-based enterprise that blends good business with good citizenship. It was created as a positive response to the 1992 riots in South Central Los Angeles. Food From the 'Hood adapted the REAL Entrepreneurship curriculum to create a garden at Crenshaw High where students grow organic produce for sale to local residents. Students learn horticulture, nutrition and how to operate a successful business. Profits are used to provide scholarships for student owners.

Promoting Entrepreneurship as an Economic Development Policy

Among researchers, policy advocates and others engaged in community and economic development, there is growing agreement that relying on recruiting companies from other states or overseas should not and cannot be the answer to struggling economies. Yet, each year, state governments have been willing to commit—through tax incentives, tax breaks and direct investments—billions of dollars to attract a car assembly plant, a high-technology production unit or some other potentially high-return industrial activity. Increased public scrutiny has shed light on some of the more egregious examples of “investments” that were poorly structured, had inadequate reporting or accountability requirements, or yielded disappointingly low returns in terms of jobs and local multiplier effects. And this, in turn, has led to a greater emphasis on transparency, clear expectations on returns on investment and consequences if expectations are not met. But concern remains that recruitment has to be balanced, if not replaced altogether, by policies that support homegrown development.

The Federal Reserve Bank of Kansas City observed: “Rural policy-makers, who once followed traditional strategies of recruiting manufacturers that export low-value products, have realized that entrepreneurs can generate new economic value for their communities. Entrepreneurs add jobs, raise incomes, create wealth, improve the quality of life of citizens, and help rural communities operate in the global economy...Rural policy-makers are responding to these challenges by making entrepreneurship the cornerstone of many economic development strategies.” [4](#)

In 1999, the National Governors Association (NGA) surveyed its members to gauge each state's perspective on entrepreneurship and its importance as part of an overall state economic development strategy. While 34 of the 37 states that responded indicated that they did indeed consider entrepreneurship to be part of their economic development strategy, only four had a clearly articulated statement within the strategy document. Jay Kayne observed a "distinction between states that try to meet the specific needs of aspiring and emerging entrepreneurs and states that view entrepreneurs as a segment of the state economy who can take advantage of state programs."⁵ In other words, the survey emphasized the difference between active and passive support for entrepreneurship. The task ahead is to marshal the data and the stories that encourage policy-makers to develop an affirmative and comprehensive program in support of entrepreneurship.

Conclusion

Many of our financial, educational and policy systems to support entrepreneurship are in need of reinvention. This examination presents evidence of organizations, institutions and agencies pursuing all manner of programs and initiatives that are meant to encourage greater entrepreneurship. But there is much to do. No state yet offers a comprehensive set of policies to promote entrepreneurship, with most programs focusing on technology-based enterprise. State and federal budget deficits require that any new programs be funded by reallocating existing dollars, which makes the advocacy task much harder. But we believe the time is ripe to do more and to do it better as we document, evaluate, advocate and celebrate the spirit of innovation among our nation's emerging and existing entrepreneurs.

This paper is a collaborative effort of CFED staff, including Emily Appel, Kim Pate, Jennifer Malkin, Bill Schweke and CFED's former president, Brian Dabson.

An Ongoing Dialogue

The Community Affairs staff of the Federal Reserve Bank of St. Louis spent the last year studying, writing about and sponsoring events related to small business and entrepreneurship. A highlight of this initiative was a conference in April in Memphis, Tenn., titled *Striking the Right Notes on Entrepreneurship*. The conference brought together many experts in the field who clearly have a passion for promoting entrepreneurship as a way for America to maintain its stature as an economic power.

Going forward, the Community Affairs Office will continue its efforts to keep a discussion going among the players on the importance of entrepreneurship in the United States.

Two articles in this issue of *Bridges* present the views of two speakers

at the April conference: Andrea Levere, president of CFED, and Richard Florida, an economics professor and author. Levere's paper on the topic of entrepreneurship starts here with [The Power of Entrepreneurship](#). Florida's speech at the conference is summarized in [Harnessing Creativity](#).

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