Entrepreneurship as a Community Development Strategy

John Gruidl, Brock Stout, and Deborah Markley

Overview

Support and encouragement of entrepreneurship within communities is one of the most effective development strategies. This chapter provides fundamentals for implementing a strategy of supporting entrepreneurs and creating an entrepreneurial ecosystem for growing these businesses. It is not about how to start a business; rather, it is about how to create an ecosystem that nurtures new business startups within communities. The chapter describes possible actions that communities can take to bolster entrepreneurship and provides resources and examples of communities that are succeeding with this strategy.

Introduction

A profound change in community economic development strategy over the past decade has been the emergence of entrepreneurship. Now, as never before, community developers recognize that entrepreneurship is critical to the vitality of the local economy. This change in strategy is due to several factors. A primary reason is the impact of globalization in driving many manufacturing jobs to overseas locations and, thus, reducing the effectiveness of using industrial recruitment as a strategy.

Another factor leading to the rise of an entrepreneurship strategy is the evidence that entrepreneurs are driving economic growth and job creation throughout the world. For example, the National Commission on Entrepreneurship reports that small entrepreneurs are responsible for 67 per cent of inventions and 95 per cent of radical innovations since World War II (National Commission on Entrepreneurship 2001). On the international level, studies demonstrate the close connection between entrepreneurship and economic development. According to the Global Entrepreneurship Monitor Project, there is not a single country with a high level of entrepreneurship that is coping with low economic growth (Reynolds et al. 2000).

Furthermore, entrepreneurship has also succeeded in revitalizing many communities. For example, in Fairfield, Iowa, support from the Fairfield Entrepreneurs Association has sparked equity investments of more than $250 million in more than 50 start-up companies since 1990, generating more than 3,000 high-paying jobs (Chojnowski 2006). Another example is Littleton, Colorado which pioneered the concept of “economic gardening.” The City of Littleton provides entrepreneurs, many in high tech enterprises, with extensive market information, either free or at low cost, and arranges networking opportunities with other entrepreneurs, trade associations, universities and think tanks for the latest innovations. Littleton created twice as many jobs in its first seven years of “economic gardening” as
were created in the previous fourteen years (Markley, Macke, and Luther 2005). It is clear from these examples that an entrepreneurial strategy can lead to significant increases in new businesses, jobs, and private investment in a community. And this phenomenon of community or regional-supported entrepreneurship is not limited to the United States. Even in greater China, for example, some areas are much more entrepreneurial than others (Li, Young & Tang, 2010).

The goal of this chapter is to provide the fundamentals for implementing a community-based strategy of supporting entrepreneurs and creating a vibrant ecosystem for growing these businesses. Although this chapter is about new enterprises, it is not intended to provide a primer on how to start a business or prepare a business plan. Instead, the chapter is written from the perspective of the community developer or leader who seeks to expand the number of enterprise start-ups in the community and to create a culture of entrepreneurship among community residents. The main premise of the chapter is that communities can, over time, improve their entrepreneurial ecosystem by focusing on the needs and wants of entrepreneurs.

We use the term “ecosystem” because, just as in a biological system, entrepreneurs operate best when they have access to the resources that they need and operate in an environment that is supportive. Furthermore, to develop sustainable entrepreneurship in a community, it is rarely sufficient to change just one element in the ecosystem. Instead, community developers and local leaders must change several elements simultaneously. This is reinforced by the examples of communities such as Fairfield, Boulder (Colorado), Silicon Valley, and Iceland where a number of ecosystem elements are strong and have evolved more or less simultaneously. In this chapter, we define the various elements of a strong ecosystem and provide examples of how communities have improved their ecosystems with beneficial results.

**BOX 17.1 TWO IDEAS ABOUT ENTREPRENEURSHIP**

There are two popular, competing ideas about entrepreneurship. Joseph Schumpeter believed that entrepreneurship required the existence of new information to develop new offerings, while Israel Kirzner believed that only differential access to information was necessary to identify opportunities (Dahlstrom, 2013). In Schumpeter’s view, entrepreneurship involved ‘creative destruction,’ a process where old, inferior offerings are destroyed and replaced by new, improved offerings. Kirzner, on the other hand, saw entrepreneurship as much more incremental in nature, producing improvements on existing offerings rather than radical replacements of current offerings.

The scope of entrepreneurship is wide. It can come from large businesses, new or small businesses, nonprofit organizations, and government. Business entrepreneurship is oriented toward encouraging for-profit business start-ups and growing existing small businesses, while social entrepreneurship is oriented toward meeting community needs. Both of these types of entrepreneurship are important for community development because the community can influence them and the community benefits directly from them (Dahlstrom, 2013).

Timothy R. Dahlstrom  
Faculty Associate, School of Public Affairs, Arizona State University, USA

**Source**

**Who Is an Entrepreneur Anyway?**

We begin by considering the word “entrepreneur” which brings to mind different images for different people. Some people think of high-tech wizards like Steve Jobs of Apple Computer or Bill Gates of Microsoft. Others may think of a local quilt-maker running a home-based business or a “mom and pop” store struggling to survive in the downtown.

A useful definition of an entrepreneur is a person “who perceives new opportunities and creates and grows ventures around such opportunities” (Markley, Macke and Luther, p. 35). This definition reminds us to focus on the person, not the venture itself. Only about one in 10 American adults is currently an entrepreneur; that is, actively engaged in the process of starting an enterprise (Markley, Macke and Luther). Bill Koch’s story in the sidebar provides an example of how a successful entrepreneur can have an enormous benefit to a community.

It is a common notion that any and all business owners are entrepreneurs. But this is not the case. The characteristics of an entrepreneurial business are innovation, growth, and a high degree of risk. Not all businesses have these characteristics. For example, business owners who are focused on managing their current enterprise and are not seeking new opportunities or growth are better categorized as business managers, rather than entrepreneurs.

The same applies to a person who decides to buy an existing franchise or retail store. While managing an existing business requires business skills and willingness to take some risk, it is not necessarily concerned with innovation and growth. Thus, it is not very entrepreneurial. However, a business owner, either new or existing, can become more entrepreneurial by seeing an opportunity, implementing a new idea, and taking on more risk in an on-going effort to grow the business.

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**BOX 17.2 MEET AN ENTREPRENEUR**

**Bill Koch, Santa Claus, Indiana**

Bill Koch started working for his father’s company in the tiny town of Santa Claus, Indiana after returning from overseas duty with the U.S. Navy during World War II. His father had built a small amusement park which he had named Santa Claus Land. At that point, the Santa Claus project wasn’t much more than a mail-order house and the bare bones of a theme park. It had a Mother Goose train, some storybook characters and a toy shop with elves. It was America’s first theme park, opening nine years before Disneyland.

Koch wasn’t impressed by his father’s Santa Claus undertaking. “I thought it was sort of a folly,” he recalled. “I didn’t think it would go anywhere.” However, he started working in mail-order. The company had a catalog that offered Christmas gifts and unusual items that couldn’t be found at stores.

“We decorated the carton with things that showed it came from Santa Claus, Indiana. It was unique. It went well for a few years, then it fizzled out. When stock came in and sold out, we couldn’t get more,” said Koch.

At one point the family decided to stock the warehouse with Erector Sets and Gilbert trains, expecting to make a small fortune—but lost a big fortune. “We didn’t sell any because they could go to the local store and get them,” said Koch. “We sold all of those items at about 35 cents on the dollar. That was the end of that.”

As the mail-order part of the business was failing, Koch turned his attention to the theme park. He expanded Santa Claus Land to include a toy shop, a gift shop, a restaurant and exhibits. Rides were added and advertising got the word out. “People kept coming here by the thousands,” said Koch. “There were no parking lots. The highway would be parked with cars for a couple of miles back in every direction. We would have as many as 10 state police directing traffic to get people in and out.”
It was hard to make ends meet, much less grow the business. In 1955, Koch proposed an admission charge of 50 cents for adults, with kids free. “Every member of the family tried to talk me out of charging. I was so doggone stubborn I wasn’t going to give in,” he said. It paid off. Visitors paid up. The revenue enabled the park to grow and add new attractions.

Santa Claus Land grew to include more shops, shows, a wax museum and rides. The site also served as a community center for meetings and meals. People lined up for chicken and turkey dinners, and exotic fare such as Baked Alaska. The four initials for the dining room were F.F.F.F., which stood for Famous For Fine Food. With the growth, new problems – or new opportunities, as an entrepreneur would say – arose. There weren’t any motels nearby and the cabins and campgrounds at Lincoln State Park, five miles away, often were full. Koch saw it as an opportunity. In 1958, he opened a 150-site campground, Lake Rudolph Campsites, across the lake from the theme park.

Koch didn’t stop there. He built a gated subdivision called Christmas Lake Village with lakes, tennis courts and a golf course. He built a town hall, a medical center and a bank for the community that grew from 37 to 2,000 residents. He served on 27 boards at one time. He was instrumental in getting a major interstate highway that changed the face and the economy of Southern Indiana.

He had a passion for making the community better, a sense of where the opportunities were, and the courage to take calculated risks. He networked and acquired the skills he needed to take an evolving dream and grow it into successful businesses that also improved the town.

Although he died in 2001, his son Will serves as President of Holiday World that today encompasses the family entrepreneurial business. Holiday World has more than 1 million visitors each year and employs more than 1,000 people in the summer. Bill Koch stands as a great example of how a creative, spirited entrepreneur can not only build successful enterprises, but can also serve the community by contributing to its economy and quality of life.


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**The Entrepreneurial Talent Pool**

Rather than debate who is and isn’t an entrepreneur, it is more useful to consider a community as having a pool of entrepreneurial talent (Markley, Macke, and Luther). This idea of entrepreneurial talent recognizes that not all entrepreneurs are the same. It also recognizes that there are many people who are interested or active in starting businesses or launching new markets for their current business. Entrepreneurial talent ranges from the stay-at-home mom who is researching a new home business idea to the high-growth entrepreneur who is considering an offer from a venture capitalist to a current business owner who would like to expand into a web-based store.

Table 17.1 shows the different types of entrepreneurial talent. The four main categories of entrepreneurial talent are potential (those who may become entrepreneurs), existing business owners (some of whom may be innovating into new services, products, or markets), business entrepreneurs (including those with growth and even high growth potential), and social entrepreneurs (those creating enterprises for social betterment). Entrepreneurs in all these categories are people who community leaders want to identify and nurture.

It is important to recognize that the needs of entrepreneurs are not all the same. For example, aspiring and start-up entrepreneurs need someone who can help them move from ideas to a solid game plan. They need help making sure all the pieces are in place. Is the management team strong? Is there capital to start the venture? Are markets clearly identified and strategies for tapping them tested? These needs can be met with moral support, networking and mentoring, business counseling, and entrepreneurship training.
Table 17.1 The Entrepreneurial Talent Pool

<table>
<thead>
<tr>
<th>Types</th>
<th>Characteristics</th>
</tr>
</thead>
<tbody>
<tr>
<td>Potential – Aspiring</td>
<td>Actively considering going into business</td>
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<tr>
<td></td>
<td>Researching a business idea</td>
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<td></td>
<td>Motivated toward a life change</td>
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<td></td>
<td>May include youth (under age 25) some of whom are still in school</td>
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<tr>
<td>Potential – Start-ups</td>
<td>In the process of starting a business</td>
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<td></td>
<td>May or may not have a good plan</td>
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<tr>
<td></td>
<td>May or may not have the necessary skill</td>
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<tr>
<td>Business Owners – Survival</td>
<td>Struggling to make enough income</td>
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<tr>
<td></td>
<td>Often stressed and reluctant to seek help</td>
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<tr>
<td></td>
<td>Don’t have the time or energy to see new markets or opportunities</td>
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<tr>
<td>Business Owners – Lifestyle</td>
<td>Successful and well established</td>
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<td></td>
<td>Not actively seeking to grow or change the business model</td>
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<tr>
<td>Business Owners – Re-Starts</td>
<td>Have been in business before with limited success</td>
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<tr>
<td></td>
<td>In the process of starting another business</td>
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<tr>
<td></td>
<td>Determined to succeed this time</td>
</tr>
<tr>
<td></td>
<td>Willing to seek outside help</td>
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<tr>
<td>Entrepreneurs – Growth-Oriented</td>
<td>Successful in business</td>
</tr>
<tr>
<td></td>
<td>Have a growth orientation and drive</td>
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<tr>
<td></td>
<td>Seeking to be more competitive, actively seeking new ideas</td>
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<tr>
<td></td>
<td>Actively seeking new markets, processes, products, services</td>
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<tr>
<td>Entrepreneurs – Serial</td>
<td>History of creating and growing more than one business</td>
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<td></td>
<td>Don’t like to manage existing businesses, often sell business when it is up and running</td>
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<td></td>
<td>Generally on the lookout for new ideas and opportunities</td>
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<tr>
<td>Entrepreneurs – Entrepreneurial Growth Companies</td>
<td>Experiencing rapid growth in employment or sales</td>
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<tr>
<td></td>
<td>Reaching new markets, developing new products and services</td>
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<td></td>
<td>Innovative and dynamic leadership and workforce</td>
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<td></td>
<td>Sometimes referred to as “gazelles”</td>
</tr>
<tr>
<td>Social Entrepreneurs</td>
<td>Seeking new, innovative solutions to social problems</td>
</tr>
<tr>
<td></td>
<td>Must follow solid business practices, including effective financing, marketing, and product development (just as business entrepreneurs do)</td>
</tr>
</tbody>
</table>

Source: Developed by the authors drawing from Markley, Macke, and Luther, Chapter 4.

Lifestyle business owners might include a small retail store or a family medical practice. They may not desire to grow the business at this time. Often the motivations of lifestyle entrepreneurs can change unexpectedly — when a son or daughter returns to town and wants to be involved in the business or when the business owner is faced with an opportunity such as the potential to expand into an adjacent storefront on Main Street or to take the business “online.” Business owners who are motivated to grow their businesses need many of the same support services as start-up entrepreneurs — networking opportunities, training to build their skill sets, one-on-one assistance with specific business issues, such as creating a new website, developing e-commerce tools or tapping new markets.

Since growth-oriented entrepreneurs are often interested in developing a new product or cultivating a new market, they may need knowledge of capital sources, assistance with marketing or expanding production. They may need to expand the management team to encompass new skills. As their success has grown, their support needs have changed from broad forms of general assistance to very specific, targeted business infor-
mation needs. To effectively support these growth-oriented entrepreneurs, support services should focus on customized assistance, often of a technical and specialized nature.

As part of the discussion about entrepreneurial talent, let us look at social entrepreneurs. Social entrepreneurs create programs and resources that benefit our communities and our lives. They develop children’s museums, organize a new chapter of Big Brother/Big Sisters, provide public health care, and build new playgrounds and parks. Often, this work is done through a non-profit organization or informal community or neighborhood association. Social entrepreneurs need skills in planning their enterprise, marketing their product or service, earning revenues or obtaining funding to keep the organization financially solvent, and creating value. As with business entrepreneurs, they perceive and act upon opportunities.

**BOX 17.3 CHANGE AGENTS: SOCIAL ENTREPRENEURS**

Entrepreneurs can operate in any sector, whether private, public or nonprofit or nongovernmental. Tackling social issues and challenges with new and innovative ways to effect positive change needs collaborative effort across sectors. Some consider that lines across sectors have become blurred, with a social entrepreneurship emerging to help address complex social issues. Heerad Sabeti, of the Fourth Sector Network, provides a description of these activities at the cross section:

- **a** The convergence of organizations toward a new landscape – a critical mass of organizations within the three sectors has been evolving, or converging, toward a fundamentally new organizational landscape that integrates social purposes with business methods;
- **b** The emergence of hybrid organizations – pioneering organizations have emerged with new models for addressing societal challenges that blend attributes and strategies from all sectors. They are creating hybrid organizations that transcend the usual sectoral boundaries and that resist easy classification within the three traditional sectors (Sabeti, 2009, 2).

Whichever sector is home to a social entrepreneur, it is evident that these individuals are seeking innovative solutions for effecting positive change. Ashoka describes them this way,

> “just as entrepreneurs change the face of business, social entrepreneurs act as the change agents for society, seizing opportunities others miss and improving systems, inventing new approaches, and creating solutions to change society for the better. While a business entrepreneur might create entirely new industries, a social entrepreneur comes up with new solutions to social problems and then implements them on a large scale”.

（Ashoka, 2013）

In other words, these are individuals and their organizations involved in non-market entrepreneurship, or pursuing opportunities not solely for profit maximization. This may encompass such diverse entrepreneurial activities as public sector entrepreneurship, policy entrepreneurship, social enterprise, nonprofit entrepreneurship, and philanthropic enterprise (Shockley, Frank, & Stough, 2008). More communities are recognizing the value of supporting social entrepreneurship, as it contributes to resiliency and durability; for an example of a community that is highly committed to this, explore Burlington, Vermont’s programs, policies, and outcomes (Phillips, Seifer, and Antczak, 2013).

The Editors
Creating an Entrepreneurial Ecosystem

The entrepreneurial talent in a community does not exist in isolation, but instead is connected to many people and organizations in the community, from the local banker to the Internet provider to the local business counselor. This external environment has a major impact on the prospects for the entrepreneurs. We use the term “entrepreneurial eco-system” to describe an environment that is nurturing for emerging businesses. A biological ecosystem is a system of elements such as air, water, soil, nitrogen, light, and other organisms that are interconnected and interact together. Some ecosystems in nature are healthier than others. In a similar way, elements and actors in human communities can interact to provide the growth that entrepreneurs need.

Creating the necessary ecosystem is a huge challenge, but the payoff can also be huge: an economically viable oasis community in a desert of industrial hollowing out. In Entrepreneur Magazine’s list of the top ten entrepreneurial ecosystems, four are outside the U.S. (Davis, 2013). Tel Aviv is second behind only Silicon Valley. Also included are London (seven), Toronto (eight), and Vancouver (nine), suggesting the world-wide importance of entrepreneurship.

The entrepreneurial ecosystem requires many things, but can be understood through four categories of elements: Culture (sunlight), Human Capital (fertile soil), Support Systems (rain), and Momentum (surrounding plants that are sprouting and growing). Eleven important conditions are described here as part of the four ecosystem elements, offered with the caveat that even though not all conditions can be changed by community developers, awareness of the conditions is crucial to an entrepreneurship development initiative.

Human Capital is represented by fertile soil

Human capital refers to the skills, abilities, education, and experience of those living in the community.

1. Entrepreneurial skills
One vital skill set is the ability of individuals to start ventures and to marshal others in the community in the bricolage process. Bricolage refers to the entrepreneur’s ability to create something out of resources on hand. True entrepreneurs don’t complain or give up when they don’t have available resources. They use the available means and build something out of those means. Conversely, a community that has vast resources for entrepreneurs but no entrepreneurial people to take advantage of those resources, or skills to assemble them into a new enterprise, will not succeed.

2. Presence of skilled workers
Once people muster up enough courage to start innovative companies, they must be able to hire workers to code the software, operate the machines, generate press publicity, train other employees, and produce more ideas for future improvement. Potential entrepreneurs usually consider worker availability before deciding if a community would suit their potential business. A region with an aggressive workforce development policy will make entrepreneurs feel more positive about their likelihood of success. Russian entrepreneurial levels were down because business owners in the Soviet era were “often deemed criminals for making a profit” (Aidis, Estrin, and Mickiewicz, 2007, p. 5). Yet Moscow’s entrepreneurial ecosystem is now viewed as strong (Davis, 2013), as a talented workforce is available.
Culture is represented by sunlight

Culture is "a set of attitudes, beliefs, customs, mores, values and practices which are common to or shared by any group" (Throsby, 2001, p. 4). It applies not just to a nation, but also to communities. Each community has its own set of norms, attitudes, and practices regarding entrepreneurship. Building an entrepreneurial culture in the region should accompany efforts such as expanding technical and consulting assistance to entrepreneurs (Gibb, 1999).

3 Perceived desirability of being an entrepreneur
Social norms can encourage entrepreneurial motivation. In your community, is entrepreneurship thought of as a "cool" career? This perception affects all age groups, but could be more critical to startup rates among younger people. Thus altering this perception is particularly useful for encouraging youth entrepreneurship.

4 Community support
Just as a company’s workers need to feel they have support from management in order to try new things, entrepreneurs need to feel their communities will support them. Do community leaders have their backs? Ambitious entrepreneurs require less support than most people, but if the goal is to increase the percentage of people trying out business ideas, encouraging the perception of support is beneficial. Communities can communicate their support for entrepreneurs and potential entrepreneurs and encourage openness and generosity with time and advice, through mentoring and networking initiatives. In successful communities, there is a widespread belief that cooperation and building synergy will help everyone.

5 Risk and failure tolerance
Conventional thinking says that entrepreneurs are people who love to take risks, but contrary to this common conception, entrepreneurs may in fact be more risk averse than non-entrepreneurs (Xu and Ruef, 2004). Because fear of the consequences of failure discourages action, communities that encourage a little risk are more likely to increase the number of participants in the ecosystem. Communicating toleration of failure could help, but training people to ignore failure intolerance might be just as important. Venkataraman and Sarasvathy (2008) offer a solution: a community should be "empathetic towards the entrepreneurial process and evolve from treating setbacks as ‘failures’ to one that considers them to be ‘options’ ‘experiments’ and ‘learning opportunities’ and move away from a language of ‘failure’, ‘biases’, and ‘risk.’" (p. 13). Of course, this is a major shift in mental models for many communities and requires a long, sustained effort. One step may be for community leaders themselves to talk about their initiatives in entrepreneurship-building as experiments, not guaranteed to succeed. However, even if the initiatives do not immediately succeed, the leaders should reassure residents that the community will learn from them and continue on the path toward a strong ecosystem.

Support System is represented by the nourishing rains

An effective support system for entrepreneurs has many players, including investors, local governments, universities, and service providers. The players have different roles within the system, for example, banks and investors supply financial capital, universities create new technologies that might be commercialized, service providers provide business counseling, and schools offer entrepreneurial training. Each community must develop its own set of program offerings based on the needs of its entrepreneurial talent pool. Among the key offerings to consider are entrepreneurial education, access to capital, and access to networks (Pages, 2005).
Networking support
Fogel (2001) asserts that new entrepreneurs spend almost half of their time networking as they seek support and motivation, counseling, access to opportunities, resources, and other needed information. Research finds that “the diversity of individuals’ relationships is strongly correlated with the economic development of communities” (Eagle, et al, 2010, p. 1029). Providing opportunities for creative people to network is critical, but the networking programs need to be substantive, not just chats with the same people that already know each other. Feld (2012) cites some good examples of efforts: “hackathons, new tech meetups, open coffee clubs, startup weekends, and accelerators,” and open office hours from successful entrepreneurs and financiers.

Positive regulatory environment
Of course balance is important, as protection of creditors and enforcing of contracts is necessary. Moreover, governments can compensate for lack of necessary institutions in transition economies and turbulent environments (Smallbone, et al, 2010). But too many rules and procedures can de-motivate entrepreneurs (van Stel, et al, 2007). Entrepreneurs often find it difficult to navigate through the various regulations and requirements. Also they can become overwhelmed in trying to determine which agency to contact for technical assistance on a specific issue. Communities can help with a one-stop shop that provides assistance with complying with regulations, as well as a directory of various service providers, such as the local Small Business Development Center.

Access to customers
If a person opens a retail store, will that store have enough potential customers to enter and browse? Likewise, manufacturers will need access to freight transportation, web-commerce startups will need reliable internet access, and public relation firms will need proximity to companies requiring their services. Access to transportation and other infrastructure can bolster both the courage to start and the likelihood of success. Smart entrepreneurs consider this issue in their plans. They might also consider the economic health of the region in deciding if enough customers will be able to afford their offerings. Some communities that cannot provide sufficient customer access bring in broadband and ecommerce infrastructure and training.

Momentum is represented by surrounding plants that are healthy and vibrant
Momentum creates the feeling that “people can succeed around here.” Once a community has some entrepreneurial movement, energy will pull other potential entrepreneurs into startup mode. Just as organisms in an ecosystem encourage other organisms, successful companies help buoy up potential entrepreneurs.

Perception of employer enterprise birth rates
Startups that make the leap into hiring staff are different from “solopreneur” efforts. Potential entrepreneurs are encouraged by seeing the presence of companies growing large enough to create employment. An obvious action by communities is to publicize the growth of companies and their hiring of staff.

Business churn: calculation of birth and death rates
How fast are new companies being created and shuttered? Is the net calculation positive or negative? The answer is also based on perception, but perception is what encourages or hinders entrepreneurial motivation. Promoting positive stories and data on business churn might have an impact on that perception.

Positive role models
Some communities have more entrepreneurs than others, and that “proximity effect” has an impact.
Entrepreneurial motivation is benefited by the presence of other entrepreneurs (Giannetti & Simonov, 2004). This is a huge challenge because it requires momentum, as someone needs to succeed first in order to act as a role model for others. Shining a light on those who do exist might be a place to start: communities can publicize the successes they do have. Just one shining example can trigger momentum, such as Erik Hersman in Kenya. Hersman is a pioneer in technology, technology, and humanitarianism who developed iHub, an Innovation Hub in Nairobi, an open space for technologists, investors, and tech companies.2

In summary, an entrepreneurial ecosystem requires four elements, human capital, culture, support system, and momentum to function optimally. Community developers should recognize that in a dynamic economy, churn will occur. Choosing to support only the most promising ideas and enterprises is never a successful strategy. Leaders should encourage everyone to participate in the ecosystem. The more participants, the more winners, and the better off everyone will be.

Communities such as Fairfield, Iowa, a small town of only 10,000 people which is profiled in the sidebar, show that it is possible to develop a vibrant ecosystem and that the results in economic growth and quality of life can be staggering. To create an entrepreneurial ecosystem, communities must demonstrate their own willingness to experiment to find the best approaches that work locally.

**BOX 17.4 THE BOULDER THESIS**

Boulder, Colorado is a city that has become famous for the remarkableness of its entrepreneurial ecosystem. Brad Feld, successful venture capitalist and evangelist for Boulder’s accomplishments, has published his account in a book entitled “Startup Communities: Building an Entrepreneurial Ecosystem in Your City.”

The Boulder story could be summarized by an evolution through stages. First, five different companies were successful, and they spawned experienced executives in their respective industries, creating five separate and parallel entrepreneurial ecosystems in biotech, technology, natural foods, clean technology, and a lifestyles and sustainability industry. This created some entrepreneurial momentum before the entrepreneurial culture began swelling. Next, some of those entrepreneurs founded additional companies in the five industries. The effort then gained momentum as serial entrepreneurs wanted to stay, and local investors started realizing they had good investment options at home. Finally, TechStars, an accelerator, multiplied startups numbers. Because of the existing momentum of these forces, Boulder’s experience may not be completely replicable in other towns, which is why we recommend that communities experiment to discover what kind of efforts will fit their needs.

Feld coined the term “Boulder Thesis,” which he sees as a “framework for creating a vibrant, long-term startup community.” The four tenets of this thesis are that:

**“Entrepreneurs must lead the startup community.”**
Civic leaders can be helpful, but people who have experienced the entrepreneurial journey are better at providing guidance to those beginning the journey. Leaders are not hierarchal heads, but those who emerge organically. Committed non-entrepreneurs are feeders, and they make an important contribution. The feeder group includes investors, governments, universities, service providers, and anyone else who adds value to the ecosystem.

**“The leaders must have a long-term commitment.”**
Building the ecosystem takes about 20 years. Leaders can’t focus on entrepreneurship for a few years then become distracted by something else when the economy starts dragging. Anyone throwing in support should recognize how long the commitment they are making is.
“The startup community must be inclusive of anyone who wants to participate in it.” Leaders can’t choose which entrepreneurs will be successful, so they should encourage everyone to participate.

“The startup community must have continual activities that engage the entire entrepreneurial stack.” These activities need to be substantive, not just talk, for all involved, such as investors, educators, business leaders, and mentors. Some activities are more effective than others, so experimenting is important. Governments can be supportive, but should not get in the way.

Source

CASE STUDY: FAIRFIELD, IOWA: AN ENTREPRENEURIAL SUCCESS STORY

In 1989, a group of entrepreneurial businesspeople formed the Fairfield Entrepreneurs Association (FEA). The FEA was designed to increase the success rate of start-up companies and nurture companies in the second stage of development; that is, after they had generated over $500,000 in annual revenues. The FEA supports entrepreneurs through recognition and awards, acceleration of second stage companies, and mentoring and networking activities for entrepreneurs. Fairfield is characterized by extensive sharing of information on the “how-to’s” of business start-up financing and marketing. It has developed a pool of shared wisdom and experience and a culture of guarded openness about business ideas. The result is great synergy among entrepreneurs, overlapping, and sometimes copy-cat business models.

For example, an entrepreneur named Earl Kappan, after several other start-up ventures, started a company that became known as “Books Are Fun.” The company sold best-selling hardcover books via book fairs in schools, hospitals, and businesses across the United States. With financing from an outside investor, the company grew rapidly and developed a network of sales representatives across the country. A synergy occurred when local author Marci Shimoff proposed a collaborative venture to Kappan to explore the potential for distributing a book through Books Are Fun. The book was Chicken Soup for the Mother’s Soul. Books Are Fun tested the book and started buying the title in lots of tens of thousands, propelling the book to the top of best seller lists.

Other Fairfield residents developed Chicken Soup topics that went on to become Chicken Soup for the Pet-Lover’s Soul, Chicken Soup for the Gardener’s Soul, Chicken Soup for the Veteran’s Soul, and more. Approximately 13 Chicken Soup authors live, or formerly lived, in Fairfield. Another resident designed covers for the Chicken Soup series and has become a sought-after book jacket designer. Another Fairfield resident is a leader in self-publishing enterprises. The original enterprise Books are Fun also did well. When it grew to more than 500 employees and $400 million in annual revenue, it was purchased by Reader’s Digest for $380 million.

There are many more examples of success in Fairfield among financial services, e-commerce, telecommunications, and art-based businesses. Burt Chojnowski, President of the Fairfield Entrepreneurial Association, attributes much of the success to the networking and sharing among businesses. Chojnowski states that “having access to this specialized knowledge, especially about funding opportunities, was clearly a competitive advantage for entrepreneurs and improved the financial literacy and sophistication of Fairfield entrepreneurs” (p.3–4).

The FEA, in conjunction with other Fairfield organizations, offers additional support to entrepreneurs. Entrepreneurial boot camps and an up-to-date library are available, including specialized information for “art-preneurs,” social entrepreneurs, and “food-preneurs.” Entrepreneurship training has been expanded to include workshops for youth entrepreneurs. The results have been amazing for a small town. Since 1990, equity investments of more than $250 million have been made in more than 500 start-up companies, generating more than 3,000 jobs. This entrepreneurial ecosystem with strong organization and culture has produced striking results.

Community Options to Improve the Ecosystem

There is no magic bullet, no single set of actions that a community should adopt to improve its entrepreneurial ecosystem. As we have emphasized, much depends on the entrepreneurial talent and the current support system and culture within the community. However, in this section, we provide some ideas to spur action. Since communities are at different stages in developing their ecosystem, we provide two sets of options. The first set consists of actions for communities in the starting phase. The actions are, generally speaking, not very expensive, yet can have an immediate impact.

Actions for Getting Started

1. Create Legitimacy through Conversation and Storytelling. A good first step is to start a conversation with the community before you begin any intervention. Build a vision for an entrepreneurial ecosystem. Warn people that discovering the initiatives that fit your particular community will require experimentation, and that means some initiatives will probably fail. Some individual ventures may also fail, but “now we allow failure here, so go ahead and try.” Also, seek support for the belief that hitting chuckholes won’t stop the gradual growth of the ecosystem. This will start the culture in the right direction, and preempt the naysayers. The content of the conversation can also eventually become a message for evangelizing the community to the outside.

2. Form an Entrepreneurship team. If there is little current support for entrepreneurs in your community, you can start the ball rolling by forming a team of leaders and interested citizens to lead the entrepreneurial effort. It may be that an existing organization, such as the local economic development group, has an interest in entrepreneurship and could be the umbrella organization for the new team. Once the team has come together, one of its first actions would be to examine what the community is currently doing to foster entrepreneurship.

3. Talk to Entrepreneurs. Yes, this is an obvious one, but it is critical to build your initiative on the needs and wants of entrepreneurs. Conversations with entrepreneurs may reveal common needs and concerns and clarify specific actions for the community team to take.

4. Create Awareness of Entrepreneurs. Create a focus on entrepreneurs. This might include raising the awareness level of community residents and leaders about the role of entrepreneurship within the community. Going a bit further, a community might identify entrepreneurs and provide periodic recognition for their contributions to the community. An Entrepreneur of the Year award presented at the Chamber of Commerce banquet would be a specific example. This recognition is important because it helps residents to see the importance of entrepreneurs. Gradually the culture can shift to one that is supportive of people who start new businesses.

5. Connect to Business Services. Take stock of your current access to appropriate business services (e.g., legal, marketing, production, financial, accounting). Access to the right services is important. Remember, if these services are not available within the local community, as is sometimes the case in rural areas, they can be accessed over long distances using today’s technology.

6. Networking and Mentoring. Entrepreneurs at all levels of venture formation benefit from a network of peers. Entrepreneurial networks can be formal or informal. An example of a formal network would be monthly forums sponsored by the chamber of commerce that offer an opportunity for entrepreneurs to meet their peers and share information about service providers, markets, or frustrations about doing business. A network is a great place for an
aspiring entrepreneur to get moral support as he speaks with others who have already traveled the path to a successful business.

However, networking does not have to be formal. Entrepreneurs will network whenever they come together in one place. An informal breakfast meeting for young entrepreneurs, a friendly Friday happy hour for entrepreneurs on Main Street can provide opportunities for entrepreneurs to develop connections and identify the resources and support they need from their peers. In many cases, simply providing a venue for entrepreneurs to come together is all the work the community needs to do – the entrepreneurs often take it from there.

Mentoring programs can be effective in strategically linking an experienced entrepreneur with an aspiring or start-up entrepreneur. Mentoring can happen organically. For example, experienced Hispanic restaurant owners in Hendersonville, North Carolina “adopted” new immigrants who were interested in starting restaurants or catering businesses to help them learn the ins and outs of the sector. Mentoring programs can also be established by creating a pool of experienced entrepreneurs who are willing to work with new entrepreneurs in sectors where they have expertise (Markley, Macke and Luther). Low-population regions without breadth of potential mentors might be able to establish virtual mentoring by recruiting mentors from outside the region who can use internet and telephone to communicate with local potential entrepreneurs.

More Advanced Options to Improve the Ecosystem of Your Community

Once the basic elements of an entrepreneurial ecosystem are in place, a community can consider a number of advanced activities to further energize entrepreneurs. Remember, more advanced support doesn’t mean that things should become more complicated for the entrepreneur. Massive directories and complicated pathways for entrepreneurs to access support can be counterproductive. We urge communities at this level to create some kind of simple organization (probably using existing organizations) to ensure that entrepreneurial support efforts are understandable, easy to access and seamless.

1 Entrepreneurship Training and Business Counseling Programs

Aspiring and start-up entrepreneurs can often benefit from participation in training and counseling programs, either one-on-one or with other entrepreneurs. Small Business Development Centers (SBDC) are an important resource in providing both training and counseling opportunities to aspiring and start-up entrepreneurs. Furthermore, a number of well-tested “how to” training programs take entrepreneurs through the process of starting their own businesses. FastTrac (http://fasttrac.org/) and NxLevel (http://www.nxlevel.org/) are examples of programs that provide an excellent curriculum for entrepreneurs who are in the early stage of building their ventures. Community developers and leaders need to be closely linked with the Small Business Development Center and other regional providers of training and counseling.

Counseling programs may be more appropriate for entrepreneurs who have already developed a business plan but need assistance with specific aspects of the business. For example, an entrepreneur might need assistance in accessing export markets or in understanding the licensing requirements for operating a commercial kitchen. These types of questions are best addressed through the services of a business counselor who works one-on-one with the entrepreneur. Community developers need to know enough about an entrepreneur and her skills so that you can steer her toward the training program or business counselor that can best meet her needs.
Youth Entrepreneurship

How can young people even learn about business opportunities? Networking with entrepreneurs and business owners is an excellent way to open the door to entrepreneurship. A mentoring or apprenticeship program which matches a business owner to a young person in a one-on-one mentoring relationship gives the potential entrepreneur the chance to see how business is created in the real world. This, at least in part, may provide the young person with the insight and encouragement for choosing the entrepreneurial path. A first step in getting a mentoring program going in your community might be to invite community entrepreneurs into the classroom. Entrepreneurs who tell their stories in the schools are providing the role models these young people need to envision an entrepreneurial future for themselves.

How can youth acquire the skills that they need to become successful business entrepreneurs? Traditionally, K-12 education has focused on preparing students to be good workers, rather than successful entrepreneurs. However, this is beginning to change as more schools are offering activities, such as Junior Achievement, that provide youth with the knowledge and practice of business. Some schools have gone even further by incorporating notable entrepreneurship training programs in the curriculum. A successful example is the Rural Entrepreneurship through Action Learning (REAL) program which is now being used in 43 states and foreign countries. In the REAL program, youth create viable businesses that generate on average 2.2 jobs and sometimes move out to a permanent site in the community (Corporation for Enterprise Development.)

Another excellent youth training example is the CEO program, (Creating Entrepreneurial Opportunities, http://www.effinghamceo.com/) in Effingham, Illinois. CEO was developed by business leaders in the community to train the next generation of business leaders. They funded the program for three years and hired a dynamic individual to design and deliver the training in the local school.

The effort was designed to be a “stretch” for the community. The program conformed to school regulations for curriculum but was designed by entrepreneurs. Inclusion by juniors and seniors is by application, and has become quite competitive. The program soon spread to neighboring counties, and CEO is now partnering with schools in other regions to help them create similar systems.

Youth entrepreneurship camps are another approach to bring youth together with experienced businesspeople for intensive training and guidance in starting a new business. For example, the youth entrepreneurship camp sponsored by the University of Wisconsin Small Business Development Center includes 40 hours of training in real-world business skills, team building, leadership development, financial management, verbal communication, and business etiquette. Participants also learn how to successfully negotiate for business materials, set goals, and recognize real business opportunities (University of Wisconsin Small Business Development Center.)

Provide Customized Assistance (to the full range of local entrepreneurs)

This might involve entrepreneurial coaches to work one-on-one with aspiring or start-up entrepreneurs. It might involve the city and library providing extensive and specialized market information to growth-oriented entrepreneurs, as the City of Littleton, Colorado does. This customized help may require significant investment by local community organizations.

Create “Angel” Investment Networks

Communities can build on current financing resources by creating area-based “angel” investment networks and pathways to more traditional venture capital resources (which may be external to the community). Sooner or later, growing ventures need more sophisticated forms of capital including access to equity capital. As entrepreneurial deals emerge and grow, the ability to help these ventures meet their capital needs is critical to keeping these businesses within the community.
5 Design a High-Capacity Organization Dedicated to Supporting Entrepreneurs

These entrepreneurial support organizations, such as the Fairfield Entrepreneurial Association, are rooted in communities and provide a comprehensive and sophisticated package of support that energizes start-up entrepreneurs and develops entrepreneurial growth companies.

6 Start an Accelerator

An accelerator is very different from an incubator (smaller communities with fewer mentors might be better off starting an incubator). An accelerator raises a small fund, then brings together three groups: mentors (executives from established firms, etc.), high-potential entrepreneurs, and investors. The program is of limited duration, such as 90 days. The three groups work together to create knock-out companies. The accelerator invests seed money, then venture capitalists invest larger sums. For communities short on resources, an accelerator can be sponsored by a university, using the school facilities and resources. Often people will borrow large sums of money to realize their dreams of owning a business, but face bankruptcy when they learn the business is not needed by the market. Accelerators help potential entrepreneurs to test ideas before funding and launching.

Keep in mind that entrepreneurs need better networks, not simply more programs. It is vital to establish relationships with entrepreneurs and to be responsive to their needs. Adding more complexity and more layers of service is not going to lead to success. Instead, having a clear pathway to available services and helping to establish networks will bring your community closer to having a vibrant entrepreneurial ecosystem.

The references at the end of this chapter provide useful resources as you take these next steps in your community.

Conclusion

Communities are recognizing that entrepreneurship is an important strategy of community economic development. However, as has been seen in this chapter, entrepreneurs are not all the same. Communities must be flexible and responsive to meet the varying needs of entrepreneurs. It is essential that support be tailored to fit the needs and wants of entrepreneurs, rather than based on satisfying an external agency or funding source.

An entrepreneurial ecosystem involves four major components: human capital, culture, support system, and momentum. While fully developing an ecosystem requires a long-term commitment, there are many options for communities. To get started, communities can design networking and mentoring opportunities for entrepreneurs. Indeed, other entrepreneurs may be the most valuable source of information and ideas! At more advanced levels, communities can arrange customized assistance and counseling, provide entrepreneurs with training opportunities, establish “angel” investment networks, create an accelerator, and encourage entrepreneurial curricula in local schools.

Entrepreneurship has always been the engine that brings new vitality to places in the U.S. and around the world. Yet it has been largely overlooked as a development strategy. Community developers will be surprised at the potential of local entrepreneurs. As the community learns to support and honor entrepreneurship, remarkable and surprising things can happen.

Keywords

Entrepreneur, entrepreneurial ecosystem, social entrepreneur, youth entrepreneurs, potential entrepreneurs, business owners, lifestyle entrepreneurs,
innovation, small business development centers, economic gardening, micro-enterprise, micro-enterprise, the Boulder thesis.

Review Questions

1. How would you define “entrepreneur”?
2. What are the different types of entrepreneurs?
3. What are the needs of these different types of entrepreneurs that the community can provide to support them?
4. How can a community discover current entrepreneurial strengths?
5. How can communities allow potential entrepreneurs to feel safe to try starting a new venture?
6. Why is networking so important to entrepreneurs?
7. What is a social entrepreneur?
8. Briefly explain what we mean by an “entrepreneurial ecosystem”.

Notes

2. For more information on Hersman who is a TED Senior Fellow, see, for example, http://www.ted.com/speakers/erik_hersman.html. For information on his venture fund in Africa, see Clayton, 2012.
3. A useful tool from the RUPRI Center for Rural Entrepreneurship enables you to rate your community’s support for entrepreneurship and get a sense of what your community is doing and what you might do next. It is available at: http://www.energizingentrepreneurs.org/site/images/research/tp/et/et4.pdf

Bibliography


Connections


Watch an inspiring video. Entrepreneur Erik Hersman explains how technology is saving lives in Africa in this TED talk: http://www.ted.com/talks/erik_hersman_on_reporting_crisis_via_texting.html

Explore these sites:
www.energizingentrepreneurs.org The RUPRI Center for Rural Entrepreneurship has abundant resources and guides to help rural communities develop a strong community-based entrepreneurial program.
www.Ashoka.org – a leading nonprofit with worldwide operations to encourage and support social entrepreneurship
http://caseatduke.org/ – Center for Advancement of Social Entrepreneurship, a research center with a variety of resources and tools for social impact via entrepreneurship