

# Entrepreneurship in Economic Development

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# Why Focus on Entrepreneurship?

- Entrepreneurship is linked to several economic benefits
  - **Job Creation**
  - Income Growth and Poverty Reduction
  - Regional stability
  - Innovation
  - Sense of Community



# Income Growth and Poverty Reduction

- Countries with more entrepreneurship have higher GDP.
- Regional Results:
  - Rural and urban income growth.
  - Rural poverty reduction.
  - Ex. Appalachia
- Helping low income individuals become self-employed can help them out of poverty and reduce the need for welfare.

# Regional Stability

- Over time some businesses will close, others will do quite well.
- Relying on one industry can leave a region vulnerable.
  - Portfolio approach to economic development.
- Diversity is key to creating stable local economies.
  - Less vulnerable to the fluctuation of any one industry.



# Innovation

- Innovation leads to processes, products, and services that increase variety and replace existing technology.
- Consumers benefit from many choices to suit their needs.
- Businesses are responsible for the majority of R&D spending.

# Local Sense of Community

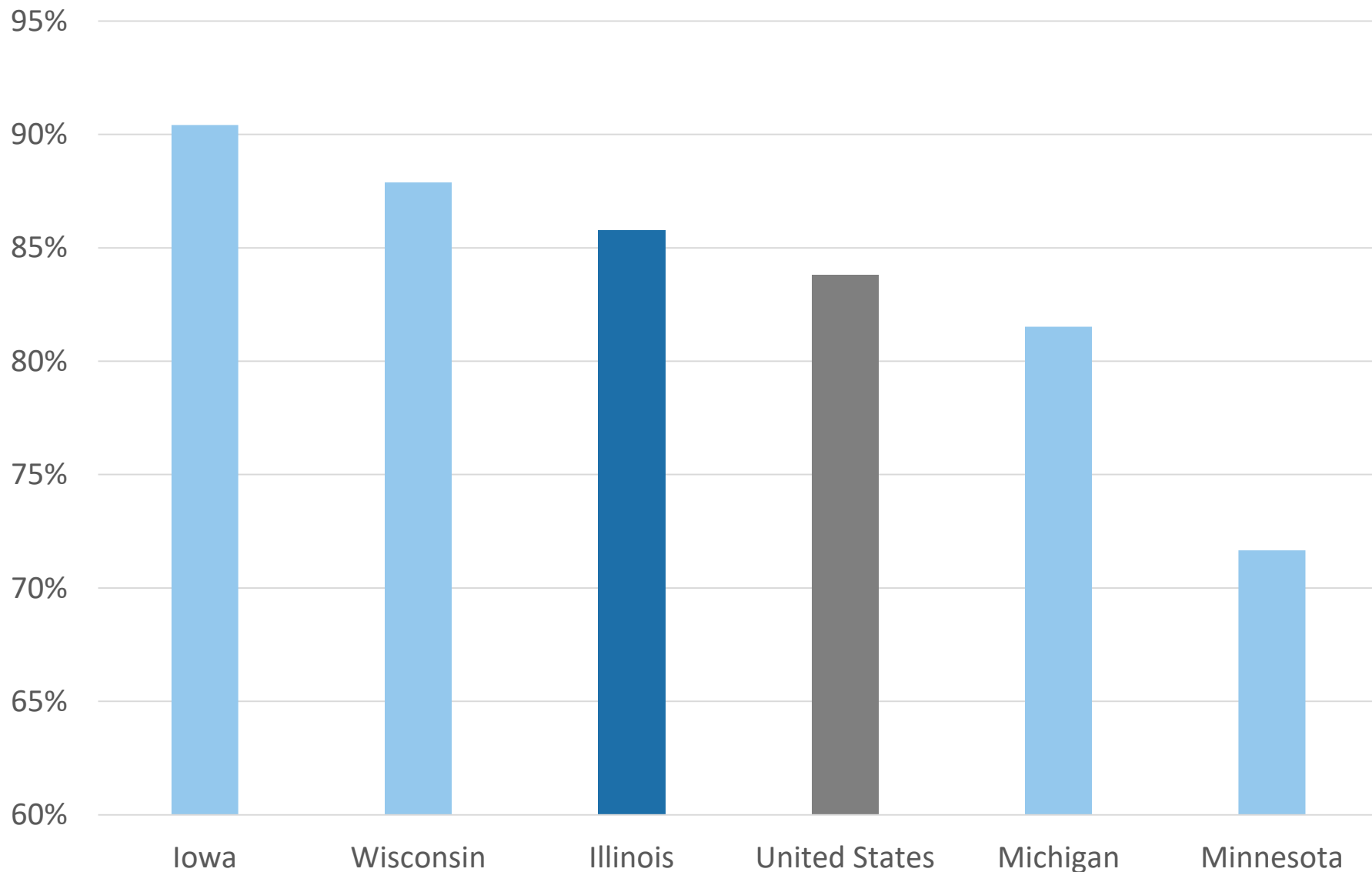
- Small businesses...
  - Create and support local amenities.
  - Provide specialty services.
  - Sell culturally-specific goods.
  - Give communities charm and unique character.



# Job Creation: What We've Learned

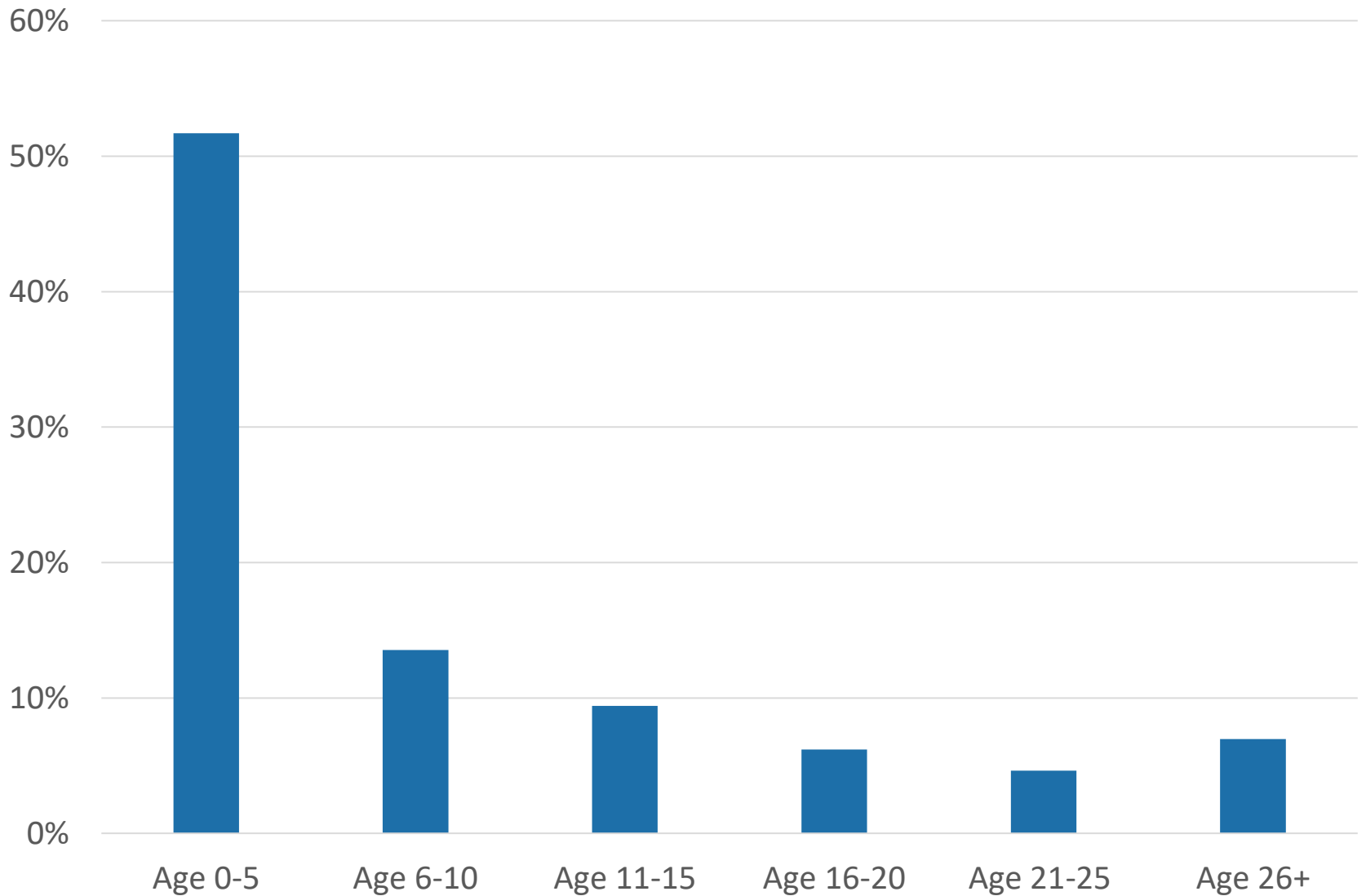
- Historically, we thought that job creation was about business size.
  - Pre-1980s: Big companies create jobs
  - 1980s-2000s: Small businesses create jobs
- More recent work shows that that job creation has more to do with business age.
  - **New businesses are key to job creation**, and new businesses happen to be small.

# Share of Gross Job Creation From Businesses with Less than 500 Employees

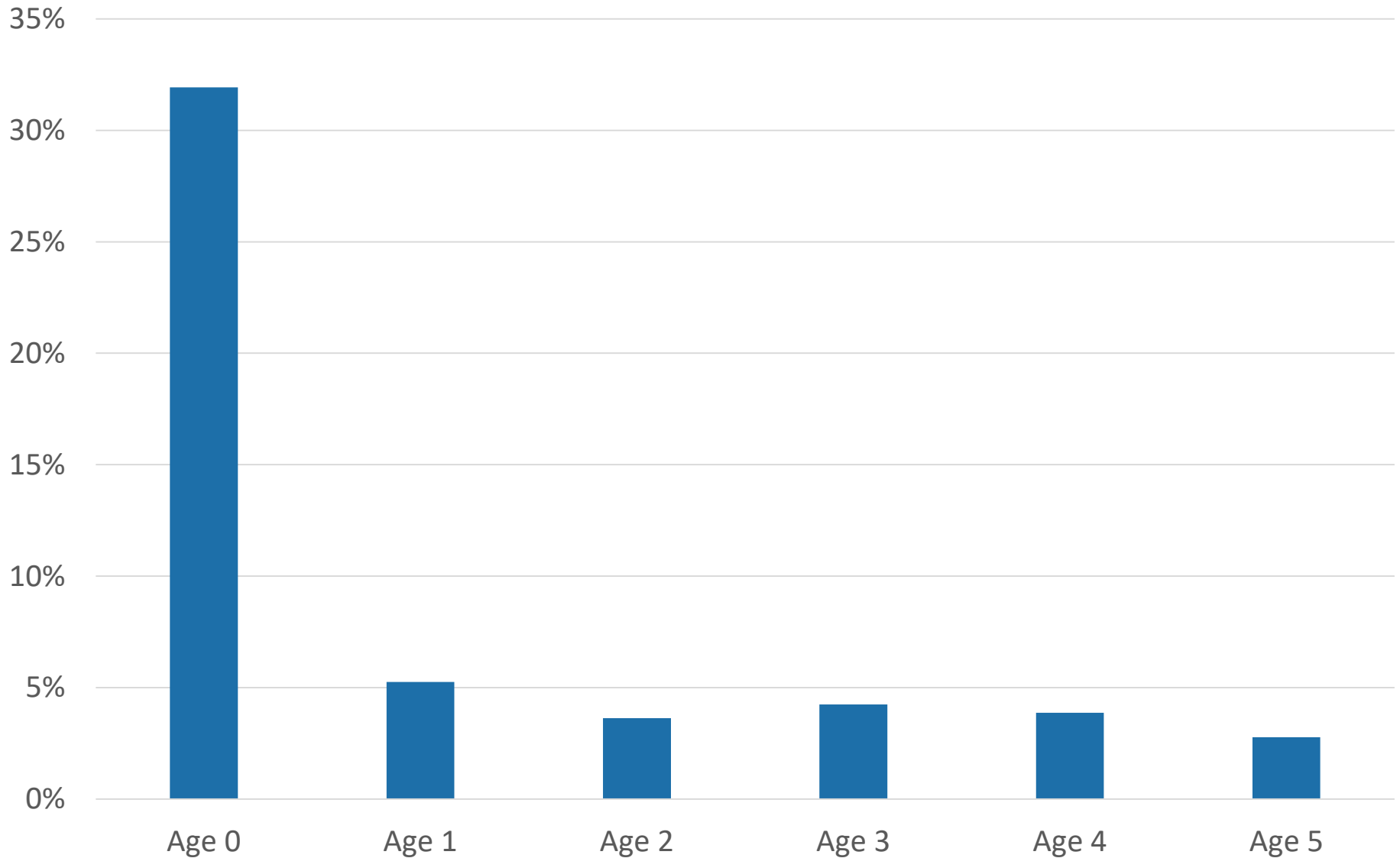




# Share of Gross Job Creation by Business Age Class, Illinois 2014



# Share of Gross Job Creation by Young Establishments, Illinois 2014

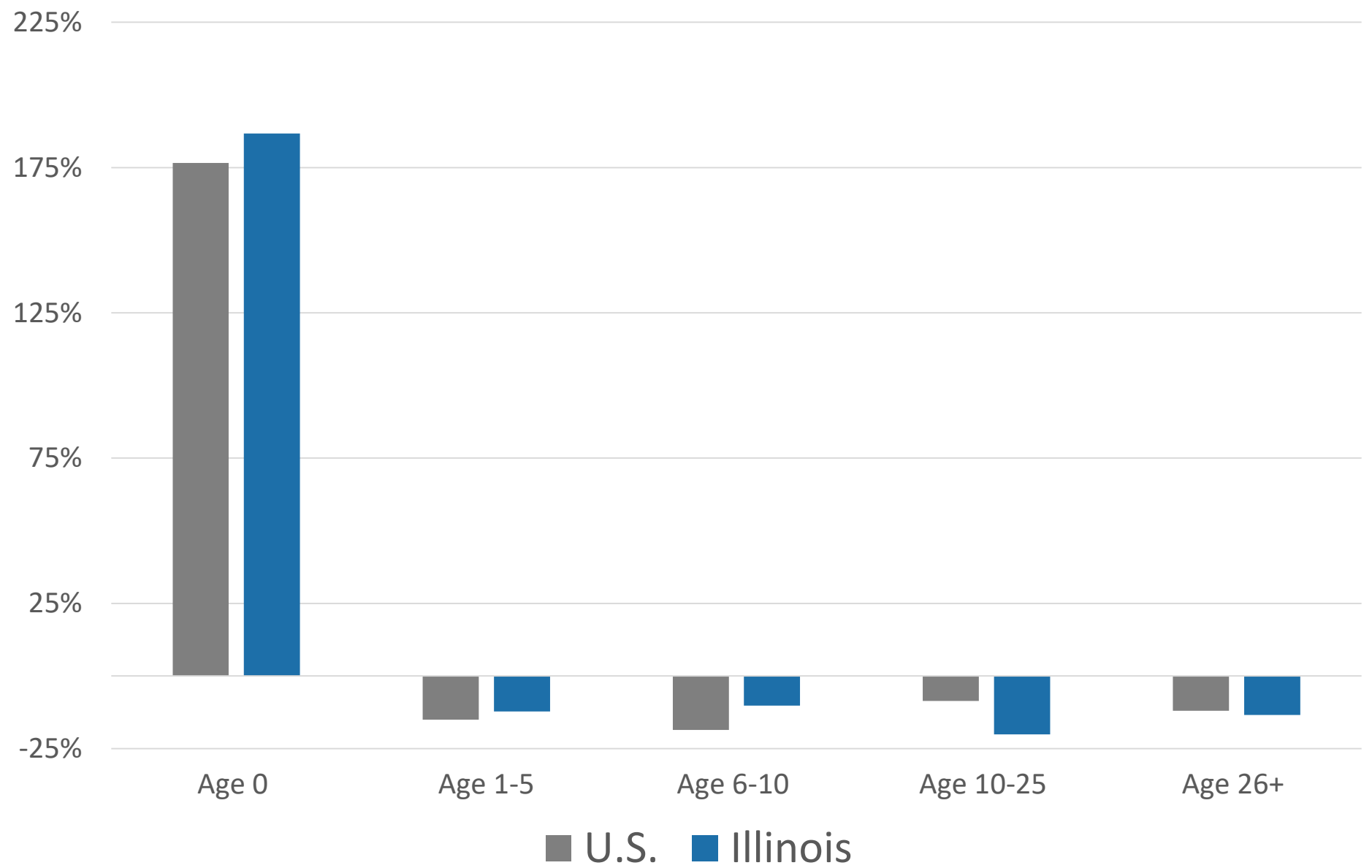


# Job Creation

- Nearly 1/3 of new jobs from new businesses.
- Businesses 1-5 years old create ~20% of all new jobs.
- From 1980 to 2005, annual net employment growth in the U.S. would have been negative without the job creation from new ventures.



# Share of Net Job Creation by Business Age Class 2014

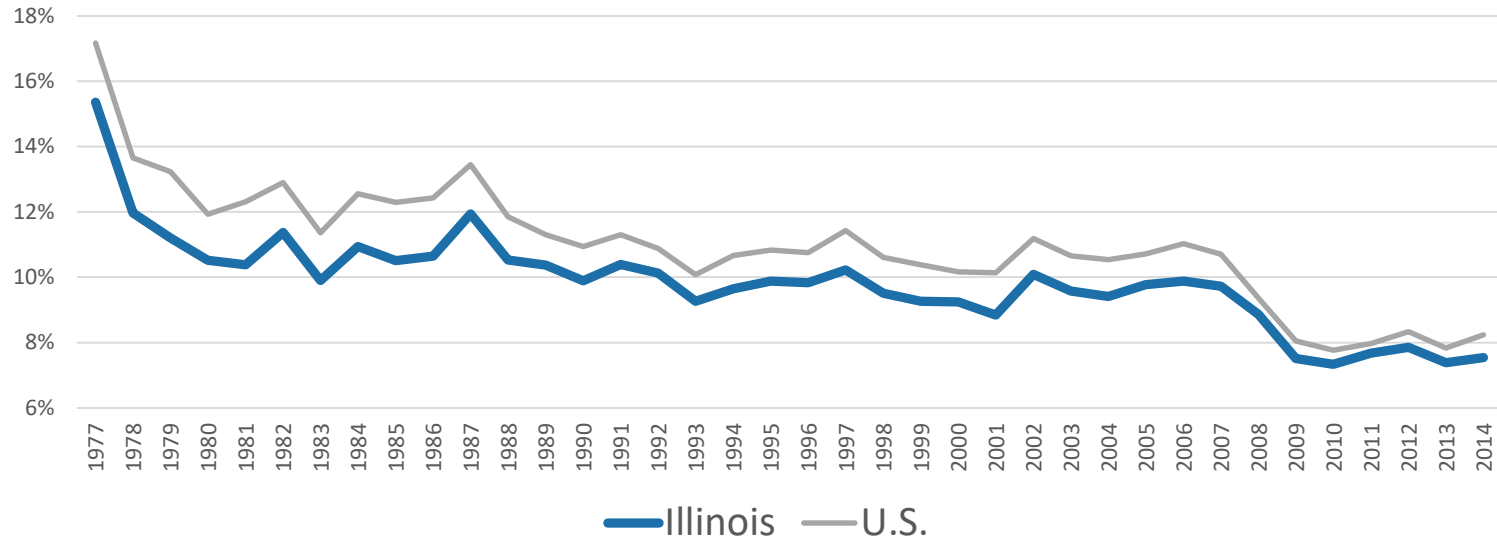


# The Bad News

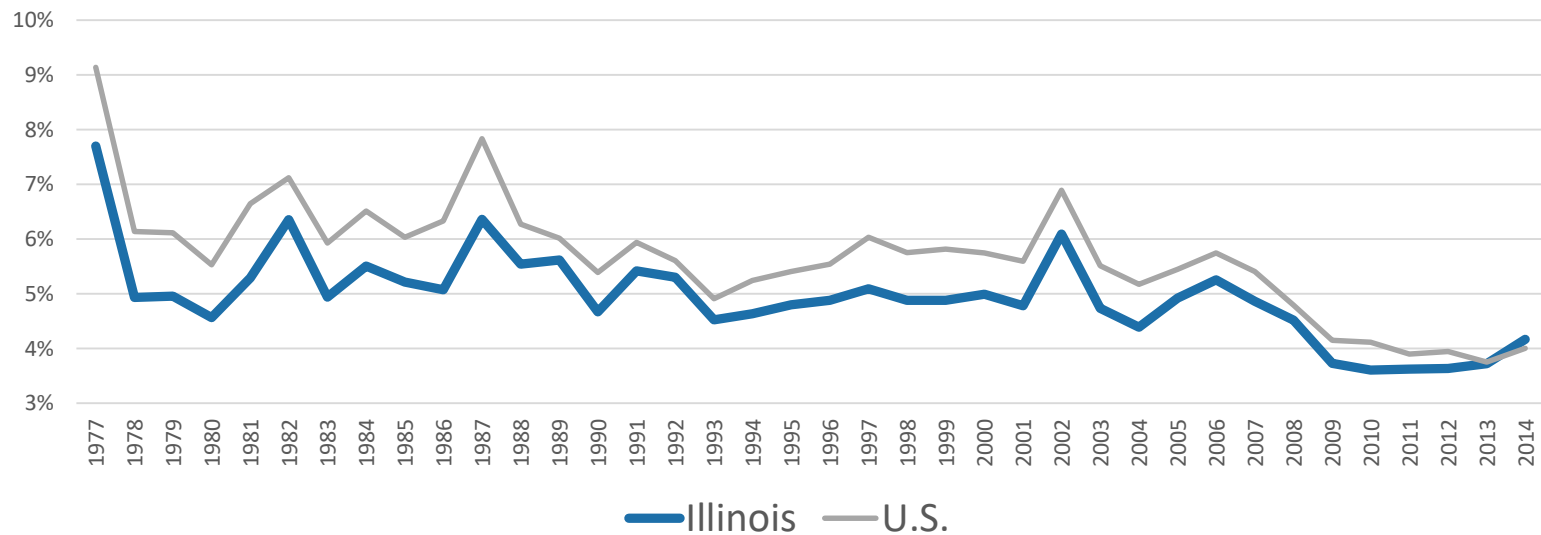
- Young businesses face high failure rates.
  - After 5 years, 40% of the jobs initially created have been eliminated by closure.
- Some new jobs are not high-quality jobs.
  - Young firms are far less likely to offer basic benefits such as health insurance and retirement programs.
- Entrepreneurship is declining.

# Entrepreneurship in Decline

## Start-Up Rate



## Share of Employment in New Businesses

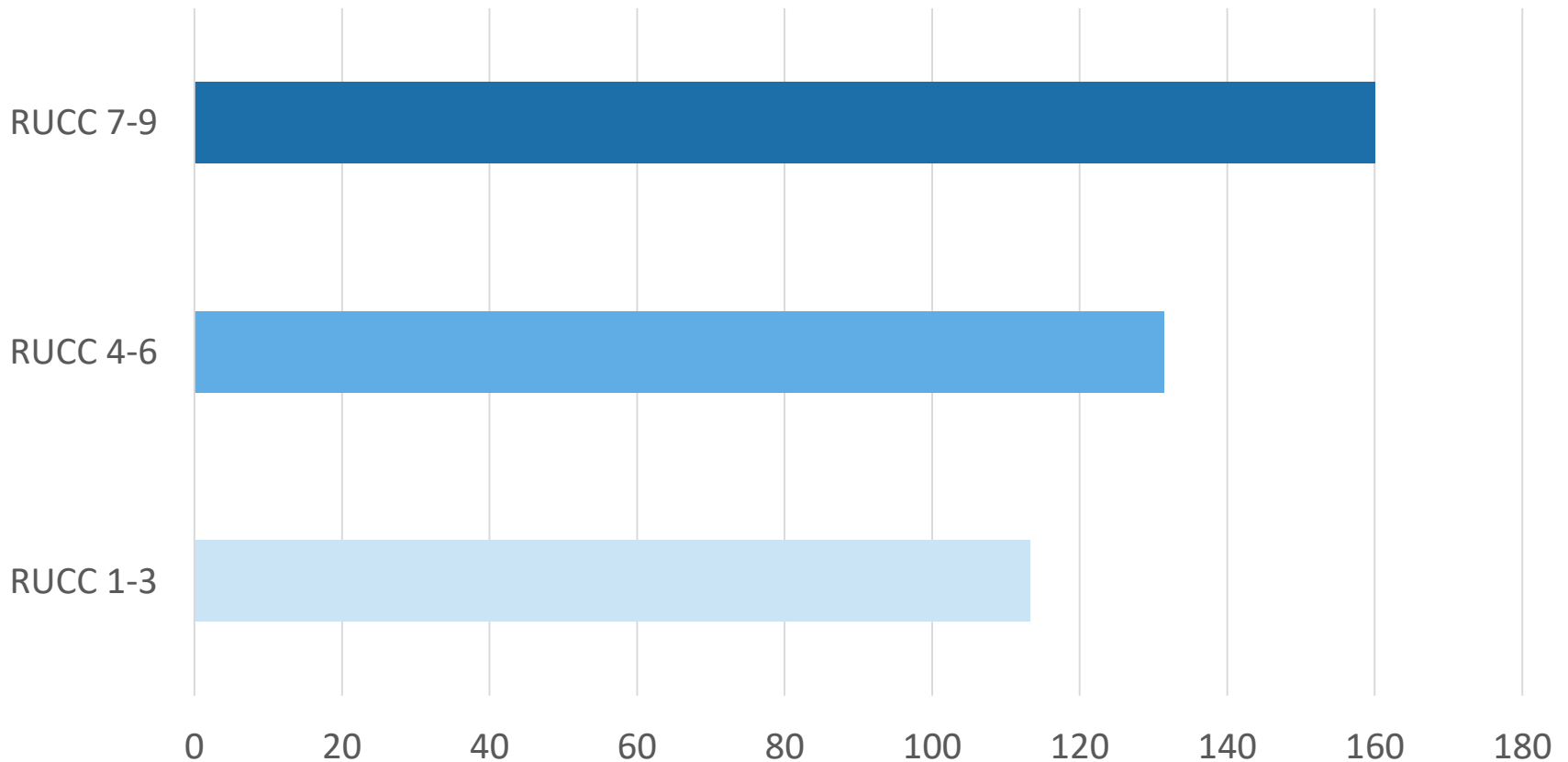


# The Good News...

- Firms that do survive grow rapidly.
- Failure, alongside openings, is a sign of a healthy, dynamic economy.
- Rural areas are surprisingly entrepreneurial.
  - Higher rates of proprietorship.
  - Higher rates of business survival.

# Rural Entrepreneurship

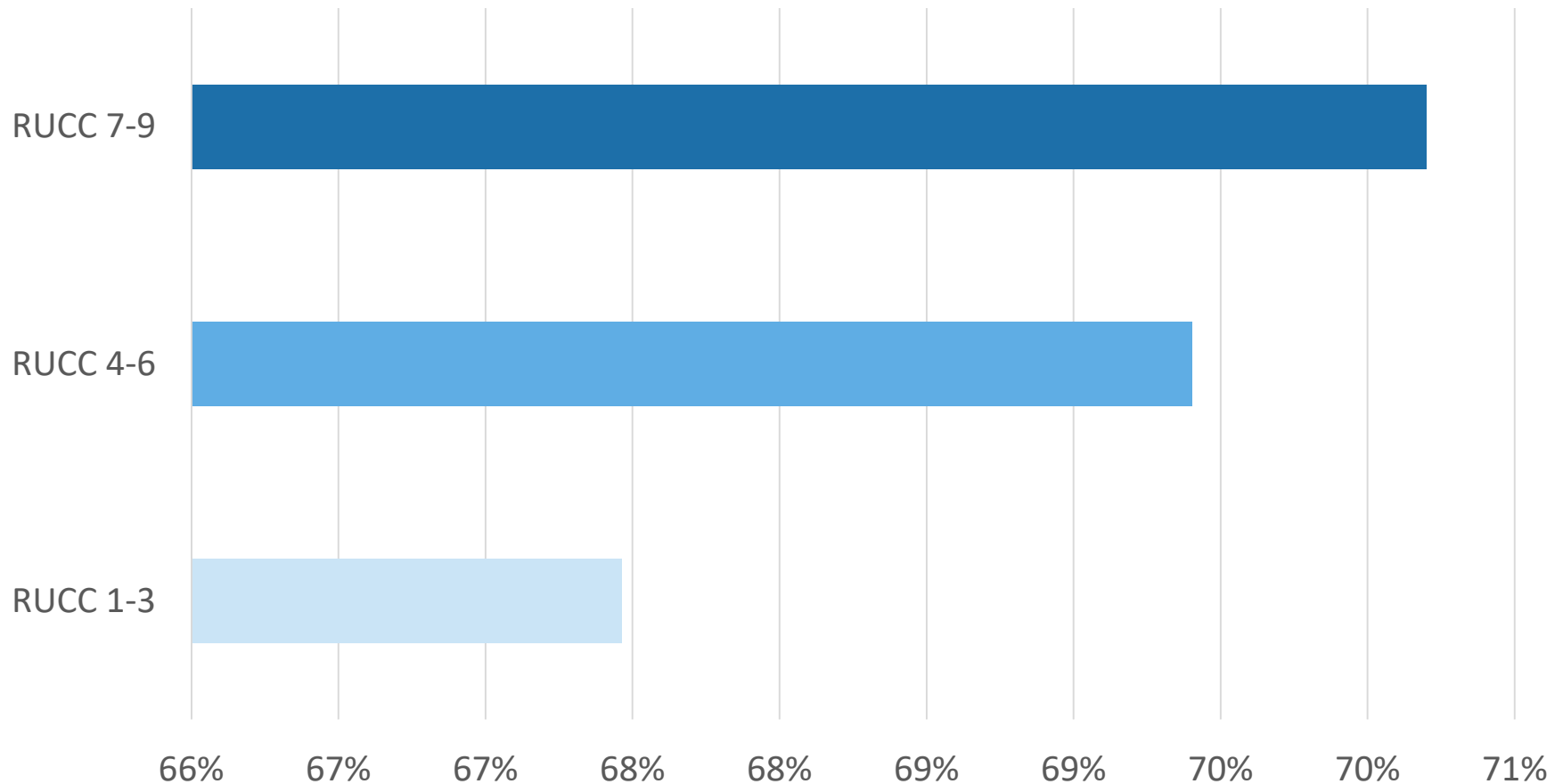
**Proprietorship Rate  
by Rural-Urban Continuum Code  
Illinois, 2015**  
Proprietor Employment Per 1000 Residents





# Rural Business Survival

Five-Year Business Survival Rate  
Survival Firms Born 1990-2007  
Illinois



# Enhancing Entrepreneurship

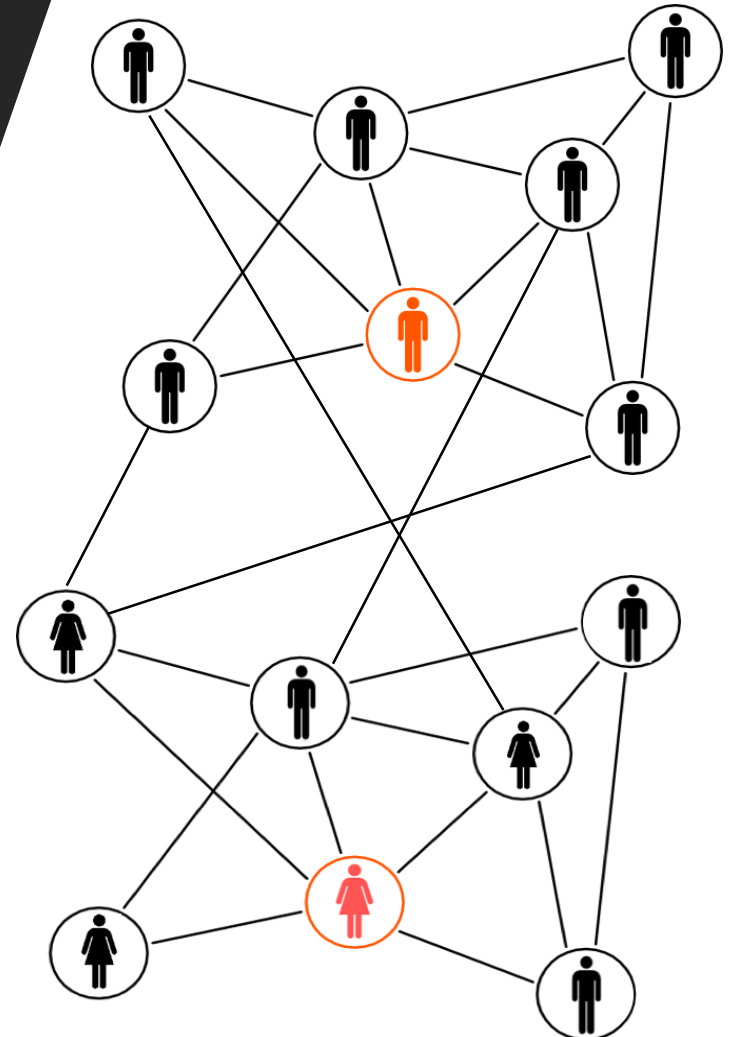
- Shifting away from attraction-based economic development.
  - Lower-cost strategy for job creation.
  - Long-term approach to economic development.
- Alternatively, emphasize creating and growing local entrepreneurs and small businesses.
  - Networks
    - Women and Minorities
  - Lending
  - Local strengths

# The Entrepreneurial Ecosystem

- Communities seeking economic growth need to understand the impact entrepreneurship and small business play in economic growth.
- Community-wide commitment is important to fostering entrepreneurship.
- Educate community members who play a role in entrepreneurial networks.
  - Bankers/lenders, chambers of commerce, Extension educators, realtors, accountants, attorneys, teachers, philanthropists...

# Networks

- Based on academic research on networks.
- Important information transmission mechanism.
  - Supply chains, consumer demand, good locations, feasible financing, labor pools.
- Foster entrepreneurial ecosystem.
  - Collaborative
  - Risk-tolerant
  - Resourceful

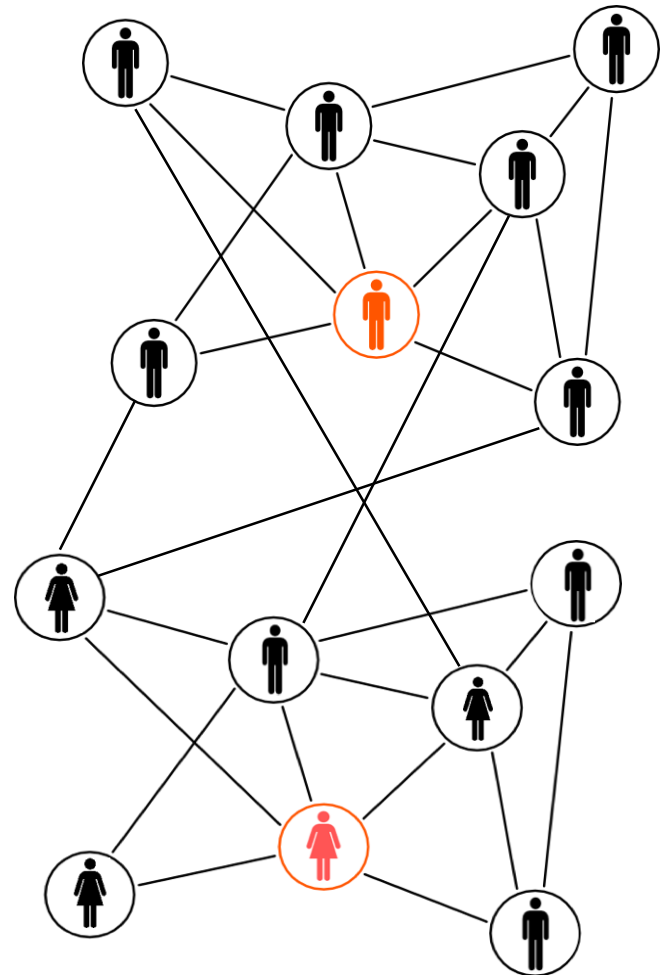


# Networks

- Women and minorities at a network disadvantage.
- Has implications for their likelihood of starting a business and their chances for success.

"Irrespective of how shrewd or clever the woman is, she will still not have access to the well-kept information that is saved for the good old boys."

(Moore and Buttner 1997, p146)



# Relationship Lending


- Small business lending linked to higher startup rates and survivability.
- Lenders face information asymmetries that can limit credit availability.
- Networks can help overcome these information gaps.



# Local Strengths

- Even if two places were identical their social networks would evolve uniquely.
- Extremely difficult to recreate Silicon Valley.
- More effective to invest in local strengths.
  - Local identity.
  - Local assets.

# Conclusion

- New firms are critical to generating new jobs.
  - Fostering entrepreneurship is a low-cost, long-term approach to economic development.
  - Fostering entrepreneurship requires a mix of strategies that will vary by community.
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# Questions or Comments?

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