

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

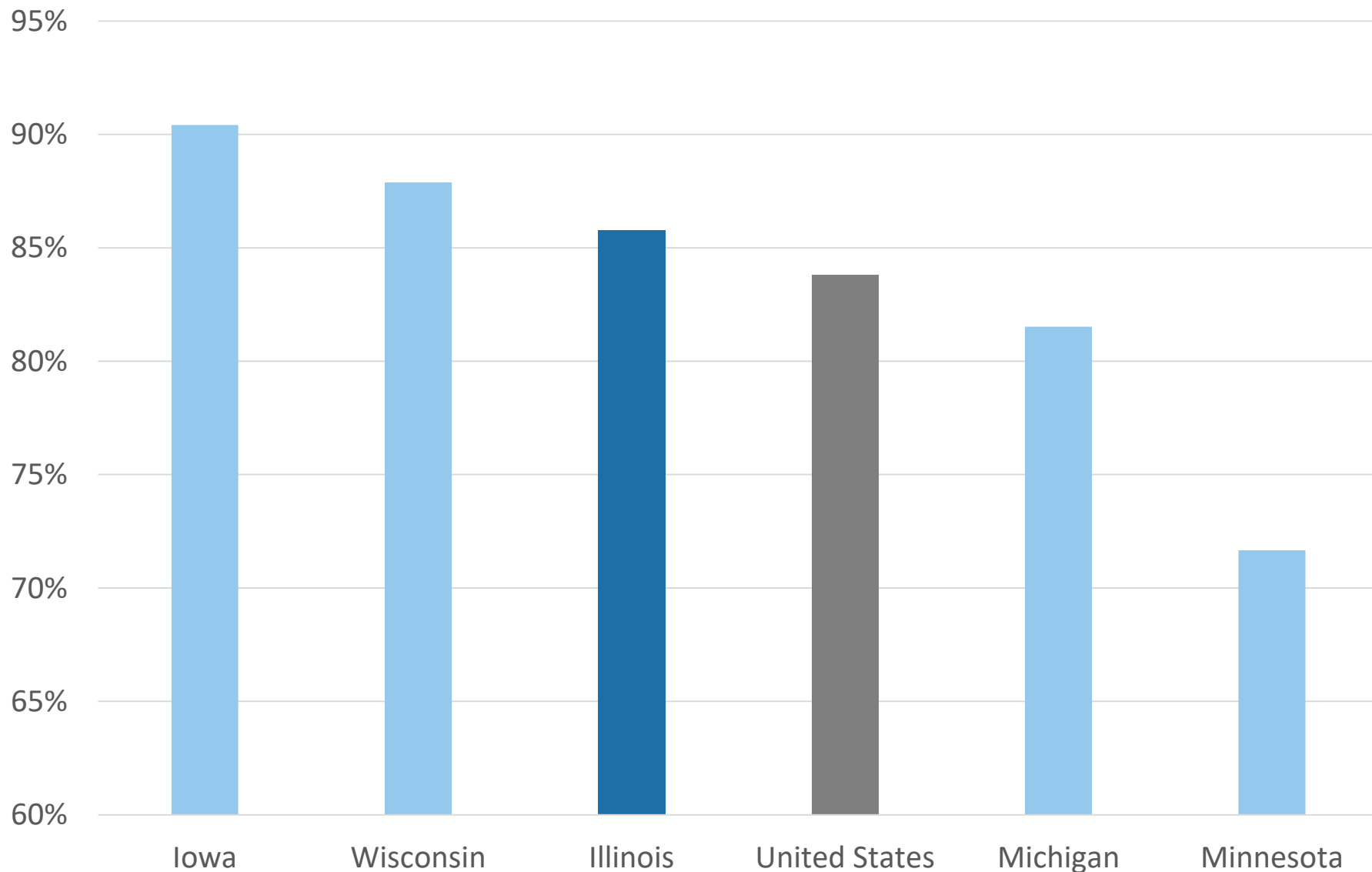
- Small businesses...
 - Create and support local amenities.
 - Provide specialty services.
 - Sell culturally-specific goods.
 - Give communities charm and unique character.



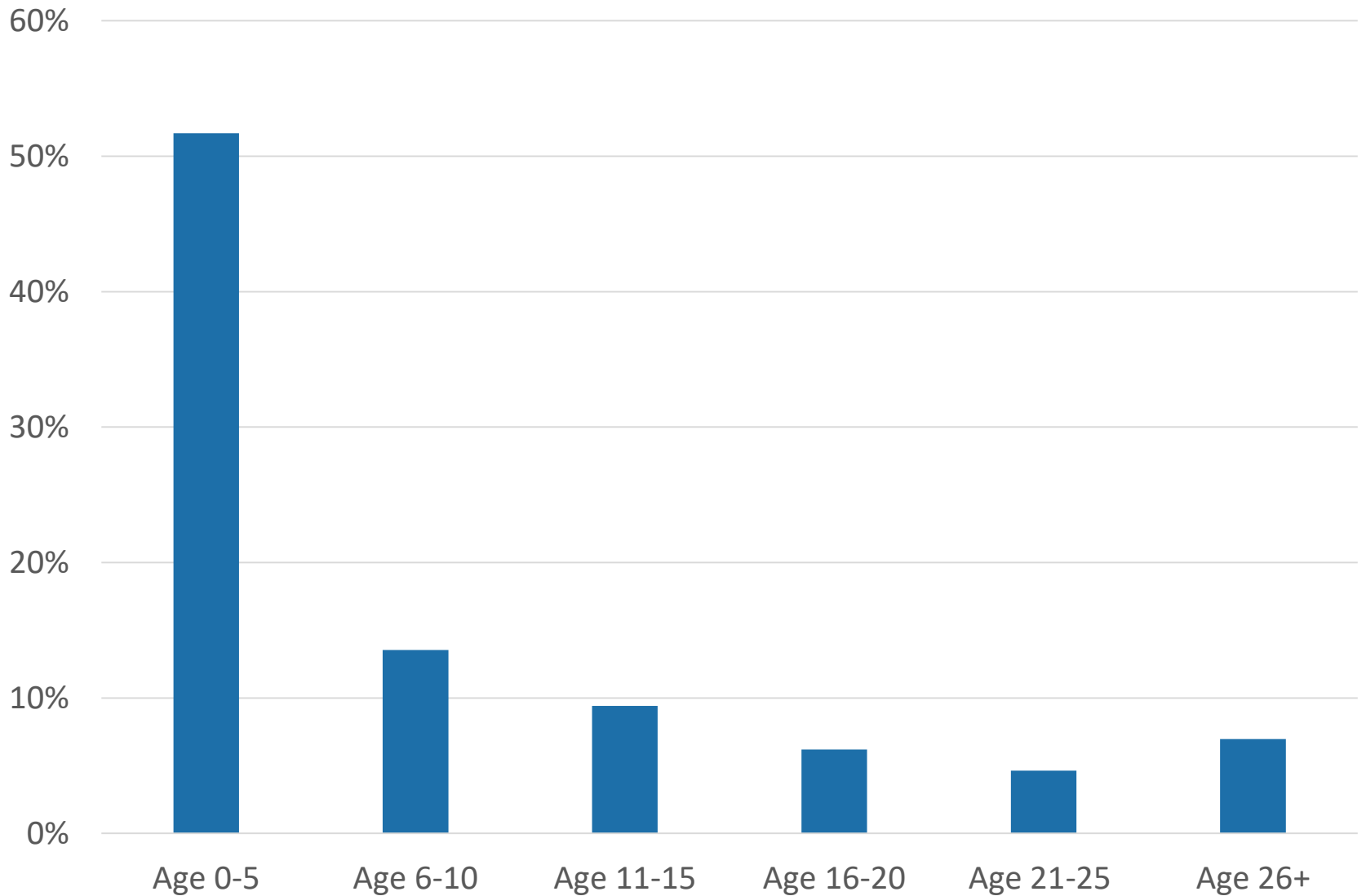
Job Creation: What We've Learned

- 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.

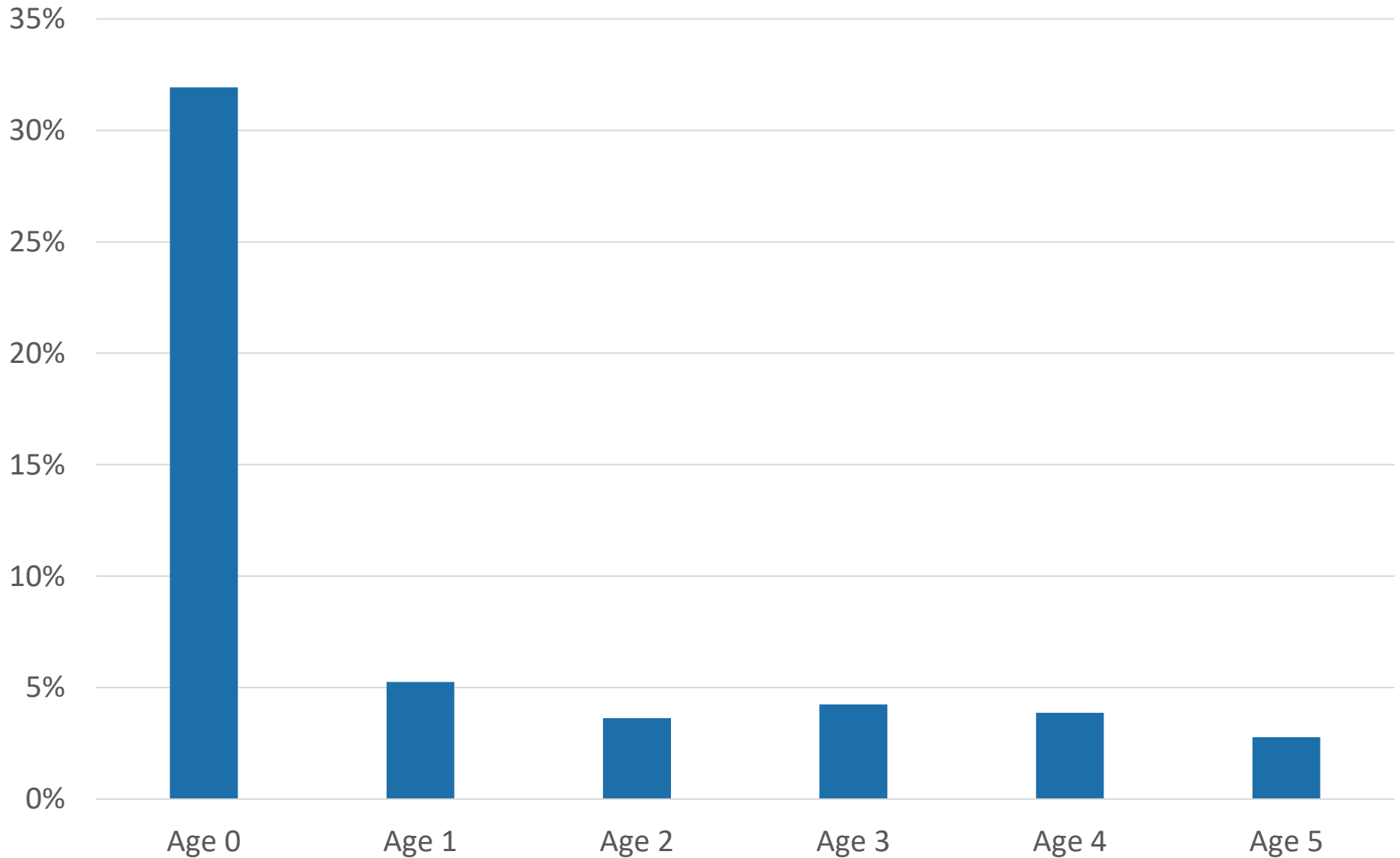
Share of Gross Job Creation From Businesses with Less than 500 Employees



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



Share of Gross Job Creation by Young Establishments, Illinois 2014

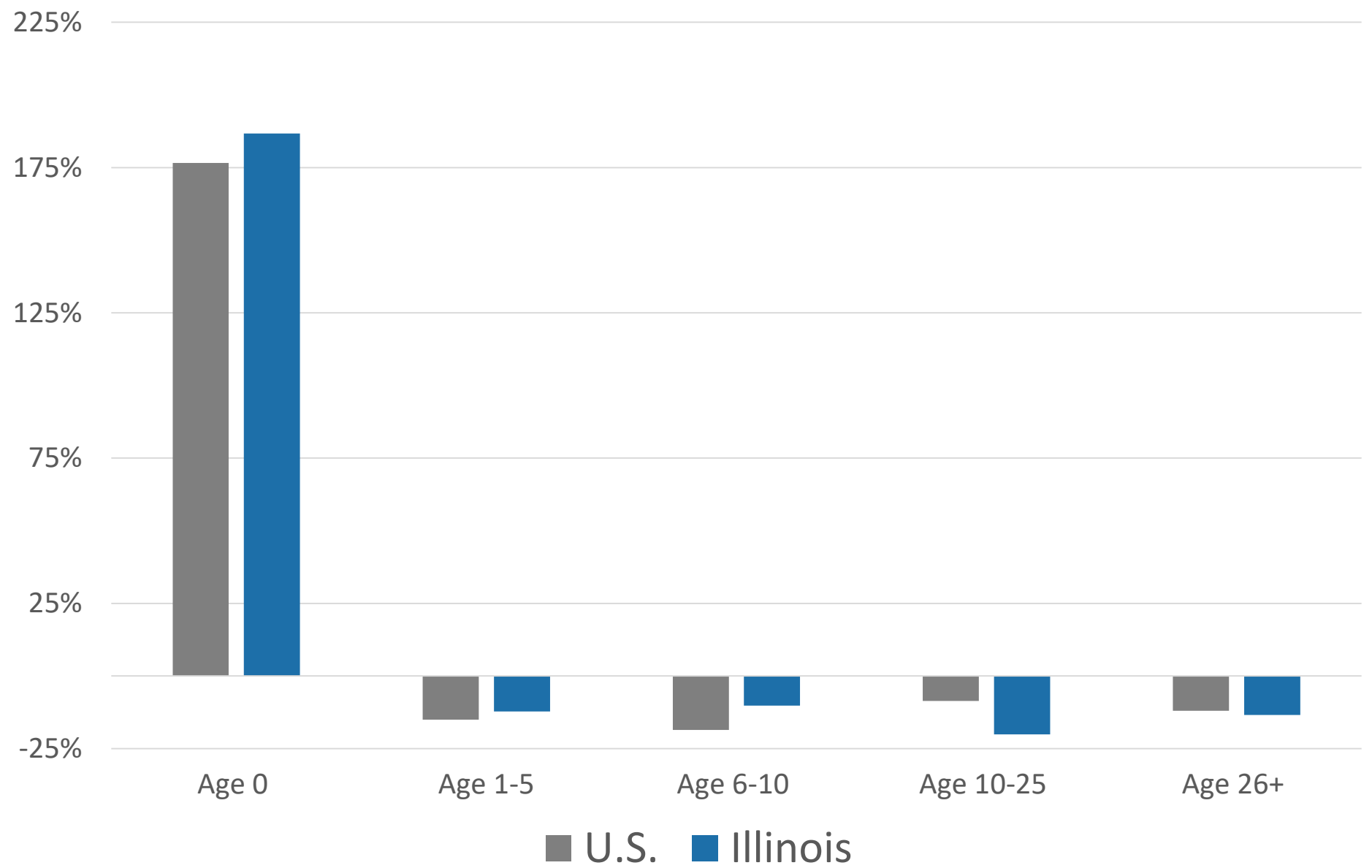


Job Creation

- 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

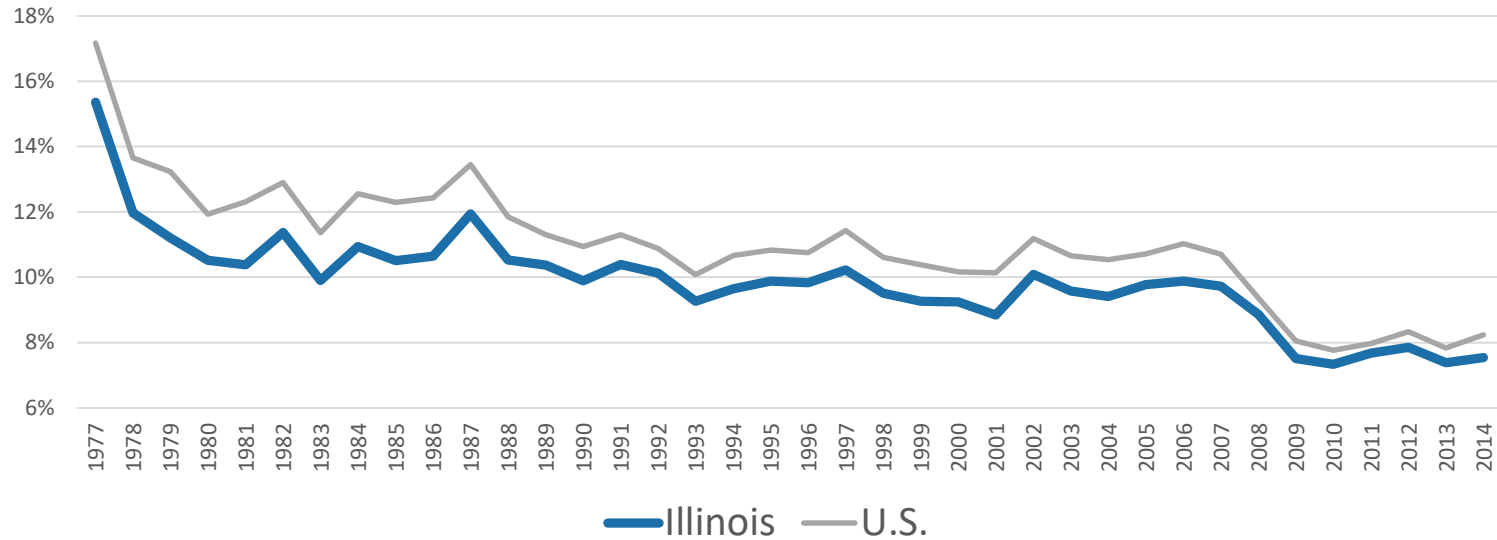


The Bad News

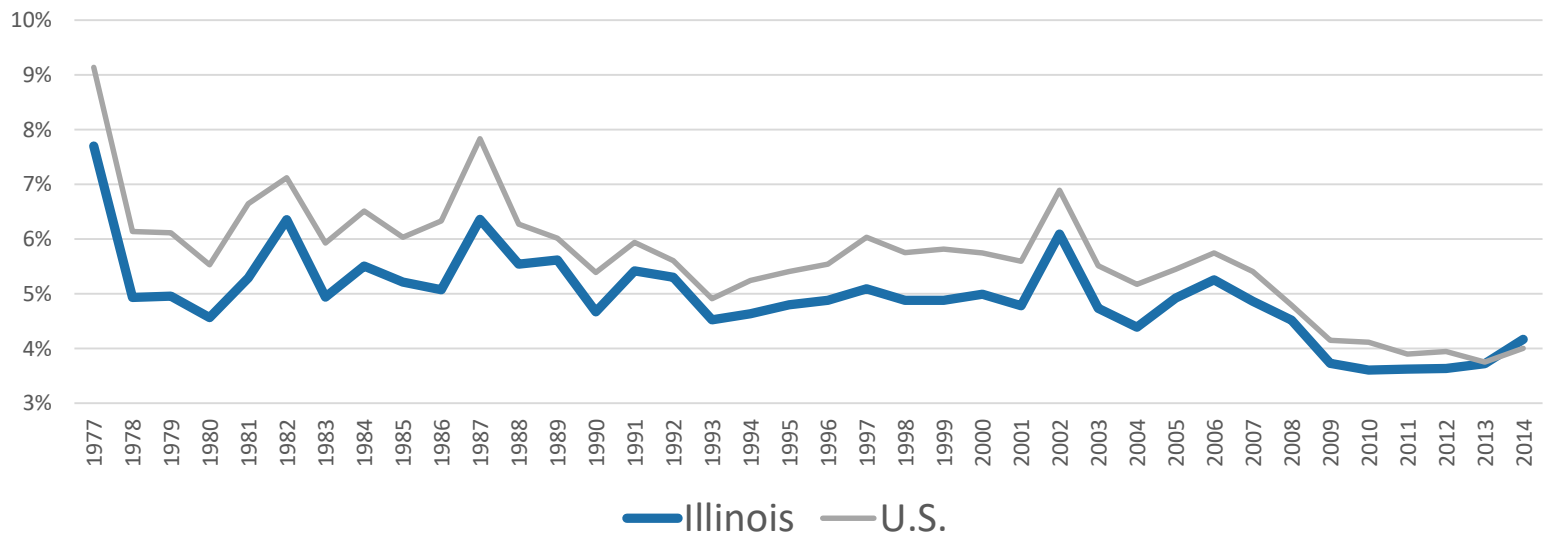
- Young businesses face high failure rates.
 - After 5 years, 40% of the jobs initially created have been eliminated by closure.
- Some new jobs are not high-quality jobs.
 - Young firms are far less likely to offer basic benefits such as health insurance and retirement programs.
- Entrepreneurship is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

Entrepreneurship in Decline

Start-Up Rate



Share of Employment in New Businesses

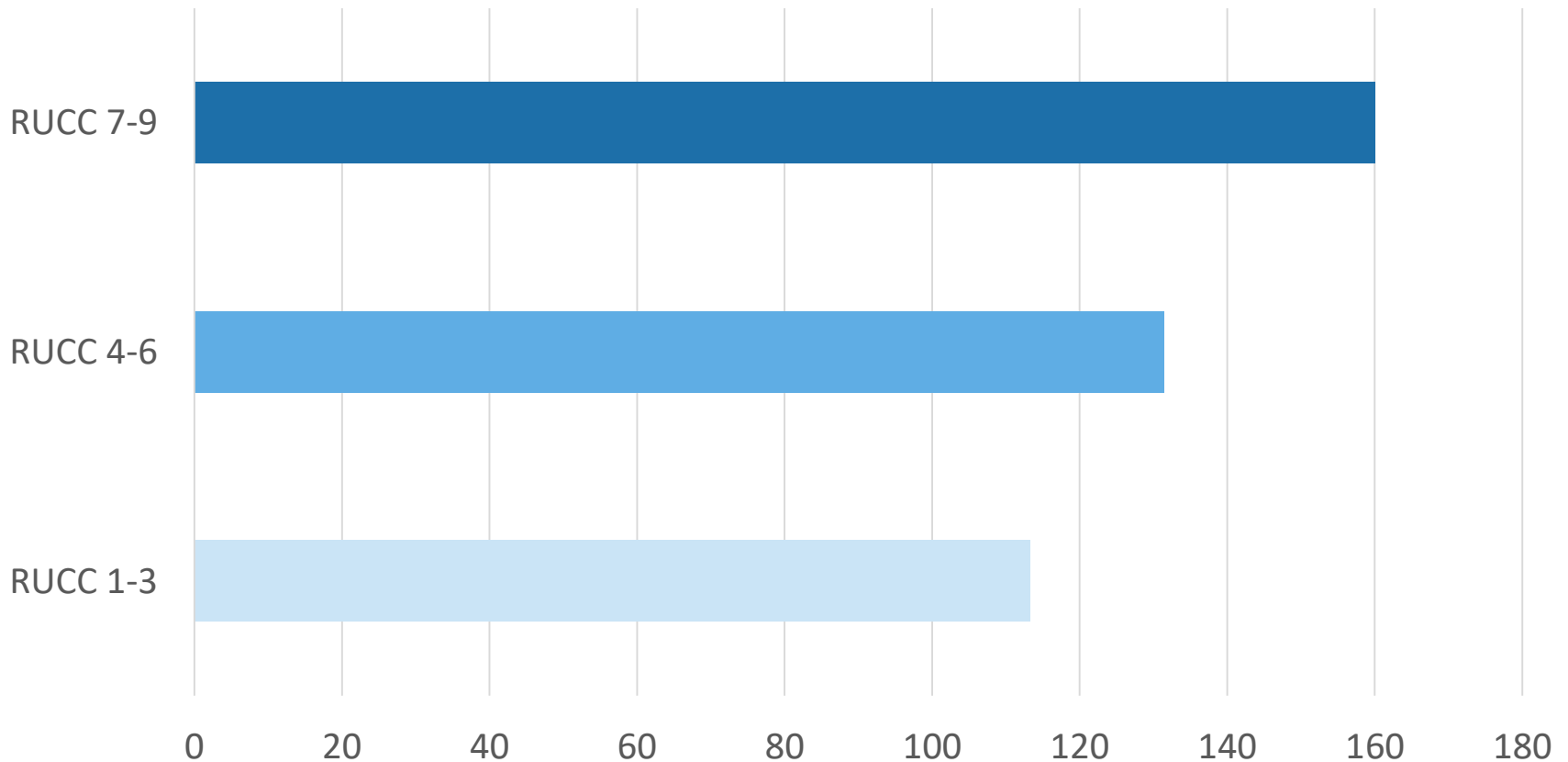


The Good News...

- 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.

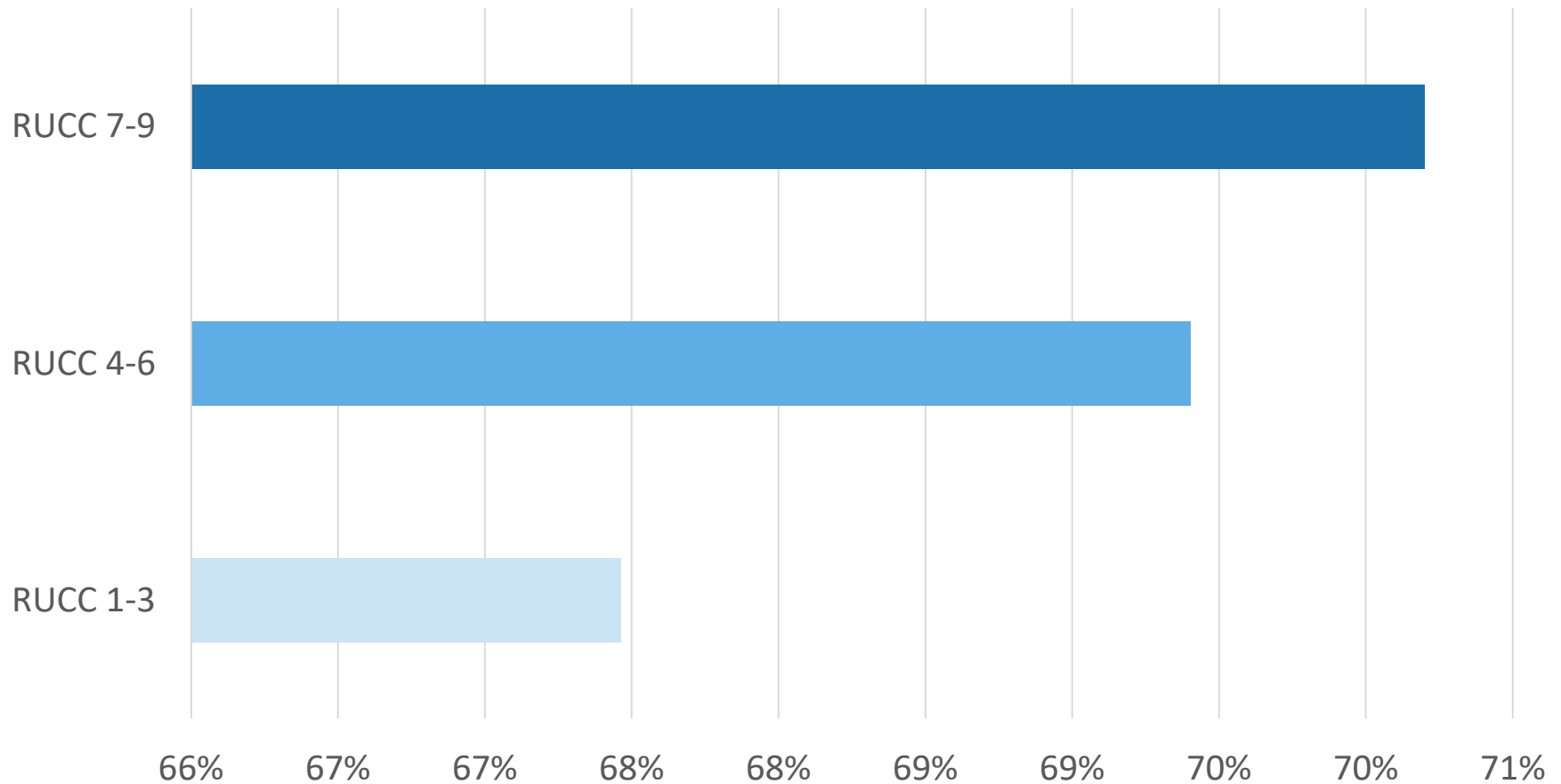
Rural Entrepreneurship

**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

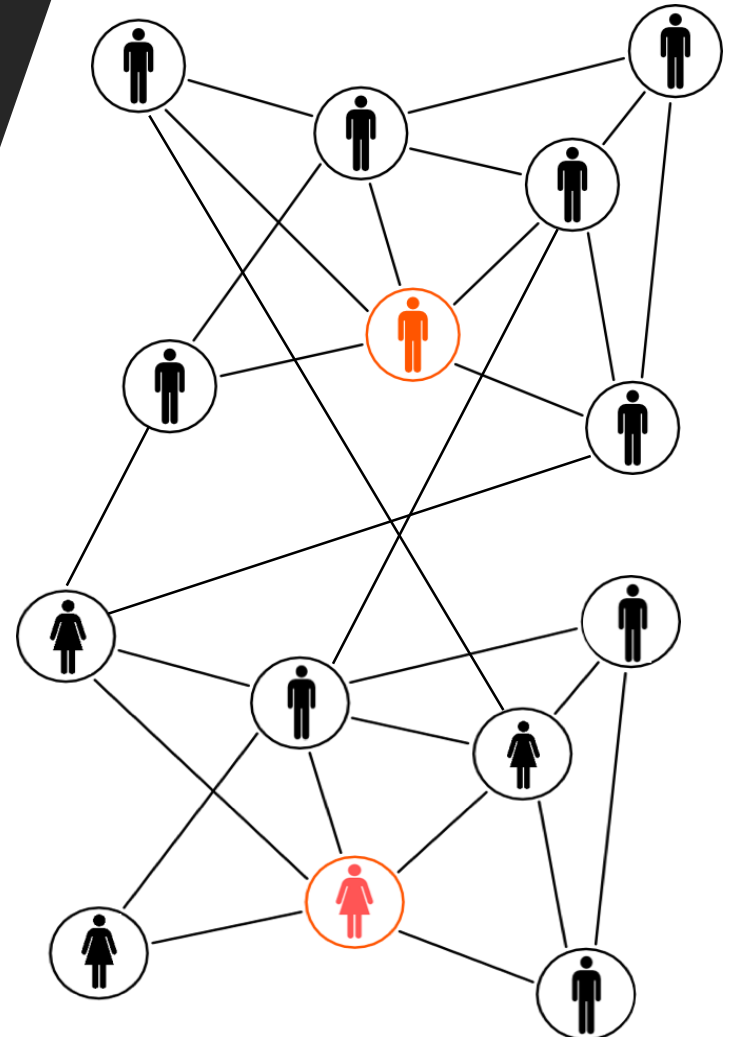
- Shifting away from attraction-based economic development.
 - Lower-cost strategy for job creation.
 - Long-term approach to economic development.
- Alternatively, emphasize creating and growing local entrepreneurs and small businesses.
 - Networks
 - Women and Minorities
 - Lending
 - Local strengths

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

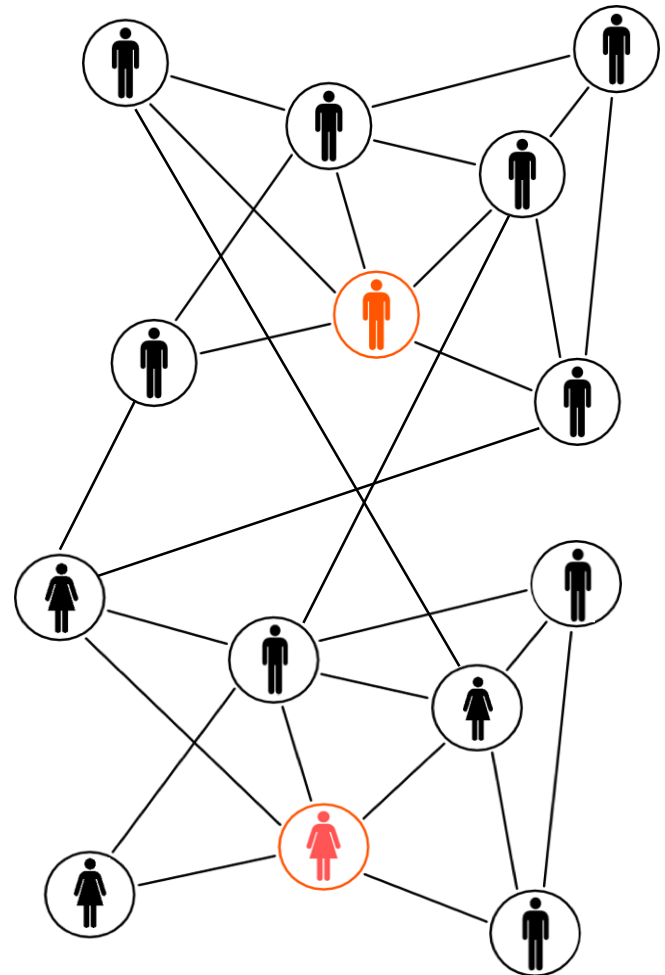


Networks

- 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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