



# Economic Development and Entrepreneurship

## **Michael D. Wilcox, Jr.**

Assistant Professor - Department of Agricultural Economics  
University of Tennessee  
e: [mwilcox2@utk.edu](mailto:mwilcox2@utk.edu)  
<http://trend.ag.utk.edu>

## **Michelle C. Proctor**

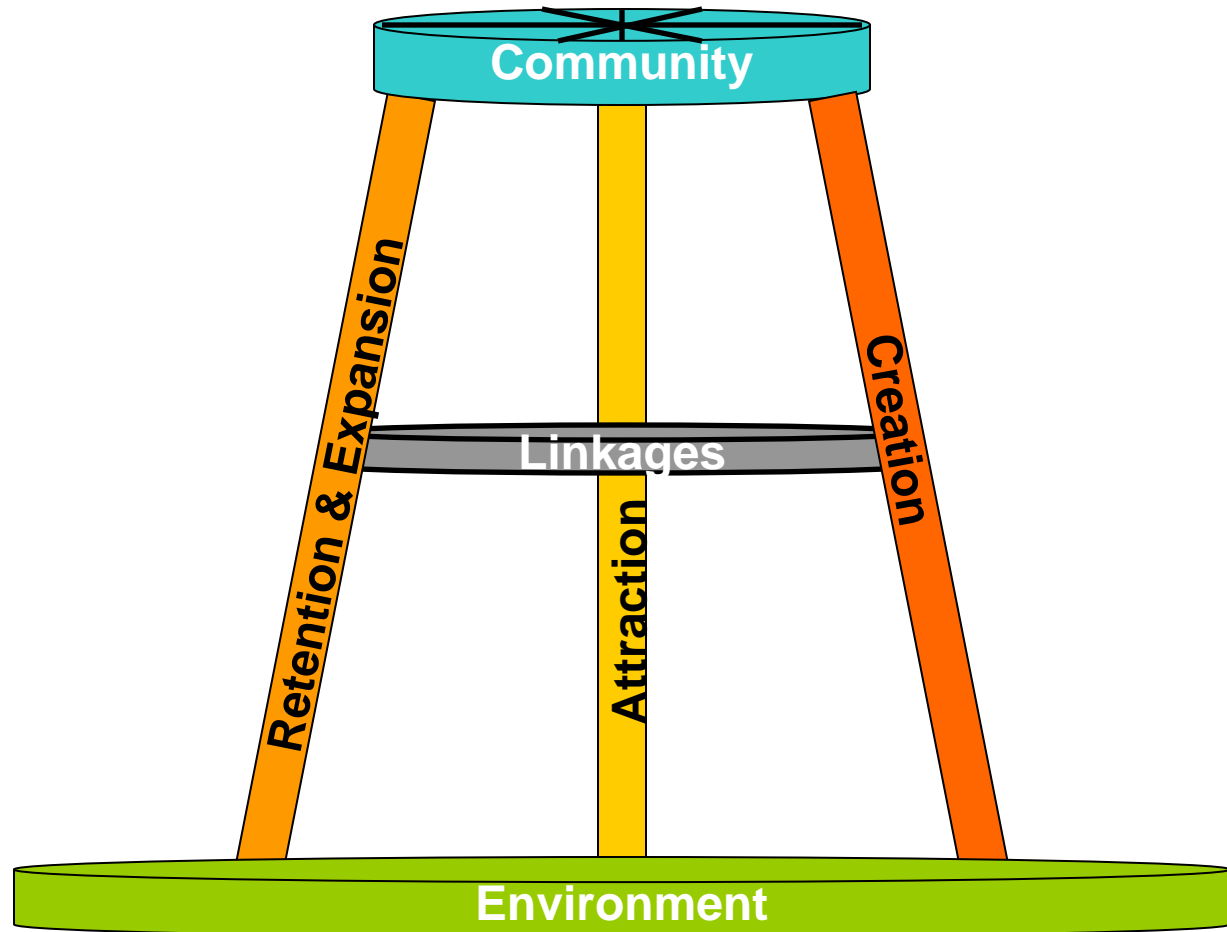
Director - Business Enterprise Resource Office  
Tennessee Department of Economic and Community Development  
e: [Michelle.Proctor@tn.gov](mailto:Michelle.Proctor@tn.gov)

## **Dayton M. Lambert**

Assistant Professor - Department of Agricultural Economics  
University of Tennessee  
e: [dmlambert@utk.edu](mailto:dmlambert@utk.edu)  
<http://trend.ag.utk.edu>



# Economic Development





# 3<sup>rd</sup> Wave – Regional Competitiveness

*Early 1990s to present*

## Driver

- Innovation and entrepreneurship

## Goal

- Enhance regional resources to promote industrial clusters

## Strategies

- Entrepreneurship
- Clusters
- Building regional collaboration

## Keys to success

- Distinct regional assets such as:
  - Human capital
  - Higher education
  - Amenities
  - Creative economy
- Leadership and development of quality environment
- Bridging economic and community development

# Listening to Tennesseans

- **2006 - TN Rural Development Roundtables**
  - Participants identified the following priorities:
    - **Education and Workforce Development**
    - **Economic Development** (BR&E, Attraction and Entrepreneurship)
    - **Leadership and Citizen Participation**
- **2007 - TN Workforce Development Forums**
  - Participants suggested that communities need to foster entrepreneurship through education, partnerships and capital (human, social, financial, etc.)
- **2008 - TN Youth Development Forums**
  - Participants recognized entrepreneurship education/training as a critical element of youth development & retention





# Entrepreneurship and Small Business in Tennessee

## An Overview



# Entrepreneurs...

# Entrepreneurship...

# Entrepreneurial Communities...

- An **entrepreneur** is someone who organizes, operates and takes the risk in a business venture expecting to gain a profit.
- **Entrepreneurship** refers to the process of planning, organizing and operating a business.
  - Some try to separate small business from entrepreneurship
- **Entrepreneurial Communities** refers to those communities where significant economic and social entrepreneurial activity exists and where there is an effective system of public and private support that facilitate entrepreneurship.



# Who are the Entrepreneurs?

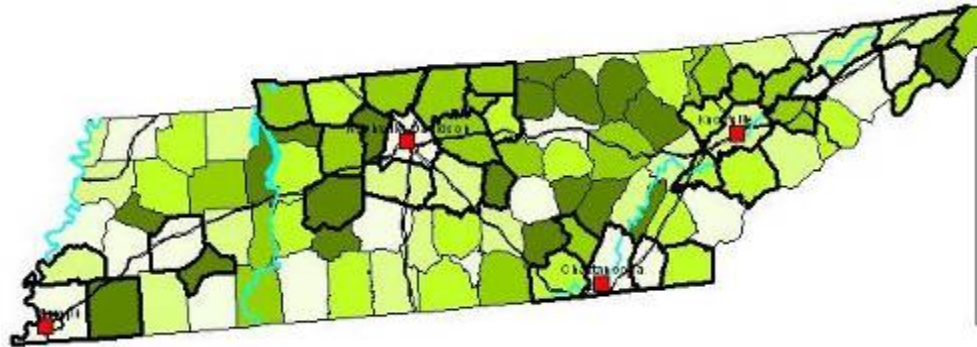
- Innovators working in a fast growing technology sector
- Individuals who assimilate ideas and generate new knowledge
- Self-employed individuals willing to endure uncertain returns on their investments
- Self-employed and small businesses (less than 20 employees)

# Statewide Indicators of Entrepreneurial Activity in Tennessee

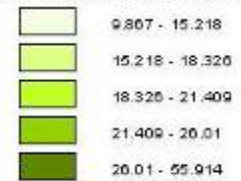
<b>Item</b>	<b>2000</b>	<b>2005</b>	<b>2006</b>
Total Nonfarm Proprietor Income (000's of \$)	14,971,726	22,094,827	23,026,689
Nonfarm Proprietor Income/Total Personal Income (%)	10.1	12.0	11.8
Nonfarm Proprietor Income/ Number of Nonfarm Proprietors (\$)	26,936	32,220	31,693
Number of Nonfarm Proprietor/ Total Full-Time and Part-Time Employment (%)	15.9	18.8	19.5
Share of All Establishments with between 1 and 19 Employees	83.9%	84.1%	83.7%

# Concentration of Self-employed

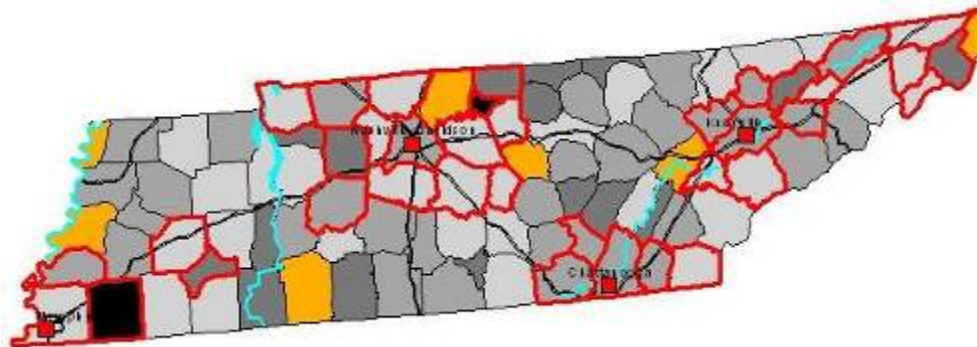
**% employed  
as non-farm  
proprietors,  
2000**



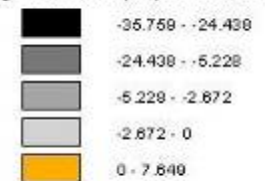
%employed non-farm proprietors, 2000 (quintiles)



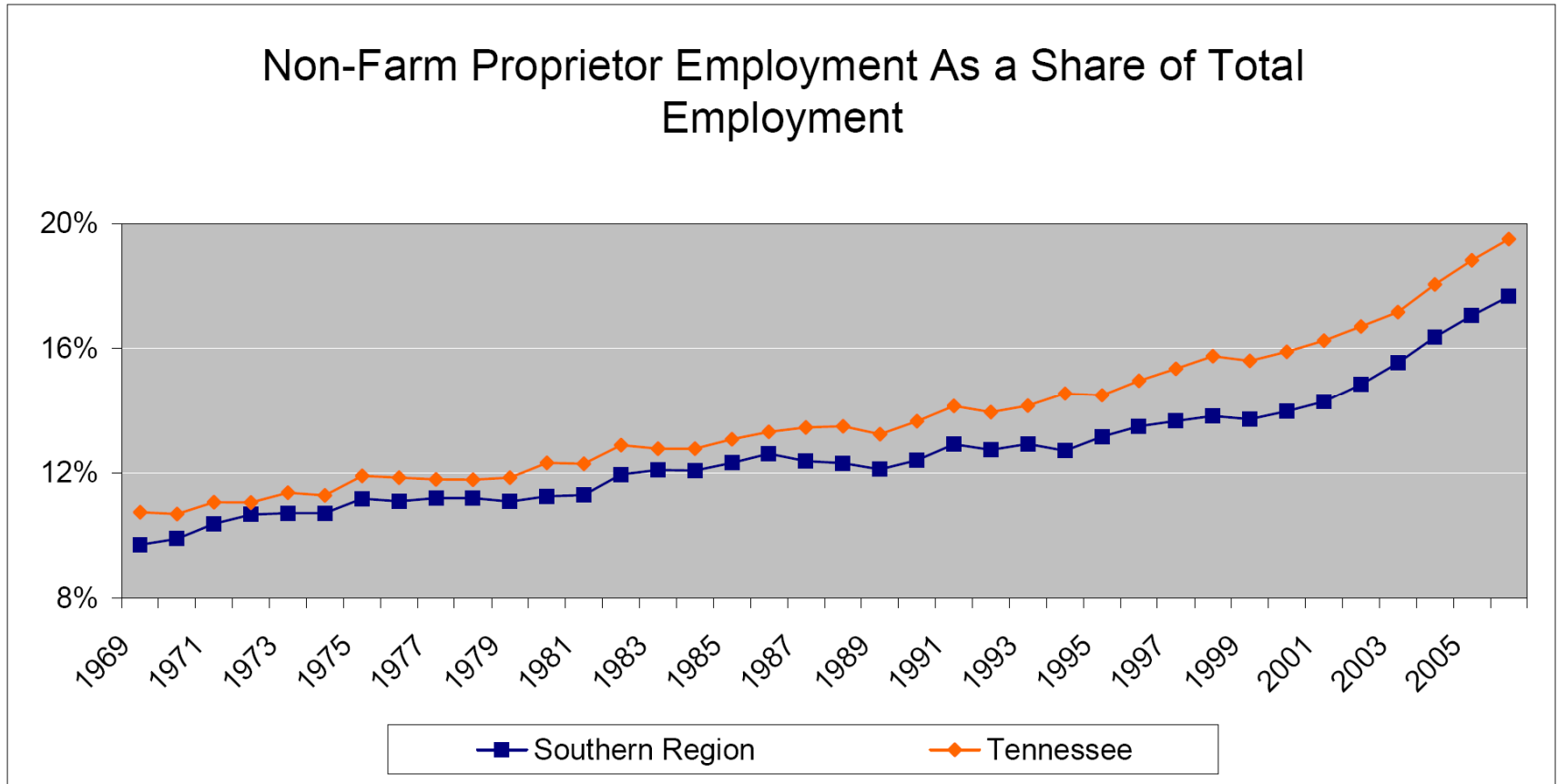
**% change  
in share  
between  
2000-2005**



%change non-farm proprietors, 2000-2005

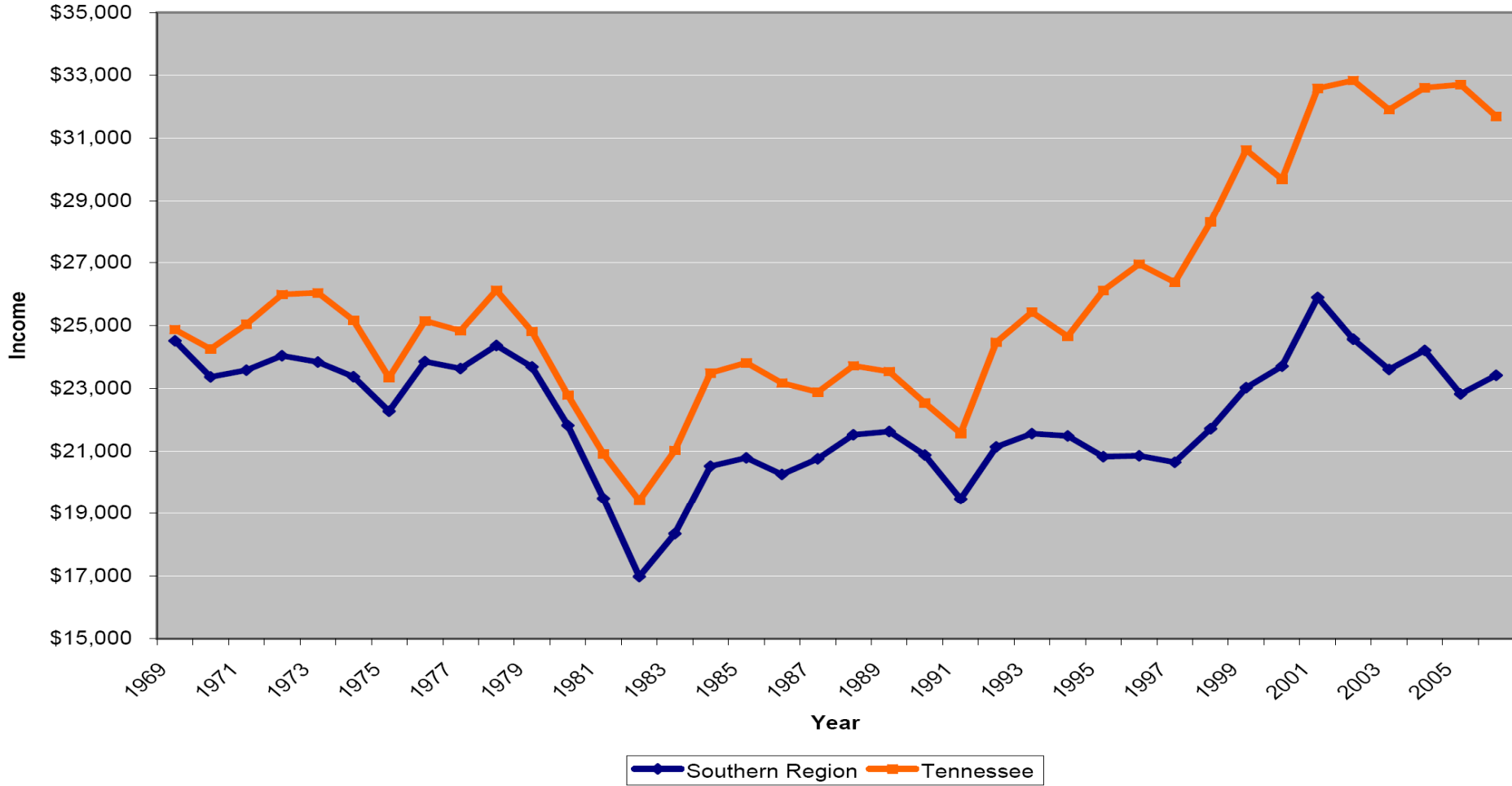


# Non-farm Proprietors - Share



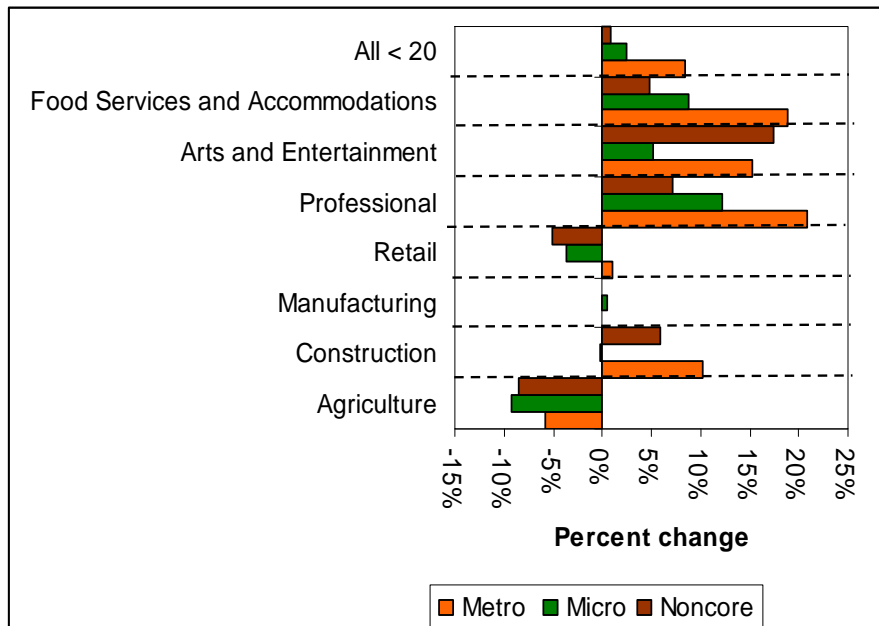
# Non-farm Proprietors - Income

Average Real Income (Inflation Adjusted) of Non- Farm Proprietors

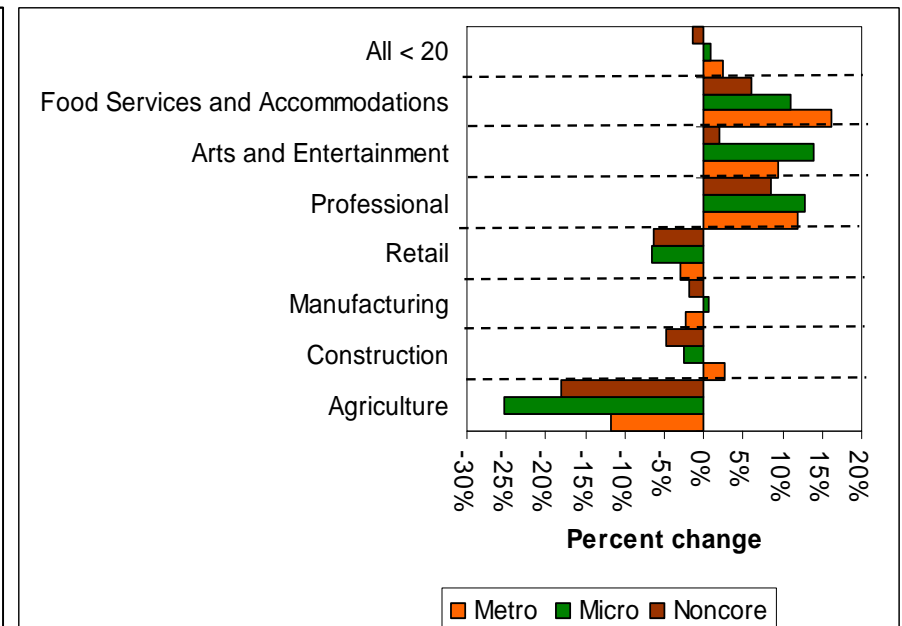


# Small firm growth, 2000 - 2005

## Southeast region

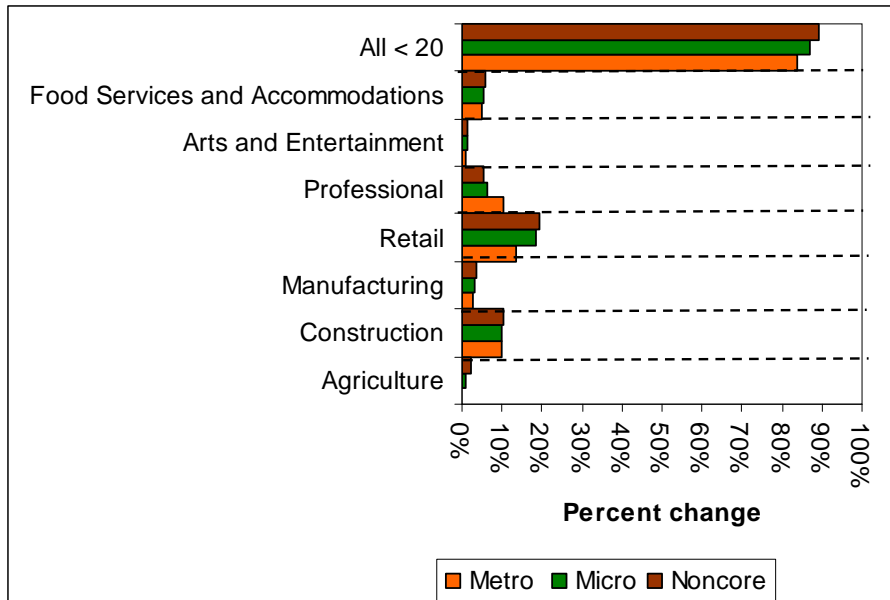


## Tennessee

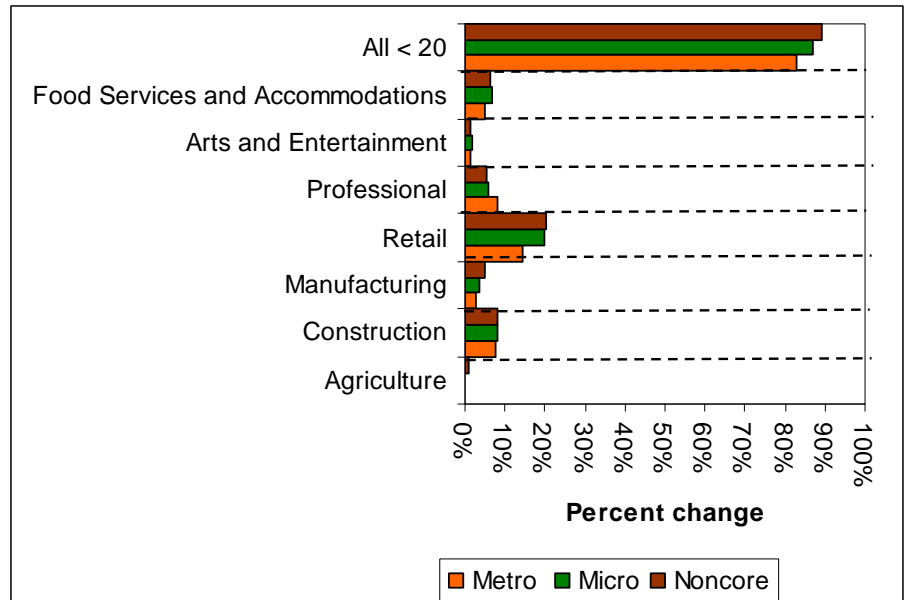


# Small firm distribution by sector, 2005

## Southeast region



## Tennessee





# Entrepreneur Demographics

- Men are currently twice as likely to start a business than women
- Immigrants are more likely to start a business than native-born and that rate is increasing
- Highest rates among the least-educated and most-educated
- The self-employed are more likely to have higher education rates, prior military service, be homeowners, live in rural areas, be Internet savvy and over thirty and white



# Types of Entrepreneurs

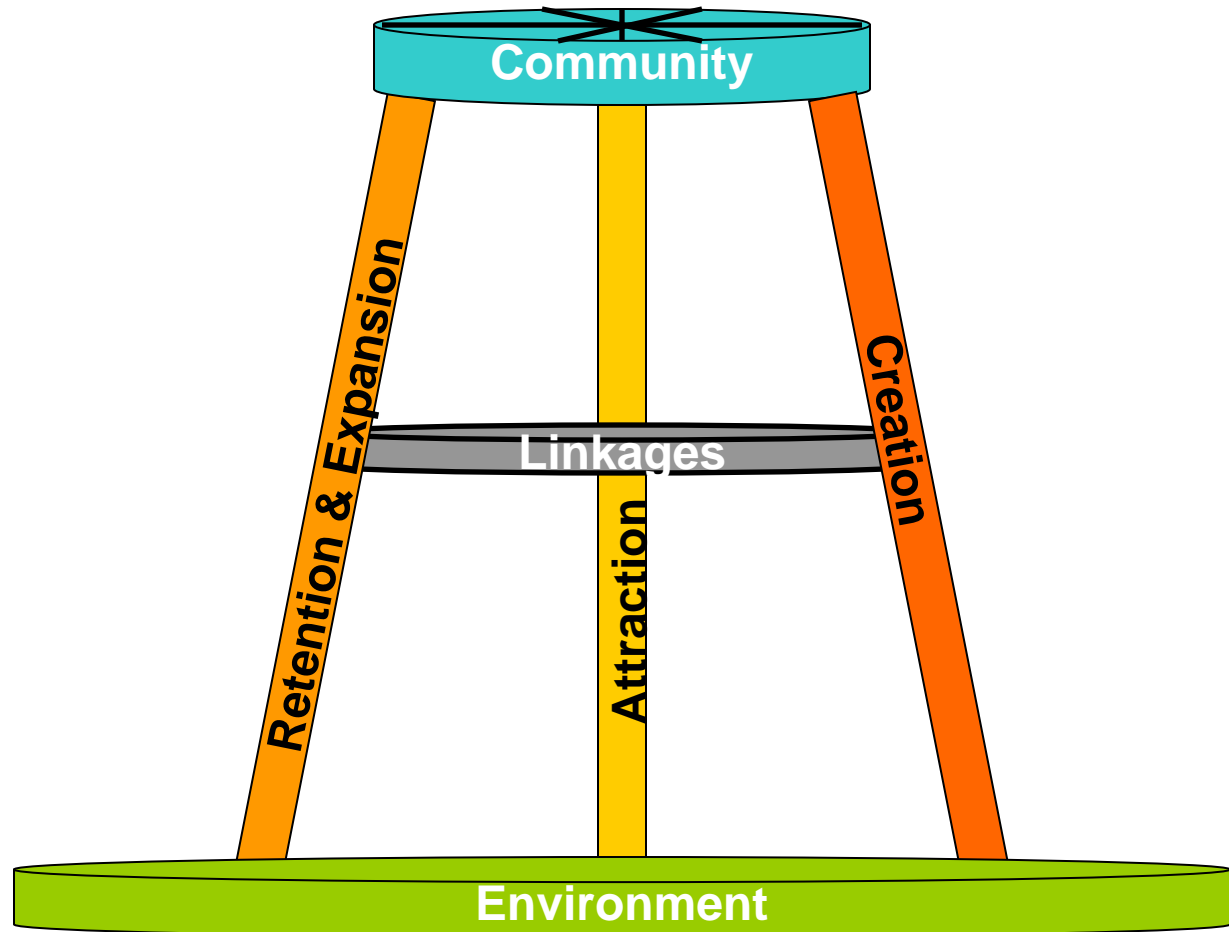
- **Aspiring:** Attracted to the ideas of creating enterprises; includes people of all ages
- **Survival:** Resort to entrepreneurship to supplement their income
- **Lifestyle:** Create enterprises in order to pursue certain lifestyles or live in particular environments
- **Growth:** Motivated to develop and expand their businesses to create jobs and wealth
- **Serial:** Create several growth businesses over time
- **Social:** Create and grow enterprises that are primarily for public and community purposes.



# Entrepreneurship in an Economic Development Context



# Economic Development





# The Case for Entrepreneurship

- **As Employers:** creating new jobs and playing a significant role in hiring part-time workers and new workforce entrants
- **As Tax Revenue Generators:** broadening tax base, thus generating greater property and income tax revenues
- **As Economic Supporters:** buying and supplying local products and services. Income generated typically not exported out of local community
- **As Property Owners and Renters:** leasing space from local property owners and filling vacant storefronts downtown
- **As Providers of Economic Stability:** small homegrown firms are, by definition, owned and operated by people who have a personal stake in the community and are more likely to remain



# ESBD vs. Traditional Recruitment

Entrepreneurship and Small Business Development focuses on the “Creation” leg of Economic Development’s Three-Legged Stool and differs from recruitment in the following ways:

- Long-term strategy
- Builds on local physical and human assets
- Retains local talent and develops local civic leaders
- Diversifies the local economy
- Provides employment and tax base stability
- Requires fewer public resources
- Doesn’t require spec building or incentives
- Lacks the sex appeal of a large project
- Requires “know thyself” mantra

Think  
Economic  
“Gardening”  
versus  
“Hunting”

# The Role of the Economic Development Organization

- Provide technical assistance, education and training
- Assist with marketing, including gauging new or existing markets
- Facilitate technology transfer
- Reduce disincentives and barriers to entrepreneurship (government red-tape)
- Invest in basic infrastructure systems
- Provide recognition and awareness of successful entrepreneurial ventures as a means of eliciting community support
- Provide tests for entrepreneurship and assess a client's potential
- Provide legal information on permits, zoning laws, etc.
- Provide information on the market and demographics
- Promote entrepreneurship by highlighting and celebrating entrepreneurial success stories



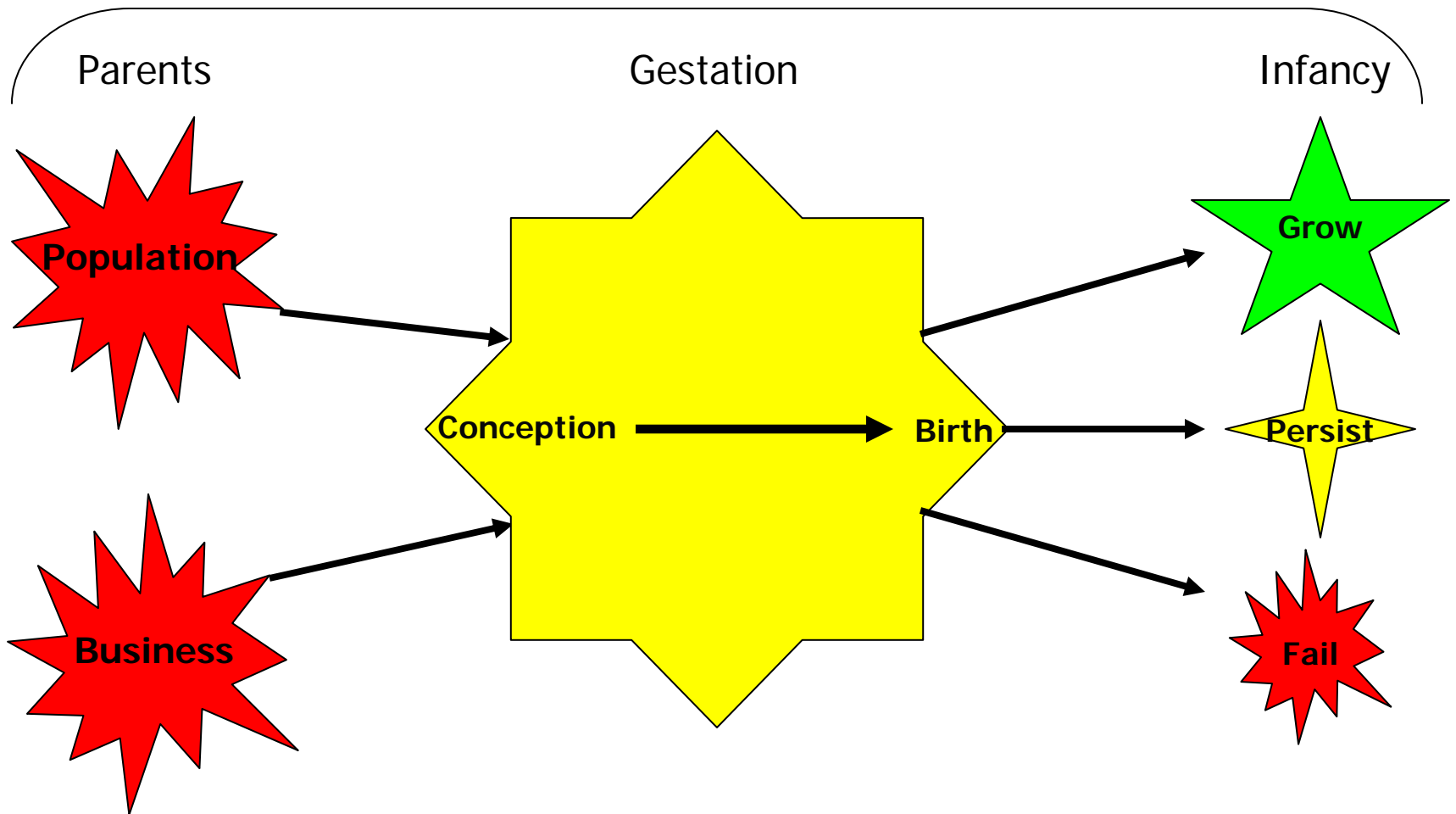


# What is Entrepreneurial and Small Business Development?

“The infrastructure of public and private supports that facilitate entrepreneurship”

Kellogg Foundation

# Birth of a Star

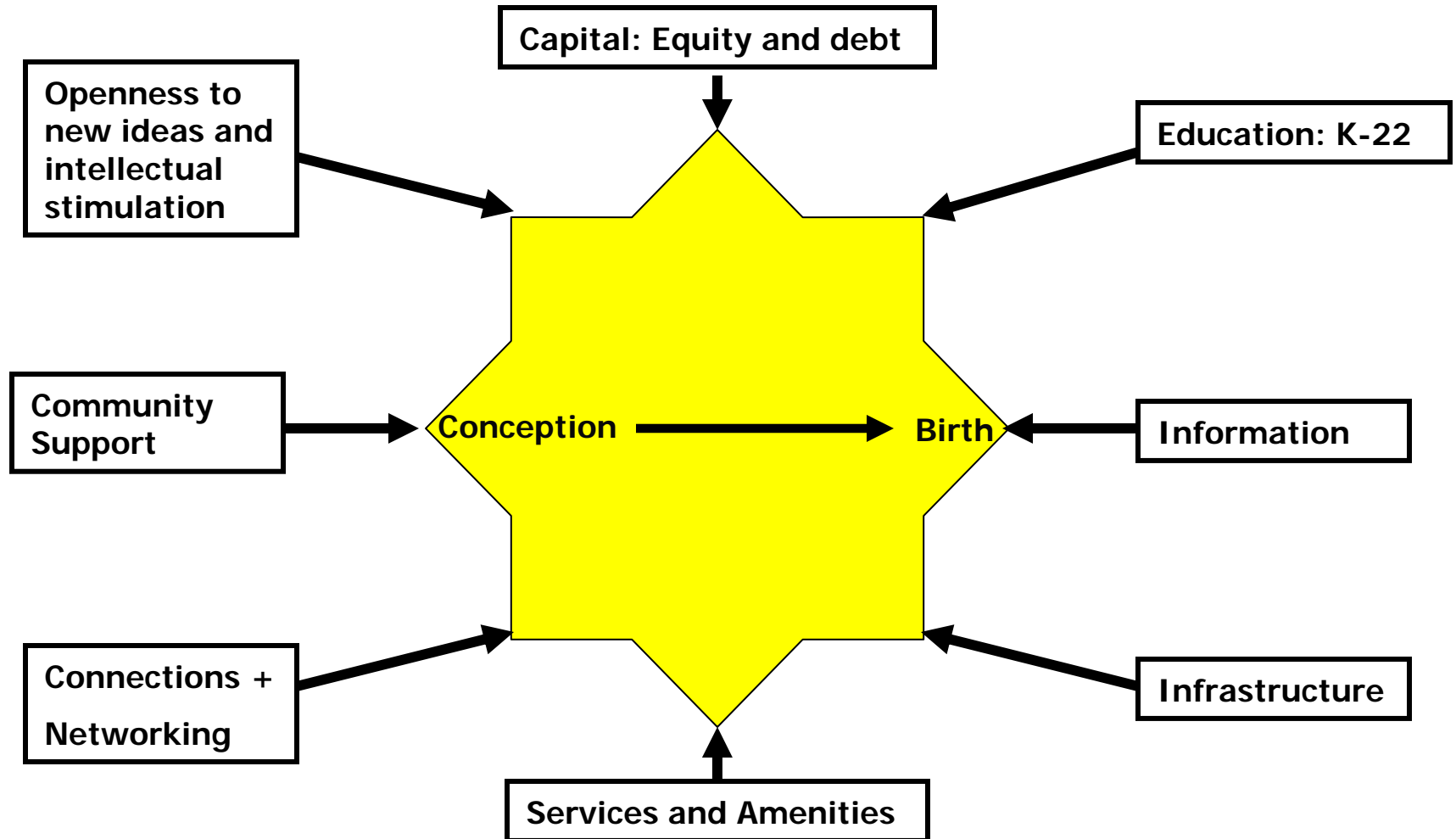




# Parents

- **Demographics**
  - Race, gender, age, etc.
- **Human Capital**
  - Education, skills, experience, etc.
- **Financial Capital**
  - Available financial resources
- **Social Capital**
  - Networks (family, social, business, etc.)

# Entrepreneurial Communities





# An Entrepreneurial Culture?

- Human and Social Dimensions of Entrepreneurship
- Are entrepreneurs, risk-takers, embraced in your community?
- Do leaders embrace those who fail or are they shunned?
- Do citizens have self-reliant attitudes or are they dependent on others for their economic security?
- Does your community highlight and celebrate entrepreneurial success stories as a means of promoting more entrepreneurship within the community?



# An Entrepreneurial System?

“An effective entrepreneurship development system integrates a wide range of programs and tailors products and services to meet the diverse needs of entrepreneurs. It should be comprehensive, flexible, culturally sensitive, and integrated, and should require providers to collaborate rather than operate independently or in isolation”

(Dabson, 2005)

# ESBD Support Infrastructure



- **Information** - tactical and strategic market information similar to what's available to large corporations; public agencies, community groups and libraries can play a critical role
- **Infrastructure** – physical and human capital; quality of life
- **Connections and Technical Assistance** – social capital; connections to peers/coaches/mentors, trade associations, think tanks, academic institutions, and other similar companies (industry clusters) and CEO's to facilitate technology and information transfer.
- **Education and Training** – programs that increase management, financial and marketing skills of owners; offered during weekends or at nights when entrepreneurs are available
- **Access to Financial Capital** – provide capital that matches financing requirements at various business stages, from seed capital to loans to equity



# Statewide Infrastructure

- TN Dept of ECD – BERO
- Tennessee Small Business Resource Directory
- Small Business Administration (SBA)
- Tennessee Small Business Development Center
- UT-Center for Industrial Services & PTAC
- UT/TSU Extension
- Governor's Office of Diversity Business Enterprise
- TN Dept. of Agriculture, Pick TN Products
- TN Technology Development Corporation
- Southeast Community Capital
- Tennessee Minority Supplier Development Council



# Regional and Local Infrastructure

- SCORE Chapters
- Small Business Councils, Networking and Trade Groups
- Technology Councils
- Local business mentors
- Business incubators
- Women's Resource Center
- Community Colleges, Universities
- Micro-enterprise development organizations



# Business Enterprise Resource Office

## History

Created in 1977 within ECD, BERO works to expand economic opportunities to disadvantaged businesses, primarily small, minority-, women-owned and rural businesses.

## Services

Technical Assistance & Counseling to Businesses, primarily in start-up, financing, procurement and marketing areas

Small Business Counseling & Support to Communities, primarily in coordinated response to small business training and counseling needs





# Entrepreneurship and the Creative Class

# Why look at the Creative Class?

- Density of creative class has a positive effect on job growth both in the 'creative' and 'non-creative' sectors
- Creative capital and entrepreneurship work in synergy with one another to increase employment opportunities in both sectors
- Creative class are the types of workers that will succeed in today's "knowledge" economy as the manufacturing economy continues to decline





# Who are the Creative Class?

Term popularized by Dr. Richard Florida (U. of Toronto) in his 2002 "Rise of the Creative Class"

- Identified class of "creative" occupations that should be attracted and retained
  - Includes: scientists, engineers, professors, poets, novelists, artists, entertainers, actors, designers, architects, writers, researchers and professionals in the high-tech and financial, legal, business and medical service sectors
- Only considered urban contexts
- This class is thought of as "footloose" and attracted to high amenity places



# Who are the Creative Class?

Researchers at USDA's Economic Research Service have modified Florida's classification and, along with The University of Tennessee, have provided new insights:

- Examine both urban and rural areas
- Use more detailed data, proportionate to the population
- Defined as "Developing, designing, or creating new applications, ideas, relationships, systems, or products, including artistic contributions"

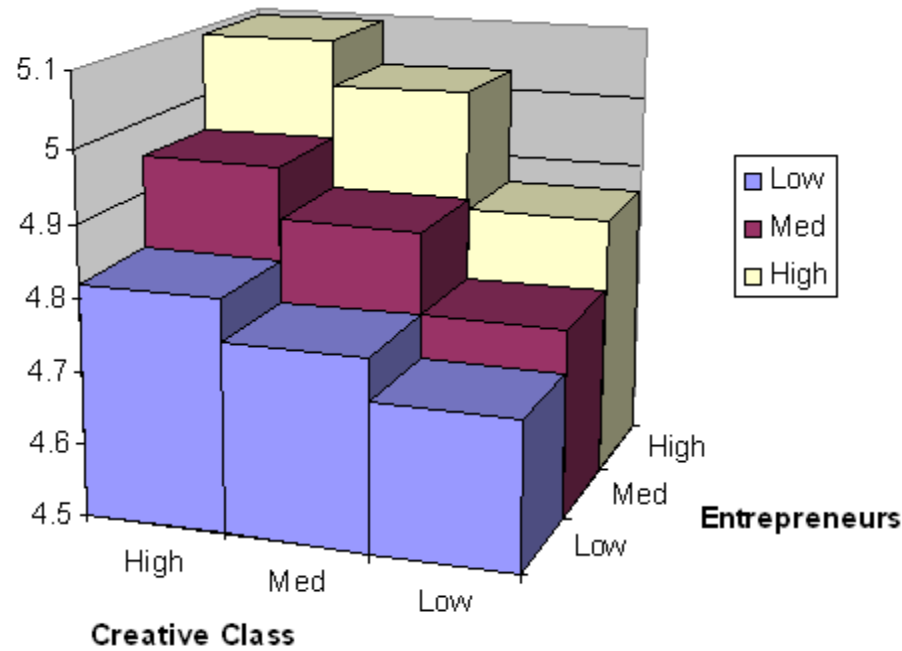


# Synergy between Entrepreneurship and Creative Class

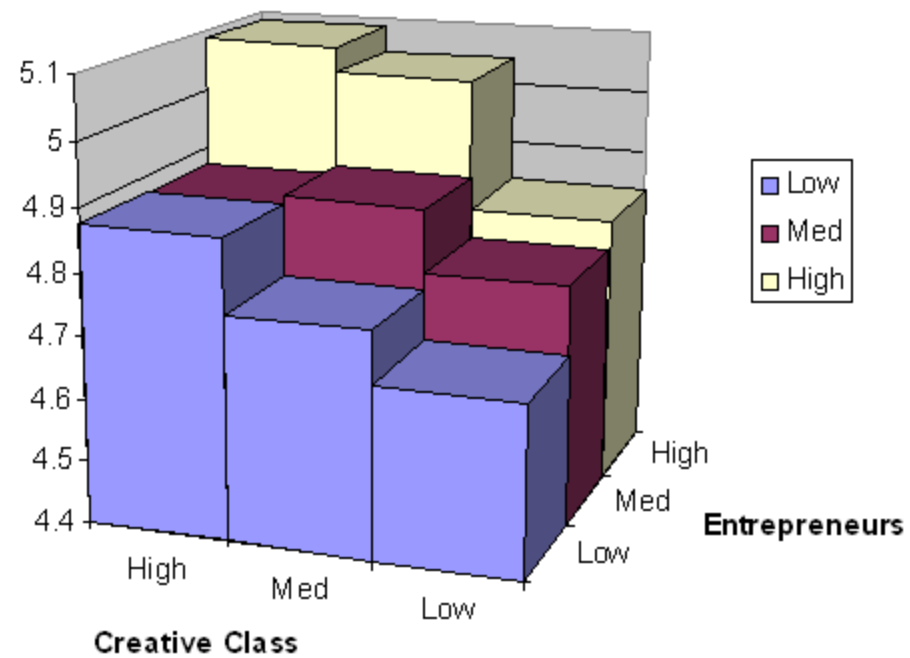
- Creative capital provides the knowledge and ideas required for growth
- Entrepreneurship provides the means for integrating knowledge and ideas into the local economy
- Interaction positively associated with a variety of economic growth indicators

# The Synergy between Entrepreneurs and the Creative Class: Jobs

**Percent Change in Total Number of Jobs, 1990-2000  
(Southeastern States)**



**Percent Change in Total Number of Jobs, 1990-2000  
(Tennessee)**





# Attracting the Creative Class

The creative class is 'footloose' and tend to congregate in places with a high quality of life

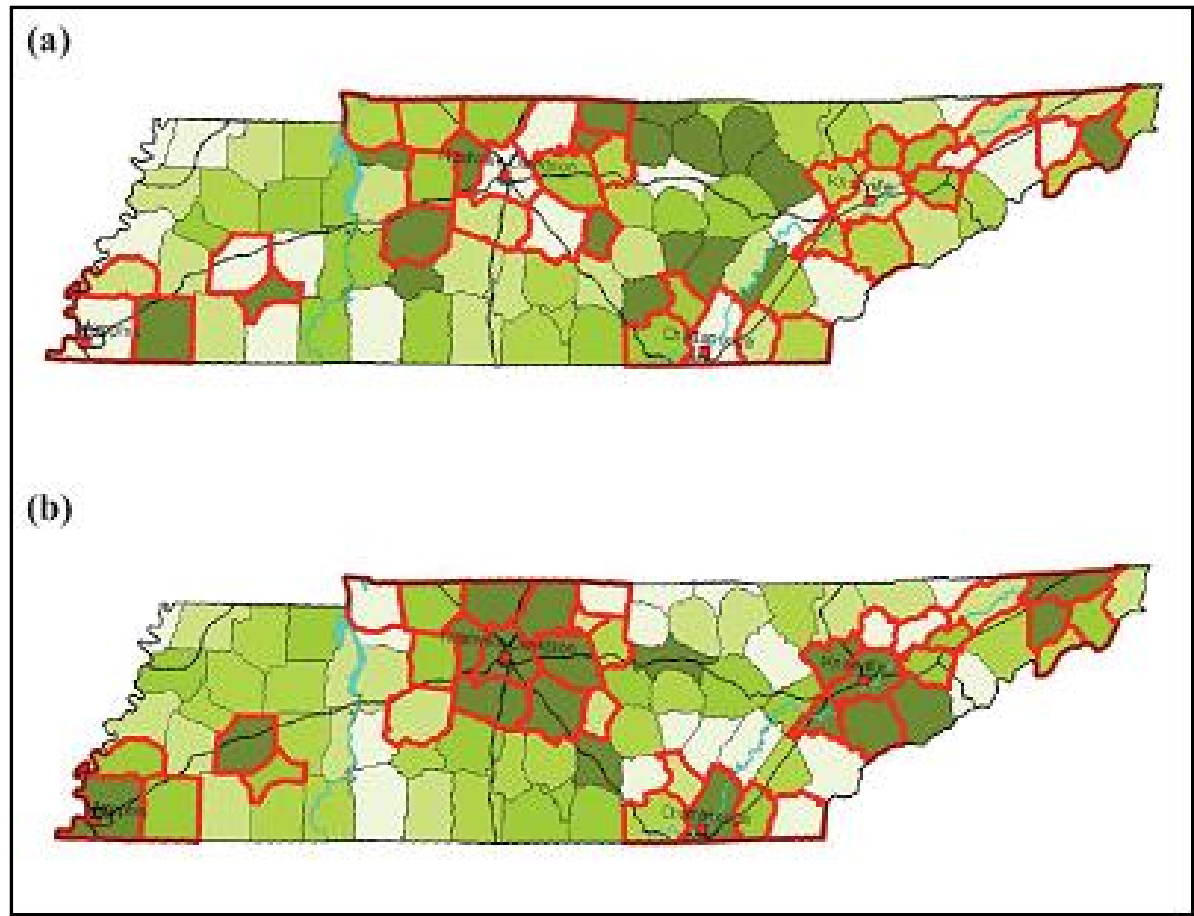


- Networking
- Retain / Attract Youth
- Recreational Activities
- Cultural Diversity, Tolerance and Inclusiveness
- Infrastructure
- Population Density
- Proximity to Metropolitan Areas
- Natural Amenities (esp. mountains, forest)
- Climate



This is why networks are important...

Distribution of (a) Tennessee nonfarm proprietors and (b) creative class in 2000





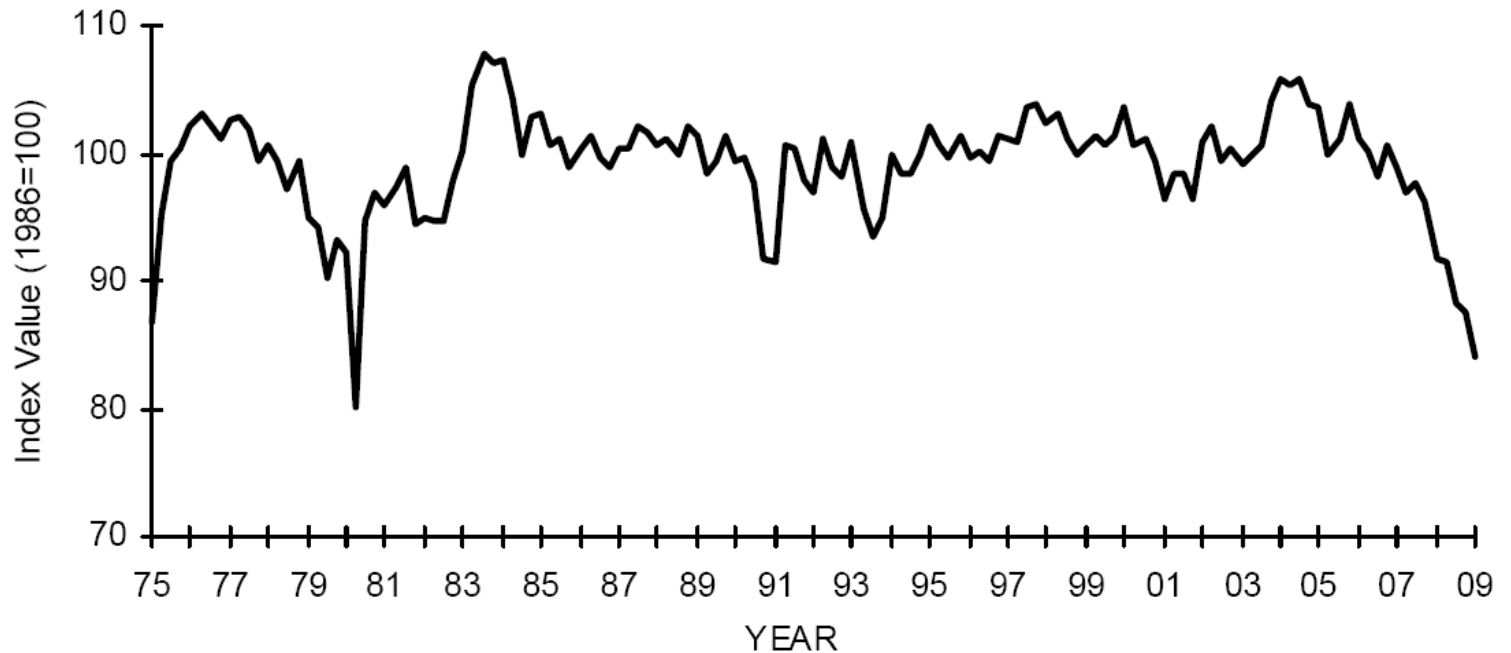
# Current Challenges

The Economy and Supporting ESBD



## OPTIMISM INDEX

Based on Ten Survey Indicators  
*(Seasonally Adjusted 1986=100)*



The Index of Small-Business Optimism fell 1.1 points to 84.1 (1986=100), the second lowest reading in the 35-year history of the National Federation of Independent Business survey.



# Reasons for Optimism?

## Creative Entrepreneurship...

Harvard Business School senior lecturer Bhaskar Chakravorti argues:

- There are three fundamental decisions facing any business in good times and bad:
  - 1. Where to play, 2. How to deliver, 3. How to win.
- Entrepreneurs should systematically identify "downturn needs," including necessities and affordable luxuries, substitutions for previous products and services, and products that deliver value for money.
- To serve these needs, look for downtime resources that might be available at relatively low cost.
- Think business model. Consider the unintended consequences of cost cutting, and instead focus holistically on the interconnected parts of your entire business model.
  - **Information, Innovation and Investment**

# ED Challenges - Benchmarking



## Quantitative Measures

- Number of new business startups
- Numbers of entrepreneurs assisted
- Business failure rates (or ratio of start-ups to failures)
- Number of jobs created
- Cost per job created
- Percentage of women and minorities assisted
- Number of local residents hired

## Qualitative Measures

- Diversification of businesses (e.g. new industries, new services)
- Program graduates understanding the costs and opportunities of an entrepreneurial endeavor
- Ability to create a supportive environment for entrepreneurs (courses, networks, mentors)
- Stated project goals and the degree to which they have been achieved (e.g. promotion of female entrepreneurs)



# An Example of Supporting ESBD



Kingsport Office of Small Business & Entrepreneurship  
Kingsport Chamber of Commerce, Kingsport, Tenn.  
Aundrea Wilcox, Executive Director

# Mission



**The Kingsport Area Office of Small Business Development & Entrepreneurship (KOSBE)**, an in-house program of the Kingsport Area Chamber of Commerce, exists to actively assist in the establishment of new small businesses and the growth and development of existing small businesses in Kingsport, Tennessee.

KOSBE is a 501(c)(3) non-profit economic development organization that represents a public-private partnership between the City of Kingsport and the Kingsport Area Chamber of Commerce.

# Organizational Structure

- Hours of operation are 8:00 a.m. to 5:00 p.m. M-F.
- Employs one full-time executive director and one full-time support staff member.
- Relies on 17 dedicated volunteers.
  - A volunteer KOSBE Council, performance against selected indicators.
  - KOSBE Peer Counselors,

**In 2008, KOSBE became a strategic resource partner of the U.S. Small Business Administration, by signing a three-year Strategic Alliance Memorandum.**



# Services and Service Area

- Business Counseling
- Monthly Business Breakfast (200+ attendees)
- Roundtable Discussions (relevant and timely topics)
- Special Events (Export, Procurement, Women)
- National Small Business Month Expo/Showcase
- 2-Evening Night School (Spring and Fall)
- Webinars (relevant and timely topics)
- Annual KOSBE Awards and
- USA Global Entrepreneurship Week
- Service area is City of Kingsport and surrounding rural areas throughout an eight-county region (combined pop. 475,412)
- Nearly 30 % of existing clients are from outside of Kingsport



# Diverse Roles

## Collaborator - State of TN ECD/BERO

1. panel moderator of the small business incubation session at the 2008 TN Governor's Conference (Nashville);
2. participated in and promoted both the 2008 Veteran's Conference (Knoxville) and the John Schallert Destination Retail Seminar (Kingsport);
3. registered partner and blogger for the Global Entrepreneurship Week TN web page, provides a fully-furnished office for monthly scheduled BERO counseling sessions).

## Advisor - Holston Business Development Center (HBDC) –

KOSBE holds a Board seat; and coordinates joint events and training (i.e., SBA Community Express Live Loan Event, 2<sup>nd</sup> Annual KOSBE Night School for Small Business) when practical.

Partner - U.S. Small Business Administration –KOSBE is an approved strategic resource partner of the SBA.



# Diverse Roles cntd.



- **Planner** - **TN Economic Council on Women** – KOSBE is the chief planner of the Annual Tri-Cities TN Regional Women's Business Summit; and administrator of the *Survey of Women Business Owners and Entrepreneurial Non-Business Owners*, which was the foundation for this relationship.
- **Contributor and Technical Advisor** - **Dobyns Bennett High School** – Each year, KOSBE works with the local high school on an entrepreneurial project. Usually with Business Principles senior class.

# Measures & Results

- # Jobs Created
- # Businesses Assisted or Developed
- Completed bankable business plans.
- Registered small businesses in B2B e-Directory
- Disbursed Façade Grant reimbursements to Downtown small business property owners.
- Celebrate success!
  - Six clients were chosen by the *Business Journal Magazine* to represent Tri-Cities' leadership cream of the crop, as part of 2008 40 Under Forty.





# Why Entrepreneurship?

Research suggests that:

- Growing firms from “within” is a **more cost effective** means of creating profit centers, tax base and employment per job created.
- Small, home grown firms **play a significant role** in job creation in both urban and rural areas. In 2005, 85% percent of Tennessee single owner firms employed less than 20 persons.



# Next Webinar

- Friday, June 19, 2009
- 10am Eastern (9am Central)
- Event ID Number: WLH974140
- Business Retention and Expansion

“The second half of this two-part webinar explores business retention and expansion as a means of developing and sustaining a local and regional economy..”

- Dr. Michael D. Wilcox, Jr. and  
Beth Phillips, UT-IPS

# Community, Resource and Economic Development

## 2009 Webinar Series

This webinar series is designed for Extension personnel and their local community development partners. Webinars will introduce general community and resource development concepts directly related to sustainable economic development and provide examples from Tennessee.

Please Register through your local Extension office.

Friday, January 23, 2009 - **Sustainable Community Development: A Primer**

Friday, February 20, 2009 - **Capacity Building and Asset Mapping**

Friday, March 20, 2009 - **Demographics: The Changing Face of Tennessee**

Friday, April 24, 2009 - **Public Policy**

Friday, May 15, 2009 - **Economic Development and Entrepreneurship**

Friday, June 19, 2009 - **Business Retention and Expansion**

Friday, July 17, 2009 - **Striving for Sustainability: Indicators and Measurement**

Friday, August 21, 2009 - **Smart Growth, Sustainability and Comprehensive Planning**

Friday, September 18, 2009 - **Housing**

Friday, October 02, 2009 - **Sustainable Tennessee: The Way Forward**

Friday, November 20, 2009 - **Energy**

Friday, December 18, 2009 - **Sustainable Business Practices and Green Collar Jobs**

For more information please contact:

Dr. Michael D. Wilcox, Jr.

e: [mwilcox2@utk.edu](mailto:mwilcox2@utk.edu) and p: 865.974.7410

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