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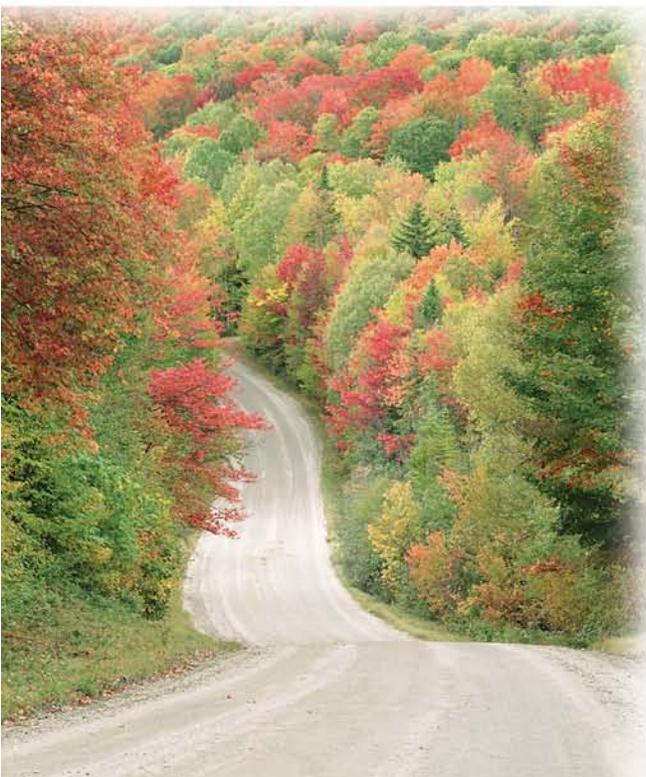


*The* Main Street ———  
Economist  
*Commentary on the rural economy*



## Regional Asset Indicators: Entrepreneurship Breadth and Depth

*Sarah Low*  
*Research Associate*  
*Center for the Study of Rural America*



**E**conomic assets such as cheap land and labor have traditionally been foundations for a region's economy. But these assets can no longer ensure regional prosperity in a rapidly globalizing economy. New categories of assets, including workforce, lifestyle, finance, information, and innovation, will shape economic prospects in this globalizing environment.

The five new categories of regional assets were outlined in the March 2004 *Main Street Economist*. As indicators of these assets are developed by the Center for the Study of Rural America, they should help regions gauge their own competitive capacities. These metrics can then aid rural leaders as they craft new economic development strategies, such as partnering with other regions with complementary assets.

This article is the first in a series that will introduce the asset categories and their various indicators. *Regional entrepreneurship* is an important indicator in the innovation category.

Entrepreneurs create local jobs, wealth, and growth—and are themselves innovative users of other regional assets and resources. Entrepreneurship indicators will enable regional leaders to understand the relative breadth and depth of local entrepreneurship by measuring the concentration and value of entrepreneurs.

This article first explores why entrepreneurs are vital components of regional economic development. It then examines the breadth of entrepreneurship across the country—that is, the concentrations of entrepreneurs in the U.S. labor force. Next, it assesses the depth of entrepreneurship, which shows how well regions are fostering the growth of high-value entrepreneurs. The twin indicators of entrepreneurship breadth and depth will be available for U.S. counties on the Center's website, as will other indicators in this series as they are developed.

Rural America and elsewhere.

Of course, not all entrepreneurs are alike. Some small entrepreneurial firms benefit their community simply by enhancing the local quality of life. Other firms generate significant additions to regional jobs and wealth, thus enhancing the region's economic prosperity.

Some small-scale entrepreneurs start new firms to support a desired lifestyle. Many are willing to work part time or accept a lower full-time income to pursue their entrepreneurial dreams—for example, the business person who retires early to become the owner and operator of the local café. Small entrepreneurs such as these enhance the quality of life in a region through the ambiance they create and the services they provide. Antique stores, restaurants, and coffee shops attract visitors. Hardware stores and local grocers cater to local residents. Small entrepreneurs help

wealth and a higher tax base. An example of such an entrepreneur is a woman who employs 12 workers in an agribusiness software firm she started in her kitchen. Such entrepreneurs bring a competitive advantage to rural regions by identifying and exploiting assets. Most important, these entrepreneurs are themselves assets to their region. The economic contribution of such entrepreneurs to a region's economy is indicative of the depth, or value, of entrepreneurship in a region.

Both *breadth* and *depth* are important components of regional entrepreneurship, local quality of life, and rural prosperity. Simply put, entrepreneurship breadth is the widespread dispersion of entrepreneurs, while entrepreneurship depth is the concentration of high-value entrepreneurs.

### Breadth: Measuring the entrepreneurial seedbed

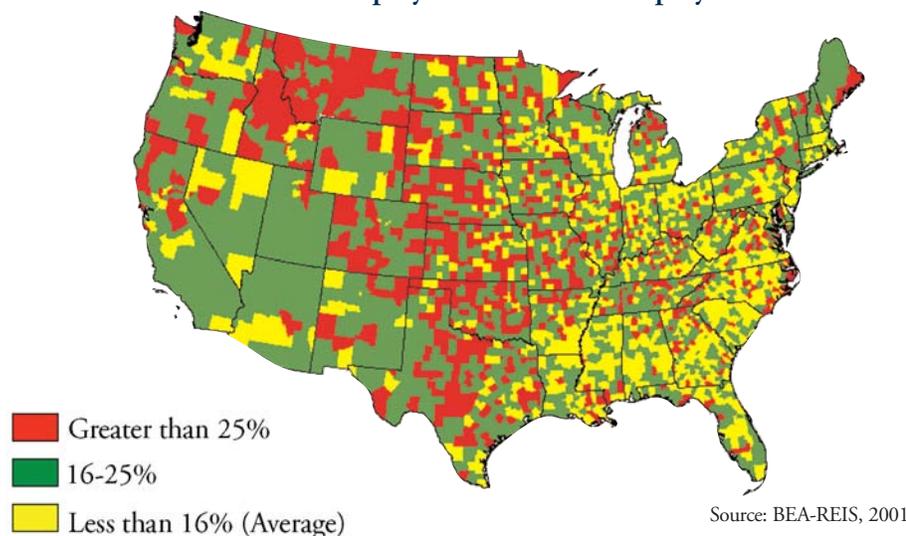
A region rich in entrepreneurship breadth contains many different kinds of entrepreneurs. While no indicator can determine perfectly the breadth of entrepreneurship, the ratio of self-employment (i.e., proprietors) to total employment sheds valuable light on the breadth of regional entrepreneurial seedbeds in America.

The breadth of entrepreneurship is particularly high in rural counties, specifically the Great Plains (Figure 1). As the map shows, entrepreneurship is broadest in rural America.

Another way to gauge the breadth of rural entrepreneurs is to divide counties into three groups, based on the size of their core cities, and then compare the shares of self-employed workers in those county groups. Metropolitan counties have at least one city with a population of 50,000 or more. Micropolitan counties have at least one city with a size of 10,000 to 50,000 people and no larger cities. Town counties have no cities larger than 10,000.

Comparing these county groups shows that the breadth of entrepreneurship is greater in counties with smaller cities (Chart 1). One-fifth of the labor force in

**Figure 1**  
Share of Self-Employment to Total Employment



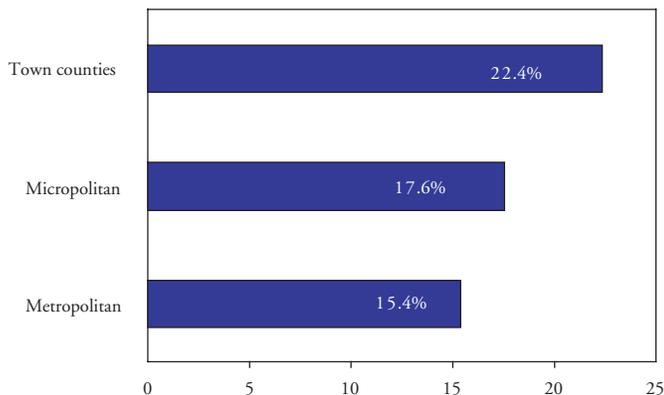
### Why does entrepreneurship matter?

Entrepreneurs bolster a region's quality of life while promoting economic prosperity. Research has found a strong correlation between entrepreneurship and long-term regional employment growth.<sup>1</sup> The precise links between entrepreneurial activity and regional prosperity are still not completely understood and are the focus of ongoing research at the Center for the Study of

make communities work. They are a large part of the seedbed for small-business ownership, which is the foundation for an entrepreneurial region. In other words, they add breadth to regional entrepreneurship.

Other entrepreneurs have different dreams. They contribute considerably to a region's economic prosperity, often by employing new technologies and local labor. The results can be new regional

**Chart 1**  
**Self-Employed Portion of the Labor Force**



Source: BEA-REIS, 2001

micropolitan and town counties is self-employed. This high percentage underscores the importance of entrepreneurship to rural economies and their quality of life.

While entrepreneurs are in all parts of the United States, the breadth of entrepreneurship is widest in rural America. But breadth alone is not sufficient for rural prosperity.

**Depth: A valuable asset for regional economies**

The depth of entrepreneurship can be gauged by examining the value created by entrepreneurs in a region. High-value entrepreneurs earn more income, create more value, and enhance regional growth and prosperity more than other entrepreneurs.

Depth of entrepreneurship differs from breadth in that it examines the value of entrepreneurial activities, rather than simply the number of entrepreneurs. While many small entrepreneurs enhance a region's quality of life, it is the high-value entrepreneurs that fuel economic growth.

Depth can be examined both in terms of income and value added. Regions with a greater depth of entrepreneurship have self-employed workers with higher average income, as well as higher income-to-receipts ratios.

*Income.* One measure of entrepreneurship depth is the ratio of self-employment income to the number of self-employed

workers in a county. Average self-employment income varies across regions, being lowest in less populated places. Average income is important because, as it rises, the region as a whole becomes more prosperous.

Clusters of high-income entrepreneurs appear in California and along the Mid-Atlantic (Figure 2). This

usually not regions rich in high-income self-employment (depth).

The self-employed in metropolitan counties had higher annual income than their rural peers (Table 1). The average self-employment income in metropolitan counties was \$4,900 more than in town counties and \$3,300 more than in micropolitan counties.

*Value Added.* The share of self-employment income to self-employment receipts is another measure of high-value entrepreneurship, or depth. This indicator is a better metric for examining depth for two reasons. First, value added is a direct measure of the proprietor's contribution to the product or service provided to the market. Second, value added is a better

pattern is consistent with the notion that high-value entrepreneurial growth occurs in densely populated areas. The map shows that average self-employment income varies

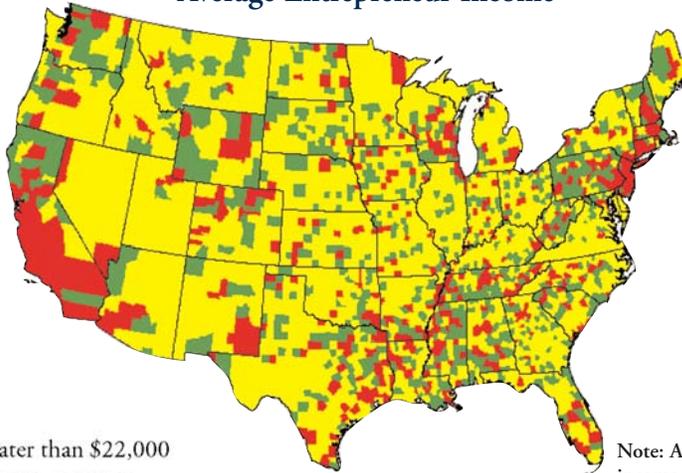
widely throughout the country. Interestingly, those regions with a high proportion of self-employment (breadth) are

measure of depth than average income because it is not skewed by part-time versus full-time entrepreneurs. High levels of value

**Table 1**  
**Average Self-Employed Income and Average Wage and Salary Income**

	Average self-employed income	Average wage/salary income
Metropolitan	\$19,791	\$23,717
Nonmetropolitan	\$15,410	\$19,038
Micropolitan	\$16,530	\$21,032
Town county	\$14,856	\$18,052

**Figure 2**  
**Average Entrepreneur Income**



Greater than \$22,000  
\$17,000-\$22,000  
Less than \$17,000 (Average)

Note: Average income=total proprietor income/proprietors

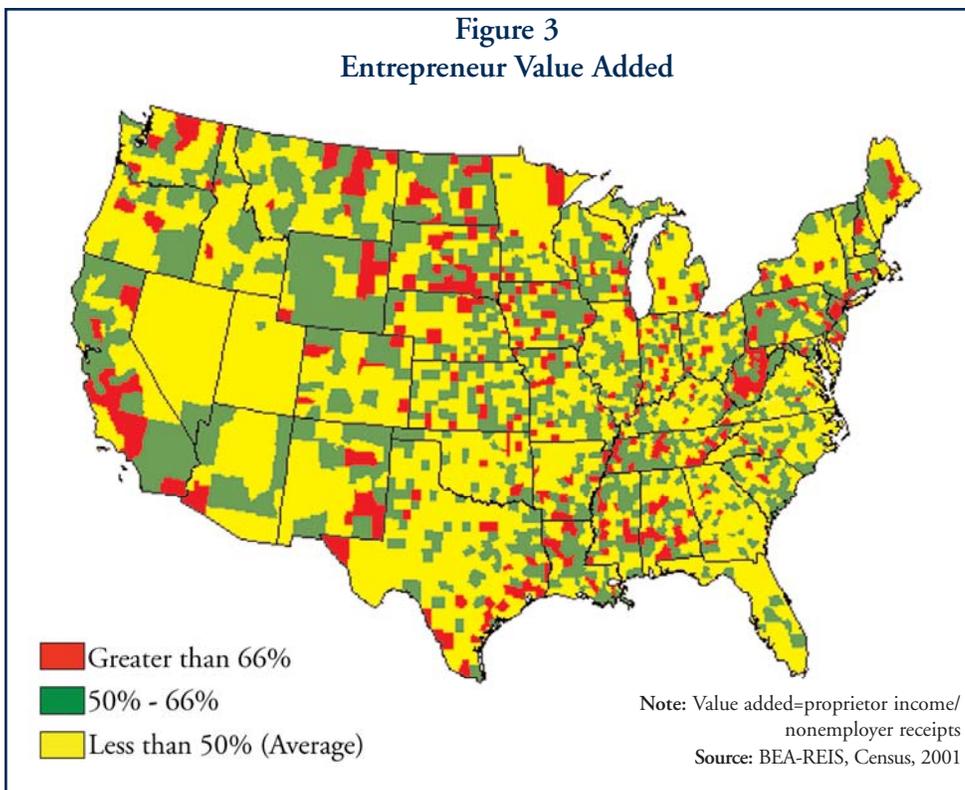
Source: BEA-REIS, 2001

added indicate that a region's entrepreneurs are creating more value through their activities and, consequently, are helping the region prosper.

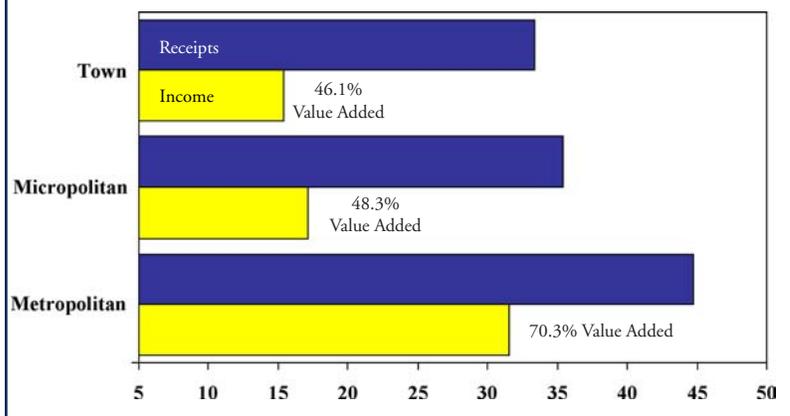
Counties with high self-employment income to self-employment receipt ratios were less clustered than high-income counties (Figure 3). Metro counties ranked highest in value added but large areas of some non-metropolitan states such as West Virginia were also ranked highly.

Overall, metropolitan entrepreneurs contribute more value to their products and services than micropolitan and town county entrepreneurs, thus generating more income per sales dollar (Chart 2). Virtually all initial public offerings, an indicator of rapidly growing firms, occur in metropolitan counties.<sup>2</sup> In short, rural areas seem to be lagging in entrepreneurial depth, and thus their prosperity is hindered.

**Figure 3**  
Entrepreneur Value Added



**Chart 2**  
Average Proprietor Income and Receipts by County Designation, 2001



**The high-value entrepreneur indicators**

Entrepreneurship will be crucial in shaping the future of regional economic development. Entrepreneurship creates jobs and wealth within a region, ultimately leading to prosperity. While entrepreneurship is scattered throughout rural areas, high-depth entrepreneurship, which creates

most economic benefits, is found mainly in metropolitan areas.

Still, rural regions seem to be a natural seedbed for entrepreneurship. The breadth measure shows that a high proportion of rural

workers are self-employed. Seedbeds seem to occur more easily in areas with sparse economic activity, creating opportunities to fill local needs with small establishments.

High-value entrepreneurship, however, is concentrated in metropolitan counties. The value-added indicator reveals that rural entrepreneurs generate less value from their activities than their urban counterparts.

Entrepreneurs in urban centers may particularly benefit from the proximity to urban high-value marketplaces. These findings suggest that connections to dense urban markets, such as through high-quality telecommunications and other links, are critical to fostering high-value entrepreneurship.

Breadth and depth (high-income and value-added) entrepreneurship measures, as well as the associated maps are downloadable at the county level from the Center for the Study of Rural America website: [www.kansascityfed.org/ruralcenter](http://www.kansascityfed.org/ruralcenter). Regional leaders can use these data to gauge how high-value entrepreneurs could become part of a regional development strategy that could include further partnering with other areas.

**Endnotes**

<sup>1</sup>Acs, Zoltan, and Catherine Armington. *Endogenous Growth and Entrepreneurial Activities in Cities*, U.S. Bureau of the Census, 2003.

<sup>2</sup>Brophy, David, and Wassim Mourtada. 1998. *Equity for Rural America: From Wall Street to Main Street*, Federal Reserve Bank of Kansas City.