“Policies for Creating an Entrepreneurial Region”
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This paper seeks to offer a policy framework for fostering entrepreneurship in rural regions in the United States as a strategy for generating economic development. It begins with a brief discussion of the general state of the rural economy and why it is in need of economic development help. It argues that any viable solution must be regional in scope. It further makes the case for entrepreneurship assistance as the most viable economic development strategy. The paper then addresses the limitations of current approaches to fostering entrepreneurship. It offers an alternative to these approaches that overcomes their limitations and discusses early lessons from the application of this new framework for entrepreneurial assistance in rural North Carolina and West Virginia, and in an urban context in Kentucky.

The Economic Development Challenge of Rural America

While the distribution of wealth across rural regions in the U.S. is uneven, with a few areas enjoying relative prosperity while many others face widespread poverty, in general, rural America is in the midst of an economic crisis. Agriculture and extraction industries, the mainstay of most rural economies, have been in steady decline. Rural poverty in many areas exceeds urban poverty, though it has received less attention from the media and from national policy makers. Economic globalization has left many rural communities in its wake.

This decline in the basic industries of rural America has, of course, impacted small local-serving businesses as well. For example, Davidson (1996, p. 55) found that during the period from 1976 to 1986, the number of establishments in rural Iowa communities in general merchandise, building supplies, groceries, retail gasoline and apparel fell by approximately 33%, on average. By all accounts, this decline has continued into this century.
In addition to the decline in population and traditional markets, rural businesses face a variety of other challenges that are unique to their context. Lichtenstein and Lyons (1996) have identified several of these. First, rural communities often have very limited business financing resources. Debt capital is difficult to come by. The existence of fewer lending institutions results in a higher cost of money. There are insufficient opportunities for lenders to shift risks. Sources of equity capital (angel and venture capital) are extremely limited or non-existent.

Business-to-business services are also typically in short supply. Additionally, rural businesses are often forced to seek markets outside their immediate communities and rural regions because local markets are too small to sustain current operations, much less growth. Physical distance from relatively resource-rich urban areas creates hardships as well, not the least of which is impeded access to the information and knowledge centers of the global economy.

Another challenge to rural businesses is the dominance of rural communities by a single business or industry. Not only does this preclude economic diversity, making the community highly vulnerable to economic shifts, but it acts as a damper on innovation as well. Because of their small and dispersed populations, rural communities do not generate the number of daily face-to-face interactions that have been shown to foster innovation and entrepreneurship (Lichtenstein 1992; Francis and Sandberg 2000). Finally, public, private and nonprofit assistance to entrepreneurial activities is also very limited in most rural communities.

To sum the situation up, most rural communities have very limited economic critical mass, unlike their urban counterparts. For this reason, there is very little margin for error. Whereas urban communities can afford to waste resources and still succeed economically, rural communities cannot. These limitations demand that policy solutions for rural economic revitalization must be regional in scope. They must attempt to increase economic critical mass by expanding the resource base, expanding markets, pooling resources, pooling risk, and establishing productive linkages between rural and urban communities.
Entrepreneurship Assistance as a Viable Economic Development Strategy

Economic development policy is often likened to a three-legged stool. The three major strategies of economic development are business attraction, business retention and expansion, and business creation. For many years, attraction was the clear favorite of economic developers. Considerable resources and effort were poured into attempting to lure businesses from one community to another. Despite studies that showed that this strategy often resulted in a zero sum game relative to the larger economy and windfall profits to businesses that will do what is best for them anyway (Harrison and Kanter 1978; Dabson, et al 1994), communities, including those in rural regions, continued to favor it. The rush to attract manufacturing branch plants to rural communities was a prime example of this approach.

Recently, economic developers have become more concerned about retaining the businesses they currently have and attempting to induce them to expand their operations. While there are those who argue that this approach is more efficient than a business attraction strategy (Lenzi 1991), this policy option is not available to many rural communities because they typically have few growing businesses to retain.

In the global economy, many U.S. companies now take their production operations offshore in order to pursue labor cost savings. Corporations are seeking locations for their headquarters that have an adequately trained work force and a stimulating and high level quality of life that is attractive to a young, well-educated employee. This means that for many rural communities, business attraction strategies may no longer be an option, either.

These difficult economic realities leave the often-neglected third leg of the stool – business creation – as the only viable economic development strategy for rural areas. As an example, West Virginia, a very rural state, has come to this conclusion and is putting considerable time and resources into developing a statewide economic development strategy based on the creation of a supportive environment for entrepreneurs. Maine, another rural state, is very active in developing policies for assisting new enterprises as well.
Entrepreneurship assistance is not merely a fallback economic development strategy for rural regions, however. It lends itself particularly well to rural economies because it is sustainable. It can cost less than other economic development strategies. It yields smaller scale development, which is more appropriate to the rural environment. Additionally, it creates homegrown companies, which tend to be more loyal to their communities than are corporate branch facilities. These homegrown companies are more likely to buy their inputs locally, when possible.

Despite strong reasons for pursuing entrepreneurship assistance in rural areas, efforts, to date, to operationalize this strategy have proven difficult and their impacts have been modest when viewed at the regional level (Lichtenstein and Lyons 2001). The following sections discusses some reasons for this.

The Limitations of Current Entrepreneurship Assistance Practices

When regions, urban or rural, decide to pursue policies for developing their economies, they are seeking an economic transformation – a qualitative leap to a higher level of economic performance (Lichtenstein and Lyons 2001). It is assumed that when resources are allocated to such endeavors, they will yield dramatic changes in the economic region; however, they seldom do. This is particularly true for entrepreneurship assistance-based strategies.

The reasons for this are several (Lyons 2002a). First, most current efforts to encourage entrepreneurship are focused on businesses rather than entrepreneurs. Attempts are made to characterize and categorize companies by the stage in the business life cycle in which they currently find themselves. It is assumed that once this is ascertained, the assistance that the company requires will become self-evident. Yet, this approach presupposes that businesses drive their entrepreneurs, when, in fact, reality is the opposite. If an entrepreneur is being driven by her business, then something is seriously wrong (Gerber 1995). There are numerous examples of businesses that have been in existence for many years, yet they still behave like start-ups. This is because the entrepreneur is not presently capable of taking the company any farther. If a business is to be transformed, then its entrepreneur must first be transformed in terms of her
entrepreneurial skills. Ironically, the current focus on assisting companies tends to take
the entrepreneur completely out of the equation.

Second, many entities that assist entrepreneurs (e.g.: business incubators, microenterprise programs, small business development centers, etc.) tend to emphasize form over function. They target their energies on what services they will provide and how they will provide them before they really know what the entrepreneurs they seek to help need. The famous Chicago architect Louis Sullivan was once quoted as saying that “Form ever follows function.” This would seem to be just as true, if not moreso, for the design of entrepreneurial assistance programs as it is for the design of buildings. Entrepreneurs may still seek out assistance that does not fit their needs but only because it is free, or inexpensive, or because they do not really know what they need. Cookie-cutter entrepreneurship assistance programs may be efficient, but are greatly limited in their ability to be effective.

Third, the current “system” of assistance to entrepreneurs is largely fragmented and categorical. Each service provider organization has its own sponsor(s), mission, jargon, protocols, self-evaluation procedures, and so forth. Their well-intentioned public or nonprofit sponsors, who often know little or nothing about how business development actually works, place outputs and outcomes requirements on them that are ill conceived and unrealistic. This tends to elicit behaviors that reflect a focus on the survival of the assistance provider organization at the expense of true, useful service to the entrepreneur and cooperation with other assistance providers to ensure that level of service. All of this tends to isolate each service provider from the others in the region and causes them to believe they must act alone in helping the entrepreneurs operating there.

This problem is tied closely to the fourth reason why current approaches to entrepreneurship assistance fail to transform regional economies – service providers tend to operate on the belief that they are in competition for the same limited pool of entrepreneurs. Because they view other similar organizations in the region to be competitors, they are less likely to work together with them to serve entrepreneurs. This is based on two erroneous assumptions: (1) that successful entrepreneurs can attribute their success to the possession of certain innate traits or characteristics, with only a small
portion of the population qualifying, and (2) that all service providers do essentially the same things and operate at the same levels. Recent studies continue to add evidence that disproves the “innate traits” theory of entrepreneurship (Ray 1993). In fact, there appears to be ever increasing support for the idea that “entrepreneurs are made, not born.” (Shefsky 1994). This suggests that the pool of potential entrepreneurs is larger than originally thought. There is also research to show that entrepreneurial assistance providers not only differ in terms of the nature of the assistance they provide, but they vary by the skill level of the entrepreneurs with whom they work as well (Lyons 2001). In light of these recent findings, the competition among assistance providers is largely perceived; therefore it is unproductive or, worse yet, counter-productive.

Finally, the preceding shortcomings of the current entrepreneurship assistance system help to create a situation under which that system is opaque to the entrepreneurs it seeks to serve. Entrepreneurs are neither sure as to where to begin their quest for help, nor do they understand the differences among service providers relative to the type and level of help they can get (Lyons 2002a). What is needed is a systemic approach to entrepreneurial assistance that strives to develop entrepreneurs, help them meet their needs in a strategic fashion, and is completely transparent to them.

A Potential Policy Solution for Creating an Entrepreneurial Region

The concept of focusing entrepreneurial assistance on the development of individual entrepreneurs is a relatively new one, and it requires a new way of framing entrepreneurial success. Rather than focusing on innate traits, about which those who seek to help entrepreneurs can do nothing, the emphasis must be placed upon the acquisition of skills (Lichtenstein and Lyons 2001). If successful entrepreneurship hinges upon the mastery of a required skill set, then successful entrepreneurship assistance should be focused on skill building. Skill building serves to transform entrepreneurs from their current level of skill to higher levels. It permits them to transform their businesses from start-ups to growth companies. The simultaneous transformation of multiple businesses provides the scale of impact necessary to transform the economy of a region.
With this in mind, my colleague, Gregg Lichtenstein, and I have developed a system for managing regional enterprise development that is based on this concept of developing entrepreneurs. We call it the Entrepreneurial Development System (EDS). (Lichtenstein and Lyons 2001) The EDS is built on three major premises: (1) ultimate success in entrepreneurship requires the mastery of a set of skills; (2) these skills can be developed; and (3) entrepreneurs do not all come to entrepreneurship at the same skill level.

The skills required for successful entrepreneurship are many, but they can be classified into four major categories (Gerber 1995; Lichtenstein and Lyons 1996):

- **Technical skills** – skills needed to engage in the entrepreneur’s chosen industry;
- **Managerial skills** – skills required for conducting day to day business activities (e.g.: management, finance, administrative, marketing, legal, etc.);
- **Entrepreneurial skills** – the ability to recognize and act on market opportunities and the ability to generate innovative solutions to all business challenges;
- **Personal Maturity skills** – self-awareness, accountability, emotional coping, and creativity skills.

These skills can be measured and progress toward their mastery monitored by an assessment tool developed by Lichtenstein, Lyons and Lyons (Lyons and Lyons 2002). This tool allows the diagnostician using it to place entrepreneurs into a hierarchy of skill development that is based on the professional baseball league system, which is essentially a system for developing talent. Depending upon their assessed level of skill, entrepreneurs are identified as being in the Rookie, Single A, Double A, or Triple A league. Complete mastery of the skills described above qualifies them for the Major Leagues of entrepreneurship.

This system for classifying entrepreneurs by their skill level is useful in two ways. First, it makes the path to success very clear for entrepreneurs. It also makes that same path clear to those who would assist entrepreneurs. In this way assistance can be matched strategically to an entrepreneur’s level of skill, eliminating “one size fits all” assistance that is either beneath the entrepreneur or over his head. Second, the league system is
equally applicable to entrepreneurship service provider organizations. Each tends to work with entrepreneurs who are operating at a particular skill level, depending upon their staff and resource capacity (Lyons 2001). Thus, some providers work best with Rookies, while others are most adept at helping Single A players, and so forth. This is not an assessment of the quality of service provided but of the entrepreneurial skill level at which the assistance provider works. Taking this approach permits matchmaking between entrepreneurs and assistance providers that is targeted, as opposed to serendipitous.

How the EDS Works with Examples from Application

The foregoing explains the conceptual heart of the EDS; however, it may be most useful to a fuller understanding of the system to describe, in brief, how it works. The following is such a description, with examples from our ongoing demonstration projects in Kentucky (an urban context), North Carolina, and West Virginia (two rural contexts). It should be noted that the Kentucky project has been underway for over two years, while the North Carolina and West Virginia projects are in the very early stages of their evolution.

Geographically, the EDS typically covers an economic region. In rural areas this may consist of several contiguous counties that share common economic characteristics (e.g.: interdependencies, products, workforce, etc.). In North Carolina, the region consists of two contiguous counties, with a rural economic trade center at its heart. This is a natural economic region that encompasses the influence of the trade center. Expanding this system to include more rural counties at a later date has been discussed. In West Virginia, the region in question includes portions of three states that share economic commonalities and interests. The EDS seeks to organize the entrepreneurs and the entrepreneurship assistance providers of these regions into a synergistic whole.

The EDS employs a “scout,” who looks for prospective entrepreneurs for the system and assesses their motivations and commitment to entrepreneurship, as an initial screening process. Appropriate candidates are encouraged to visit the system’s single point of entry to have their needs and skills assessed. The single point of entry is the intake valve of the system. A “diagnostician(s)” assesses the needs of incoming
entrepreneurs by ascertaining the obstacles they face to the resources they require for success.\(^1\) This diagnostician also assesses the entrepreneur’s skill level using the league levels and assessment tool discussed above. The results of these two assessments are then employed to develop a “game plan” for the entrepreneur. This lays out a plan of action for skill building that the entrepreneur pursues over the course of a specified time period. The diagnostician links the entrepreneur to the appropriate service provider(s) in the system for help in accomplishing the plan. It should be emphasized that the roles described here are functions; a single individual may play more than one role. In the Kentucky demonstration project, for example, there are two diagnosticians at the point of entry. These individuals also fill the scout’s role. The point of entry in the Kentucky project is a local agency that had been acting as a referral service for entrepreneurs looking for sources of assistance before the EDS was installed. This permitted an easier transition to the new role.

Once the entrepreneur enters the system, she is tracked from service provider to service provider based upon her game plan. At the end of each plan period, her needs and skills are reassessed and a new game plan is generated. This requires the assistance of an electronic database management system, which resides at the point of entry. In Kentucky, the local government’s information technology staff is building this system, with our assistance and input from participating service providers. In North Carolina and West Virginia, an outside contractor, working with us, will likely build the database systems.

The EDS also offers other services to its client entrepreneurs. A “performance coach” helps individual entrepreneurs to build their emotional and mental skills, assistance that is not typically offered by entrepreneurship assistance providers but is crucial to transformation. A “success team manager” works with entrepreneurs within a league level who operate businesses in similar markets or industries to encourage them to pool resources, risk, and information. The networks that are engendered by this activity permit the entrepreneurs to learn from one another and offer mutual moral support. An “alliance broker” facilitates partnerships, joint ventures, cooperatives and other business

alliances among companies across the league levels of the EDS. A “general manager” oversees all of the activities of the EDS (Lichtenstein and Lyons 2001).

Participation by entrepreneurs and service provider organizations is voluntary. In our experience to date, once a core group comes together to launch the system, others are attracted to join them. This has happened in Kentucky and appears to be happening in North Carolina as well. The EDS makes no attempt to eliminate existing service providers or interfere in their internal operations. It merely seeks to systematize their interactions, thereby creating a regional business development team. Because variation in the ways in which service providers self-evaluate their performance tend to exacerbate region-wide fragmentation of assistance delivery, the EDS does evaluate participating assistance providers using a uniform set of standards that relate to their performance in helping entrepreneurs to advance their skills through the league system (Lyons 2002a).

Implications for Rural Development Policy

The challenges of rural poverty and the mitigation of that poverty through economic development are many and varied. There is evidence that the most promising approaches to addressing these challenges are regional in scope and systemic in nature (Lyons 2002b). Also promising is a strategy that focuses on fostering entrepreneurship, for reasons already noted in this paper. This suggests that the creation of entrepreneurial regions should be the goal.

In recent years, there has been much written and said about what makes for an entrepreneurial community. Some have argued that it is diversity of people, ideas and activities (Florida 2002). Others point to an environment that nurtures and develops human capital (Rogers and Larson 1984; Saxenian 1994; Malecki 1997). Still others claim that it is a combination of intellectual capital and numerous other factors that underlie a successful entrepreneurial community (Feldman 1994). There is undoubtedly truth in all of these observations; however, they do not tell us how to create such a community. They identify the ingredients but offer no actionable recipe for baking the cake.
Building an entrepreneurial community is a long-term process. This has become increasingly clear as we work to facilitate that process in the regions that have sought our assistance. Building widespread support for undertaking the effort takes time and determination. The vision must be kept clearly and consistently before the community. We have spent substantial time meeting with and presenting to stakeholders in the three demonstration locations to articulate the vision, build support for it, and refresh that support.

Likewise, building a team of regional entrepreneurship assistance providers takes time and effort. In Kentucky, the Service Providers Network has been meeting for almost two years, and they are still working through issues of incompatible internal systems and territoriality. Nevertheless, the changes in the way in which they interact with one another have been dramatic and gratifying. They are now very open with one another, where, before, they were secretive. They look for ways to include each other in their business development activities. They make suggestions for the good of the network and all the entrepreneurs they serve. They now speak a common language – the language of the EDS – and every member of the network understands.

Making any systemic change takes time and “political will” to stay the course. Moving from being a community that is not entrepreneurial to being one that is requires a systemic transformation. This presents a tremendous policy challenge. Elected officials typically have relatively short horizons for exerting leadership. This causes most to eschew adopting policies that are unlikely to bear substantial fruit during their term of office. Their appointed and professional staffs are reticent to recommend such undertakings for the same reason. Thus, most public economic development policy is short term, programmatic, and low risk. For this reason, governments cannot be expected to create entrepreneurial communities on their own. They can help to sponsor such efforts, facilitate, and cooperate with them, but there must be private and nonprofit sector support to help ensure long-term commitment. In particular, the support of the ultimate market – the entrepreneurs – for an endeavor like the installation of an EDS is crucial to success. In North Carolina and West Virginia, the very public support of entrepreneurs
has lent tremendous energy and enthusiasm to those efforts to build entrepreneurial regions.

How does a rural area pull itself together into a cohesive entrepreneurial region? We have wrestled with this question as we have gone about trying to help communities to establish Entrepreneurial Development Systems. Should the approach be top down, with an individual or organization with power, resources, and vision leading the effort? In our Kentucky demonstration project, the local government played this role by using its resources as both a carrot and a stick to encourage cooperation from service provider organizations. This worked well initially, but it soon became apparent that service providers would not continue to cooperate unless they perceived the benefit to them of participation and endorsed the effort of their own volition. Should the approach be bottom up, relying on support from entrepreneurs and service providers to jump-start and sustain the effort? In West Virginia, support for establishing an EDS has come from entrepreneurs, service providers, business advocacy organizations, higher education institutions, and government working together. While in North Carolina, the regional Chamber of Commerce has acted as the visionary leader, with the support and cooperation of a bank, numerous service provider organizations, institutions of higher education, and local entrepreneurs.

From these experiences, we have concluded that the most sustainable approach to building an entrepreneurial rural region is to involve multiple players who share the vision and are willing to work toward it in partnership. These players must come from the private, public and nonprofit sectors. There must be both top down leadership and bottom up support. This support must be representative of the entire region. In the three-state demonstration project centered on West Virginia, for example, it is recognized that ultimately service providers from all three states must participate for the system to work on a regional basis. This must happen in the face of the fact that special reciprocity agreements will most likely have to be crafted and entered into because restrictions currently exist on the ability of certain organizations to work across state boundaries.

Once a regional coalition is established, a charter organization must be created to oversee the building of the system and its ongoing operation. This charter group is most
appropriately made up of a subgroup of the regional coalition. This approach seems to be working well in our North Carolina project. The charter organization plays multiple roles: visionary leaders, policy makers for the system, mediators of disputes, recruiters of new participants, purveyors of resources, representatives to the media, and liaison with the community.

Once these support and guidance structures are in place, the EDS can be installed. In doing so, the development challenges to rural areas, enumerated above, can be addressed. Linking them in a regional network can expand the limited resource bases of individual communities. This permits the pooling of risk as well as the pooling of resources. That is, no one community must shoulder the burden of developing its entrepreneurs alone. Appropriate linkages between rural regions and urban areas can be created as well. As an example, the long-range plan in West Virginia is to establish Entrepreneurial Development Systems in the rural regions centered on small cities. These tend to be the relatively resource-rich regions of the state. Once those systems are in place, they will be linked to rural regions that are largely without resources, thereby creating an “entrepreneurial state.”

Too often, when communities that desire to become entrepreneurial contemplate the task before them, they despair of ever achieving that goal because they compare themselves to the Silicon Valley, Route 128, and the Research Triangle and conclude that they do not have the financial, human, and intellectual capital to succeed. This is especially true of rural communities. Yet, business activity includes much more than high technology based ventures, and successful entrepreneurs do not have to be “gazelles”. Every rural region can become entrepreneurial by organizing themselves to develop entrepreneurs, no matter what industry their business is in. In doing so, the people of the region become aware of entrepreneurship, come to value it, and learn to think and act entrepreneurially. This is the true essence of an entrepreneurial region.
References


