Building Regional Economies Through Entrepreneurship

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- Why does entrepreneurship matter?
- What kinds of entrepreneurs matter?
- What are the challenges in developing entrepreneurs?
The relationship between entrepreneurship and economic growth occurs at the national level.

**National Entrepreneurship Index and GDP Growth**

Average GDP Growth (2004 to 2006)

Source: Global Entrepreneurship Monitor, 2003 and International Monetary Fund
...at the state level,

State Entrepreneurial Growth and Employment Growth

Employment Growth (Wage and Salary: 1990-2004)

Calculations based on BEA, Regional Economic Information System data
...at the county level.

**County Entrepreneurial Growth and Employment Growth**

Employment Growth (Wage and Salary: 1990-2004)

Calculations based on BEA, Regional Economic Information System data
What kinds of entrepreneurs matter?

- Necessity-based:
  - Motivation: alternative work options are absent or unsatisfactory.

- Opportunity-based:
  - Motivation: want to exploit a perceived business opportunity.
National entrepreneurial activity and economic growth

Entrepreneurship and GDP

Early Stage Entrepreneurship

More Necessity-based Entrepreneurship

More Opportunity-based Entrepreneurship

Venezuela

Thailand

China

U.S.

Norway

Source: Global Entrepreneurship Monitor
What kinds of entrepreneurs matter?

- High-growth entrepreneurs
  - Motivation: to grow a large highly visible and valuable firm.

- Lifestyle entrepreneurs
  - Motivation: to provide a family income or lifestyle.
Most U.S. entrepreneurs are necessity or lifestyle ones.

Reasons for Becoming a Business Owner

- Have a job
- Freedom for family responsibilities
- Be own boss
- Secondary source of income
- Primary source of income
- Advance in profession
- Bring a New Idea to the Marketplace

Source: Census Bureau
The Challenges for Iowa

- Metro Iowa lags in entrepreneurial development.
Metro Iowa has fewer Entrepreneurs.

U.S. and Iowa’s Non-farm Proprietors


Calculations based on REIS, BEA data
The Challenges for Iowa

- Metro Iowa lags in entrepreneurial development.
- Iowa’s entrepreneurs have a hard time producing high-growth.
Entrepreneurs in Rural and Metro Iowa struggle to generate high-growth.

U.S. and Iowa’s Non-farm Proprietor Income

Income per proprietor (thousand dollars)

Calculations based on REIS, BEA data
What factors support high-growth entrepreneurs?

- Scenic places
- High educational attainment
- Densely populated
- High levels of infrastructure
  - Interstates
  - Broadband
- Colleges
- High levels of information, arts, and recreation employment (creativity)

Low, Weiler and Henderson (2005) “Gauging a Region’s Entrepreneurial Potential”
Challenges to Entrepreneurial Development

- Benefits are long-run not short-run.
The Benefits of Entrepreneurship Grow Over Time.

Impacts of Entrepreneurship on Economic Growth

Marginal impacts on employment growth

Calculations based on Drabenstott and Henderson (2006)
Challenges to Growing High-Growth Entrepreneurs

- Benefits are long-run not short-run.
- Benefits flow to neighbors that are often viewed as competitors.
Counties benefits from the Entrepreneurial Development in Neighboring Counties.

Impacts of Entrepreneurship on Economic Growth

Marginal impacts (elasticity)

Calculations based on Drabenstott and Henderson (2006)
Challenges to Growing High-Growth Entrepreneurs

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Reasons for Becoming a Business Owner

- Be own boss: 23%
- Primary source of income: 22%
- Secondary source of income: 17%
- Freedom for family responsibilities: 14%
- Have a job: 5%
- Advance in profession: 6%
- Bring a New Idea to the Marketplace: 2%

Source: Census Bureau
Challenges to Growing High-Growth Entrepreneurs

- Benefits are long-run not short-run.
- Benefits flow to neighbors that are often viewed as competitors.
- Most entrepreneurs are lifestyle entrepreneurs.
- Developing entrepreneurial skills to boost deal flow and the odds of success.
A Major League System for Entrepreneurial Development

<table>
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<tr>
<th>Major League:</th>
<th>Technical</th>
<th>Managerial</th>
<th>Entrepren.</th>
<th>Personal Maturity</th>
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Challenges to Growing High-Growth Entrepreneurs

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- Most entrepreneurs are lifestyle entrepreneurs.
- Developing entrepreneurial skills to boost deal flow and the odds of success.
- Entrepreneurs need a full range of debt and equity capital.
A Full Range of Equity and Debt Capital

Iowa’s Share of U.S. Businesses and Venture Capital Investments

Conclusions

- Entrepreneurial activity is strongly linked to economic growth.
- Iowa has a lot of entrepreneurs, but high-value ones are more scarce.
- Entrepreneurial development is risky business and poses lots of challenges.

*Is it a risk worth taking?*