



**What Entrepreneurs Mean  
for Your Community, and How  
Entrepreneurship Can Be Fostered**

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July, 2008

**Rural Development Paper No. 40**

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*“Contributing to the well-being of small towns and rural communities.”*

# *What Entrepreneurs Mean for Your Community, and How Entrepreneurship Can Be Fostered*

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## **Introduction**

The 1990's created the largest economic expansion ever in American history. More importantly, the majority of the new jobs created during that time period came from small and medium sized entrepreneurial high growth firms. There were approximately 27.3 million self-employed workers in metropolitan areas in 2006 and 5.65 million in nonmetropolitan areas. This represents a 268% increase in metropolitan areas since 1969 and a 161% increase in nonmetropolitan areas.<sup>2</sup> Should this trend continue, one in three rural workers will be self-employed by the year 2015 (Goetz, 2008).

The potential for entrepreneurs in rural and urban areas is undeniable. Entrepreneurs create new jobs, increase local income and wealth, and connect the community to the larger global economy. Studies have shown that:

Smaller firms grow faster and create more jobs than other types of firms (van Praag and Versloot, 2007)

Despite the loss of jobs to unpredictability in the short run, entrepreneurial firms lead to higher levels of employment in the long run (van Praag and Versloot, 2007; Shrestha, Goetz and Rupasingha, 2007)

Roughly 500,000 new jobs have been created annually in the past decade, three-fourths of which are attributed to entrepreneurial firms (Henderson, 2002)

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<sup>1</sup> Comments and contributions by Winifred W. Mc Gee, Bill Shuffstall, Walt Whitmer and Jon Laughner are gratefully acknowledged. This paper is also published as RDP No. 40 of The Northeast Regional Center for Rural Development.

<sup>2</sup> This is based on data from the Bureau of Economic Analysis, Regional Economic Information System.

Self-employment earnings relative to traditional workers are lower (\$16,851 as compared to \$31,596 in 2005); however, education and age increase self-employment earnings (Goetz, 2008)

Entrepreneurs create new sources of wealth in a community, and often reinvest this wealth in their businesses (Henderson, 2002)

Business start-ups offer a new source of tax revenues for communities (Henderson, 2002)

## **Definitions**

Establishing a definition of entrepreneurs and entrepreneurship helps to identify current entrepreneurs in the community and to effectively target them with appropriate policies.

Entrepreneurs: People who design, produce and generate value through the creation or expansion of economic activity by identifying new products, processes, or markets (Ahmed and Hoffman, 2008).

Entrepreneurial Activity: The human action intended to generate new value through the creation or expansion of economic activity. Examples include expanding a business's market, opening a new business, adding a product to a business's product line, and creating an entirely new product.

Entrepreneurship: The observable outcome resulting from entrepreneurial activity.

The key to the definition is tied to the characteristics of the person or group that created the business, not the business itself. Entrepreneurs can produce small businesses, but not all small businesses are necessarily products of entrepreneurship. Additionally, organizations such as the Organization for Economic Co-operation (OECD) argue that entrepreneurship should not be limited to the creation of new businesses, but "new value"; this means that entrepreneurship could come from members of a pre-existing company.

## **Types of Entrepreneurs**

Survival Entrepreneurs:

- Start a business because of a connection to a specific community or profession
- Piece together multiple economic activities to create employment

- Often face limited prosperity and growth opportunities because the business is based on the entrepreneur's desire to remain in a specific place or in a specific location without consideration for the local market
- Example: Mechanic who opens a garage after being laid off from an auto manufacturer

#### Lifestyle Entrepreneurs:

- Motivated by amenities found in rural areas
- Willing to sacrifice growth for lifestyle choices; hire fewer people
- Often very successful and contribute to community's economy and society
- Likely to have businesses in the service sector
- Example: Doctor who moves into country to open a private practice

#### High Growth Entrepreneurs:

- Goal of starting and developing large, highly visible and valuable firms
- High priority on attaining the resources necessary to fuel growth
- Create jobs, careers, wealth; increase the tax base and reinvest in the community through schools, community service and philanthropy
- Example: *Schoolwires* in State College, PA (an [INC 5000](#) company). Sells software to K-12 school districts which allows them to manage their own website content to perform tasks such as assigning homework and paying tuition. CEO Ed Marflak said during the first few years of business he did not meet any competitors

#### Intrapreneurs:

- Members of a pre-existing firm or business organization
- Identify a new product, process or market that will generate new wealth for the company
- Example: Associate of a retail firm who suggests introducing a new line of green products into the store due to increased local interest in sustainability

## **Identifying Entrepreneurs**

Although entrepreneurs and owners of small businesses are not synonymous, declarations of self-employment and small business statistics can be used as a simple means of quantifying the presence of entrepreneurs in a community. Additionally, the use of different statistics to identify sources of "new value" can be used, although these are slightly more subjective. One problem with the available data on self-employment is that we cannot distinguish among the different types of entrepreneurs just described.

According to the Tax Code: Entrepreneurs are those people who file their income taxes as proprietors or independent business owners. This information can be found in IRS Schedule C, Form 1024 that is used for income tax filings by non-farm proprietors or self-employed workers.

According to the Small Business Administration: A small business is any independent business employing fewer than 500 employees.

According to the Organization for Economic Co-Operation (OECD): Statistics that identify sources of “new value” through the creation of new firms (such as employer enterprise birth rates, employer enterprise death rates), new employment (such as high growth firm rates by employment, gazelle rates by employment) and new wealth (such as high growth firm rates by turnover, gazelle rates by turnover) should be used to identify small businesses. This is a slightly more theoretical and subjective approach and is included here to highlight the diversity of entrepreneurs and methods to identify them.

## **Characteristics of Entrepreneurial Communities**

### **Demographics**

Age: As population age increases, so do self-employment rates. Additionally, self-employment earnings per worker, on a county level, increase with age (to a point).

Education: Higher levels of education are associated with increased self-employment rates. A high school diploma is more important to stimulating self-employment levels while a college education is more likely to increase income. Higher participation rates in junior colleges, business schools, computer and management training programs, or technical and trade schools increase a community’s rate of self-employment, as well as the individual’s income.

Ethnic Diversity: Counties with larger foreign-born populations also have higher rates of self-employment, although this characteristic is associated with lower earnings.

### **Assistance and Training Programs**

Work Experience: Previous work experience significantly increases the likelihood that an entrepreneur is successful, especially if the past work experience relates to the current venture.

Incubators: These community-based facilities provide start-up firms with the business skills, resources, shared rental space, technology support and financial assistance necessary to start a new business. Networks fostered in these close conditions last well beyond the learning period. Ultimately, successful start-up firms become financially viable independently of the incubator. Each new job created with the assistance of a publicly supported incubator saves about \$1,000 as compared to other strategies.

Small Business Development Centers (SBDC): These regionally-based entities provide technical support to help new entrepreneurs through the business start-up process by supplying planning assistance and identifying sources of funding. These centers also support existing firms with technical, legal and business assistance.

Networking: Professional organizations and working groups help current and potential entrepreneurs hone technical, managerial, entrepreneurial and personal maturity skills necessary for a successful entrepreneurial venture.

## **Infrastructure**

Traditional Forms: Highways, water supply, power supply and waste removal are examples of traditional forms of infrastructure that are still important for helping rural areas overcome their remoteness, access nearby markets and run an efficient business.

21<sup>st</sup> Century Infrastructure: The Internet and broadband help businesses to expand their markets and become more competitive. Goods and services can be sold, and supplies or equipment can be purchased beyond the immediate area. According to Harvard researcher Michael Porter, the Internet can help businesses to create a competitive advantage, but only if it is built into a pre-existing model and it is not relied on too heavily.

## **Capital**

Angel Investors: These are individuals who provide start-up capital for entrepreneurs. They typically provide a smaller amount than a venture capitalist but invest in local ventures.

Microfinancing: Special sources of funding can offer businesses smaller loans ranging from a few hundred dollars to \$50,000. Unlike a traditional bank they offer clients a range of financial and technical assistance. Additionally, they allow businesses to use non-traditional sources of collateral, such as a television.

## Local Government

Investing in Education: Entrepreneurial rates are higher in communities that invest in education at all levels. Classrooms that encourage creativity, hands-on projects, or pair students with community business leaders can help to foster an interest in entrepreneurship at an early age. Colleges and universities are also an important center for research to better understand the local entrepreneurial climate. They provide outreach to support existing and new entrepreneurs as well as foster the creation of new ideas, innovations, and increased diversity.

Policies and Regulations: Municipalities should consider the effect that their ordinances and sub-ordinances, particularly those relating to land and property use, have on the community's business climate. Zoning ordinances that make establishing a business easier, such as those that allow businesses to be set up in homes, should be encouraged. Additionally, many entrepreneurs find it difficult to navigate the zoning ordinances that vary between municipalities. Municipalities from different counties can benefit from learning to work together in order to coordinate efforts and make it easier for entrepreneurs to access the data (two examples are the Penns Valley Business Network and Potter County Educational Council<sup>3</sup>). Additionally, entrepreneurs may need assistance with navigating the regulations and requirements associated with starting a new business (such as Health Code, land use and transportation ordinances).

## Openness and New Ideas

Knowledge Economies: Economic trends point towards the potential for greater entrepreneurial success in knowledge-based economies with jobs in categories such as engineering, computer, healthcare, management, finance, retail, etc. These types of ventures require high skilled laborers, so it is not surprising that rural counties with higher concentrations of high skilled laborers also had higher concentration of high-knowledge occupations

Green Economies: *The State of the World Report 2008* found that an estimated \$52 billion was invested in renewable energy in 2006, a 33 percent increase from 2005. Studies have also found that the number of clean-energy jobs doubled between 1998 and 2004,

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<sup>3</sup> This example is provided by Walt Whitmer.

specifically in the fields of energy efficiency, renewable energy, and smart energy technology. Jobs in this category paid an average salary of \$60,000 (Bezdek, 2007).

Openness: Because not all entrepreneurs are “home grown,” vibrant entrepreneurship may mean an influx of new people and ideas into a community. To help the community adjust, developers need to place the entrepreneurs in the public’s eye, to openly praise them and promote interaction with the rest of the community. Normalizing the situation will calm the public’s fear of the unknown and provide positive reinforcement for the entrepreneurs. Some developers use entrepreneur of the year awards, as well as entrepreneurial-based competitions to showcase the benefits that the entrepreneurs bring to the community.

## **Natural Amenities**

Studies have shown that natural amenities, especially trees, water, and appropriate climate, have a strong relationship to a high concentration of knowledge occupations. A survey conducted by the USDA found that over 70% of rural high-knowledge producer-service firms cited natural amenities as an import factor in their location decision (Henderson and Abraham, 2005).

Individuals migrating into a community also take density into consideration, generally preferring fewer buildings to more. They must consider their willingness to trade easy access to services for the benefit of enjoying a lower population density.

Amenity rich areas also benefit from tourism, which in turn brings in a larger group of customers to entrepreneurial businesses. A study published in the *Society & Natural Resources Journal* found that recreation and tourism created 767,000 jobs and accounts for \$11.8 billion in income to employees and business owners. Jobs were created in lodging, eating/drinking, retail and recreation services (English et al., 2000).

## **The Future**

### Ecopreneurs

The green market has grown by leaps and bounds over the past decade because of growing demand from governments and consumers for green products. Consumers are also willing to pay more for these products. In the 1990’s consumers were willing to pay an extra 10% for green products. Business owners capitalizing on this trend can be broken down into two kinds (Volery, 2008).

- Environmentally-conscious entrepreneurs
  - Concerned about environmental issues but not in environmental marketplace
  - Pursue business with environmentally conscious dimension
    - Emphasize for eco-efficiency
- Green entrepreneurs
  - Concerned about environmental issues to the extent that they consciously develop a business to take advantage of the environmental marketplace
  - Examples of environmental industry categories:
    - recycling or disposal of solid waste
    - remediation of polluted areas
    - air pollution control
    - water treatment
    - engineering and consulting services

Entrepreneur Magazine's examples of successful small green businesses:

<http://www.entrepreneur.com/management/operations/article192994.html>

### Renewable Energy and Energy Efficiency Industries

Investment in the renewable energy and energy efficiency industries stimulates manufacturing, decreases oil importing, and helps reduce the trade deficit. In 2006 renewable energy industries grossed \$39.2 billion in revenues, and created 452,000 new jobs, while energy efficiency industries grossed \$932.6 billion in revenues and created 8,046,000 new jobs. Renewable energies may make small contributions to the national energy base, but the industry is growing rapidly. Renewable energy industries include hydroelectricity, biomass, geothermal, wind, photovoltaics, and solar thermal. Energy efficiency industries are more difficult to define. They include whole businesses and portions of businesses. Private sector energy efficiency industries include insulation sales, energy service company (ESCO) industry sales, and recycling and reuse industry sales. Energy efficiency business can also be a portion of pre-existing vehicle, building, lighting, and appliance industries. Examples include hybrid cars made by GM or energy star appliances. New jobs disproportionately require scientific, technical, professional and skilled workers; of these, 90% are in private industry. However, both of these industries also require a large support staff including administration, manufacturing, accounting, and other lower skilled jobs. By 2030 with only moderate investments in both industries, it is predicted that the combined industries will create \$2.4 billion in revenues, and 20,963 more jobs. These jobs are also less likely to be lost to outsourcing. Although some critics claim these "carbon-constricted economies" cause job losses, estimations show that for every job lost, roughly five jobs are created in its place (Bezdek, 2007).

## Assessing Local Potential

Each community must assess its own local strengths and weaknesses to develop a customized plan of action if it is to increase the probability that entrepreneurs will be able to successfully start and maintain their ventures. Policies that address improving the skills of the individual and strengthening the available resources of the community typically have a positive effect on the level of entrepreneurship that will occur.

There are several ways to go about doing this.

- The Census has created state and county [quick facts pages](http://quickfacts.census.gov/qfd/states/42/42001.html) that give statistics on an area's demographics as compared to either the country or the state.  
<http://quickfacts.census.gov/qfd/states/42/42001.html>
- The Center for Rural Pennsylvania has also created [county profiles](http://www.ruralpa2.org/county_profiles.cfm) that provide a greater amount of detail. These statistics give a better indication of the state of the economy and demography. [http://www.ruralpa2.org/county\\_profiles.cfm](http://www.ruralpa2.org/county_profiles.cfm)

There are also surveys that readers can conduct themselves to find information specific to their community. First, The Penn State College of Agricultural Sciences Cooperative Extension Service has created an assessment tool and discussion guide to gauge a community's entrepreneurial friendliness.

<http://www.economicdevelopment.psu.edu/Programs/entrepreneur.html>

An alternative is the following test for measuring the entrepreneurial climate in a community that is based on Robert Birch as cited in Goetz and Freshwater (2001).

- When the city mayor meets with business leaders are there executives from both mid-size growth companies and large companies?
- Are entrepreneurs invited to join social, athletic and country clubs? Do they join?
- Do newspapers run an equal number of stories on the success of start-up, mid sized and large growth companies?
- Are innovative companies able to recruit nearly all of their professional work force from the local area?
- Is there access to available capital to start a new business?
- Are local universities and colleges encouraging their students and faculty to participate in entrepreneurship, and do they?
- Do growth-company CEOs and venture capitalist hold at least a quarter of the seats on the three largest banks?
- Does the local economic development department spend more time helping local companies grow than it does chasing after branch facilities of out-of-state corporations?
- Does the governor of your state meet regularly with entrepreneurs to seek their views?

- Can you quickly think of 5 recent spinoffs—growth companies started by entrepreneurs who have left larger companies?

With each “yes” answer scoring 10 points, a total score of 70 points or higher produces a “passing” grade, according to the authors of the test.

If you are interested in learning more on the topics in this paper, an extended version of this brief is available online at [www.nercrd.psu.edu/entrepreneurs](http://www.nercrd.psu.edu/entrepreneurs)

## Success Stories

To read about success stories in rural America please visit:

RUPRI: Innovative Approaches to Entrepreneurial Development (a publication)

[http://pubwiki.extension.org/mediawiki/files/9/91/Cases\\_from\\_the\\_Northwest\\_Region.pdf](http://pubwiki.extension.org/mediawiki/files/9/91/Cases_from_the_Northwest_Region.pdf)

E<sup>2</sup> Entrepreneurs:

<http://www.energizingentrepreneurs.org/content/cr.php?id=2&sel=1>

SCORE:

[http://www.score.org/success\\_stories.html](http://www.score.org/success_stories.html)

<b>Useful Links For Advice and Support</b>	
<i>Small Business Administration:</i> <a href="http://www.sba.gov/aboutsba/sbaprograms/sbdc/index.html">http://www.sba.gov/aboutsba/sbaprograms/sbdc/index.html</a>	<i>National Business Incubation Association:</i> <a href="http://www.nbia.org/">http://www.nbia.org/</a>
<i>Economic Development Administration</i> <a href="http://www.eda.gov/">http://www.eda.gov/</a>	<i>Northeastern Regional Center for Rural Development</i> <a href="http://www.nercrd.psu.edu/">http://www.nercrd.psu.edu/</a>
<i>Small Business Development Centers</i> <a href="http://www.sba.gov/aboutsba/sbaprograms/sbdc/index.html">http://www.sba.gov/aboutsba/sbaprograms/sbdc/index.html</a>	<i>FastTrac</i> <a href="http://www.fasttrac.org/">http://www.fasttrac.org/</a>

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