What’s so New about New Entrepreneurship Policies? State Government Initiatives to Foster New Venture Creation

By

Erik R. Pages
EntreWorks Consulting
3407 North Edison Street
Arlington, VA 22207
epages@entreworks.net

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Entrepreneurship is a hot topic among American governors today. Dozens of states have unveiled entrepreneurship initiatives, and the various local government trade associations, like the National Governors Association and the National Association of Counties, are devoting significant time and resources to support local governments who want to stimulate new business ventures. A lot of activity is occurring, but do these initiatives represent something really new or simply a “rebranding” of ongoing activities? New businesses and new business support programs have been around for years, so what makes this “new” interest in entrepreneurship really new?

This essay argues that the emerging interest in entrepreneurial development strategies is the start of something new, but does not yet reflect a coherent and comprehensive alternative model for state and local economic development policies. Many of the essential pieces are in place: interesting pilot projects are underway, new research programs and reports have been developed, and new sources of funding are emerging. These efforts have succeeded in generating significant “buzz” around the concept of entrepreneurship. Moving beyond buzz requires further institutionalization of these early advances. Regular budget programs for entrepreneurial development must be established and backed on a multi-year basis. At the same time, practitioners must generate new and improved sources of data on the entrepreneurial economy and significantly improve their tracking of program outputs and outcomes. These initiatives will help solidify progress and ensure that entrepreneurial development becomes a regular part of the economic development tool kit.

My argument proceeds in the following manner. I first address the question of “why now?” Why are states so interested in entrepreneurship today? I next review what state governments are doing to support entrepreneurship. What approaches and policies are typical, and, more importantly, what seems to be working? Finally, I address critical shortcomings. What challenges are impeding success and what steps are required to further advance the cause of entrepreneurial development.

WHY NOW?

Entrepreneurs have existed throughout history, yet American local governments have rarely sought to stimulate entrepreneurship as the primary goal of local economic development strategy. Indeed, local entrepreneurs often

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1 Entrepreneurship policy can take a variety of forms, and can include a range of policies including regulation, workforce issues, and the like. This essay is limited to a review of the
prospered in spite of local economic development programs and priorities. Yet, today, the high growth entrepreneur has become something of the Holy Grail for economic developers.

This policy shift has multiple causes\(^2\), but three sets of inter-related factors predominate. First, macroeconomic shifts created conditions that were less conducive to success for large, capital-intensive corporations, thus opening up new market niches for newer, smaller, and more nimble market entrants. Researchers soon recognized that new entrepreneurial ventures were the primary creators of new jobs and new innovations in the American economy. In fact, small firms now account for anywhere between sixty and eighty percent of net new jobs in the American economy.\(^3\)

Second, the forces of globalization and technological development helped create the so-called “new economy” with its reliance on more rapid innovation, and competition in less stable market environments. As international competition intensified, developed economies began to specialize in more knowledge-intensive and innovative activities. More traditional industries began to shift operations overseas. These shifts opened new opportunities for new businesses, and for those individuals with in-demand skills and knowledge. The old industrial conglomerate or branch manufacturer has been replaced by the nimble, service-sector-focused, entrepreneurial start-up.

Finally, demographic shifts and changing industry practices severed the implicit bargain between employer and employees. As secure lifetime employment options dwindled, more Americans began to actively consider starting a business as a viable career option. Polls of high school-aged youth in the 1990s showed that roughly two-thirds were interested in starting their own businesses.\(^4\) Perhaps a stronger reflection of youth sentiment can be found in a September 2003 poll of Junior Achievement participants which found that high school youth consider owning their own business to be a more secure occupation than working for a large company.\(^5\) Clearly, Generations X and Y have shown a strong interest in pursuing entrepreneurship as a career option.

By the mid-1990s, these trends coalesced into the mania that was the dot-com bubble. Yet, even after this bubble burst, its long-term effects remain. More economic activity is occurring in new businesses, more people have interest in becoming entrepreneurs, and more community and political leaders believe that entrepreneurship must be a part of their economic development policies and programs.

THE STATE POLICY RESPONSE

Most of these trends can be traced back to the 1970s, but it took some time for these patterns to be understood and to trigger a response from public sector leaders. At first, policy leadership came from the states of the “Rust Belt” that were hit hard by the manufacturing downturn of the 1980s. Faced with a devastating economic downturn, Ohio, Pennsylvania and Michigan all revamped their economic development programs to embrace what have subsequently been called “Third Wave” economic development strategies. Programs like Ohio’s Edison Centers and Pennsylvania’s Ben Franklin Centers were designed to help support technology-based businesses that would help trigger the revitalization of moribund communities.

These “third wave” economic development policies contained a number of innovations, but the primary contribution of this model was its focus on the strategic management of places. Instead of simply trying to recruit and attract new businesses to their communities, political leaders and economic developers were now charged with a more complex mission: enhancing the overall economic competitiveness of their communities to prosper in the global marketplace.

The targets and tools of these regional competitiveness strategies tended to shift in response to economic trends and the political mood. In the 1980s, many programs sought to revitalize manufacturing in the face of the Japanese economic challenge. The Commerce Department’s Manufacturing Extension Partnership program, with its heavy emphasis on bringing new technologies and management techniques to small and medium-sized manufacturers, is a prominent example of a major initiative that emerged from these concerns.

In the 1990s, information technology and the dot-com boom garnered attention, and many initiatives focused on nurturing IT firms or closing the digital divide. The Technology Opportunities Program, another Commerce Department

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effort, reflected this interest in IT development. It provided grants to communities developing innovative uses of IT and other telecommunications technologies.

As the dot com boom fizzled and economic trends shifted, policy makers pursued revised strategies. Public support for the life sciences has now become a hot trend, with 40 states targeting biotech as a critical industry.\(^9\) A strengthened focus on spurring entrepreneurship also emerged amidst this re-evaluation.

WHAT ARE STATES DOING?

While many state governments are embracing entrepreneurship, few are explicitly promulgating an “entrepreneurship policy.” Instead, states are pursuing a variety of measures designed to support both the creation and growth of new business ventures. Programs vary from state to state, but a few key program areas are receiving priority attention:

- Access to Capital
- Technology Development/Incubation
- Regulatory Reform
- Education
- Awards and Recognition

To date, these individual programs have normally operated in isolation. Different agencies operate different programs, and generally serve different customers or constituencies. Few states are seeking to package these multiple strategies into a single comprehensive approach.

Access to Capital

The public sector has long sought to support small businesses through provision of loans and other sources of capital. For example, the 7(a) loan program, SBA’s flagship initiative, has been operating since 1958, and now makes more than 65,000 small business loans per year. Most states also operate programs that support small firms seeking to access debt capital.

Many new finance programs move beyond this traditional focus on accessing bank loans. They are often tightly focused on capital gaps, i.e. markets where firms face an especially hard time accessing finance. In the US, these gaps are often based on location. For example, entrepreneurs located in

the inner city have often been unable to access a full range of financing opportunities.  

A far more common policy focus concerns the stage of financing. A wide variety of research indicates that seed stage financing (funds in the range of $500,000 to $2 million) is particularly difficult to access in nearly all markets in the US. As a result, many state governments target their financing programs to firms seeking funding at these levels. Several different strategies have emerged. Eighteen states now offer some form of tax incentive for investments into a business or seed capital fund, and the majority of these incentives have been established in the past five years. Other states have opted to provide funds directly to growing companies through state-run entities or through support for privately managed investment vehicles. Many of these funds have been in existence for decades. For example, the Massachusetts Technology Development Corporation (MTDC) has been operating since 1978, and has invested $62 million into 114 different companies.

While programs like MTDC have proved successful, many state-run initiatives have faced significant management challenges. Civil service rules often make it difficult to offer competitive salaries to program staff, and many state constitutions restrict public entities from taking equity stakes in private firms. These often-sensible rules greatly complicate the life of a public sector investor. The experience of Mississippi’s Magnolia Venture Capital Fund provides a cautionary tale. As a result of poor management practices and lax oversight, the fund was marred by corruption and ultimately went bankrupt after spending $4.5 million and making only one investment.

Because of the challenges of managing public equity funds, most states have opted to invest in privately managed funds where investors have a track record of successful venture investing. Programs have assumed many forms including direct investment into private partnerships or public investment into a multiple funds, known as the “fund of funds” approach. This latter model was pioneered in Oklahoma, and is now being utilized in dozens of states.

Many states have opted to further diversify capital sources by providing incentives to individual angel investors. Overall, angel investors are becoming a much more important source of finance for new and emerging businesses,

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10 Glenn Yago, Betsy Zeidman, Bill Schmidt, Creating Capital, Jobs and Wealth in Emerging Domestic Markets: Financial Technology Transfer to Low-Income Communities, Milken Institute, January 2003
13 Deborah Markley et al., Case Studies of Non-Traditional Venture Capital Institutions, Rural Policy Research Institute, 2001.
14 Heard and Siebert.
investing approximately $18 billion in 2003.\textsuperscript{15} In an effort to further stimulate this activity, states are providing tax credits to angel investors. These credits can be quite substantial. They typically range from 20-30% of the investment value, but some states (e.g. Maine, Vermont, Virginia, and West Virginia) provide a 50% credit. Hawaii has gone so far as to provide a 100% credit for investments in high technology businesses.\textsuperscript{16} Other innovative programs include a new Pennsylvania initiative that provides insurance against loss for angel investors.

\textit{Technology Development and Incubation}

Entrepreneurial development programs also contain a heavy dose of technology development with some slight variations. Compared to 1980s era initiatives like Ohio’s Edison Centers, new programs place a stronger emphasis on supporting start-ups as opposed to established companies. An additional shift in emphasis can be found in a new focus on building from within as opposed to recruiting companies from outside the state. While recruiting technology businesses still remains important to the nation’s governors, this emphasis on supporting home-grown companies does represent an important shift in emphasis.

Recent program announcements in Georgia and Kansas highlight this trend. Georgia was an early pioneer in the recruitment of technology companies and talent. For example, the Georgia Research Alliance was one of the first statewide initiatives to recruit world-class university researchers. In early 2004, Governor Sonny Perdue announced the creation of a new Entrepreneur and Small Business Network to ensure that state development programs provided necessary services to local companies. Kansas’ economic development policies have undergone a similar shift. In 2004, the state legislature recently passed the Kansas Economic Growth Act that calls for more than $500 million in new programs to support entrepreneurs across the state. The Act includes funds for the creation of a new Kansas Center for Entrepreneurship, a Community Entrepreneurship Fund, and several other related initiatives.

The state of Kentucky has proceeded to the point where it created its own Office of the Commissioner for the New Economy.\textsuperscript{17} This office’s primary mission was to develop the state’s strategic plan for technology development and to support local business start-ups.

Many of these technology-focused programs seek to tap into local colleges and universities as a source for technology-based entrepreneurial

\textsuperscript{15} Data from the Center for Venture Research at the University of New Hampshire. www.unh.edu/cvr


\textsuperscript{17} Now known as the Kentucky Department for Innovation and Commercialization for a Knowledge-Based Economy. To learn more, visit www.one-ky.com
activity. Two types of activities are most common: expediting the transfer of technology developed by university researchers, and encouraging the creation of “spin out” companies led by such researchers.\(^{18}\) In many cases, universities themselves lead these activities. For example, the University of Virginia has created Spinner Technologies, an independent entity with the mission of creating companies around patents held by the UVA Patent Foundation. In other cases, state technology initiatives are led by quasi-public or non-profit entities. Examples include the Kansas Technology Enterprise Corporation, the Oklahoma Technology Commercialization Center, and Pennsylvania’s Ben Franklin Technology Partnership.

**Regulatory Reform**

Entrepreneurs regularly complain about the burden of state rules and regulations, and US governors have clearly heard this message. Dozens of states have completed or are presently engaged in major regulatory streamlining initiatives. Typical initiatives include the following:

- Appointment of a Small Business Ombudsman or Advocate (Georgia, California, Louisiana)
- Requiring a “Small Business Impact Statement” prior to the adoption of new rules and regulations (Michigan, New Jersey, North Dakota, Washington)
- Creation of “one-stop centers” for business licensing and registration (Michigan, Wisconsin, Rhode Island)

Regulatory reform has been quite popular, and it is likely to remain so. Many governors are now adopting a version of model regulatory reform legislation developed by the SBA’s Office of Advocacy in 2002.\(^{19}\) This effort has proved quite popular. Eight states have adopted some version of the model rules, and others are in the process of doing so.

**Education**

The field of entrepreneurship education has been growing rapidly since the 1980s. While such education offerings have become available at all education levels, most of the growth has been concentrated in university business schools. Few schools taught entrepreneurship in the 1970s; today, more than 1600 colleges and universities offer such courses.\(^{20}\)

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\(^{19}\) These model regulations are available at [www.sba.gov/advo](http://www.sba.gov/advo).

Most of this growth has occurred without explicit state intervention or support, and governors still appear unwilling to make major investments in support of entrepreneurship education. In most cases, state government rhetoric has not been backed with financial commitments. Yet, a few states are seeking to expand entrepreneurship education opportunities, especially outside of the traditional four-year colleges and universities. For example, Nevada has opted to include entrepreneurship skills in its statewide high school competency standards. Michigan has recently created the Michigan Entrepreneurship Education Network (MEEN), whose goal is to expand networking among educators and improve access to new curricula and teaching tools.

**Recognition Programs**

A final set of state supported activities falls into the category of recognition. Projects such as Entrepreneur of the Year Awards and business plan competitions are designed to increase awareness of entrepreneurship and to help create an “entrepreneurial culture.” Many states have pursued this option thanks to the low cost and high visibility often associated with such efforts.

Awards programs have a long history and nearly every state has some sort of program honoring small business, technology, or entrepreneurial leaders. These efforts supplement other national awards efforts such as Ernst and Young’s Entrepreneur of the Year Award and the SBA’s annual awards for small business owners.

In addition to these awards programs, many governors have sought to raise the profile of entrepreneurship by employing the “bully pulpit” to encourage the creation and growth of new ventures. The states of Georgia and Louisiana have been especially supportive on this front. In both cases, the Governors have created special board or commissions that provide recognition to entrepreneurs as well as an opportunity to provide input and advice on state policy issues.

WHERE DO WE STAND TODAY? ASSETS AND GAPS IN THE FIELD

As this brief summary indicates, entrepreneurial development is a new and exciting field for state policy makers. Like most new endeavors, it is characterized by lots of experimentation, lots of false starts, and lots of interesting new ideas. This experimentation is generating interesting new policy initiatives. Yet, if one reviews the broad categories of policy interventions, a mixed pattern emerges. Great strides have been achieved in some areas, while other initiatives remain quite undeveloped.

Regulatory reforms have likely been the most frequently used policy intervention in the entrepreneurial development field, and this result should not be surprising. In this case, both the target of policy intervention (state regulation) and the potential solutions (e.g. eliminating red tape) are under the
direct supervision of state policy makers. Moreover, an extensive literature and body of best practice is in place, creating something of a template for action. As a result, regulatory reform has become something of a “no brainer” for policy makers seeking to support local entrepreneurs.

Innovations in the field of finance have also been promising. While entrepreneurs will likely always bemoan a shortage of available capital, a host of innovative financing programs have been developed in the 1990s. These include initiatives at both the federal level (e.g. Community Development Financial Institutions Fund) and the state level. Moreover, state policy makers have developed a much more sophisticated understanding of the financing needs of entrepreneurs, and have also built a host of new approaches to working with private partners. The boom in new tax incentive programs for equity investors in the past five years reflects this new approach.

Education and training represent the primary gap in existing programs and initiatives. Entrepreneurs face two human capital challenges. First, like all business owners, they must attract and retain talented workers. When asked to identify primary challenges to their business, high growth entrepreneurs regularly cite access to talent as their number one concern. They also report that America’s schools are not providing the skilled and prepared workforce that is needed for fast growing businesses.

A second set of concerns deals with the skills and training needed to become an entrepreneur. While states often express support for entrepreneurship education and training, they are devoting few resources to this purpose. These shortfalls occur for both youth and adults seeking to develop entrepreneurial skills.

At the youth level, emerging research indicates that young people who receive entrepreneurship training are not only more likely to start a business. They also develop higher levels of self-esteem and more ambitious career aspirations. Yet, very few states have included entrepreneurship in curriculum standards or other public initiatives. Most youth entrepreneurship programs are instead operated by non-profit entities like the National Foundation for Teaching Entrepreneurship (NFTE) or REAL Enterprises.

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22 For example, an ongoing study of students enrolled in National Foundation for Teaching Entrepreneurship (NFTE) programs found that program participants had higher career ambitions and more interest in attending college after participating in NFTE initiatives. To view current research results, visit http://www.nfte.com/about/research/harvardresults.asp
At the post secondary level, the primary shortcomings occur among community and technical colleges. While four-year institutions have embraced entrepreneurship, community colleges have lagged. At present, only 9% of the more than 1,100 US community colleges offer courses in entrepreneurship.\(^{23}\) Entrepreneurship training resources must be expanded at this critical point in America’s post-secondary education system.

Finally, the workforce development system has not been tapped to support these activities. Even though the Workforce Investment Act does permit Workforce Investment Boards to support some small business development programs, few local boards have pursued this option.\(^{24}\) This inaction has several causes. Many workforce boards have limited experience in supporting economic development activities and are thus uncertain about how to pursue these strategies. In addition, the workforce development system is geared toward working with large firms and lacks a tradition or knowledge base about working with new entrepreneurial ventures.

These gaps in the education system are not simply a challenge for educators alone. Recent research indicates that successful local entrepreneurship strategies depend on a pipeline of new and aspiring entrepreneurs.\(^ {25}\) This pipeline can be built in part via the education system, as young people are exposed to entrepreneurship at an early age and proceed to starting their own ventures in later years.

While these shortcomings can be frustrating, the good news is that both public and business leaders are beginning to take action on all of these fronts. Indeed, several promising initiatives are now underway. In June 2004, the Consortium for Entrepreneurship Education released a new set of national standards for entrepreneurship education\(^ {26}\) that will help create a clear set of guidelines for educators. In addition, Congress is now considering revisions to the Perkins Vocational and Technical Education Act that will explicitly identify entrepreneurship education as a priority for vocational education. At the community college level, a new organization—the National Association for Community College Entrepreneurship—has been created with a primary mission of expanding the number of community colleges offering entrepreneurship training and business support services. Finally, a number of interesting pilot projects linking workforce development and small business development are proceeding. For example, the US Department of Labor and the SBA are now

\(^{23}\) Data from the National Association of Community College Entrepreneurship (NACCE).


\(^{26}\) Available at [http://www.entre-ed.org/Standards_Toolkit/](http://www.entre-ed.org/Standards_Toolkit/)
engaged in a partnership called Project GATE. This five-year demonstration links SBA’s microloan programs with the Labor Department’s individual training accounts. Under the program, unemployed workers will be permitted to utilize training funds to receive microenterprise training and to tap into SBA’s various microloan programs.

MOVING FORWARD: INSTITUTIONALIZING THE FIELD

While entrepreneurial development is generating a lot of public interest and numerous policy interventions, the field still remains in a state of adolescence. A whole host of programs and initiatives have been created, and the beginnings of "movement" around entrepreneurship can be discerned. Entrepreneurial assistance programs initiated in the 1990s are increasingly becoming a key part of the economic development landscape. Yet, at the same time, it is clear that existing programs could benefit from further institutionalization, formalization, and expansion. If these early projects are to succeed, policy makers must consider the following actions:

- Creating a more stable and predictable budget environment for entrepreneurship initiatives,
- Improving data collection about both the entrepreneurial economy and program performance,
- Enhancing outreach to disadvantaged groups such as minorities and new immigrants.

Creating a More Stable Budget Environment

Entrepreneurial development programs generally have a tenuous status in state budgets. Because these programs are new and because they potentially involve many government agencies (e.g. Departments of Education and Economic Development), they rarely are funded through a line item in the state budget. Most programs appear to be developed through a one-time funding infusion or through funding shifted out of existing programs.\(^{27}\) While these funding sources will suffice for new efforts or demonstration projects, they do not help build a solid foundation for a program’s long-term viability. If programs are going to avoid a boom-and-bust cycle, they must attract funding from a wider and more stable range of sources.

\(^{27}\) In a survey of three states, Pages and Poole found that, when compared to other economic development programs, entrepreneurship initiatives had less diverse sources of funding and were more dependent on funds from state governments. See Erik R. Pages and Kenneth Poole, “Understanding Entrepreneurship as an Economic Development Strategy: A Three State Survey,” Report prepared for ACCRA and the National Commission on Entrepreneurship, December 2002.
**Improving Data Collection and Performance Measurement**

At present, the quality of public data on the “state of small business” is inadequate.\(^{28}\) Program managers need access to better and more timely data on the state of entrepreneurship in their regions. Current federal and state data collection efforts fall far short of the mark---their statistics often arrive too late and do not measure key aspects of entrepreneurial innovation. A new nationwide effort to improve federal data collection is needed.

Yet, improving data collection is a two-way street. Program managers need better data on the entrepreneurial economy, but they also need to improve their own efforts to track program outcomes. At present, economic development programs do a relatively poor job of performance measurement. In particular, new measures that supplement traditional tracking of job creation are needed. These more sophisticated measurement tools can provide policy makers with a more complete picture of how entrepreneurial development strategies support community vitality and prosperity.

**Enhancing Outreach to Disadvantaged Groups**

Recent surveys indicate that entrepreneurial activity among women and minorities is growing at faster rate than it is among white males.\(^{29}\) This shift in the demographics of American entrepreneurs will likely transform the business landscape in the coming decades. However, as the ranks of minority and women entrepreneurs grow, their businesses face obstacles in accessing venture capital and other higher end types of support services such as mentoring and peer networks. Initiatives to assist these entrepreneurs as they move to the high growth phase can have a significant impact on their prospects for success. For example, Springboard Enterprises, a non-profit program supporting women entrepreneurs, has enjoyed great success in helping women business owners access venture capital funding.

**CONCLUDING THOUGHTS**

None of these characterizations should come as a major surprise. Nor should they be viewed as significant criticisms. The field of entrepreneurial development is a new one, and in many cases, policy makers are learning as they work with this potential new client base and trying to respond to new needs as they emerge. Economic developers are "learning by doing" in an effort to capture a new market niche. In other words, they are acting much as entrepreneurs do.

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\(^{28}\) For more discussion, see *Entrepreneurship in the 21st Century*, p. 11.

“Entrepreneurial” program managers must follow the entrepreneur’s path as their programs mature. As their companies grow, entrepreneurs must hire professional managers and introduce more structured organizational processes. They find that it is no longer possible for the company founder(s) to manage and execute all parts of the business. Likewise, entrepreneurial development programs must follow a similar path. Economic developers must understand the new sets of talents required for their field. This does not mean that economic developers must simply replace red tape and bureaucracy with flexibility and innovation. It means that entrepreneurship development programs must continue to experiment with approaches aimed at better meeting customer needs while monitoring and measuring how well these experiments work.

These initiatives will have a double impact. They will help existing programs function more efficiently and effectively. At the same time, they aid other states and other regions that hope to establish entrepreneurship initiatives of their own. These developments are sure to have a profound effect on the most important bottom line---increasing the rate of innovative activity in all regions of the U.S. and ensuring that these new ventures can survive and thrive.