

Building Regional Economies Through Entrepreneurship

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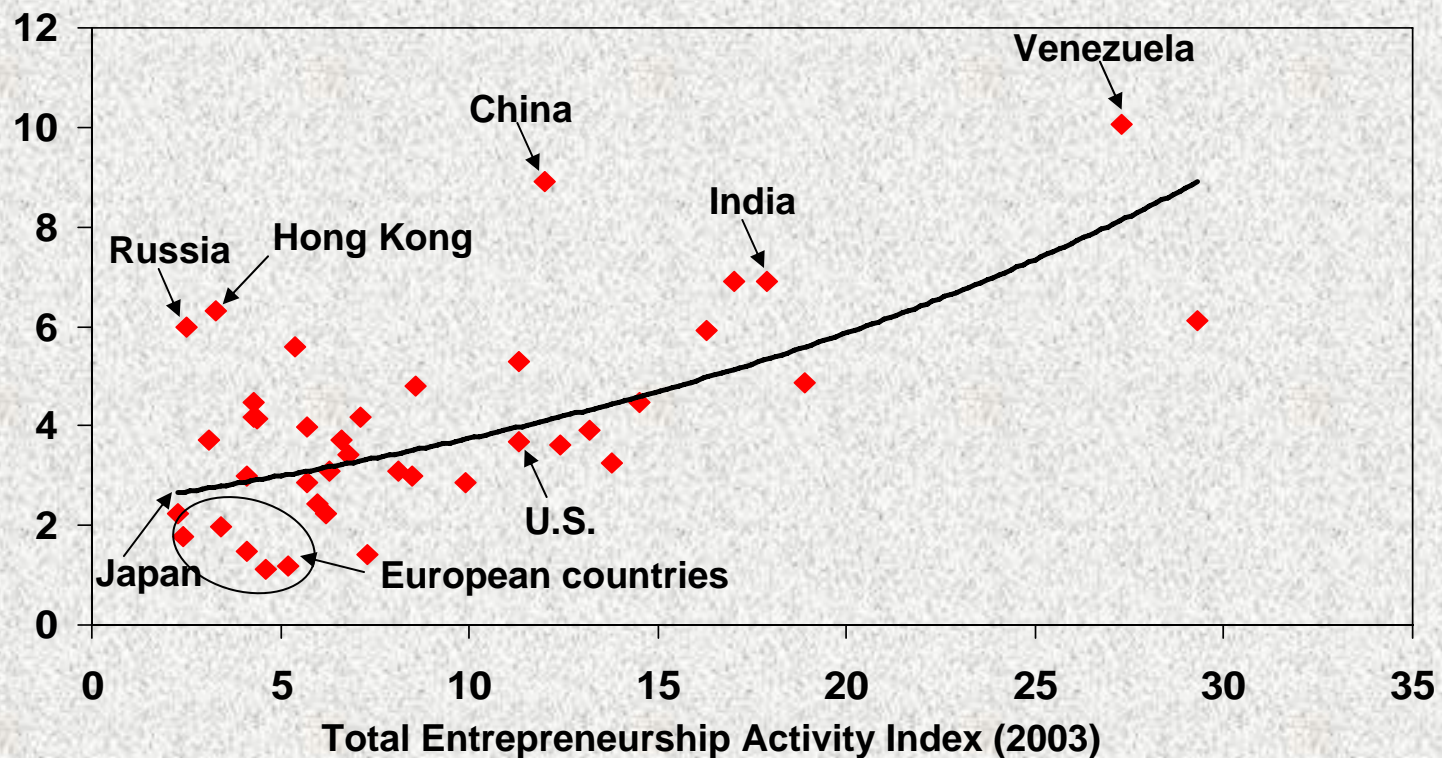
- **Why does entrepreneurship matter?**
- **What kinds of entrepreneurs matter?**
- **What are the challenges in developing entrepreneurs?**



The relationship between entrepreneurship and economic growth occurs at the national level,

National Entrepreneurship Index and GDP Growth

Average GDP Growth (2004 to 2006)



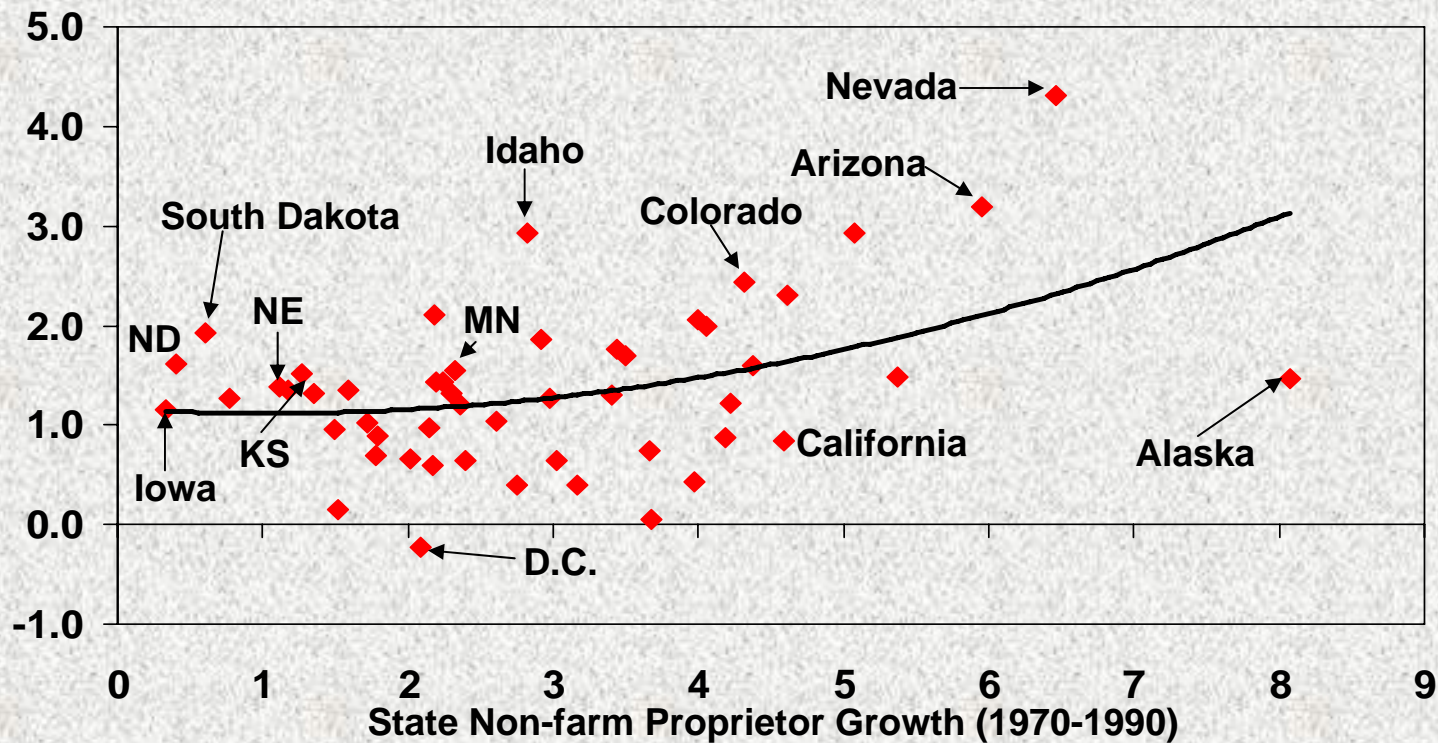
Source: Global Entrepreneurship Monitor, 2003 and International Monetary Fund



...at the state level,

State Entrepreneurial Growth and Employment Growth

Employment Growth (Wage and Salary: 1990-2004)



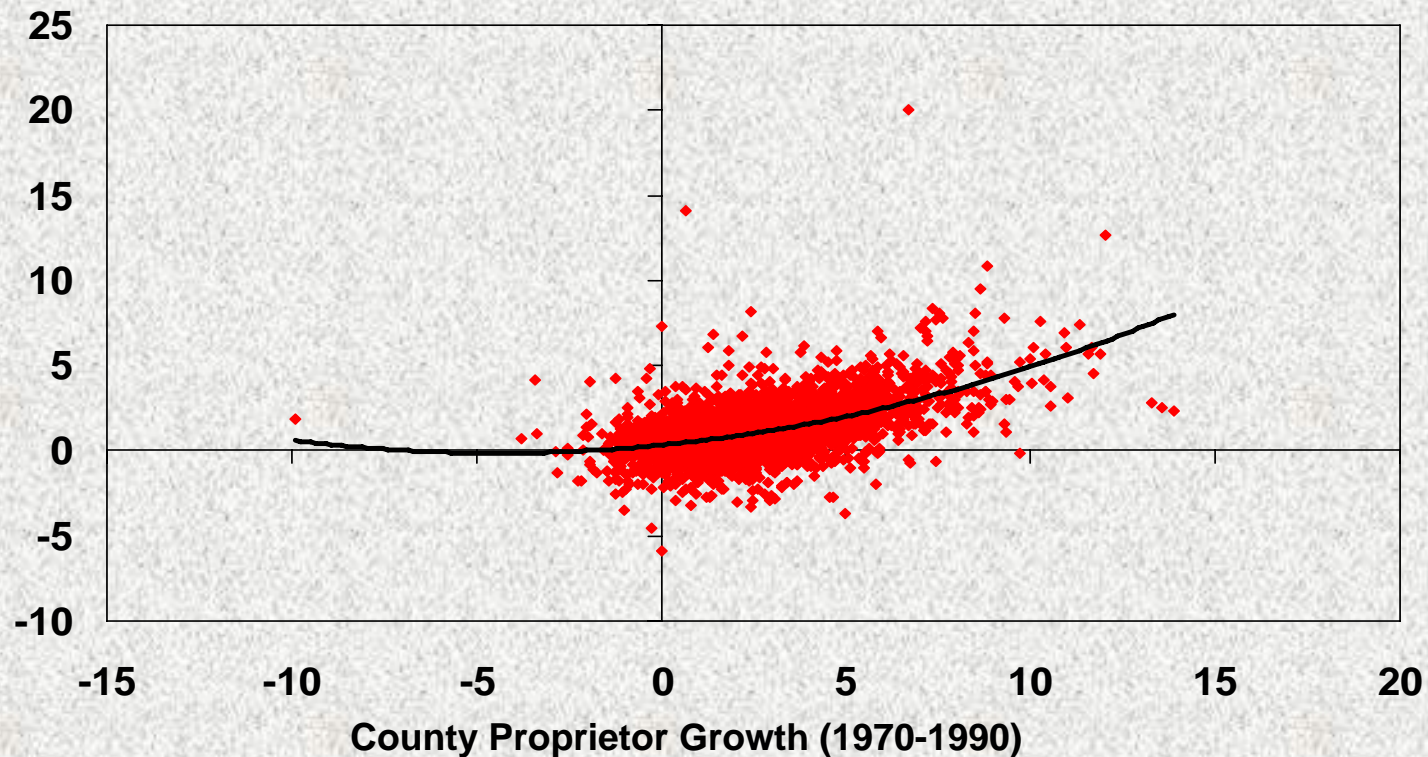
Calculations based on BEA, Regional Economic Information System data



...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



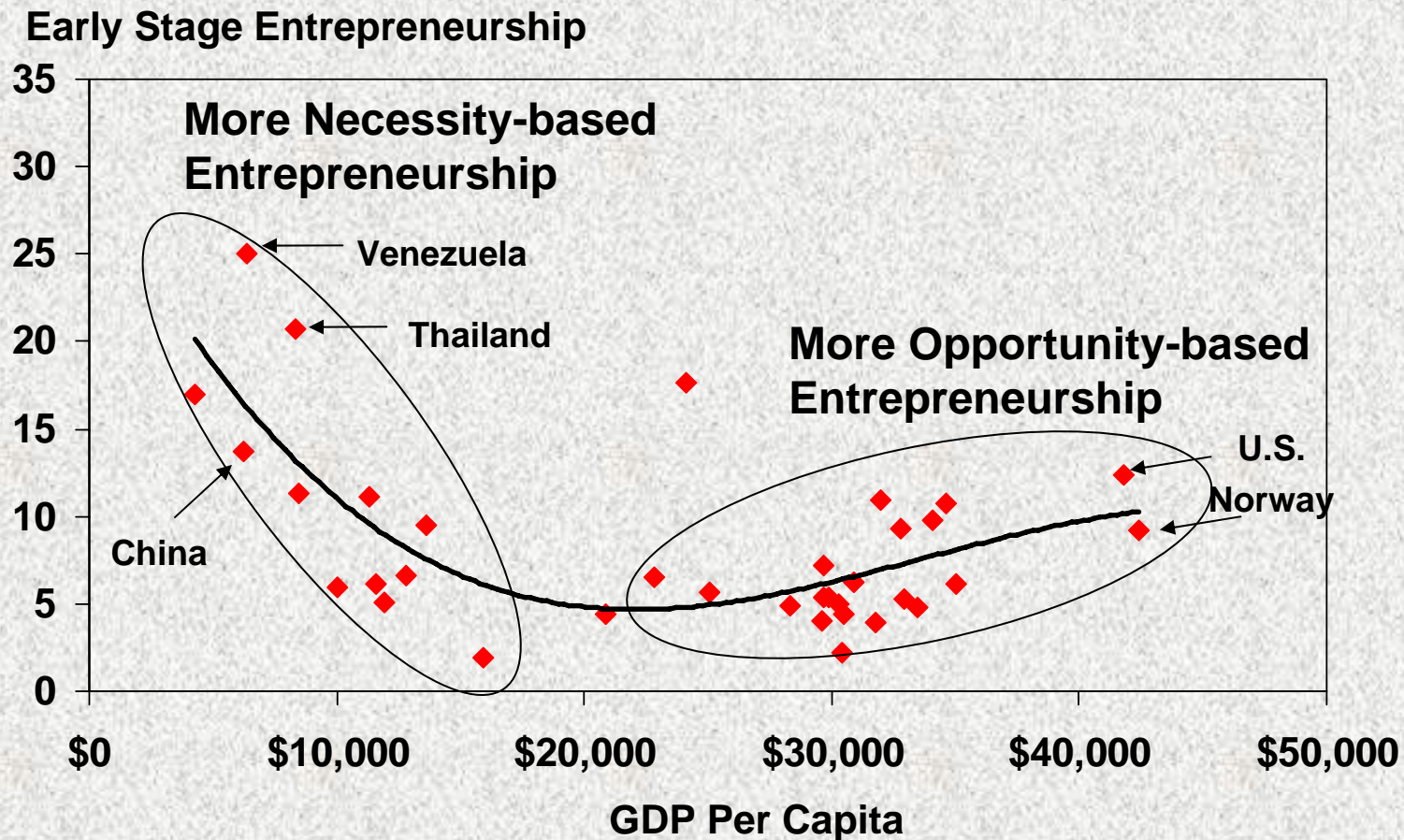
What kinds of entrepreneurs matter?

- 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



Source: Global Entrepreneurship Monitor



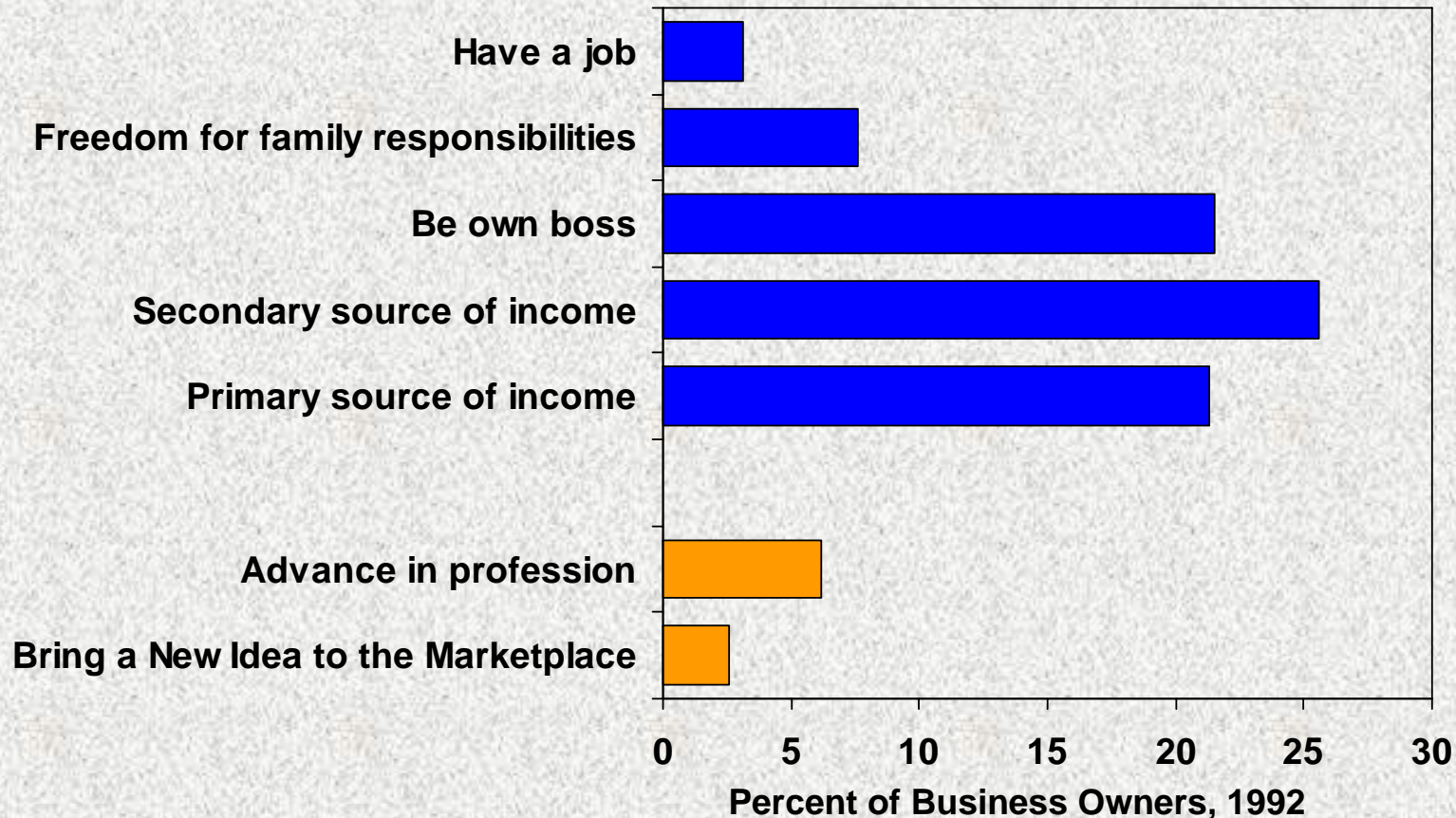
What kinds of entrepreneurs matter?

- 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



Source: Census Bureau



The Challenges for Iowa

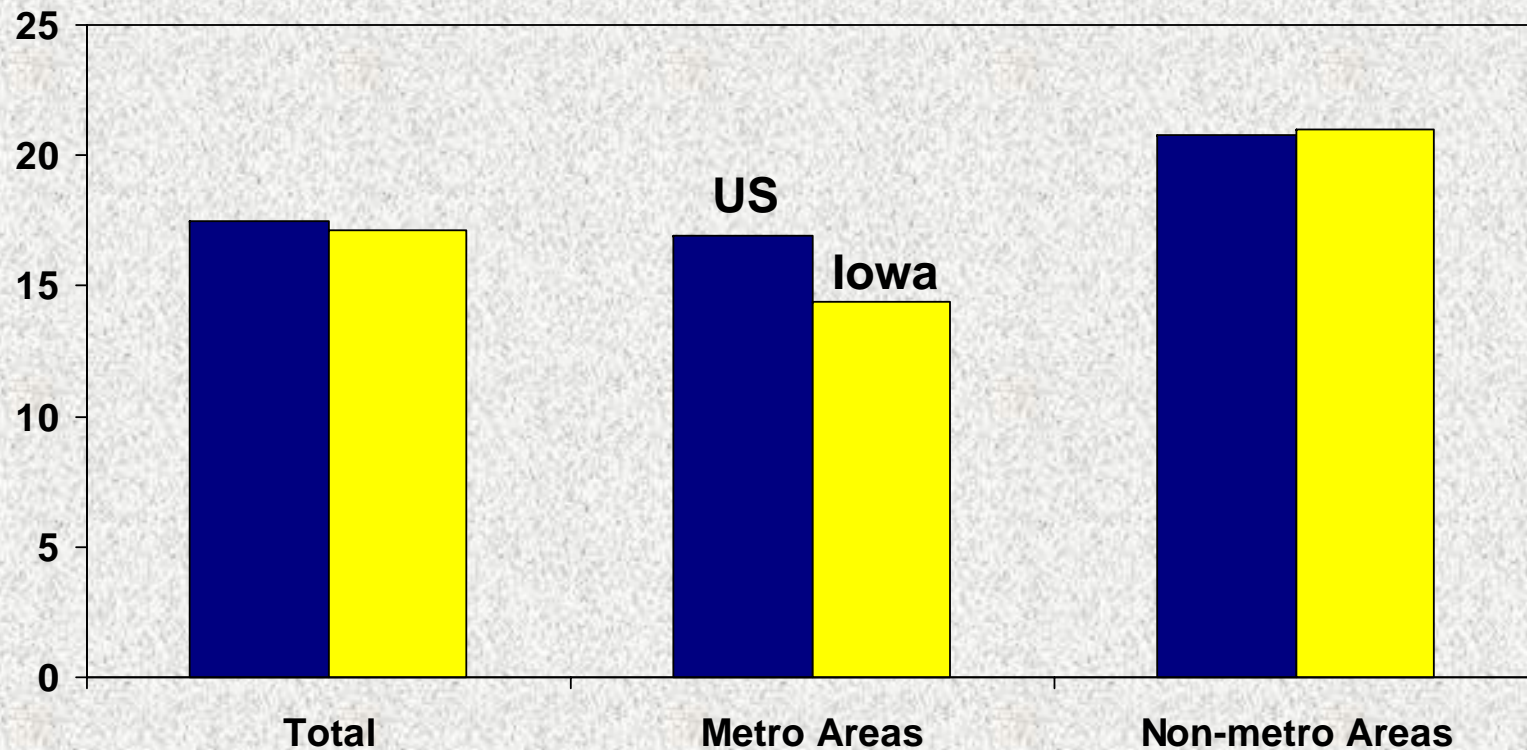
- Metro Iowa lags in entrepreneurial development.



Metro Iowa has fewer Entrepreneurs.

U.S. and Iowa's Non-farm Proprietors

Share of Employment (2004)



Calculations based on REIS, BEA data



The Challenges for Iowa

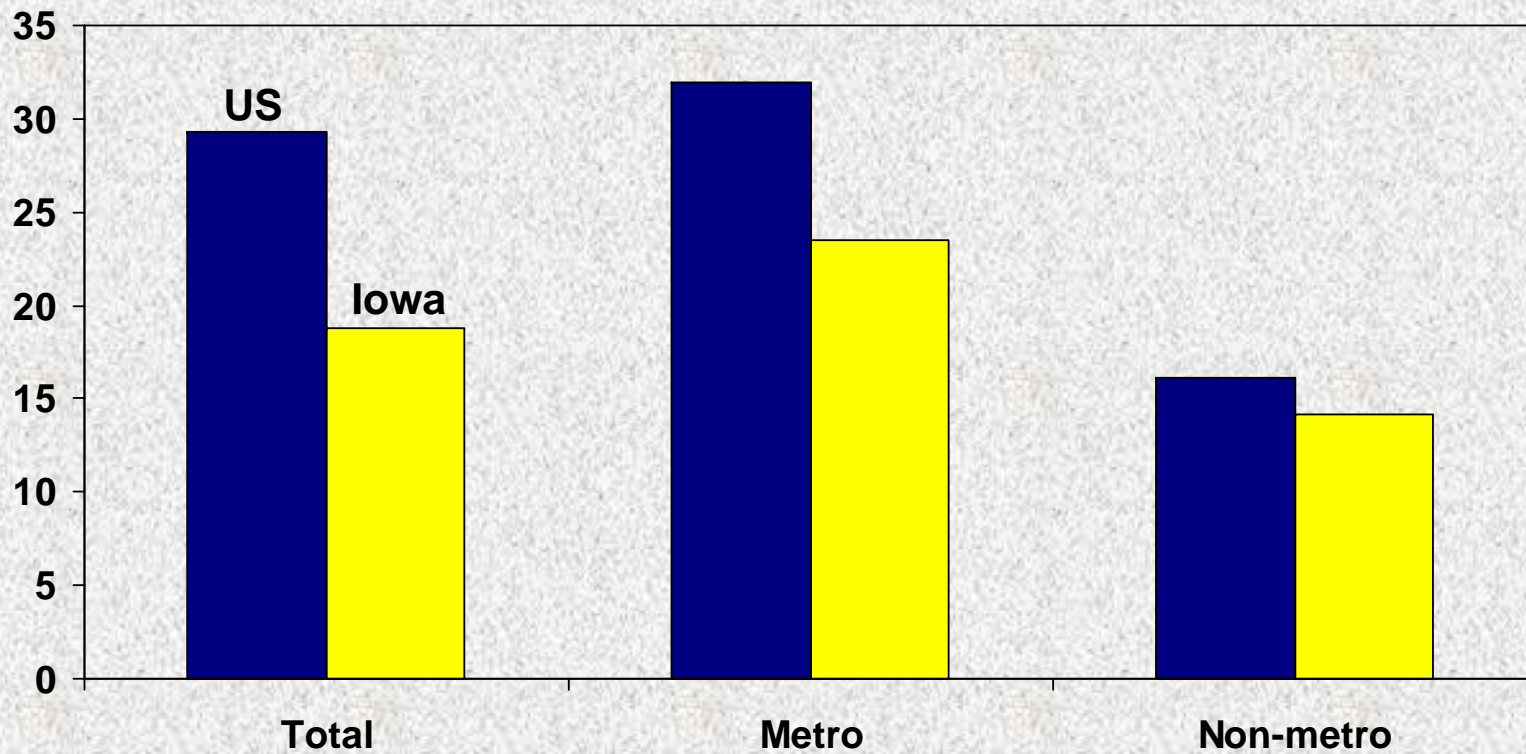
- Metro Iowa lags in entrepreneurial development.
- Iowa's entrepreneurs have a hard time producing high-growth.



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

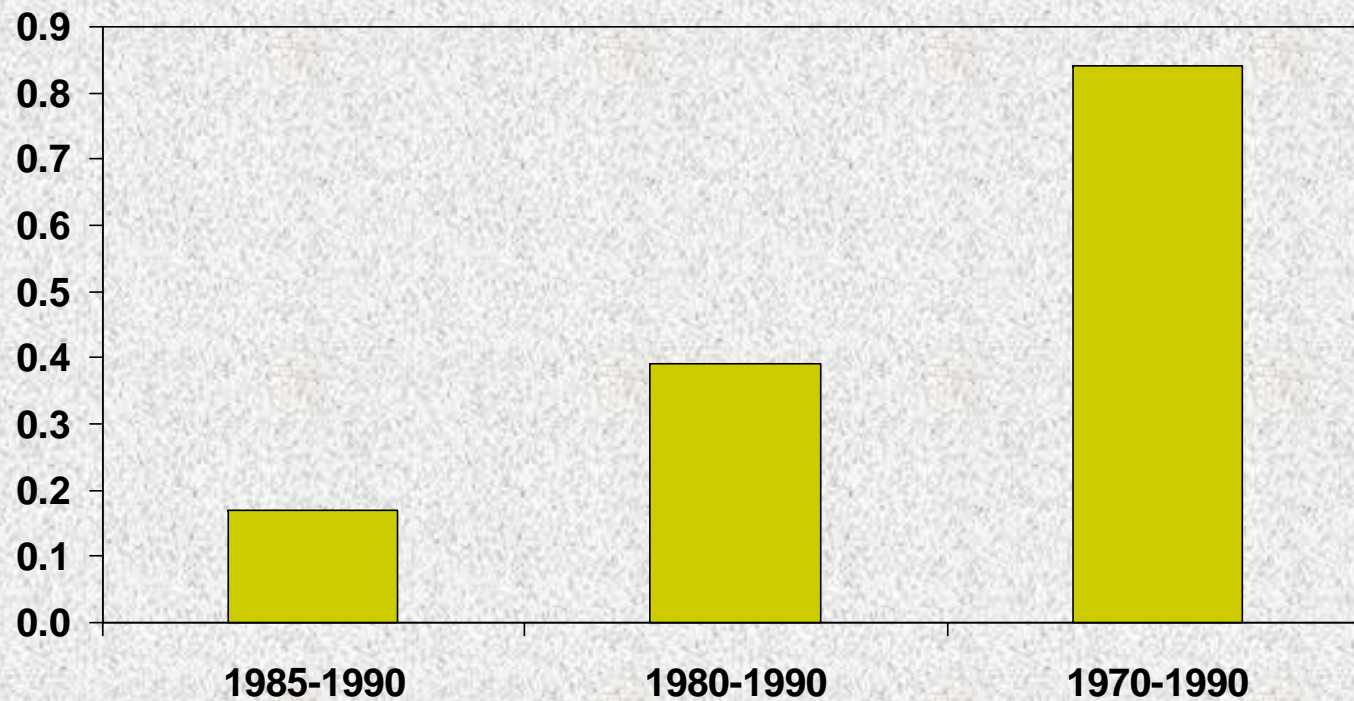
- **Benefits are long-run not short-run.**



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

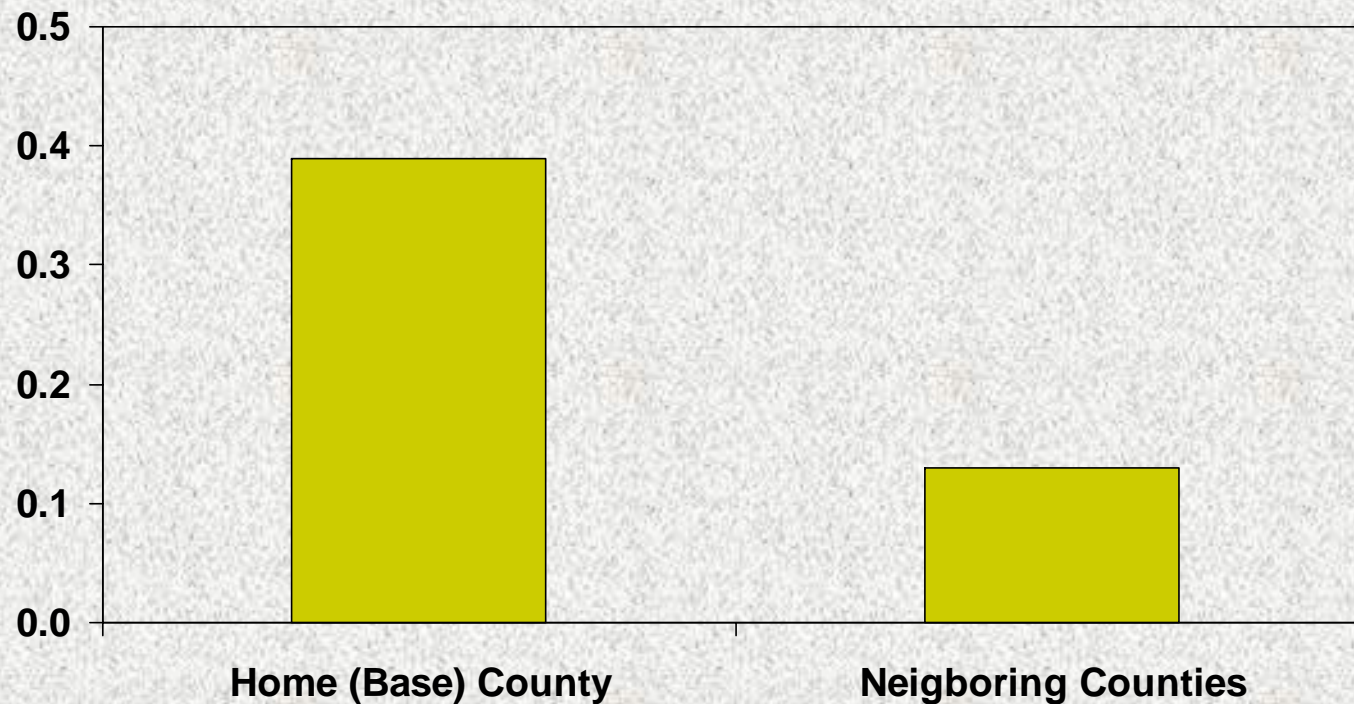
- Benefits are long-run not short-run.
- Benefits flow to neighbors that are often viewed as competitors.



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)



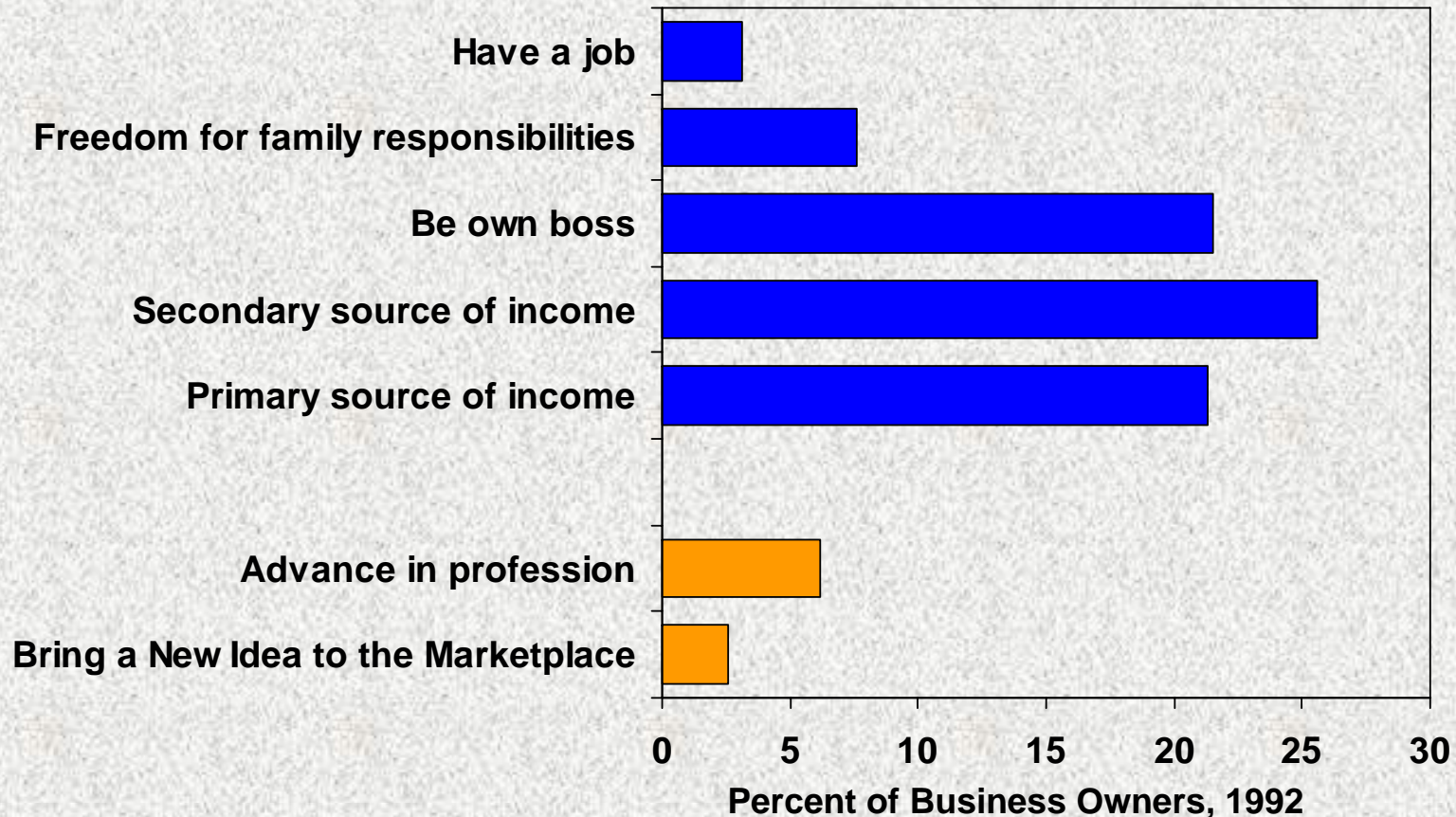
Challenges to Growing High-Growth Entrepreneurs

- **Benefits are long-run not short-run.**
- **Benefits flow to neighbors that are often viewed as competitors.**
- **Most entrepreneurs are lifestyle entrepreneurs.**



Most U.S. entrepreneurs are necessity or lifestyle ones.

Reasons for Becoming a Business Owner



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

	<i>Technical</i>	<i>Managerial</i>	<i>Entrepre.</i>	<i>Personal Maturity</i>
Major League:	Outstand./ Exceptional	Outstanding	Outstanding	Outstanding
AAA:	High	High	High	High
AA:	High	Medium	Medium	Medium
A:	High/ Medium	Low	Low	Low
Rookie League	Low/No	Low/No	Low/No	Low/No

Source: Thomas S. Lyons, "[*Policies for Creating an Entrepreneurial Region*](#)", *Main Streets of Tomorrow: Growing and Financing Rural Entrepreneurs*, 2003.

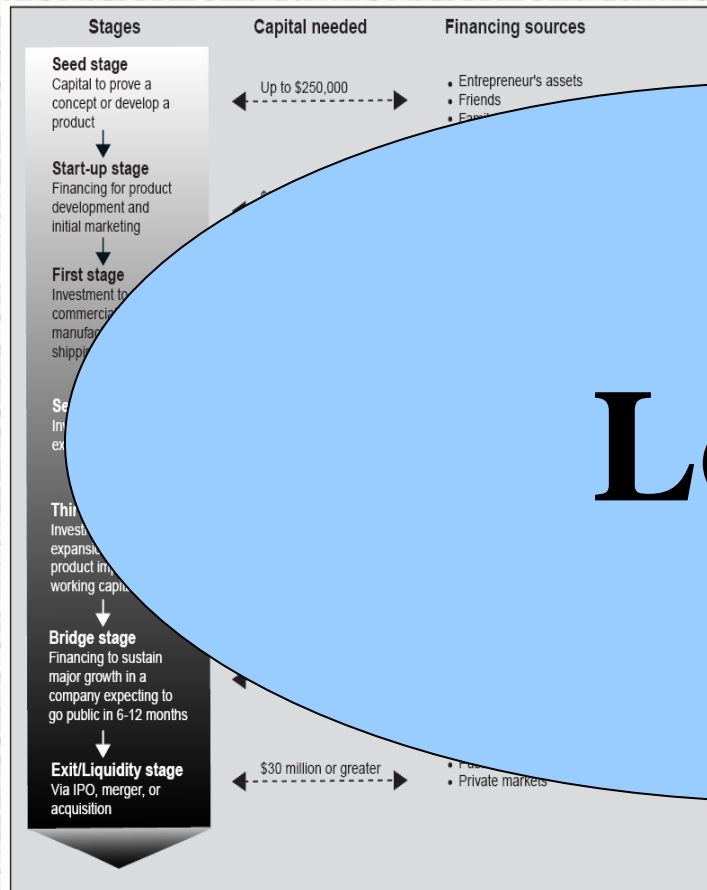


Challenges to Growing High-Growth Entrepreneurs

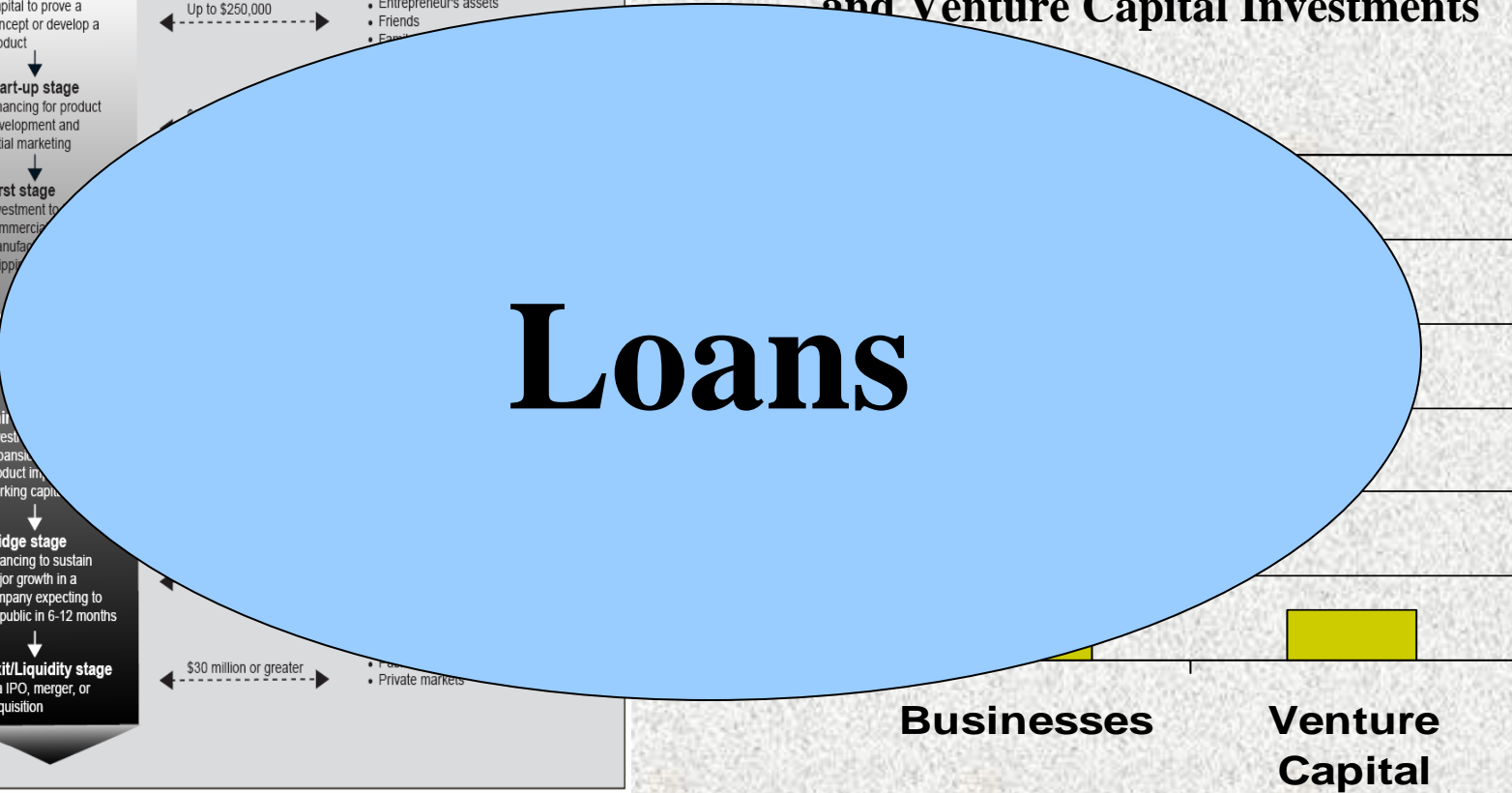
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- **Most entrepreneurs are lifestyle entrepreneurs.**
- **Developing entrepreneurial skills to boost deal flow and the odds of success.**
- **Entrepreneurs need a full range of debt and equity capital.**



A Full Range of Equity and Debt Capital



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



Note: This illustration shows stages of growth and financing sources relevant to many, but not all, small businesses.
 Source: GAO analysis of SBA, NVCA, and California Bureau of Research data and available articles.

Calculations based on Census Bureau data 2003 and PricewaterhouseCoopers/Thomson Venture Economics/National Venture Capital Association MoneyTree™ Survey 1991 to 2005



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?

