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ENTREPRENEUR-LED ECONOMIC DEVELOPMENT: A New Strategy for Generating Local Growth and Productivity

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Executive Summary

The best way for local governments to foster economic development is to support entrepreneurship. Policymakers should focus on the small group of growth-oriented companies—often, but not always, in the technology sector—that can successfully expand. This report outlines a comprehensive approach, which we call "entrepreneur-led economic development," for working with these important companies. The goal is to create feedback loops between entrepreneurial leaders and other local decision makers and to cultivate networks that connect successful entrepreneurial leaders with future growth-oriented founders who can use their guidance to grow.

Entrepreneur-led economic development is a four-step process:

1. Identify the successful entrepreneurial businesses in the region.
2. Build networks around successful local entrepreneurs.
3. Partner with entrepreneurial leaders to address the most important needs of growing local businesses and their entrepreneurs.
4. Collect data on growing entrepreneurial businesses to track results and share findings with the community.

Each of these steps requires the involvement of decision makers in three distinct areas: policymakers, funders, and service providers. Collaboration among stakeholders is mutually enhancing, because no single type of organization can implement the policy on its own. Importantly, this work does not end after these four steps are completed. Entrepreneur-led economic development is an ongoing process.

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Four Key Steps and Three Key Players

Economic development is stuck in the past. State and local governments spend more than $45 billion each year on a dated system of subsidies designed for the industrial era of the 1950s and 1960s.[1] These subsidy programs provide payments to large corporations that are currently located elsewhere, in the hope that they will relocate or open new local facilities. The payments they offer now represent nearly three-quarters of the $61 billion in local and state economic development spending each year. Unfortunately, these payments rarely generate significant economic growth.[2]

A better way to foster economic development is to support entrepreneurship. In particular, policymakers should focus on the small group of growth-oriented companies that can successfully expand. Though many of these businesses are technology-driven, they can be found in every industry and sector.[3] As they grow, they create large numbers of new jobs, increase local productivity, and generate additional benefits through what economists refer to as "spillover" and "multiplier" effects.[4]

Supporting the entrepreneurs who build these local businesses can provide tremendous value to cities and states across the country, and it is also extremely cost-effective. The programs and initiatives that benefit these entrepreneurs and their companies require only a small fraction of local economic development spending.

This report outlines a comprehensive approach, which we call "entrepreneur-led economic development," for working with these important companies. The goal is to create feedback loops between entrepreneurial leaders and other local decision makers and to cultivate networks that connect successful entrepreneurial leaders with future growth-oriented founders who can use their guidance to grow.[5]

State and local leaders should take four steps to achieve these goals. First, identify the successful entrepreneurial businesses in the region, the local strengths they represent, and the key leaders behind their growth. Second, build networks around successful local entrepreneurs to connect them with founders of local businesses with significant growth potential. Third, partner with entrepreneurial leaders to address the most important needs of growing local businesses and their entrepreneurs. Fourth, collect data on growing entrepreneurial businesses to track results and share findings with the community.

For each of these steps, we will discuss the implications that this strategy has for local decision makers in three key areas:

Policymakers. These include elected representatives and economic development staff, as well as people with significant influence on policy, such as executives at chambers of commerce, business associations, and other civic groups.

Funders. These can include local philanthropists, community foundations, state and local governments, economic development agencies, corporations, and other private sources of capital, such as angel and venture-capital investors.[6]

Service Providers. These actors provide direct support to high-growth entrepreneurs. They include operators of accelerators, incubators, venture studios, and startup-oriented office spaces.

Step 1: Identify the successful entrepreneurial businesses in the region, the local strengths they represent, and the key leaders behind their growth.

The first benefit that successful entrepreneurs provide their communities is simply offering an example of what types of entrepreneurship have already worked. But even prosperous businesses can fly under the radar, thus depriving leaders of the chance to learn from their example.

Research in Knoxville, Tennessee, illustrates this point.[7] The city boasts several dozen successful technology companies, but when regional stakeholders were asked to name as many as they could, the typical interviewee could name only two or three.[8] A similar awareness gap has been documented in other U.S. regions.[9]

The first step, therefore, is to make a concerted effort to identify all the entrepreneurial businesses in the region that have demonstrated significant growth or that are gaining the type of early traction that typically precedes high growth. To ensure that the identification process is robust, it is important to incorporate data from across the entire community and not focus solely on the most well-known founders who are frequently featured in local events and in the media.

Policymakers

Governments already collect detailed information on the revenue and employment of companies operating in their jurisdiction for tax purposes. While the data of individual companies are confidential, analysis of trends across businesses can generate anonymized findings that offer useful insights on the types of local companies that are growing the fastest. Missouri, for example, uses data from the Quarterly Census of Employment and Wages to analyze young and growing businesses by industry and technology segment.[10] Membership rolls from the chambers of commerce and other organizations may also include key information on companies and individuals.

Funders

Local foundations and other organizations that finance entrepreneurship programming often have access to private databases with various measures of business growth. Though not always as accurate as public information, these data can offer specific details on individual companies. They can also be aggregated and compared with other regions to help contextualize local findings in ways that data restricted to single geographic areas cannot.[11]

Service Providers

The business accelerators, incubators, and other organizations that directly support local entrepreneurs have access to program and participant data on the companies they serve. These data are even more current than government records and more accurate than national business and venture-capital databases, though they cover a smaller sample of local companies. Although much of this information will remain confidential, publishing the company names, operating status, and program dates is additive, as is publishing lists of relevant program leaders, mentors, and other network members. Y Combinator and Techstars, two leading accelerator programs, publish this information on their websites.[12]

Combining these sources of information will help illuminate the factors related to entrepreneurial strengths in a community. These strengths can include specific industries, types of customers, enabling technologies, and even participation in a local organization. Understanding these types of strengths can empower decision makers to focus on areas where local entrepreneurs are already leading and to demonstrate that success is possible.

Step 2: Build networks around successful local entrepreneurs to connect them with founders of local businesses with significant growth potential.

One of the most important things that successful entrepreneurs can do for their community is to help those who want to follow in their footsteps. They can do so in several ways:

- Acting as mentors and providing advice;
- Helping connect founders with potential customers, partners, employees, and investors;
- Providing capital as early-stage investors;
- Leading local support programs by serving as board members, executives, and volunteers; and
- Partnering with other entrepreneurs to start new businesses and helping to train their cofounders and employees in the process.

Entrepreneurial success depends on local networks.[13] Top-performing entrepreneurship communities, such as Silicon Valley and Boston, benefit from the density of local relationships as well as the high levels of participation from the most talented people.[14] Research indicates that entrepreneurial businesses with stronger ties to these networks perform better.[15]

Cultivating networks between successful entrepreneurs and future founders is thus critical. However, policymakers too often focus only on generating larger quantities of resources—such as capital, office space, or programs—without regard to connections between those who will use these resources.

Many service providers, such as accelerator programs, are built around mentor and investor networks, which constitute a significant portion of their value proposition (beyond investment capital).[16] These programs can be very effective, but the community suffers when their networks are closed or competitive with one another.

Consider Buffalo, New York,[17] where about 20 local programs work to support entrepreneurs. Though many of these initiatives target similar industries and even share the same funding sources, the networks of these programs rarely overlap—after a founder develops a relationship with one, he is unlikely to form relationships with another local program or organization. The lack of cross-pollination across these networks means that local founders have fewer opportunities to access resources, share information, and support one another.[18]

The successful creation of a strong entrepreneurial network is not a task for any one institution; it requires the contributions of leaders from all areas.

Policymakers

Public officials can use their offices to recognize leaders at growing companies who are active in supporting other business founders in the community. They can invite business leaders to participate in local support programs designed to help growing companies. Greg Fischer, mayor of Louisville, Kentucky—and a successful entrepreneur before entering politics—has helped strengthen the networks in the city by connecting entrepreneurs to local support organizations.[19]

Funders

Most funding organizations do little to connect growing companies with successful founders, who can provide valuable mentorship and other forms of support. One notable counterexample is the Knight Foundation, which supports high-growth entrepreneurs in Miami by funding initiatives that expand the availability of later-stage capital, increase inclusion, and offer mentorship exclusively targeted to fast-growing local businesses.[20]

Service Providers

Organizations that directly support entrepreneurs should build networks around leaders at growing companies by connecting them to potential mentors, customers, employees, and investors. High Alpha in Indianapolis, for example—a firm launched by Scott Dorsey, who previously founded the successful local tech company ExactTarget—operates a venture studio and investment fund. High Alpha not only provides services but also explicitly works to foster networks in support of founders.[21]

In helping to build a strong network, leaders should think on a broad scale. There are often opportunities, especially in areas that have experienced talent flight, to engage with successful entrepreneurial leaders who grew up or attended school in the community but now live elsewhere.[22] It is important to focus not only on high-tech firms but across all sectors of the economy.[23]

Decision makers should strive to ensure that these networks are diverse and accessible to all. A diversity of talent and ideas favors innovation, while closed networks create frictions that harm entrepreneurs.[24] Ensuring diversity requires actively engaging with various underrepresented groups, defined in terms of socioeconomic status, race, ethnicity, gender, or geographic origin.

Step 3: Partner with entrepreneurial leaders to address the most important needs of growing local businesses and their entrepreneurs.

Successful entrepreneurs know that one of the first things they must do is learn who their customers are and understand their pain points. Decision makers trying to promote entrepreneurship should try to do the same thing, by working closely with business founders in order to understand what their biggest burdens are and how they might be fixed. Recent evidence validates the need for decision makers to better engage with entrepreneurs.[25]

Entrepreneurs talk to one another and often work together to solve collective challenges. They have deep knowledge of the problems they face themselves, as well as those faced by other founders in the same region. Successful entrepreneurs are also experts at solving problems; fundamentally, that is what entrepreneurs do. If entrepreneurs have ideas for creating new solutions, decision makers in all areas should look for ways to partner with them.

Policymakers

State and local governments should create advisory boards composed of local entrepreneurs to help identify opportunities to improve policies and regulations. Advisory board members should meet regularly with officials as individuals and as a group. It is important to have personnel who can act as ambassadors between government and entrepreneurs—for example, Seattle's Startup Advocate, a member of the city's Office of Economic Development who helps connect entrepreneurs to the resources they need.

Funders

Organizations that fund entrepreneurship programs should establish their own committees of entrepreneurial leaders to advise on these investments. All funding should be linked to meeting performance objectives and, over time, should be matched with, or fully replaced by, additional funding streams. The Ewing Marion Kauffman Foundation, which has worked for many years in Kansas City to support innovative entrepreneurship programs for growing local companies, has illustrated the importance of ensuring that its financial support is a catalyst for organizations, rather than a permanent mechanism for financing operations.

Service Providers

Organizations that provide services to entrepreneurs should recruit successful entrepreneurs into leadership roles, especially as board members or advisors. Where possible, organizations should recruit entrepreneurial leaders as the day-to-day directors or CEOs of their organizations, which promotes the leadership of local founders and provides the organization with critical social capital. Innovation Works, a publicly funded organization that is by far the largest seed-stage investor in Pittsburgh, demonstrates the value of this approach. The organization is led by Rich Lunak, a successful entrepreneur who worked in robotics, one of the city's technological strengths. Under Lunak's leadership, Innovation Works has made investments in a number of the region's most successful technology firms, including several large "liquidity events" (i.e., a sale or listing of shares on a public exchange).[26]

Step 4: Collect data on growing entrepreneurial businesses to track results and share findings with the community.

Decision makers need actionable information to assess and improve the performance of entrepreneurship programs. This can include data on entrepreneurial strengths, the status of the local entrepreneurship network, and the emerging needs of local business founders. This information should be drawn from a mix of sources, including government data, surveys of entrepreneurs, and interviews with key influencers in the community, as well as particular databases on individual companies, such as PitchBook or Dun & Bradstreet.

Capturing, analyzing, and disseminating data on a regular schedule helps to ensure that decisions are informed and to establish a culture of data-driven decision-making. Depending on the particular metric, data should be updated and shared on a quarterly, semiannual, or annual basis. Events and discussions can be built around data releases to serve as productive forms of community engagement.

Finally, transparency in data collection and methodology of analysis is essential to establishing credibility, driving engagement, and changing behavior. Too frequently, the limitations of data sourcing are obscured and analytical approaches are put into a "black box." Transparency builds trust and produces more honest discussions around what is to be learned.

Policymakers

Stakeholders who implement new policies based on the feedback of growing entrepreneurs should conduct follow-up surveys to ensure that the new initiatives are having the desired effect. These surveys should include both formal data collection and informal conversations (preferably from an ongoing dialogue).

Funders

Organizations that finance entrepreneurship programs should ensure that their program budgets include significant funding for evaluation. At a minimum, funders should measure the growth of the businesses that participate in each program. Those that wish to go further can undertake network mapping to evaluate how entrepreneurial leaders at growing firms are mentoring, investing, and starting new companies in the community. For example, the Partnership for New York City supported a comprehensive network study to identify how founders in New York's tech sector were constructing networks around the most successful entrepreneurs through local programs.[27]

Service Providers

Programs that support entrepreneurs should measure the growth of the companies they support in terms of local job creation, increases in revenues, capital raised, and other relevant metrics. The best service providers go even further, by measuring how well they have engaged the best local entrepreneurs as leaders in their programs and by evaluating how the founders whom they support are giving back to others by acting as mentors, peer advisors, and even investors.

Conclusion

The most important participants in entrepreneur-led economic development are successful local entrepreneurs and the founders at growing companies who benefit from their support. However, policymakers, funders, and service providers also play essential roles in supporting these activities.

Collaboration among decision makers is mutually enhancing. For example, no single type of organization has all the data necessary for identifying every growing entrepreneurial business in a city; but when stakeholders work together to combine their collective resources, a more complete picture can emerge.

Unfortunately, it often takes just one stakeholder to stifle progress. If funders choose to finance programs in completely different areas from where successful founders are operating, the local entrepreneurship community can fracture. Or, if government officials leave outdated regulations unchanged, it can be difficult for companies to grow even if they have supportive networks.

Entrepreneurs at growing companies are essential to local prosperity. Entrepreneur-led economic development offers a process that decision makers can use to complement their existing economic development programs and enhance some of the most valuable economic assets already growing in their communities.

Importantly, this work does not end after these four steps are completed. Entrepreneur-led economic development is an ongoing process. The measurement and evaluation of existing programs and initiatives should flow directly back into the identification of new entrepreneurial businesses that have been growing in the region, the local strengths they represent, and the key leaders behind their success. Local decision makers should incorporate the dynamic nature of this process into their annual planning activities or create faster iteration cycles where support and feedback activities occur several times each year.

Endnotes

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