

Abstract. *The cold war has thawed and in the 21st Century most of the world is committing to market economies as the economic system for meeting society's desires and needs. Emerging research is documenting a powerful link between economic performance and entrepreneurship. Other research suggests that the origin of this linkage is a relatively small group of high growth enterprises driven by remarkable entrepreneurs. This monograph, Why Entrepreneurship?, summarizes relevant research around entrepreneurship and economic performance while exploring what this might mean for Rural America.*

Performance Link

The Global Entrepreneurship Monitor 2000 Report (GEM 2000) focuses on three fundamental research questions:

→ Does the level of entrepreneurial activity vary between countries and, if so how much?

→ Does the level of entrepreneurial activity affect a country's rate of economic growth?

→ What makes a country entrepreneurial?

While the GEM 2000 Study focuses on comparisons among countries, these same three questions can be asked as we look at Rural America. This is what we have done through our field work in Maine, Minnesota, Missouri, Nebraska, Nevada, and West Virginia.

The GEM 2000 Study reached the following conclusion regarding the relationship between entrepreneurial activity and economic performance:

Among nations with similar economic structures, the correlation between entrepreneurship and economic growth exceeds 0.7 and is highly statistically significant. All countries with high levels of entrepreneurial activity have above average economic growth. Only a few high growth countries have low levels of entrepreneurial activity.

[GEM 2000, Executive Summary Report, Page 4]

Note -- There may be a bit of a "chicken and egg" question here. Does the presence of entrepreneurial activity lead to stronger economic performance or does a strong economy enable higher levels of entrepreneurial activity? Like a fire, the relationship may be symbiotic. A small fire is able to ignite fuel and increased fuel grows a larger fire. We theorize that economic performance and entrepreneurial activity levels are like the fire -- they feed each other, resulting in higher levels of both.

The 2000 Global Entrepreneurship Monitor (Kauffman Center for Entrepreneurial Leadership) clearly documents in 21 industrial countries throughout the world the powerful linkage between economic performance and level of entrepreneurship. GEM concluded that up to 70 percent of the differential in economic performance is associated with varying levels of entrepreneurship.

Simply put, countries with active and dynamic entrepreneurial communities, generally are achieving stronger economic performance.

As we drill down into the research we find an emerging picture where a relatively small number of enterprises, driven by remarkable entrepreneurs, are accounting for significant shares of this economic development.

The National Commission on Entrepreneurship (NCOE) found "...entrepreneurial growth companies or gazelles made up just 4 percent of all companies but generated 60 percent of the net new jobs" {Five Myths About Entrepreneurs: Understanding How Businesses Start and Grow, March 2001} This study and other research strongly supports the view that a relatively few companies -- these EGCs or gazelles -- are the engines that drive economic development and growth.

NCOE recently released a study {High-Growth Companies, Mapping America's Entrepreneurial Landscape, July 2001) which identifies on a substate national basis the location of EGCs/gazelles. The concentration of high growth companies correlates to areas of the country with more dynamic and expanding economies. This research confirms the findings from the Rural Entrepreneurship Initiative's field research -- Rural America has far fewer EGCs or gazelles than metropolitan America.

The question remains -- what does this mean for Rural America?

Why Entrepreneurship?

Our Hypothesis

Our hypothesis is that *weaker economic performance in rural areas is due in large part to lack of entrepreneurial activity* – particularly among growth oriented entrepreneurs.

Our proposal suggests that a key – possibly the key – to rural revitalization rests with energizing rural entrepreneurs and rural entrepreneurship.

Our field work supports the conclusion that most Rural Americans have strong entrepreneurial orientations and traits. The heritage of Rural America rooted in self-employment and business owners may form the foundation of this emerging finding. But our field work also suggests that Rural America has fewer entrepreneurs – particularly growth oriented entrepreneurs.

The National Commission on Entrepreneurship's recent study on high growth companies maps the location of EGCs or gazelles by labor market areas throughout the United States. This map and the supporting data reached two very important conclusions. First, every region had EGCs based on this study. Second, the concentration of EGCs was greater in urban places than in Rural America.

Our emerging hypothesis is that certain entrepreneurs are perceptive in seeing new opportunities to organize ventures. These entrepreneurs live and work in supportive environments that enable business concepts to be executed resulting in a small, but critically important, set of growth enterprises. These enterprises revitalize area, regional and national economies. These companies are the drivers remaking our economy. We believe that where they exist in sufficient numbers, we find more dynamic and prosperous economies and societies.

In fact, this view is shared by the Federal Reserve Bank through its Center for the Study of Rural America (based in Kansas City). The Center has identified five key strategies essential to the development of Rural America. Among these five strategies is energizing rural entrepreneurs. Like the Fed, we believe these entrepreneurs are taking full advantage of the “new economy” and the commercial opportunities it is presenting.

The New Economy

In economic theory there is a concept called velocity. Velocity suggests that the rate of economic growth increases as it is fueled with increasing levels of activity. In a macro economic sense, velocity is at work in our new economy. The ability of Rural America to survive, let alone thrive, in the new economy may in fact depend on acquiring and strengthening certain social entrepreneurial traits. These traits center on an entrepreneur's ability to be innovative, flexible, open to collaboration, and resourceful.

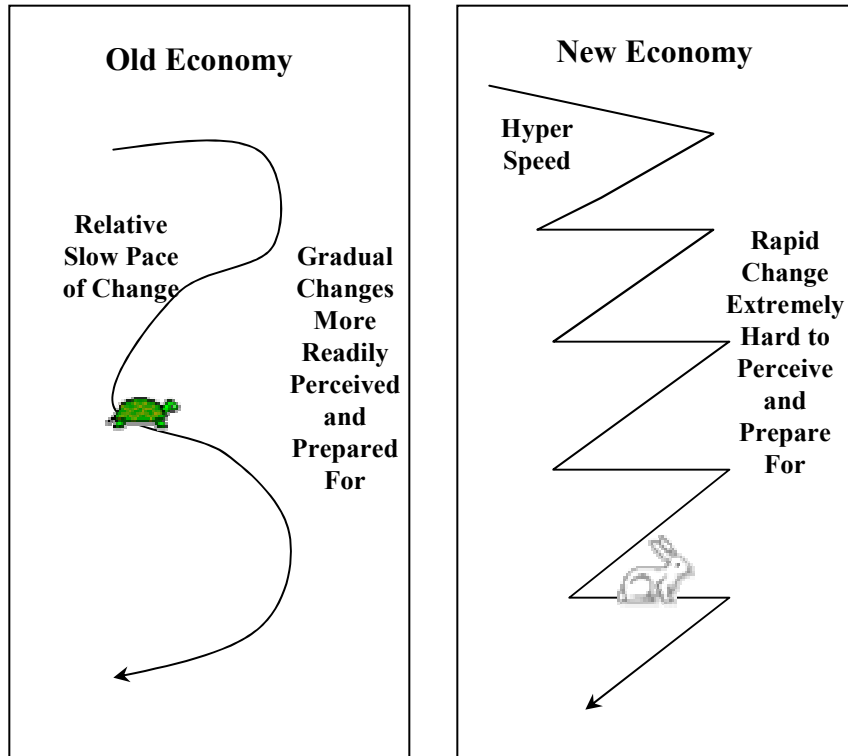
Economists suggest that our economic ages are coming more quickly and being overlaid with new economic ages more rapidly (Figure 1). For example, the primary economic ages of human existence include the hunter/gatherer age, the age of agriculture, the industrial revolution, the nuclear age, the age of information technology, and the bio-technology age. The hunter/gatherer age spans most of human existence and only recently has receded to a marginal activity among some communities. The age of agriculture is also very extensive, covering a significant portion of human history, and continues today. Subsequent ages have not disappeared but their dominance has enjoyed shorter time spans being more quickly eclipsed by emerging new technological ages. The information technology age is still changing the way our economy works and how we live, but the emerging bio-technology age is already bringing about even greater and more profound changes.

Why is this short review of human history relevant to the arena of entrepreneurship? The answer may be rooted in those entrepreneurial traits that enable some people, some communities, and some nations to thrive under increasingly rapid change. Rural sociologists might conclude that the social nature of rural communities inclines them to struggle more with change. Discussions later in this report on culture will address the rural sociological underpinning of this observation.

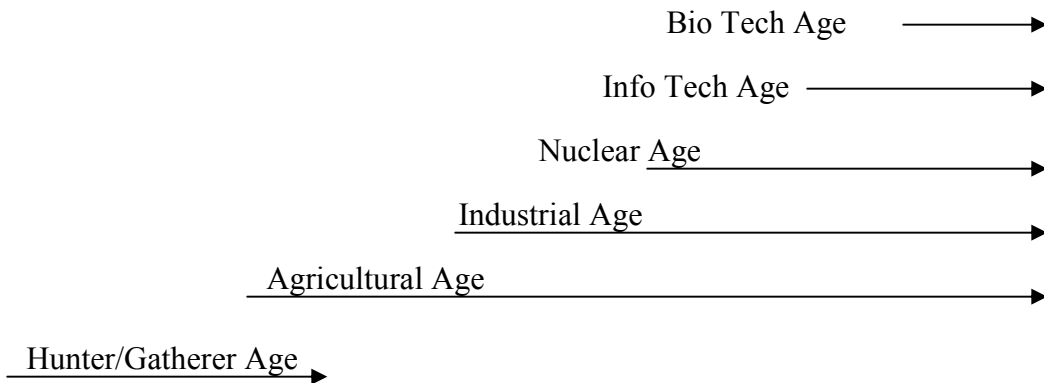
The bottom line here is that entrepreneurs are America's innovators who account for upwards to one-third to two-thirds of all American innovations.

Why Entrepreneurship?

Figure 1 – Old and New Economies



Each new age or each new economy overlays the old age and economy. Older economies and ages generally do not end, simply change.



Why Entrepreneurship?

Figure 2 – Keys to the Old and New Economies

ISSUE	OLD ECONOMY	NEW ECONOMY
Economy-Wide Characteristics:		
Markets	Stable	Dynamic
Scope of Competition	National	Global
Organizational Form	Hierarchical, Bureaucratic	Networked
Industry:		
Organization of Production	Mass Production	Flexible Production
Key Drivers of Growth	Capital/Labor	Innovation/Knowledge
Key Technology Driver	Mechanization	Digitization
Source of Competitive Advantage	Lowering Cost Through Economies of Scale	Innovation, Quality, Time-To- Market, and Cost
Importance of Research/Innovation	Low-Moderate	High
Relations With Other Firms	Go It Alone	Alliances and Collaboration
Workforce:		
Policy Goal	Full Employment	Higher Real Wages and Incomes
Skills	Job-Specific Skills	Broad Skills and Cross-Training
Requisite Education	A Skill or Degree	Lifelong Learning
Labor-Management Relations	Adversarial	Collaborative
Nature of Employment	Stable	Marked by Risk and Opportunity
Government:		
Business-Government Relations	Impose Requirements	Encourage Growth Opportunities
Regulation	Command and Control	Market Tools, Flexibility

Source: National Association of Development Organizations

Why Entrepreneurship?

Social Development

The final case point for the importance of entrepreneurship to the future of rural communities rests with social considerations. Economic development is not a goal, it is a means to an end. Economies exist to meet the material needs of the people within a society. Economies that generate true wealth are able to support other social goals such as cultural pursuits. A growing body of research suggests that entrepreneurial persons, whether they ever create and grow an enterprise, have certain traits that enable non-economic goals to be pursued and realized. The American author Stephen E. Ambrose in his books D-Day, Undaunted Courage, and Citizen Soldiers presents case studies in non-economic focused entrepreneurial behavior. Whether it is Ambrose's story of the soldiers of D-Day in France or the Corps of Discovery, they are case studies in entrepreneurial action. These same traits are needed today in Rural America to enable it to cope with emergencies, realize emerging opportunities, and spur learning that will ensure its place in the new global community.

Conclusion

The reality is that entrepreneurial growth companies (EGCs are just 4% of American businesses) are primary creators of new jobs within the American economy. By some counts, EGCs account for two-thirds of all American job creation.

If our theory is correct, then the future economy of many rural places may rest in their ability to support higher levels of entrepreneurship, thereby growing more dynamic and wealthier economies and societies.

High Growth Companies

Key Findings

High-growth companies are truly extraordinary in the economy; fewer than one in twenty U.S. businesses achieve high-growth rates. Only 4.7 percent of all businesses that existed in 1991 grew their employment by at least 15 percent per year or at least doubled their employment over five years from 1992 until 1997. An even smaller percentage of all U.S. start-ups, 4.5 percent, grew to 20 employees or more by the end of 1996. So fewer than five percent of all U.S. businesses are the big creators of new jobs in the U.S. economy.

High-growth companies are found in all regions of the country, often concentrated in the most surprising areas. For example, many areas in the "rust belt" – long viewed as an area of slow economic growth – show a surprisingly large number of high-growth companies.

High Growth Companies: *Mapping America's Entrepreneurial Landscape* maps high-growth companies, using the latest available Census Bureau data, in every single county in the United States. These comprehensive data allow every community, no matter how small, to compare itself with other similarly sized areas nationwide. Other studies that focus on growing companies most often analyze only major metropolitan areas, while a few others look at perhaps 50 or 100 other smaller cities.

Most fast-growing, entrepreneurial companies are not in high-tech industries. Flying in the face of conventional wisdom that high-growth companies are all found in high-technology industry sectors, the data show that fast-growing, entrepreneurial companies are widely distributed across all industries.

Obtain the complete report entitled **High Growth Companies: *Mapping America's Entrepreneurial Landscape*** at the web address: <http://www.ncoe.org/lma/lma.pdf>

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*Under Development

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Founding Partners

The Ewing Marion Kauffman Foundation and its partners look beyond need to identify and develop pivotal opportunities to help create successful businesses and improve the education of children in Kansas City and nationwide. Established in the mid-1960s by the late entrepreneur and philanthropist Ewing Marion Kauffman, the Kauffman Foundation works to advance entrepreneurship by reaching individuals of all ages through the delivery of entrepreneurship education and development, and the promotion of an entrepreneurial environment. For more information about the Kauffman Foundation, visit www.emkf.org.

The Rural Policy Research Institute (RUPRI) is the only national policy institute in the U.S. focusing solely upon the rural implications of public policy. This comprehensive approach to rural policy analysis involves scientists from universities, research institutions, governments, and non-governmental organizations. To date, more than 200 scientists representing 16 different disciplines in 80 universities, 40 states, and three countries have participated in RUPRI projects. Additional information on RUPRI can be found at www.rupri.org. RUPRI is a core funder and supporter of the Rural Entrepreneurship Initiative.

Resources

The following resources are recommended if you would like to learn more about *Why Entrepreneurship is Important to the Future of Rural America*:

- The Lexus and the Olive Tree, Understanding Globalization by Thomas L. Friedman. April 2000, Anchor Books, ISBN #0-385-49934-5, 490 pages.
- The Third Wave, A Classic Study of Tomorrow by Alvin Toffler. April 1981, Bantam Books, ISBN #0-553-24698-4, 537 pages.
- Guns, Germs, and Steel, the Fates of Human Societies by Jared Diamond. 1999, Norton Books, ISBN #0-393-31755-2, 480 pages.
- The Tipping Point, How Little Things Can Make a Big Difference by Malcolm Gladwell. 2000, Little, Brown & Company, ISBN #0-316-31696-2, 279 pages.
- The Origin and Evolution of New Businesses by Amar V. Bhide. 2000, Oxford University Press, ISBN #0-19-513144-4, 412 pages.
- Daring Visionaries, How Entrepreneurs Build Companies, Inspire Allegiance, and Create Wealth by Ray Similor, 2001. Contact Adams Media Corporation to purchase this book at 1.800.872.5627. ISBN #1-58062-476-6, 253 pages.
- Five Myths About Entrepreneurs, Understanding How Businesses Start and Grow by the National Commission on Entrepreneurship, March 2001. Contact NCOE at www.ncoe.org for free copies, 24 pages.
- High-Growth Companies: Mapping America's Entrepreneurial Landscape by the National Commission on Entrepreneurship, July 2001. Contact NCOE at www.ncoe.org for free copies, 28 pages.
- Global Entrepreneurship Monitor, 2000 Report by the Kauffman Center for Entrepreneurial Leadership. For free copies of this and other GEM Reports contact www.entreworld.org.
- Enterprising Nonprofits, a Toolkit for Social Entrepreneurs by Gregory Dees, etc., 2001. Contact KCEL for information on acquiring this book. ISBN #0-471-39735-0, 330 pages.

About the Center

The **Center for Rural Entrepreneurship** is new. It is an outgrowth of the **Rural Entrepreneurship Initiative**. The Center is a RUPRI National Research and Policy Center with founding support from the Kauffman Center for Entrepreneurial Leadership within the Ewing Marion Kauffman Foundation of Kansas City, Missouri.

Our mission is to enable every rural resident to achieve his or her full entrepreneurial potential. This mission will be achieved by collaborating with individuals and organizations engaged in the study, practice and policy of rural entrepreneurship.

The Center supports research, field work, and policy development through collaborations with national, state, and local interests. For more information on the **Center for Rural Entrepreneurship**, check out our web site at www.ruraleship.org or call Taina Radenslaben at 402-323-7336.