

Knowledge Synthesis

FOSTERING ENTREPRENEURSHIP

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August 2009

INTRODUCTION

This knowledge synthesis is part of The Monieson Centre's Knowledge Impact in Society (KIS) Project, a three-year endeavour to connect academic knowledge with economic development needs in Eastern Ontario. The synthesis is an accessible presentation of the latest research on issues affecting rural Eastern Ontario. The knowledge synthesis topics were determined through information gathered at 15 community workshops run in partnership with the Eastern Ontario Community Futures Development Corporation network. The KIS Project is funded by the Social Sciences and Humanities Research Council of Canada. For more information, visit www.easternontarioknowledge.ca.

Fostering entrepreneurship can drastically improve the well-being and quality of life in rural communities. Entrepreneurship creates jobs for community members, wealth for business owners, and helps rural communities become independent, self-sustaining, and prosperous. "Home grown" enterprises in rural communities are likely to remain loyal to the place in which they were developed and will export their goods and services outside the local region fostering economic growth within the community.¹ To foster entrepreneurship, communities need to provide assistance to entrepreneurs in order to support the creation, growth, and survival of entrepreneurs' businesses. Like any community initiative, community leaders need to collaborate to engage in effective practices that foster entrepreneurship.

CREATING AN ENTREPRENEURIAL CLIMATE

To foster the creation, growth, and survival of small businesses, rural community leaders need to create an entrepreneurial climate. Communities that are entrepreneurial do the following:

- Provide financial incentives to entrepreneurs and investors
- Provide valuable information to entrepreneurs
- Develop the skills of entrepreneurs
- Create networking opportunities for entrepreneurs

¹ Thomas S. Lyons, *Building Social Capital for Sustainable Enterprise Development in Country Towns and Regions: Successful Practices from the United States* (Louisville: University of Louisville, 2009), <http://www.regional.org/au/au/countrytowns/keynote/lyons.htm> (Accessed July 11, 2009).

Financial Incentives

Communities can foster entrepreneurship by pushing various levels of governments to offer tax relief to small business entrepreneurs and investors. For instance, the government of Yukon has created the Yukon Small Business Investment Tax Credit which is a personal tax credit that reduces income tax for investors who invest in eligible businesses.² Likewise, the province of Manitoba offers a number of tax credits for entrepreneurs who start businesses built upon new and innovative technologies across all industry sectors.³ At a more local level, the County of Douglas-Coffee in Georgia offered tax abatements to small business entrepreneurs.⁴ These incentives promote entrepreneurship by reducing the financial risk for entrepreneurs. Because of tax reductions, such incentives make investing in a start-up potentially more profitable than investing in established businesses.

Another way communities can help entrepreneurs reduce costs is by encouraging the development of a business incubator in the region. Business incubators are community-based programs designed to accelerate the successful development of start-up companies. Business incubators are usually residential: they are buildings that permit occupancy by several businesses at a time. Business incubators are financially attractive to entrepreneurs because they typically provide rents below market rates. In addition, they provide administrative services (e.g., reception and clerical assistance) that are charged on a per use basis which would also be below market rates.

Recent research suggests that business incubators are effective in helping entrepreneurs start, develop, and succeed in their business ventures.⁵ This is because in addition to providing financial incentives, business incubators provide business assistance services such as business basics, accounting/financial management, and marketing assistance that help develop the skills of the entrepreneurs. Also, since business incubators house many different companies at one point in time, networking opportunities for entrepreneurs become available. For more information on business incubation and a listing of the business incubators in Canada, visit the Canadian Association of Business Incubation's website: <http://www.cabi.ca/index.php>.

Provide Valuable Information

At all stages of the business development cycle, entrepreneurs need to have appropriate, up-to-date information to help them succeed. Often, entrepreneurs have the motivation and drive to start a business yet they do not have the information, particularly regarding resources, they need to maximize their chances of success. As such, community leaders can be of great assistance by helping to find this important information and publishing it on a community website for entrepreneurs to use as a resource. Community leaders can also give this information to staff that provide business assistance to entrepreneurs at a business incubator. Such information can be categorized in the following way:⁶

² "Yukon Small Business Investment Tax Credit," *Government of Yukon*, <http://www.economicdevelopment.gov.yk.ca/general/sbitc.html> (Accessed July 11, 2009).

³ "Innovation & Entrepreneurship Incubators," *Destination Winnipeg*, <http://www.destinationwinnipeg.ca/economic-development/business/key-sectors-and-companies/incubators> (Accessed July 11, 2009).

⁴ Norman Waltzer, *Entrepreneurship and Local Economic Development* (Plymouth: Lexington Books), p. 47.

⁵ Lyons, *Building Social Capital*.

⁶ Vicki Rightmyre, Thomas G. Johnson, and Darryl Chatman, *Growing Entrepreneurs from the Ground up: A Community-Based Approach to Growing Your Own Business* (Kansas City: The Community Policy Analysis Centre,

- **Information about Financial Resources**

To choose an appropriate source of financing, entrepreneurs need to be aware of the full spectrum of financial resources both in and outside of their community. Community leaders can contact area lenders to find out what financing tools are available locally. Also, entrepreneurs can be made aware of business lending programs, government programs, and online resources. For instance, the website of the Canadian Angel Investment Network connects entrepreneurs directly with investors, venture capitalists and business funds.⁷

For a general listing of financing options available to businesses (small businesses in particular), see Appendix A. Communities can use this list as a starting point to structure the information they provide on their website.

- **Information about Professional Services**

Entrepreneurs need to use professional services to run their businesses, including accountants, lawyers, and business consultants. Community leaders can contact existing businesses in the local area to find out which professional services they use. They can also contact a town or city's chamber of commerce for this information.

- **Information about Physical Infrastructure**

Community leaders can take inventory of available buildings that entrepreneurs can use to set up their businesses. The rent and available space should be listed as well.

- **Information about Markets**

Community leaders can conduct a survey to find out which goods and services residents shop for outside the community. Potential entrepreneurs can use this information to better assess whether there is an adequate need for a new business. Community leaders can also take an inventory of existing businesses in the area. This can help entrepreneurs determine the level of competition that exists in a particular market.

- **Information about Tax Strategies for Small Businesses**

Entrepreneurs are more likely to succeed if they can find ways to reduce their income tax. Susan Ward has developed a web-based resource with simple yet effective and practical strategies entrepreneurs can use online at www.sbinfocanada.about.com/cs/taxinfo/a/taxstrategies.htm.

Developing the Skills of Entrepreneurs

There is a prevailing belief that entrepreneurs are “born” and possess a certain set of traits. However, more research argues that entrepreneurs are “made”; in other words, entrepreneurship involves a set of skills that is the result of development rather than innate endowment.⁸ Accordingly, communities

2004) http://www.uwex.edu/ces/cced/entrepreneurs/documents/GrowinigEntrepreneursGuidebook_web.pdf (Accessed July 11, 2009).

⁷ Canadian Angel Investment Network, <http://www.angelinvestmentnetwork.ca/home> (Accessed July 11, 2009).

⁸ Gregg, A. Lichtenstein and Thomas S. Lyons, “The Entrepreneurial Development System: Transforming Business Talent and Community Economies,” *Economic Development Quarterly* 15 (2001): 3-20.

should concentrate their efforts on developing skills that will allow entrepreneurs to succeed. Skill development can be of great benefit to entrepreneurs at various stages of the business life-cycle.

Two prominent academics studying entrepreneurship, Thomas Lyons and Gregg Lichtenstein, have developed a system of enterprise development that focuses on the concept of developing entrepreneurs. This approach is called the Entrepreneurial Development System (EDS) and has been implemented and proven to be effective in several communities in the United States. It is built on three major premises: (1) Ultimate success in entrepreneurship requires the mastery of a set of skills, (2) these skills can be developed, and, (3) entrepreneurs do not all come to entrepreneurship at the same skill level.⁹

According to Lyons, skills that are relevant to successful entrepreneurship can be classified into four major categories:

- Technical Skills – needed to engage in the entrepreneur’s industry
- Managerial Skills – needed for day-to-day business activities
- Entrepreneurial Skills – having the ability to act on market opportunities and come up with innovative solutions to business challenges
- Personal Maturity Skills – self-awareness, accountability, emotional coping, and creativity skills

The Entrepreneurial Development System is a program that employs various professionals in a particular community. These individuals take on specific roles and perform functions related to skill assessment and development.

- The **Scout** identifies and recruits potential entrepreneurs and assesses their commitment and motivations to entrepreneurship.
- The **Diagnostician** assesses the entrepreneurs’ needs and skill levels and ascertains the obstacles they face to get the resources they require for success. The diagnostician also has an in-depth knowledge of the full range of services that are available in the community. Thus, the diagnostician can refer entrepreneurs to the appropriate service providers who can address their needs. The assessments made by the scout and the diagnostician allows for a “game plan” to be formed for an entrepreneur. This plan is highly customized and is based on the current skill-set of the entrepreneur and how far along his or her business is in the business life-cycle.
- The **Performance Coach** provides the one-on-one guidance and mentorship to individual entrepreneurs who want to develop their skills and improve their performance. Coaches are often individuals with entrepreneurial experience who have achieved business success. They actively develop entrepreneurs’ thinking and ability to adapt to changing circumstances. They also help entrepreneurs develop their personal maturity skills.
- The **Success Team Manager** coordinates a group of entrepreneurs who operate at the same level of development or in the same market or industry. He or she facilitates the sharing of information and resources to deal with common business issues. This allows entrepreneurs to develop their skills together and learn from each other.

⁹ Thomas S. Lyons, “Policies for Creating an Entrepreneurial Region” (paper presented at Main Streets of Tomorrow: Growing and Financing Rural Entrepreneurs, the fourth annual rural policy conference of the Center for the Study of Rural America, Kansas City, April 28-29, 2003).

It is critical to note that rural communities may not have the resources to hire all these professionals to take on these roles. However, rural community leaders can learn from the EDS and apply some of its ideas of developing entrepreneurs. At the very least, communities may be able to delegate individuals who can perform a subset of these functions. For instance, individuals who work in business incubators may be able to play some of these roles. As mentioned earlier, many business incubators provide business assistance in a host of forms.

Create Networking Opportunities

An entrepreneurial community fosters networks for entrepreneurs to learn from each other.¹⁰ Horizontal networks (i.e. a network of entrepreneurs) are beneficial because entrepreneurs can get guidance and feedback from other entrepreneurs. Such networks help to create a learning community; such a community enables its members to learn new knowledge, to share their insights with other members, and to modify their behaviour to reflect this learning.¹¹ These networks also allow for entrepreneurs to collaborate and accomplish their goals. According to leading scholars on economic development, cooperation, not competition, is more likely to foster economic activity.¹²

Community leaders can promote networking in a number of ways. First, they can encourage their local chamber of commerce to organize events and meetings for entrepreneurs to get to know one another.¹³ On a larger scale, leaders can help to establish an independent organization or association of entrepreneurs in a community. Calgary, for example, has a formal networking group of entrepreneurs, The Calgary Entrepreneur Meet-up Group, that hosts events such as meetings, social events, and speaker series.¹⁴ Membership in this networking group is free and open to all business owners. In addition, as mentioned earlier, community leaders can encourage the development of business incubators; incubators naturally allow for networking opportunities since all businesses operate under one roof making collaboration more likely.

¹⁰ Waltzer, p. 48.

¹¹ Waltzer, p 44.

¹² J. Flora, J. Sharp, and C. Flora, "Entrepreneurial social infra-structure and locally-initiated economic development in the nonmetropolitan United States," *The Sociological Quarterly* 38 (1997): 623-645.

¹³ Rightmyre.

¹⁴ *Calgary Entrepreneurs*. <http://calgary.itsuccessmentor.com/about/> (Accessed July 11, 2009).

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APPENDIX A – SOURCES OF FUNDING¹⁵

Angel Investors and Venture Capitalists

An angel investor is a person who invests in a business venture. These individuals are looking for a higher rate of return compared to more traditional sources of funding. Similarly, venture capitalists are private investors or a group of private investors that make investments in exchange for partial ownership, or a high rate of return. This source of funding is attractive to entrepreneurs who may not be able to secure a bank loan. For a listing of the network of angel investors and venture capitalists that are available, see <http://www.angelinvestmentnetwork.ca/home>.

Asset-based loans

Asset-based loans are typically offered by commercial finance companies (as opposed to banks) and are offered on a revolving basis and collateralized by a company's assets, specifically accounts receivable and inventory.

Bank-term loans

Term loans usually carry fixed interest rates and monthly or quarterly repayment schedules and include a set maturity date. These loans are usually categorized in two ways:

- *Intermediate-term loans*
These loans usually run less than 3 years and are repaid in monthly installments from a business's cash flow.
- *Long-term loans*
These loans usually run longer than 3 years. Most are between 3 and 10 years. Long-term loans are collateralized by a business's assets. These loans typically come with the condition that limits additional financial commitments that a business can take on.

Community Futures Development Corporations (CFDC)¹⁶

Community Futures Development Corporations are non-profit organizations funded by the Canadian Government to support community economic development. In particular, CFDCs provide entrepreneurs with funding for start-up, expansion or stabilization plans. CFDCs provide up to \$150,000 on commercial terms through loans, loan guarantees or equity investments. Typically, this type of funding is given to entrepreneurs when funding from other sources is insufficient.

¹⁵ "Startup Financing," *Entrepreneur*, <http://www.entrepreneur.com/money/finance/index.html> (Accessed July 11, 2009).

¹⁶ "Contact Us," *Community Futures Development Corporations in Ontario*, <http://www.ontcfdc.com/frame3.asp?lang=english> (Accessed July 11, 2009).

Friends and Family

This kind of funding usually comes from people with whom you have a trusting relationship, or with whom you can establish one.

Government Sources of Funding¹⁷

Federal and provincial governments provide loans and grants to businesses. For a comprehensive listing and a detailed description of specific loans and grants, please see <http://www.grantcanada.com>. The broad category of loans and grants are as follows:

- *Low-Interest or No-Interest Loans*
These loans are attractive since they offer low or no interest rates at all.
- *Government Guaranteed Loans*
Governments can help entrepreneurs secure loans from banks by guaranteeing the loan, or a substantial portion of it.
- *Grants and Subsidies (One-time & Renewable)*
This source of funding is very attractive because entrepreneurs do not have to pay it back and it is renewable.
- *Equity Financing*
With these programs, the government assists by investing in your company like an angel investor would, but the government is more interested in economic stimulus and less in return on investment.
- *Conditionally Repayable Contribution*
This source of funding is attractive because the entrepreneur only pays back the amount loaned if the venture proves to be successful.

¹⁷ "Government Grants & Loans: Funding Program Types," *Small Business Finance Centre*, <http://www.grants-loans.org/programs.php> (Accessed July 11, 2009).