

# How a Local Entrepreneurship Ecosystem Can Build an Equitable Economy for All

*By Boku Kodama, Sept., 2017*

## **In Praise of Entrepreneurship In the Emptiness of Inaction**

We have a fundamental problem in how our society views entrepreneurship. On the Bright Side, we know entrepreneurs and small businesses are the Number One catalysts of economic growth. We praise the bravery and “American spirit” of our entrepreneurs as the foundation of our economy. But on the Dark Side, small businesses fail at an astonishing rate: more than 60 percent by the third year due to a lack of support, knowhow and financing. The cause is simple: the Small Business Administration (SBA) and foundation funding for entrepreneurs is miniscule compared to the benefits small businesses provide to society including 3 million new jobs every year nationally, according to the Kauffman Foundation.

For 2018, the SBA national budget is \$719 million with only \$36 million going for programs serving underserved communities and microloans totaling only \$44 million. That’s not just California; that’s the entire country. Among the 18 federal departments, the SBA’s budget is at the bottom by a substantial amount. The overall federal budget is \$4.1 trillion with the Defense Department receiving \$574 billion. In other words, the SBA budget is 0.00018 percent of the entire budget.

While praise for entrepreneurs is handed out generously by politicians, their actions show little resemblance to their words. We need to break this paradigm of chump change if entrepreneurship is to display its full capacity as a social solution, not just an economic one. Because when entrepreneurs succeed, it has an exponential effect beyond the entrepreneurs to include increased tax revenues, public services, new innovations, curbing poverty, lowering drug use and violence, advancing better health and improving our educational systems. If we look at the data to understand the power of entrepreneurship, we can make concrete strides toward solving many of the problems we accept as social norms.

## **Entrepreneurship is Anti-Poverty, Anti-Crime**

The new paradigm of entrepreneurship should be cast as anti-poverty, anti-crime and an access point to better educational and health initiatives in every neighborhood. If we looked at entrepreneurship through a Benefits lense rather than as merely a budget line item, Congress might earmark significant funds for small business development and support by tapping into other federal departments with a new paradigm for problem solving.

Today, we sit at the pinnacle of our greatest economic divide regardless of any social or government intervention. It engulfs the nation’s landscape with brash brutality, evicting millions into poverty and defaulting their lives into a state of powerlessness that seems contradictory in a wealthy democratic society. This wealthy side constitutes only 20 percent of our citizenry yet controls 93% of the economy. The remaining 7% is shared by 80% of the population. Only two other developed nations (among 35) have a more distorted divide than the United States.

In her research, Nobel laureate, Dr. Elizabeth Blackburn, President of the Salk Institute, discovered this divide in America has caused the worst health and the most violence by far of any developed country.

## **Choosing the Right Economic Development**

The health of any city is linked to its economic development, and the data shows indisputably that contrary to many city strategies, it is not the national behemoths that generate local prosperity; *it is the small local entrepreneurs*. While most public official will tout the importance of their small business community, in reality, they provide valuable tax incentives and even financial assistance to large out-of-town corporations while citing the lack of funds to provide equal or similar benefits to their neighbors who happen to be entrepreneurs starting businesses to meet specific local needs.

The benefits of supporting locally-owned small businesses is also made evident through the findings of an extensive national study conducted by author and attorney, Michael Shuman in his 2014 book, “The Local Economy Solution.” Describing 24 local solutions from across the country, Shuman gives us

enough examples to fit the specific needs of every local community. He cites these local solutions “are facilitating local planning and place-making, nurturing local entrepreneurs, helping local consumers buy local and local investors finance local businesses.” But he goes on to write: “These successes and the opportunities they present . . . are practically unknown. They are crowded out of the headlines by the farcical antics of economic development as actually practiced today.”

It is this lack of media coverage coupled with an emphasis for Big Business by local governments that has stifled entrepreneurs from knowing where to gather the resources they need to gain sustainability. It also leaves support organizations from fulfilling their duties because so few of their potential clients know they exist. While entrepreneurs may have specific subject expertise, they do not necessarily have expertise in all the other nuances of conducting a profitable business. Without a culture of support, many entrepreneurs are left hanging and causing the majority of businesses to fail in three years. Generating a strong local economy on the backs of our local entrepreneurs should NOT be this hard!

Furthermore, studies by BALLE, the Business Alliance of Local Living Economies, have shown that large corporations will siphon most of their profits out of the communities back to their corporate headquarters to the tune of 50 to 70 percent of their net profits. In contrast, over 70 percent of local dollars generated by our small businesses remain to circulate in our local communities.

### **Solving the Local Imbalance by Joining the National Ecosystem Movement**

What’s needed to rectify this imbalance of our local revenues is an interdependent Local Entrepreneurship Ecosystem.” This ecosystem is made up of four key players:

1. Entrepreneurs and entrepreneur support groups
2. Private funders serving in economic and workforce development
3. Local and regional government funders in economic and community development
4. Local economic and community stakeholders,

The content of an ecosystem is gaining traction across the country. In the summer of 2017, the Kauffman Foundation brought together 450 “ecosystem builders” from across the country to begin the task of building local entrepreneurship ecosystems “*into every corner of the economy and remove barriers to starting and growing businesses.*” Called the ESHIP Summit, the program cited four components to a viable ecosystem:

1. Creating “Zero Barriers” to start and grow businesses with supportive institutions
2. Entrepreneurship education including peer to peer support and problem solving
3. Leveling the playing field in communities with high socioeconomic barriers.
4. Working on public policies to enhance entrepreneurship and innovation

In defining the ecosystem, the participants cited seven key insights that drive an ideal ecosystem:

- 1. All entrepreneurs need an ecosystem to thrive.** It’s a place where one can take an idea and make it real. It’s a supportive environment; one that encourages and provides construction criticism.
- 2. It’s a new model of economic development.** It’s the ability to create your job, and it’s a place where there are people who are invested in the entrepreneur’s success.
- 3. Collaboration is key.** Since entrepreneurship is a contact sport, it’s imperative for entrepreneurs to understand they are not alone; and that there needs to be a flow of communication.
- 4. Diversity is an economic asset.** The most innovative ideas come from the diversity of those around entrepreneurs resulting in a more complete, more attractively saleable product.
- 5. Ecosystem builders help break down barriers for entrepreneurs.** The role of builders is in supporting entrepreneurs by opening doors to people and markets by knowing their local economy.
- 6. Builders focus on the whole community.** The builders play a critical role in understanding the big picture and serve as catalyst for change, as connectors and conveners
- 7. Keep the future generations in mind.** An ecosystem is sensitive to its actions going forward.

The bottom-line to all of this is quite compelling: entrepreneurs create most net new jobs and produce the largest revenues into our cities. Their individual amounts will look small but their sum total will be significant. Policy makers must be helped to understand this one point. Simply put, when the number of successful new businesses goes up, so do the revenues for the city.