

# Choosing An Entrepreneurial Development System: The Concept And The Challenges

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## ABSTRACT

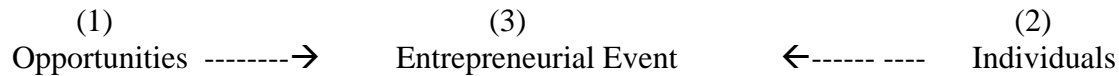
*This paper presents a discussion of the process of choosing an entrepreneurial development system for a local rural community and region. Background information is provided from which the selection of a number of program elements available from the literature was made in developing the proposed system. Following discussion of the process, challenges of implementing the proposed system are presented.*

## INTRODUCTION

Entrepreneurship has been defined in a number of ways over the years, from Schumpeter (1934) to the Internet of today: Put Entrepreneurship Definition in a Google search and you get a whole page of definitions, few of them looking very much alike. For purposes of this paper and my personal research, I have adopted the definition of the field of entrepreneurship as “the scholarly examination of how, by whom, and with what effects opportunities to create future goods and services are discovered, evaluated, and exploited” presented by Venkataraman (1997) and Shane and Venkataraman (2000). By this definition, the field involves the study of *sources* of opportunities: the *processes* of discovery, evaluation, and exploitation of opportunities; and the set of *individuals* who discover, evaluate and exploit them.

The phenomenon of entrepreneurship provides research questions for many different scholarly fields. For instance, economists are interested in the distribution of entrepreneurial talent across productive and unproductive activities (Baumol, 1996). Organizational scholars, as another example, are fundamentally concerned with three sets of research questions about entrepreneurship (Shane & Venkataraman, 2000):

1. Why, when, and how opportunities for the creation of goods and services come into existence;
2. Why, when, and how some people and not others discover and exploit these opportunities, and;
3. Why, when, and how different modes of action are used to exploit entrepreneurial opportunities.



**Figure 1. Entrepreneurial Research Framework**

Figure 1 further expresses the model. Only certain opportunities are entrepreneurial. Only certain individuals choose to pursue entrepreneurial opportunities. Why, when and how do these two sets of activities interact to create new goods and services? Let's look at some of the issues that surround this set of events.

Estimates of the number of people who engage in entrepreneurial behavior range from 20 percent of the population (Reynolds & White, 1997) to over 50 percent (Aldrich & Zimmer, 1997). Therefore, it is improbable that entrepreneurship can be explained solely by reference to a characteristic of certain people independent of the situations in which they find themselves. More likely we are seeking a tendency of certain people to respond to the situational cues of opportunities, not a stable characteristic that differentiates some people from others across all situations.

Why should we study entrepreneurship? Here are three reasons suggested by Shane and Venkataraman (2000): First, much technical information is ultimately embodied in products and services, and entrepreneurship is a mechanism by which society converts technical information into products and services. Second, entrepreneurship is a mechanism through which temporal and spatial inefficiencies in an economy are discovered and mitigated (Kirzner, 1997). Finally, of the different sources of change in a capital society, Schumpeter (1934) isolated entrepreneurship driven innovation in products and processes as the crucial engine driving the change process.

This paper seeks to explore the possibilities of creating an “entrepreneurial community” environment in a rural setting within which individuals and groups of individuals may develop sets of skills which allow them to recognize opportunities for entrepreneurial activities that did not seem to exist previously.

First, the paper presents background information about community entrepreneurial resources. Next, it reviews selected literature on entrepreneurial organizational options. Finally, it presents the proposed system developed for the current situation, and concludes with discussion of the proposed system and the challenges ahead in implementing this system in the local community and region.

## **BACKGROUND**

For a number of years, extensive support for entrepreneurial activities in the United States has been provided by state and federal government agency assistance as well by private and community foundations. The work of two major foundations, the Ewing Marion Kauffman Foundation and the W.K. Kellogg Foundation, will be examined briefly, as examples of foundation support.

Since 1992, the Ewing Marion Kauffman Foundation has focused on entrepreneurial success at all levels — from elementary students to college students, from aspiring entrepreneurs to high-growth entrepreneurs.<sup>1</sup>

The W.K. Kellogg Foundation, under the motto: “To Help People Help Themselves,” has supported research on rural development, including entrepreneurial activities. Through the Corporation for Enterprise Development<sup>2</sup> (which was established in 1979), the W.K. Kellogg Foundation announced in June 2004 that it will award \$8 million (four grants of \$2 million each) to large collaboratives (multi-county, multi-state cooperative associations) to foster entrepreneurship across rural America.<sup>3</sup>

The U.S. Small Business Administration (SBA) administers the Small Business Development Center (SBDC) Program to provide management assistance to current and prospective small business owners. SBDCs offer one-stop assistance to individuals and small businesses by providing a wide variety of information and guidance in central as well as easily accessible branch locations. More than 1100 service locations, in every state, are located at colleges, universities, community colleges, vocational schools, chambers of commerce and economic development corporations.

The Minority Business Development Agency works with Minority Business Development Centers<sup>4</sup> around the country to operated business incubators and similar assistance programs as another example of the kinds of program assistance available to entrepreneurs in their service areas.

Several states, through the Department of Commerce and its Community Development Block Grants Program are providing support for a set of Enterprise Facilitation™ demonstration projects currently underway to explore the feasibility and sustainability of this specific, innovative approach to developing entrepreneurial success in rural communities. A unique set of partnerships was created to initiate these projects. The National Commission on Entrepreneurship and the National Center for Rural Entrepreneurship created a team to evaluate the projects operating under this initiative. Each project is a multi-county, three year project, using the Sirolli Institute Enterprise Facilitation™ program as its centerpiece.<sup>5</sup>

Two key components to successful Enterprise Facilitation™ are a large, locally formed Enterprise Facilitation Board of Directors and a hired, trained facilitator. These persons are all trained, local volunteers, as well as the paid facilitator, in the Sirolli Institute<sup>6</sup> Enterprise Facilitation™ process. Each Board member gets a minimum of one day of training, with about ten Board members receiving the more detailed facilitator training. Included in this training is the process of hiring a facilitator. Full Boards may be up to 50 members, but 20-30 is normal. The facilitator hired is most often a skilled or semi-skilled local person who is trained in the specific

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<sup>1</sup> <http://www.emkf.org/pages/150.cfm> A number of university research programs across the nation receive assistance from the Ewing Marion Kauffman Foundation (see <http://www.kauffmannetwork.org/grantcolleges.cfm>)

<sup>2</sup> <http://www.eshipssystems.org/index.html>

<sup>3</sup> <http://www.wkkf.org/Programming/NewsItem.aspx?CID=4&ID=491>

<sup>4</sup> <http://www.mbda.gov/>

<sup>5</sup> <http://www.enterprise facilitation.net/usa/usa.html>

<sup>6</sup> <http://www.sirolli.com>

process. Sirolli (1999) recommends not hiring persons with a long economic development background, so that they are not influenced by that philosophical approach. Much of the training is focused on the effective use of networking and mentoring concepts among the local Board members, other local existing business entities and the prospective entrepreneurs, both for growth and success of the entrepreneur and the identification of additional prospective entrepreneurs in the community (Sirolli, 1999).

In July 1999, The Kauffman Center for Entrepreneurial Leadership (Kauffman Center) embarked on a rural entrepreneurship program initiative based on seven unique challenges for rural entrepreneurs:

- Culture that promotes entrepreneurship.
- Distance to markets and services.
- Capital availability and capital-ready deal flow.
- Threshold of demand to justify the location of support services.
- Absence of other entrepreneurs.
- Absence of industry clusters.
- Independent spirit of rural population – i.e., balance the entrepreneurial desire to “be one’s own boss” with the realization that successful entrepreneurs cannot “do it alone.”

Over the following year and a half, the Kauffman Center invested in six projects to address one or more of these seven challenges. Lessons learned from these projects have laid a foundation for the current approaches to rural entrepreneurship, with results in six categories, which are detailed later in this paper.<sup>7</sup>

The prevailing approach to entrepreneurship in many communities includes training programs in preparing a business plan, seeking financing, identifying a product or service and bundling these generic services through a mechanistic process of packaged training programs. The SBDCs generally conduct this kind of program very well.

In 1996, Lichtenstein and Lyons suggested that the focus of entrepreneurial development should be shifted *from* programs *to* development of individual entrepreneurial skills. They proposed a comprehensive “needs assessment” approach, based on an extensive business incubator study, to build on each of the existing programs in the community and to identify additional training services required to enhance the effectiveness of individual entrepreneurial development. Further, it is anticipated that additional entrepreneurs will be identified by this *systematic* approach.

Lichtenstein and Lyon (2001), based on their research, suggest that the most important ingredient for success, however, is not the programs offered, but the critical role of the entrepreneur. “Venture capitalists recognize that when they invest in a business, they are investing in a person (p. 4 plus endnote 3).” They also quote from an article by Sahlman (1997, p. 101): “Arthur Rock, a venture capital legend associated with the formation of such companies as Apple, Intel and Teledyne, states, ‘I invest in people, not ideas.’ Rock also has said, ‘If you can find good people,

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<sup>7</sup> Adapted from “Rural Entrepreneurship: Environmental Scan,” prepared for: Community Entrepreneurship Focus Area Task Force Meeting, January 17, 2001, by Don Macke and Jay Kayne.

if they're wrong about the product, they'll make a switch, so what good is it to understand the product that they're talking about in the first place.'"

Lyons (2003) suggests several reasons business assistance based programs are less successful than might be generally expected:

"First, most current efforts to encourage entrepreneurship are focused on businesses rather than entrepreneurs... If an entrepreneur is being driven by her business, then something is seriously wrong (Gerber, 1995). There are numerous examples of businesses that have been in existence for many years, yet they still behave like start-ups. This is because the entrepreneur is not presently capable of taking the company any further... Second, many entities that assist entrepreneurs (e.g., business incubators, micro-enterprise programs, small business development centers, etc.) tend to emphasize form over function. They target their energies on what services they will provide and how they will provide them before they know what help the entrepreneurs need... Third, the current system of assistance to entrepreneurs is largely fragmented and categorical. Each service provider organization has its own sponsor(s), mission, jargon, protocols, self-evaluation procedures, and so forth... Fourth ...service providers tend to operate on the belief that they are in competition for the same limited pool of entrepreneurs (pp. 99-100)."

The above listed reasons cause the services to be opaque to the entrepreneur. They are often not sure as to where to begin their quest for help, nor do they understand the differences among service providers relative to the type and level of help they can get (Lyon, 2002).

Lichtenstein and Lyon (1996) suggest that the primary mission of entrepreneurship development should be to develop the entrepreneur, and the secondary mission ought to be to provide the services necessary to help those entrepreneurs become successful, at each stage of their career. These are two distinctly different functions. So, we need to focus on the developmental needs of the entrepreneur, and then identify the services required (existing, or still needed!). A single organization cannot perform both of these functions well (Porter, 1985). A new organizational entity/function, responsible only to the entrepreneur and the community, is required. That is what we seek to define, for our community, and report in this paper.

## **THE PROPOSED SYSTEM**

The specific entrepreneurial development system developed here, for our community, has a responsibility to expand the population of entrepreneurs, not just the "right" ones, defined by some funding source for a particular program. Also, entrepreneurs need continued assistance with many of the *skills needed* to move through the stages of business development. These are not just "business start-up" skills, but skills to experiment and expand, to add other skilled people to the team, to add capital at the correct time and in the right amount, and to understand when and how further assistance is needed. This suggests an *ongoing mentoring program* coupled with *networking with others who have already been through the process themselves*.

This can be accomplished by truly creating an “entrepreneurial community.” This means bringing together, in a developmentally focused *system*, persons with entrepreneurial skills at various stages of development to share these skills, persons who help each other develop these skills, and persons who will assist others in recognizing new opportunities for innovation in the community. This must begin with a “needs assessment” for each entrepreneur, followed by specific training and experiences tailored to those individual needs at their particular stage of development. It must be an ongoing, systematic process (not simply one-stop shopping).

“Entrepreneurs can be most usefully categorized by their levels of skill in creating and operating new businesses rather than by their personal attributes or those of their enterprises.... The fact is that entrepreneurs have different levels of skill, and one must treat entrepreneurs at each level differently to work successfully with them (Lichtenstein and Lyons, 2001, p. 7).”

Rarely do entrepreneurs already possess all the skills they need to become successful prior to starting their first venture. Entrepreneurs build new skills not by acquiring information but rather through a process of personal transformation that involves a deep level of qualitative change. “At some stage in their lives or at some point in the process of forming their businesses, they have to build the necessary skills (Lichtenstein and Lyons, 2001, p. 7).”

How does one facilitate the development of an individual whose objective is to create something new? What entrepreneurs require are offerings that can help them successfully develop these skills. These new transformational offerings must involve the following (Lichtenstein and Lyons, 2001, p. 10):

- Two-way or reciprocal interaction between the entrepreneur and those who are helping in the transformation process. Development or transformation is not something that is done to or for someone; rather, it can be achieved only by the entrepreneur him/herself, with assistance.
- Intensive, deep, and ongoing relationships that help guide the transformation process. Entrepreneurial skills are not developed in isolation or through superficial encounters, but rather within a supportive context such as a community (with the relevant kind of social capital).
- A long-term process. Transformations take time.
- A different approach to achieving results. Facilitating entrepreneurial transformations does not mean attempting to control the behavior of entrepreneurs or force predetermined outcomes, but rather creating favorable conditions or an environment in which entrepreneurial skills can develop.
- Learning by doing. Skills are inculcated, as an ancient Chinese proverb expresses so well: “Tell me and I will forget. Show me and I will remember. Involve me and I will understand.”

The skills needed and the skills required of the individual entrepreneur at any given point in time must be quantifiable and identifiable for this systems approach to be effective. What are these skills?

Lichtenstein and Lyons (2001) have created their ideal system as analogous to the developmental baseball system of major league baseball, with levels of skills learned by

entrepreneurs in rookie league, Class A, AA, AAA, and at the major league level (for further development of this concept, see Lyons (2002) and Lyons and Lyons (2002)). This demonstrates how complex the system might become. Along the way, they suggest that adaptations, using the principles, may be necessary in many/most communities. That is what is required for our rural entrepreneurship community and region.

Seventeen individual skill dimensions in four entrepreneurial skill categories have been extracted from the larger set presented in the various writings of Lyons and Lichtenstein. They are presented in the form of appraisal questions to which the individual entrepreneur (or their advisor) should reply (see Table 1), regarding the current skills of the entrepreneur, giving as honest an appraisal as possible. This process will be made available in both written form and via a web site. Diagnosis of results will be provided the entrepreneur (and their advisor) in each case.

For those rating a “low” skill level on a dimension, group training (such as SBDC training) will be identified and made available along with reference to a broad array of online resources of interest. Extensive information and services are readily available at this skill level. Remedial activities need only be better organized and recognizable for the entrepreneur.

Where a skill level is identified as “medium,” specialized training needs will be identified and availability of the required services facilitated. These services will be identified and made available through specialized education and training, or, they will be made available from “those who have gone before” – a mentoring process, including those who already rate “high” on these scores.

Where the skill level is identified as “high,” that entrepreneur will be invited to participate in the Volunteer Entrepreneur Corps (VEC) mentoring program for that skill, to share their experience using that skill with others rated “medium” on that skill.

The Volunteer Entrepreneur Corps is a volunteer group to be formed in the community (region) who offer their experience to provide assistance in their specialties to other entrepreneurs, for the betterment of the “entrepreneurial community.” The persons may be either entrepreneurs themselves (as noted above) or they may be service providers of various kinds. Recognition of, for example, 50 and 100 annual volunteer hours will be provided in the form of certificates, a website recognition citation and/or an annual recognition event.

For ease of administration, a web site will be created presenting the seventeen skill dimensions (with explanatory material) listed in Table 1, with Low, Medium, and High links, each taking the person to one of 34 pages (for Low and Medium) providing appropriate information and further questions to consider. For the High links, the person will be taken to appropriate pages about the VEC program.

#### Technical Skills:

1. Operational – the skills necessary to produce the product or service
2. Supplies/raw materials – the skills to obtain them, as necessary
3. Office or production space – the skills to match needs and availability
4. Equipment/plant/technology – the skills to identify and obtain

#### Managerial Skills:

1. Management – planning, organizing, supervising, directing, networking
2. Marketing/Sales – identifying customers, distribution channels, supply chain
3. Financial – managing financial resources, accounting, budgeting
4. Legal – organization form, risk management, privacy and security
5. Administrative – people relations, advisory board relations
6. Higher-order – learning, problem-solving

#### Entrepreneurial Skills:

1. Business concept – business plan, presentation skills
2. Environmental scanning - recognize market gap, exploit market opportunity
3. Advisory board and networking – balance independence with seeking assistance

#### Personal Maturity Skills:

1. Self-Awareness – ability to reflect and be introspective
2. Accountability – ability to take responsibility for resolving a problem
3. Emotional Coping – emotional ability to cope with a problem
4. Creativity – ability to produce a creative solution to a problem

### **Table 1. The four entrepreneurial skill categories and 17 skill dimensions**

Implementation of this systems approach to entrepreneurial development will require the fulfillment of several administrative roles. These roles/functions need to be performed in order for the system to properly function. These descriptive definitions continue the baseball analogy (Lichtenstein and Lyons, 2001, p. 13-14):

- The scout identifies and recruits entrepreneurs to participate in the system.
- The diagnostician, or “company doctor,” assesses entrepreneurs’ needs and skill levels and assigns them to the appropriate level.
- The mentor, or performance coach, provides guidance to individual clients as they seek to develop their skills and improve their performance.
- The success team manager is responsible for coordinating the activities of a cluster of entrepreneurs who are operating at the same level of development and perhaps in a similar market or industry (this will be a special challenge)
- The alliance broker identifies market opportunities that involve multiple companies as well as cut across different developmental levels and organizes firms to capture those opportunities.
- The general manager of the system is responsible for integrating these critical functions into a cohesive and mutually reinforcing system with accountability for well-defined performance outcomes.

Lichtenstein and Lyons (2001) discuss five performance criteria that should be used to evaluate this integrated system of activities and programs to achieve the desired transformations



in the entrepreneurial community: effectiveness, efficiency, equitability, sustainability and scale of impact on the community's economy.

## **DISCUSSION OF THE PROPOSED SYSTEM**

The entrepreneurial development system concept developed above is based on the principles suggested by the research of Lichtenstein and Lyons but with a significant number of variations and alternatives to adapt the process to our local community and region, as they suggested. The local networking and mentoring used effectively by the Enterprise Facilitation™ process is adapted in this conceptual model as well. The skills definitions for the needs assessment process are modified for the current situation, and will be subject to continued refinement in the implementation phase.

It is also important to assure that the proposed system addresses the lessons learned from evaluations of past projects such as those of the Kauffman Center projects reported earlier. How does our proposed system compare to those findings? Here is a brief summary:

1. **Motivation of rural entrepreneurs:** There is a significant difference in motivation between rural entrepreneurs and their urban counterparts. All the adaptations have been made with this issue in mind, and they will be regularly reviewed to assure compliance.

2. **Culture:** Rural culture has multiple and conflicting personalities; it is “anything goes” and “can do” on the one hand, and very conservative overtones on the other hand, that often discourage risk-taking and inhibit entrepreneurial activity. The networking and mentoring process will be built on this dichotomy, with continuous attention to making it a strength, not a weakness.

3. **Networks:** Networks are even more important to rural entrepreneurs, in fact, they are essential to entrepreneurial success – but, providing adequate forums to share experiences, explore new opportunities, and seek reinforcement are the biggest challenges to promoting entrepreneurship in rural America.

Networking is at the heart of the proposed system. Providing the correct forums, the best mentors, and the most effective balance of outside trainers and experienced entrepreneurs to provide guidance and skills development to less experienced entrepreneurs will be critical to success of the system.

4. **Capital and deal flow:** There is both a lack of equity capital and a lack of “capital literacy” in rural areas.

Skills related to understanding and obtaining appropriate funding are integral to the skills development system proposed. New funding sources will be available based on recent legislation in the state.

5. **Workforce:** Both skilled workers and management skills are often miles away.

Identifying ways to access these skills is a continuing challenge. This identification and matching to the benefit of area entrepreneurs is the reason for the creation of the proposed system. Skills not available will be created, brought in, or otherwise made available as an integral part of the entire entrepreneurial development system processes.

6. **Youth:** Rural America's most significant export has been its children – which are recognized by community leaders as among the greatest threats to the viability of many rural communities. Rural entrepreneurship can address the aging of rural communities in two ways: 1) discussion with rural youth about the value of closeness to their rural hometowns and finding ways to allow them to remain, and 2) promoting rural communities as attractive to youth and young families with a pro-entrepreneurship environment.

Enhancements of entrepreneurial education at all levels are already under way through closely coordinated efforts of related programs of the university and other educational entities. In addition, an agri-tourism initiative is being undertaken in the region which will provide mutually beneficial activities and increased opportunities for entrepreneurial tendencies to act upon. Opportunities and entrepreneurial training to recognize exploitable opportunities should be the formula for a true “entrepreneurial community.”

## THE CHALLENGES

Implementation of the proposed system for entrepreneurial development is the ultimate challenge. Implementation will require continuous evaluation, innovation and adaptation in order to achieve any measure of success.

Among the first challenges listed by Lichtenstein and Lyons (2001) is to take these action steps:

“Undertake a community-wide diagnosis to develop a design for an EDS implementation that is specifically tailored to the local context in which it will operate. This involves a detailed assessment of existing and potential entrepreneurs to ascertain the percentages operating at each level of development and entrepreneurs' specific needs. The diagnosis must also examine the existing service provider infrastructure to determine its capabilities, gaps and overlaps (p. 16).”

These action steps are underway currently.

Implementation will require wide political and social cooperation among a broad spectrum of service providers, governmental units and members of the general community. Appropriate information sharing and input from interested members of the public in general will be critical to successful system implementation. Implementation of the “entrepreneurial community” with the proposed system will provide many opportunities for significant research on entrepreneurship activities.

New institutions will be required to fulfill the various roles necessary for developing entrepreneurial skills according to the proposed system. These skills will include facility in

diagnosing, facilitating and organizing services and interactions with the many individual entrepreneurs to develop their skills to the benefit of themselves and the community at large.

From the conclusion section of Lichtenstein and Lyons (2001), a great quote:

“H. L. Mencken once said that ‘for every complex problem there is an easy answer, and it is wrong.’ Community-wide enterprise development is a complex problem; therefore, any useful solution is bound to be so as well (p. 17).”

We look forward to the challenges of implementing an effective entrepreneurial development system for our community and our future.

**[Reference available upon request]**