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Growing your economy:

The role of townships in entrepreneurial development



Editor's Note: To help Michigan regain its prosperity and thrive in the 21st century, MTA joined with Michigan State University's Land Policy Institute (LPI) and other organizations to launch the Pillars of Prosperity initiative. By exploring the power of communities in preserving Michigan's future and helping rebuild Michigan's economy, we can work together to impact the future of this great state.

The following articles explore one Pillars of Prosperity tenet: inclusive and entrepreneurial culture. This series of articles aims to encourage and inspire townships to plan for entrepreneurial development as a key element of New Economy infrastructure.

The first of these articles reflects on the roles of entrepreneurs in the formation and strengthening of the U.S. economy, with a special focus on Michigan. The second article makes the point that entrepreneurial development is an essential infrastructure need in the New Economy and that communities—including townships—should thoughtfully develop that infrastructure. The final article creates a vision for entrepreneurial communities and describes pathways to achieve it, and provides guidelines for how townships can begin to leverage entrepreneurship for local economic development.

Look for articles covering additional Pillars' tenets in upcoming issues of Michigan Township News, as well as information on an LPI initiative conducting a TIDE (talent, innovation, diversity and environment) assessment of townships' New Economy readiness.

Entrepreneurship and place in American communities

The 19th- and 20th-century successes of the American economy were based on the strong foundation of entrepreneurship. Indeed, much of what Americans have come to enjoy were the result of the pioneering ideas and market savvy of early entrepreneurs.

While we might have taken the role of entrepreneurs for granted in recent years, we must become more aware of the central role they can play in revitalizing our communities and the Michigan economy. In this article, we reflect on the roles of entrepreneurs in the formation and strengthening of the economies of places around the nation, highlighting the fact that one of the solutions to our current economic challenges is to deepen the commitment of communities to spurring and building their entrepreneurial capacity.

THE EARLY DEVELOPMENT OF PLACES AND LOCAL ECONOMIES

In the early 1800s, the American economy was essentially natural resources-based and essentially local. The nation was economically flat until places began to emerge based on their unique locational advantages. Organized settlements emerged in places that had the following advantages: 1) access to agricultural and mineral resources—copper, timber, iron, corn, wheat, soybean and other products that people had learned to produce; and 2) access to natural transportation infrastructure—rivers, streams, oceans and lakes. Places such as Detroit, Pittsburgh, Chicago and Philadelphia emerged as anchors of an evolving economy because they could leverage their locations for economic gain by taking advantage of excess demand for commodities at other locations.

Detroit is a notable case study. Before it became Michigan's economic powerhouse, it had undergone various transformations in its evolution from an 1800s settlement to the bastion of the industrial era. It started as a trading post for wheat. It then evolved into an export point for flour and other milled products, just as Pittsburgh became an export point for iron-ore products and coal that came from the mines of Pennsylvania, West Virginia and Ohio.

It is no mistake that the future home of the internal combustion engine was Detroit, where innovators had figured out how to build steam engines that powered the boats that shipped wheat and flour to various locations in the U.S. Entrepreneurs figured out how to produce and market these internal combustion engines (At the same time, Pittsburgh emerged into the national center for machine shops and eventual production of copper alloy products and specialized machinery). These earlier prosperous settlements began to attract people, including entrepreneurs, and became the primary staging points for the industrialization of America. Entrepreneurs played a critical role in this transformation process.



Much of the value created in the economy today is associated with services and high-tech products.

THE ROLE OF EARLY ENTREPRENEURS

When we look back at the success of Michigan and other parts of the U.S., we must recognize the roles of the likes of Henry Ford (Detroit), W.K. Kellogg (Battle Creek), Herbert Dow (Midland), Jay Van Andel (Grand Rapids), Ransom E. Olds (Lansing), Peter M. Wege (Grand Rapids), W.E. Upjohn (Kalamazoo) and Andrew Carnegie (Pittsburgh). The example of Henry Ford is perhaps the most graphic as it relates to Detroit. Ford's genius was to figure out how the internal combustion engines that had evolved from steam engines could be applied to carriages. Along with others, he staged a replacement for the horse in horse-drawn carriages by seeing the possibility that engines designed to power boats could eventually power carriages that would not only improve on the delivery of raw materials from the hinterlands to Detroit, but also support the movement of people.

Detroit started building automobiles. It eventually became the birthplace of assembly line technology. Between 1800 and 1950, Detroit's population rose from 1,000 to about 1.8 million people, as this previously small town became the destination for workers who came to Detroit to be part of the legacy of Henry Ford and other pioneers of the automobile industry.

The ideas of Ford and other entrepreneurs essentially defined the success of America, American places, American people and the American dream. The industrial economy that evolved out of the visions of these early entrepreneurs created a middle class that earned high wages and consumed a large variety of luxuries. Labor unions soon emerged to protect workers, offering a stable environment for skilled workers to emerge and be productive. Markets were fixed, and the growing American nation needed goods of all sorts. Companies were successful if they had access to good quality skilled labor, raw materials, markets and manufacturing technology. A system was developed where success of places was also automatic.

Places were successful because they enabled or attracted a generation of American entrepreneurs, and also because

they leveraged their capabilities into building the appropriate infrastructure for the industrial economy. The vision of the entrepreneurial class of the late 1800s and early 1900s created much of our industrial economy, leading to the building of our institutions and public infrastructure (e.g., roads, universities, hospitals and churches). Much of the philanthropy that exists today, and many of the trades and skills that define America's leading position in the world today, can be linked to these entrepreneurs. With a 400 percent increase in per capital income since World War II, Americans experienced unparalleled prosperity.

The wealth that accumulated from this successful economy paid a lot of dividends to the communities that supported them. As a result, schools were improved, churches were built, hospitals emerged, and theatres and museums thrived as the partnership between entrepreneurs, communities and companies congealed.

EVERYTHING HAS A LIFESPAN

By the early 1990s, the industrial economy had begun to wane, as Americans had come to afford most things that are important to quality of life and that the production economy produced (e.g., cars, TVs, and homes). As Americans demanded better quality of life, the service economy began to expand and thrive. The manufacturing economy and the associated exports that helped position America globally had started to decline. According to statistics from the Regional Economic Information Service on employment shares by sector, from 1969 to 2000, the manufacturing share of employment in the U.S. economy had decreased to 30 percent by 1970, and to about 18 percent by 2000.

Services, however, had grown to about 16 percent by 1970, and about 30 percent by 2000. Americans were valuing entertainment, dining out, recreation, vacations, lawn care, auto repair and health care more than they did before, and much more of our incomes had shifted from manufactured goods to services. It was in response to this evolution that the New Economy emerged with the advent of information technology (IT), communications technology (CT) and globalization which, essentially, made the world flat again.

THE EMERGING NEW ECONOMY

The term "Old Economy" was coined to describe the old industrial economy that characterized much of the U.S. through much of the 20th century. The term "New Economy" was similarly coined to describe the New Economy that emerged with IT, CT and globalization in the early 1990s. Much of the value created in the economy today is associated with services and high-tech products. For example, a \$350 software product probably has less than a \$3 manufacturing component. The emergence of new entrepreneurs in IT was essential to the economic paradigm shift that had occurred in the U.S. and the rest of the world. It only took the likes of Bill Gates and Steve Jobs to revolutionize the economy.

One unique feature of entrepreneurs and innovators is that they are not tied to production places. They are attracted to places that offer great quality of life and that provide a welcoming

environment where their ideas can be nurtured. They like to locate near other entrepreneurs and innovators. They will move to places that offer amenities and quality of life. Where they go, venture capital will go, unlike in the past when selected places had a lock on traditional forms of capital.

Entrepreneurs and innovators have replaced skilled workers and traditional managers as high-wage earners and drivers of growth. They create much more value today than other classes of employment. With ready-to-move entrepreneurs and innovators around the country, the future of growth is up for grabs. Those communities that are smart enough to lay down the infrastructure that would attract—or retain—innovative, creative and entrepreneurial people will emerge as the Detroit and Pittsburghs of tomorrow. The only difference is that successful places of the future will be built around a different set of infrastructure, not the infrastructure that evolved to support the Old Economy.

Entrepreneurs were important to the grounding of the industrial economy in places. The success of many Michigan townships can be attributed to the direct or spillover effects of leading entrepreneurs, whose visions and creative talents were so strong that they created a platform for many generations of people who followed them. Most jobs, most of our public infrastructure and even much of our system of government are direct or indirect results of early entrepreneurs who created enterprise visions that resulted in the economy we have today.

Back in the early 1900s, existing place infrastructure retained or attracted major entrepreneurs. The situation today is no different. We are at a crossroads where America and Michigan need reinventing, and we need our entrepreneurs at the center stage of addressing this challenge. ■

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Viewing entrepreneurial development as an infrastructure need for the New Economy

Drawing from the *Oxford English Dictionary*, Wikipedia defines infrastructure as the basic physical and organizational structures needed for the operation of a society or enterprise, or the services and facilities necessary for an economy to function. The term usually refers to such things as roads, bridges, water supply, sewage management facilities, airports, electrical power grids, schools, hospitals and telecommunications. Infrastructure facilitates the production and flow of goods and services. In essence, infrastructure represents the basic needed facilities that would enable a community, place or region to function effectively.

Since a strong local economy is an important element of what a community needs to function, townships must consider their roles in building economic infrastructure. The fact of the matter is that the economy has indeed changed, making it necessary for community leaders to re-examine what infrastructure needs will help build the economic basis that will be relevant tomorrow.

In the 19th and 20th centuries, the success of places depended largely on their historical accumulation of traditional infrastructure. Local government focused much on basic infrastructure. Inherent in this strategy was the recognition that functional places will enhance quality of life and attract businesses. Successful places were able to leverage land resources as raw materials for manufacturing. So, things that would aid manufacturing and the distribution of manufactured goods were essential. People followed jobs, and talent aggregated in old, capital-intensive, industrial towns and cities. Prosperity was almost guaranteed as long as drastically negative things did not happen in the community.

Economic development occurs differently in the New Economy. Retaining and attracting talent, which attracts modern capital and entrepreneurship, defines success today. These scarce resources move more freely around the economy today, seeking places with amenities and quality-of-life infrastructure. Talent-based companies and the entrepreneurs who spur them are increasingly relocating to places rich in talent, with great quality-of-life infrastructure and with an environment that nurtures them, and jobs follow.

Our understanding of infrastructure must therefore change, to reflect new drivers of prosperity. In a recent report, *“Chasing the Past or Investing in Our Future,”* Michigan State University’s Land Policy Institute highlighted the emergence of new drivers, such as talent, innovation and knowledge workers. While all these are important drivers, the report argues that entrepreneurs are even more critical. It is the entrepreneur who leverages the talent and knowledge base of a community or region to execute businesses. Not all new ventures will succeed. However, it only takes a few to achieve enterprises that would serve communities for a long time. Growth is not guaranteed. Therefore, we need to recognize the critical elements that determine the future successes of places.

Talented and knowledge workers seek places with real infrastructure, such as trails, parks, water-based amenities, air quality, open space and other green infrastructure. So do entrepreneurs. They no longer are bound to industrial communities, thanks to the advent of information technology. For example, farmland preservation is a key infrastructure need for the New Economy. Access to recreation, culture, entertainment, performing arts, fun places, mixed-use development, density, public transportation, universities and social infrastructure (tolerance, diversity, openness to new ideas, and risk taking) are key infrastructure needs today. Information technology infrastructure, such as broadband, Wi-Fi access and Internet capacity, are now critical to attracting knowledge workers and entrepreneurs.

The New Economy will build around interesting places. As townships plan for future needs, they must consider green, knowledge, cultural, IT, and recreational and entrepreneurial infrastructure, and work together regionally, where such infrastructure can only be relevant.

THE ENTREPRENEURIAL INFRASTRUCTURE

An entrepreneur is defined as a person who can mobilize resources to create new ventures that serve the economic and/or social needs of people and communities. Similarly, entrepreneurship is defined as the process of creating such ventures that serve the economic and/or social needs of people and communities. The role of entrepreneurship is even more important today than it has ever been, as our nation, state and communities are searching for new models and approaches that would serve our communities well into the future. The New Economy has ushered in a new era where entrepreneurship is

Growing entrepreneurial communities

Communities have long played an active role in economic development. Promoting community assets and offering tax incentives and enticements, economic developers actively recruited manufacturing firms. The jobs and business income from those large companies, which exported goods and services, formed the base of the local economy. But times have changed with the New Economy. Economic developers are adapting their strategies more and more to reflect the importance of entrepreneurship.

ECONOMIC GARDENING

The term “economic gardening” has been around for about 20 years, taking its inspiration from the Littleton, Colo. economic development team. Facing a sudden loss of 3,000 manufacturing jobs, this community of over 41,000 pioneered a new way to expand its economic base. Rather than continue to invest in trying to attract companies to their community, they concentrated on growing local companies. Their thought was that the people who already lived in their community, and who loved it there, were the ones most likely to start and grow businesses that would be sustainable. Thus, economic gardening, as opposed to economic hunting, came to mean growing your own economy from the inside out, relying primarily on entrepreneurs. If they wanted to grow the economy—and therefore create jobs—they needed to grow their entrepreneurs.

In doing so, they also strengthened their community. The resources spent on growing local companies, rather than on incentives to lure companies to move to the area, stayed in the community. Investments on entrepreneurs, whose passions and visions they believed would influence their economic future, would pay off in long-term wealth accumulation. Who more than the local residents was more committed to sustaining and expanding businesses in the area? It was, after all, their home.

The Littleton team also noticed that the fastest growing companies were the most innovative, excelling at new product design. They concluded that ideas drive companies and economies. This, of course, is especially true in the New Economy. They also knew that the most vibrant economies have a high churn; both start-ups and failures occur at a high rate, with a resulting net impact of jobs and wealth creation.

One more factor seemed to influence entrepreneurial activity: the community’s valuation of entrepreneurship, and its willingness to tolerate risk and to welcome diversity. So, a community of residents that nurtures and encourages entrepreneurs can have an influence on the local economy. That openness to entrepreneurship is most common in communities with a variety of specialty businesses, where no single large company dominates the economy.

CHARACTERISTICS OF ENTREPRENEURIAL COMMUNITIES

How do you identify an entrepreneurial community? You would recognize it by the variety of unique enterprises that reflect the creativity and passions of the entrepreneurs who started them. Its downtown mirrors the culture and diversity of the community, a visible representation of local heritage and community pride. The steady churn of business activity, start-ups, expansions and failures—all suggest a place of entrepreneurial dynamism.

Besides business activity, civic and social enterprises support an infrastructure that enhances the quality of life, providing for recreational, arts and cultural, educational, historical, social and environmental experiences. The sense of place is valued and cared for. Citizens know each other and believe in giving back to the community, and the place is alive with people who tolerate the unusual, accept failure as a pathway to growth, appreciate innovation, and welcome newcomers of many kinds. It’s a community whose residents believe many things are possible and realize that it is up to them to shape their future.

Stimulating this type of activity is that community’s cadre of entrepreneurs—the individuals who are driven to create enterprises that make a difference, create jobs and drive the innovation in our economy. Entrepreneurial communities understand the role these individuals have in influencing their prosperity, and strive to attract and support their success.

Communities across Michigan are forming visions just like this. They are choosing to support the entrepreneurs within, and are searching for strategies and programs to help them.

ENTREPRENEURIAL DEVELOPMENT SYSTEMS

What elements of an entrepreneurial community can be developed by an organized community effort, and what is the role of community in this evolution?

