

# Building a More Diverse, Sustainable, and Robust Central Appalachian Region through Entrepreneurship Development

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**Deborah Markley  
Center for Rural Entrepreneurship**

## **Embracing Entrepreneurship as an Economic Development Approach**

In 1997, the Appalachian Regional Commission (ARC) had the foresight to invest in a new direction for economic development focused on encouraging and supporting entrepreneurship. Jesse White, then-Federal Co-Chair of ARC, articulated the challenge for the region, and for rural America – “We’ve got to re-instill in rural America the idea, particularly in Appalachia and the Rural South, that job creation, business creation, and, most importantly, wealth creation occurs as a result of local indigenous business creation.”<sup>1</sup> An evaluation of ARC’s 10-year initiative concluded that the investments had “created jobs and businesses, supported partnerships and collaborations, and **helped leaders at the community and state levels recognize the value of entrepreneurship as an economic development strategy.**”<sup>2</sup>

While ARC’s initiative resulted in positive impacts and the **beginning** of a cultural shift toward entrepreneurship, economic development in the ARC region and across rural America remains decidedly outward focused – allocating human and financial capital to the recruitment of industry. This strategy – the “buffalo hunt” – has brought limited results to rural people and places. More importantly, evidence suggests that job creation (a key component of economic development) comes predominantly from the expansion of existing businesses and the creation of new businesses rather than from the recruitment or relocation of outside industry.<sup>3</sup> Yet most state and even local economic development efforts are targeted to luring footloose factories, data centers, and other large employers. This zero sum game from a national perspective is a frustrating game for rural

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<sup>1</sup> Jesse White, “Overview Panel Comments,” Proceedings of Federal Reserve Bank of Kansas City Conference on Beyond Agriculture: New Policies for Rural America (April 2000):193.

<sup>2</sup> Deborah Markley, et al., *Creating an Entrepreneurial Appalachian Region: Findings and Lessons from an Evaluation of the Appalachian Regional Commission’s Entrepreneurship Initiative 1997 – 2005*, Final Report Submitted to the Appalachian Regional Commission, April 2008, [http://www.arc.gov/images/reports/2007/entreeval/entre\\_eval\\_ARC.pdf](http://www.arc.gov/images/reports/2007/entreeval/entre_eval_ARC.pdf).

<sup>3</sup> David Neumark, Junfu Zhang, and Brandon Wall, “Employment Dynamics and Business Relocation: New Evidence from the National Establishment Time Series,” March 2006, <http://www.socsci.uci.edu/~dneumark/rle.pdf>.

communities and disadvantaged regions like Appalachia – they are competing with thousands of other localities for a relatively small number of relocations in any given year, and often without the prime assets these companies are seeking.

Since its founding in 2001, the Center for Rural Entrepreneurship has focused on understanding the promise of entrepreneurship as a core economic development strategy – cultivating local entrepreneurial talent and homegrown businesses as a source of economic growth and resilience. The Center's genesis is in grassroots experience with rural economic developers who lamented that they had not had an industrial prospect in years and were actively seeking alternative approaches to building their local and regional economies. The Center has worked to understand the rationale for entrepreneurship as a development strategy, the specific strategies that are most effective in supporting entrepreneurial talent, and the impacts that entrepreneurship development has on rural people and places.

The Center's research and field-based work supports three principles or beliefs:

- Entrepreneurship development is a necessary component of rural economic development – it may be the **most promising** strategy for rural places.
- Creating an entrepreneurial environment requires culture change – it is a **community development** process as much as it is an economic development process.
- Entrepreneurship development requires a systems approach – it is not about creating another program but building a support system that is **connected, collaborative and regional**.

This essay argues that entrepreneurship development is a promising strategy for building a more diverse, sustainable and robust Central Appalachian region. It is an approach that is inherently asset based – where entrepreneurial talent transforms regional resources into economic opportunities. This entrepreneurial talent, and its cultivation through entrepreneurship development, is necessary for the Central Appalachian region to fully develop its treasures – its people, arts, heritage, natural amenities, and resources – in ways that benefit local residents and create wealth for people in the region. Entrepreneurship offers a path for young people to stay or return to their roots by creating their own economic opportunity – making a job rather than taking a job. It is an approach that spans the rural-urban divide, since entrepreneurs and the markets they serve are not restricted to the countryside. To be effective, however, regional leaders must be intentional about building the capacity for entrepreneurship development, adopting or adapting strategies to support entrepreneurs and existing businesses, and investing adequately in those strategies.

## Why Entrepreneurship as an Economic Development Strategy

From the perspective of economic theory, entrepreneurs are a critical piece of any economic system. In rural regions like Appalachia (and elsewhere), entrepreneurs see the opportunities that are embodied in rural assets and bring together the resources needed to turn those opportunities into wealth for themselves and their communities. They animate the preservation of Main Streets and historic properties – bringing commerce into restored downtowns, incubating new businesses in historic spaces, and creating economic value out of preserved cultural heritage. The benefits of entrepreneurial thinking and behavior are manifested in for-profit ventures, government agencies, and non-profit organizations by an attitude of innovation and creativity.

From the perspective of community and regional leaders in Central Appalachia, entrepreneurship development offers the potential to:

- Broaden the economic base by supporting a diverse group of entrepreneurs and existing business owners
- Strengthen existing businesses and entrepreneurs who are already rooted in the community
- Encourage “give back” on the part of those entrepreneurs, whether as mentors, coaches, role models, or philanthropic partners
- Create locally controlled businesses and wealth that is retained in the region
- Employ regional entrepreneurial talent to tap emerging opportunities in alternative energy, localized food systems, regional tourism, etc. for which the region has a competitive advantage

Just how important are entrepreneurs as drivers of economic growth in the Appalachian region? As part of the Center’s 2007-2008 evaluation of ARC’s Entrepreneurship Initiative, we investigated the importance of entrepreneurship to the region’s economy.<sup>4</sup> When entrepreneurship was defined broadly as nonfarm proprietor and microenterprise employment (an admittedly imperfect proxy for entrepreneurship), it was found to be an increasingly important component of the Appalachian regional economy (from 1997-2005). For the southern tier in particular, rates of employment associated with entrepreneurship were generally greater than for the country as a whole. These data confirmed the importance of investments in entrepreneurship as a key piece of a regional economic development strategy – entrepreneurial talent is an asset on which the region can build.

However, a different picture of the impact of entrepreneurship emerges when income (nonfarm proprietors’ income/nonfarm proprietors’ employment) is considered. It is an image which, unfortunately, mirrors the past – a region that continues to lag behind the rest of the country. The income generated through

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<sup>4</sup> Markley, et al.

entrepreneurial activity in the region is not growing in such a way as to allow the region to close the gap with the rest of the nation. Our assessment was that past investments, particularly the significant investments made by ARC, had “an impact on getting more entrepreneurs into the pipeline, but have had a lesser impact on creating stronger and higher growth entrepreneurs, at least as measured by income trends.”<sup>5</sup>

From a national perspective, the importance of entrepreneurs to the economic renewal of both rural and urban places has received increased attention during the past year of global economic turmoil. For example, the Kauffman Foundation has put significant effort into demonstrating the economic contributions that entrepreneurs, and the ventures they create, make to overall economic growth.<sup>6</sup>

Until 2005, we knew that from 1980-2005, nearly all net job creation in the United States occurred in firms less than five years old. [A]n analysis of the 2007 Census data shows that young firms (defined as one to five years old) still account for roughly two-thirds of job creation, averaging nearly four new jobs per firm per year. Of the overall 12 million new jobs added in 2007, young firms were responsible for the creation of nearly 8 million of those jobs. ...Given this information, it is clear that new and young companies and the entrepreneurs that create them are the engines of job creation and eventual economic recovery.<sup>1</sup>

Given the Appalachian region’s history of entrepreneurial activity, it is likely that data reflecting the economic downturn in 2008-2009 will show a continuation of the patterns identified for the 1997-2005 period. In fact, national data suggest a rise in “necessity” entrepreneurship – people who pursue self-employment in relatively low income sectors like childcare and personal services – associated with the most recent downturn, as has been seen in past recessions.<sup>7</sup> Figuring out how to support the growth of entrepreneurial ventures that generate both higher levels of income and wealth remains a challenge for the region going forward.

What the data suggest is that if entrepreneurship is to be a strategy that builds economic prosperity and resiliency for the Central Appalachian region, there must be attention paid to and investment made in strategies that create an environment that supports the creation **and growth** of entrepreneurs and existing businesses in the region. It is not enough to hope that entrepreneurial spirit and energy will translate into economic benefits for the region. Rather, that spirit needs to be inspired by example, cultivated within a supportive culture, and provided with the resources needed for success. Fortunately, the past decade has seen increased experimentation with entrepreneurship development

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<sup>5</sup> Markley, et al., p. 56.

<sup>6</sup> More information on entrepreneurship research is available at [www.kauffman.org](http://www.kauffman.org).

<sup>7</sup> Robert W. Fairlie, *Kauffman Index of Entrepreneurial Activity 1996-2008*, Kauffman Foundation, April 2009, [http://www.kauffman.org/uploadedFiles/kiea\\_042709.pdf](http://www.kauffman.org/uploadedFiles/kiea_042709.pdf).

strategies that offer lessons learned and guidance for those who are committed to “homegrown growth” in the Central Appalachian region.

It is also true that entrepreneurship development alone may not result in the type of sustainable, wealth creating economic development that is desired for the region. In recent work completed for the Ford Foundation, we considered a number of effective entrepreneurship development initiatives and the social, environmental and economic impacts that were achieved through these efforts.<sup>8</sup> With a few exceptions, entrepreneurship development strategies were driven by economic considerations (e.g., the need to create jobs and income) and were designed primarily to achieve those outcomes by improving the skills of entrepreneurs and providing support to create and grow businesses. We found that social and environmental benefits were often an unintended consequence of entrepreneurship development rather than an intentionally targeted outcome. However, we found no inherent conflict between entrepreneurship development and this broader set of outcomes. The challenge is to articulate the benefit to entrepreneurs of considering social and environmental outcomes in their decision making – how to “do well by doing good”. If entrepreneurship development is to follow the principles of economic development for Central Appalachia identified by ATI and CAPP, this challenge must be addressed from the outset.

### **Strategies in Support of Intentional Entrepreneurship Development**

What would an intentional focus on entrepreneurship development for the Central Appalachian region look like? At the most fundamental level, it requires a shift in perspective – at the grassroots level among community leaders, elected and otherwise, and at the state or regional levels among policy makers and leaders of regional institutions. It requires the kind of grassroots change in policy and attitude that the city of [Littleton, Colorado](#) undertook in 1989 when local leaders decided to focus economic development efforts exclusively on supporting the growth and development of local businesses rather than recruiting outside industry. It requires the type of top-down leadership exhibited by the legislature in [Kansas](#) when, in 2004, they created a suite of initiatives to support entrepreneurship development in the state. In both of these examples, the impetus for change was visionary leadership – individuals who recognized the opportunity that entrepreneurship development offers and were willing to stake political capital and their leadership talents to change the way economic development is done.

While visionary leadership is a necessary ingredient, it is not an economic development strategy. And, effective entrepreneurship development cannot be either top-down or grassroots – the work of entrepreneurship development must

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<sup>8</sup> Deborah Markley and Nancy Stark, *Entrepreneurship Development in Rural America: Insights into Triple Bottom Line and Wealth Creation Impacts of Entrepreneurship Strategies*, White Paper prepared for The Ford Foundation, February 2009, <http://www.yellowwood.org/Entrepreneurship%20White%20Paper.pdf>.

take place at both levels. Community leaders and entrepreneurs must take responsibility for changing the culture at the grassroots level while state leaders work to craft policy that is more supportive of entrepreneurial development. For example, efforts in Georgia to create a more responsive support system for entrepreneurs at the state level were less successful until a system of support for communities to embrace entrepreneurship was developed – the E Friendly Communities program.

Based on what we have learned about effective entrepreneurship development efforts across the country, primarily in rural regions and communities, there is no singular strategy that will work in all regions or even across a single region. Entrepreneurship is an asset-based approach to economic development and what works in West Virginia, given its assets, will be different from what ultimately works in Tennessee or Mississippi. What we do know is that entrepreneurship development is not about creating another program – establishing a revolving loan fund, offering youth entrepreneurship classes, creating an entrepreneur network. Based on our work with entrepreneurs in rural America, we know that too often, they are not accessing the services that are already in place for a variety of reasons – lack of knowledge of what is available, isolation from service providers, reluctance to take time away from business for training or counseling, services that do not meet their needs. Effective entrepreneurship development requires a systems approach – connecting existing resources, filling the gaps, providing clear paths for accessing services, and improving performance based on input from entrepreneurs.

The concept of an **entrepreneurship development system**, first articulated by Lyons and Lichtenstein<sup>9</sup> and later developed as part of a demonstration project supported by the Kellogg Foundation,<sup>10</sup> holds value for the Central Appalachian region and provides a framework for thinking about entrepreneurship development. An entrepreneurship development system is a way of creating a more intentional, effective approach to building an economy through entrepreneurship by:

- **Creating a pipeline of entrepreneurs**, from youth through adult, from potential to high growth.
- **Implementing a system of support**, including technical assistance, education and training, access to capital, and networks, which connects disparate resources in a way that effectively meets the needs of entrepreneurs of all types.

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<sup>9</sup> Greg A. Lichtenstein and Thomas S. Lyons, "The Entrepreneurial Development System: Transforming Business Talent and Community Economies," *Economic Development Quarterly* 15(1), 2001, 3-20.

<sup>10</sup> Elaine L. Edgcomb, Joyce A. Klein, and David Black, *Revitalizing Rural Economies Through Entrepreneurship Development Systems*, Washington, D.C.: The Aspen Institute FIELD Program, December 2008, [http://fieldus.org/Publications/EDS08/EDS\\_2008.pdf](http://fieldus.org/Publications/EDS08/EDS_2008.pdf).

- **Fostering a supportive culture and policy environment** that values entrepreneurs, recognizes their contribution to economic development, and provides the resources and policy support for them to flourish.

The rest of this essay focuses on providing insights that turn these framework elements into recommendations for action in Central Appalachia.

**Creating a Pipeline of Entrepreneurs.** An entrepreneurial pipeline serves two important functions in the system. One, it provides a constant influx of new entrepreneurial energy to a region. At the mouth of the pipeline is the pool of talent, particularly young people, who may need support in uncovering their entrepreneurial skills. The more young people and potential entrepreneurs exposed to the possibility of creating their own business, and the tools required to succeed, the more business start ups can be cultivated. Two, the pipeline helps move those entrepreneurs who are motivated from start up to initial sales to growth. It helps build the skills of entrepreneurs so they are more successful consumers of entrepreneurial support.

Strategies for achieving the first function focus on providing broad access to education programs targeted to youth and to potential entrepreneurs. Support for youth entrepreneurship programs – [4H EntrepreneurShip Investigation \(ESI\)](#), North Carolina’s [Rural Entrepreneurship through Action Learning \(REAL\)](#), the [Network for Teaching Entrepreneurship’s \(NFTE\)](#) curriculum, for example – is one important component of building the pipeline. By exposing more youth to the fundamentals of entrepreneurship, you begin to shift the culture and help young people see the potential for creating their own economic future.

Potential entrepreneurs and those who are in the start up phase can be exposed to the basics of how to start a business through existing programs like FastTrac<sup>®</sup> and courses offered through [Small Business Development Centers \(SBDCs\)](#) and other support providers. However, helping entrepreneurs build the skills needed to grow a business often requires a more hands-on, intensive approach. Several models for coaching entrepreneurs exist, from proprietary models like the [Entrepreneurial League System<sup>®</sup>](#) being used in central Louisiana and the [Greenstone Group](#) in northern Minnesota to more organic models that have developed over time in response to entrepreneur needs, such as the work being done by the [Community Progress Initiative](#) in Wisconsin.

Two key challenges associated with building the pipeline include:

- Gaining support for youth entrepreneurship within the schools – Increasing demands on teachers and testing requirements often create resistance to adding another activity to the school day. Some communities focus instead on after school programs (e.g., 4H ESI) or using summer camp programs (e.g., REAL). One example of using state policy to promote entrepreneurship education is West Virginia, where entrepreneurship

education has been included in the state's mandatory financial literacy curriculum.

- Increasing access and support for coaching programs – Because they are more intensive, coaching programs tend to serve fewer entrepreneurs. The efforts are often targeted to those with growth potential and aspirations. While the potential impact on the local or regional economy may be greater from working with this subset of entrepreneurs, a key challenge is to address the sustainability of this approach.

**Implementing a System of Support.** Too often, service providers work in isolation rather than in partnership. An effective system connects service providers in the public (e.g., SBDCs), private (e.g., bankers, lawyers), and non-profit (e.g., microenterprise organizations) sectors. A service provider network provides an opportunity for practitioners to identify what they do best, learn what others are doing to help entrepreneurs, and build the trust needed to develop an effective referral system that insures no entrepreneur is left behind.

There is no one way to build this network of support. [Network Kansas](#) is a statewide, online portal that allows entrepreneurs to access a network of over 400 service provider partners across the state. In North Carolina, the Entrepreneurship and Innovation Alliance is an informal network of representatives from entrepreneurship development organizations, universities, community colleges, cooperative extension, and others that has been meeting at least bi-monthly for more than five years to share program developments and insure that referrals across these diverse organizations happen more readily for entrepreneurs. The network is has no formal organizational structure but is staffed by the [North Carolina Rural Center](#).

The challenges of building a collaborative system are many – bringing many partners together, each with a different organizational mission and accountability measures. One of the important lessons learned from the Kellogg Foundation's demonstration of entrepreneurship development systems was that there is some benefit to focusing on what was described as a “demand side” approach – building the skills of entrepreneurs and engaging communities in entrepreneurship as opposed to trying to organize service providers into a formal network with a common set of goals. As entrepreneurs developed their skills and communities articulated their economic development strategies, service provider partners were more effectively engaged in supporting the system, generating successes that were reinforcing of the approach.<sup>11</sup>

**Fostering a Supportive Culture and Policy Environment.** Part of the challenge of entrepreneurship development is changing the culture – creating an environment that welcomes, supports and celebrates entrepreneurship rather than one that is indifferent or even hostile to those who think outside the box. Changing the culture begins at the grassroots level when community leaders

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<sup>11</sup> Edgcomb, et al., Part 1.



acknowledge the importance of entrepreneurs to the local economy – through recognition programs, an entrepreneur advisory council to county government, allocation of resources for entrepreneurship programs, etc. However, it must extend to the state and regional levels as well. Experience suggests that culture change at the community level is an easier task than changing the nature and approach of state and regional policy.

As one example of this challenge, a 2008 report on entrepreneur and small business policy in Kentucky found that there were many programs targeted to entrepreneurs and small businesses but that there was no statewide system. Three obstacles to getting to a more coherent state entrepreneurship policy were identified. While these were derived from work in Kentucky, they have broader application to Central Appalachia:<sup>12</sup>

- No “overarching vision” for entrepreneurship and small business policy in the state and lack of appreciation for the role of entrepreneurs and small businesses in the state’s economy.
- Limited “amount of funding” for entrepreneurship and small business development support as compared to total spending on economic development.
- Lack of attention to “program evaluation and performance measurement” so there is no effective means of eliminating poor programs and rewarding excellent programs.

From a regional perspective, ARC’s entrepreneurship initiative (1997-2005) laid the foundation for system building in the region. However, the change in emphasis at ARC toward asset-based development has meant a lower profile for entrepreneurship efforts than in the past. Restoring the focus on entrepreneurship, or emphasizing its importance within other areas such as alternative energy, would provide high profile advocacy for entrepreneurship development in the Central Appalachia region.

### **Recommendations for Action**

The impetus for entrepreneurship development in much of rural America has been at the community level. Individual towns, counties, or multi-county regions have taken responsibility for their economic future by developing strategies to support and by investing in entrepreneurship development. It is more challenging, as a result, to think in terms of recommendations for **regional** action. However, there are four areas in which regional action has the potential to bear fruit:

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<sup>12</sup> Deborah Markley and Brian Dabson, *Creating a System of Support for Entrepreneurs and Small Businesses in Kentucky: Insights and Policy Recommendations*, Prepared for Mountain Association for Community Economic Development, 2008, <http://www.maced.org/files/entrepreneurship-report-web.pdf>.

- Advocacy for entrepreneurship
- Sharing of effective practices
- Support for innovation
- Aligning entrepreneurship and sustainable development

**Advocacy for Entrepreneurship.** On a national level, the Kauffman Foundation has invested in research and outreach to document and report on the contribution that entrepreneurs make to economic development. A similar advocacy effort for Central Appalachia would provide the information needed to articulate the importance of entrepreneurs to the region and to gain the attention of policy makers. The region has a history of this type of advocacy through the Central Appalachian Network, which might be expanded to include additional university partners to facilitate the research/data analysis support needed to effectively fulfill this advocacy role.

**Sharing of Effective Practices.** The level of innovation around entrepreneurship development in the region and across the country is significant. What is lacking is an effective mechanism for practitioners to share what they are doing and to learn from one another. This convening/education function was an important outcome of ARC's entrepreneurship initiative and should be expanded across the region. However, networking and shared learning around a general topic like entrepreneurship development would be less effective than convenings targeted to specific aspects of entrepreneurial development – e.g., youth entrepreneurship, supporting entrepreneurs in local food systems, green enterprise development. Regional foundations and ARC might collaborate to provide support for shared learning, with established entrepreneurship practitioners across the region serving as mentors to share their excellent practice.

**Support for Innovation.** One of the important contributions that ARC made to entrepreneurship development in the region was providing “seed capital” for innovative ideas, such as those related to youth entrepreneurship, business incubation, and venture capital. Some, but by no means all, of these ideas proved to be sustainable over time. There continues to be a need for resources to support entrepreneurship innovation. But, that support should extend beyond financial resources to embrace the principles of incubation – providing a nurturing (virtual) environment for innovators where they can be mentored, have access to technical resources to address start-up issues and receive support in developing plans for sustainability. This support should also recognize that entrepreneurship development is a long term process where “graduation” from the incubation experience would be expected in years three and beyond. There is a role for ARC and regional foundations in support of this innovation.

**Aligning Entrepreneurship and Sustainable Development.** If entrepreneurship development in Central Appalachia is to create wealth and achieve positive social, economic and environmental outcomes, we need to be

much more intentional about designing entrepreneurship initiatives to achieve those ends. Since spring 2008, The Ford Foundation has supported a working group looking at [wealth creation in rural America](#), with the goal of providing a framework for moving economic development toward sustainable development. Beginning in 2010 and continuing for three years, the Foundation is supporting four collaborative efforts in the Central Appalachian region that will test and further develop this framework in the region. Members of CAPP are represented among these Ford grantees and should be involved in actively sharing what they are learning through the grant process with others throughout the region. From the perspective of entrepreneurship, this work in the region has the potential to inform the design of entrepreneurship development initiatives going forward.

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<sup>i</sup> Dane Stangler and Robert E. Litan, "Where Will The Jobs Come From?" Kauffman Foundation Research Series: Firm Formation and Economic Growth, Paper No. 1, November 5, 2009.