

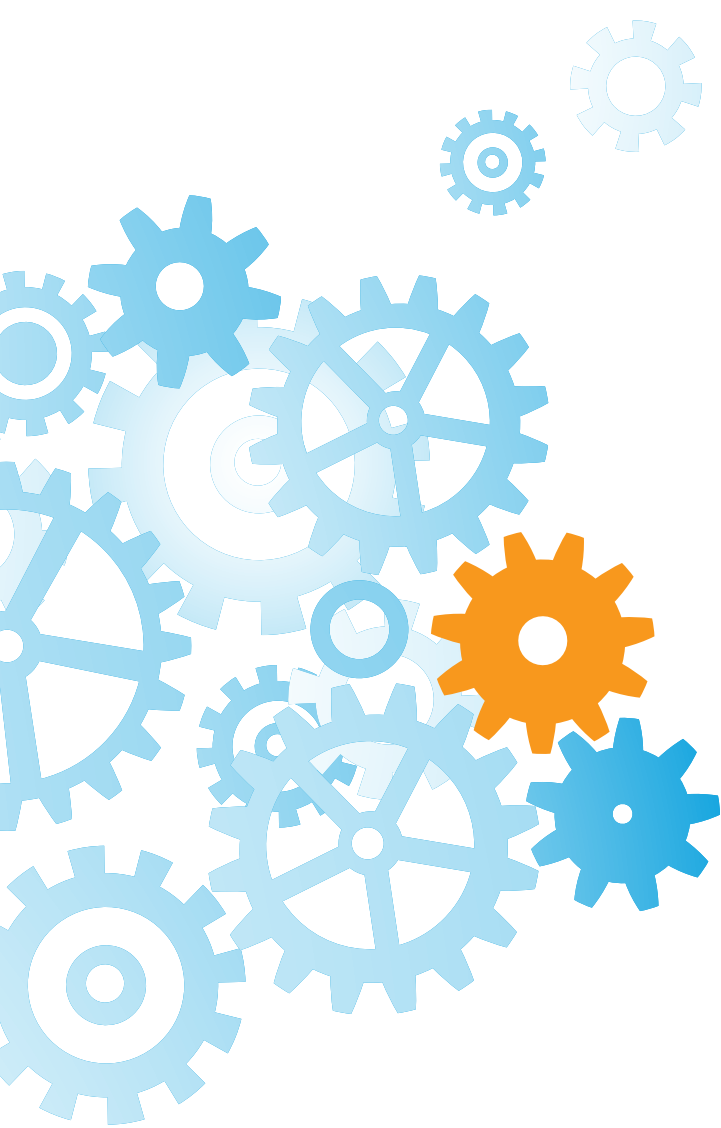
# Creating a System of Support for Entrepreneurs and Small Businesses in Kentucky:

Insights and Policy Recommendations



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## Introduction

The RUPRI Center for Rural Entrepreneurship was commissioned by the Mountain Association for Community Economic Development (MACED) to provide advice on state policy recommendations to create a strong system of support for entrepreneurs and small businesses in Kentucky.



## The Importance of Entrepreneurship and Small Business Development

The focus of economic development policy is to improve the economic wellbeing of a community, whether defined as a town, region or state, by creating jobs and wealth, and improving the quality of life. The primary focus of most state economic development strategies has been the attraction of businesses that can bring jobs and wealth to the state. However, the changing nature of global competition has altered the stakes for state policy makers, making past recruitment strategies more challenging as competitors now include countries in Asia, Latin America, South America, and others. This global competitive environment demands a more diversified approach to economic development, increasing the relative importance of supporting existing small businesses and entrepreneurs and establishing the conditions under which innovative, entrepreneurial endeavors can take root and grow in a state. These “grow your own” strategies have received increasing attention in recent years as communities, regions and states experiment with new types of policies to support entrepreneurs and small business owners.

In order to be successful as part of an overall economic development strategy, entrepreneur and small business (ESB) policies need to focus on three related policies:

- Creating **more** entrepreneurs and small business owners who are actively engaged in enterprise creation — building and filling the pipeline
- Creating **better skilled** entrepreneurs and small business owners who apply these skills to enterprise development
- Building **stronger, more productive and competitive** businesses as a result of the activities of entrepreneurs and small business owners.

The objective is to increase the number of people in a state who are actively pursuing entrepreneurial and small business ventures and providing them with the support they need to grow successful ventures. In turn, the state’s role is to focus on creating an environment in which these new and existing ventures can take hold, grow and flourish. Together these policies can lead to the job creation and wealth creation that lie at the heart of any economic development strategy.

A focus on ESB policies by the state requires the acceptance of a broad definition of an entrepreneur, one that casts a net wide enough to include existing business owners. At its simplest, an entrepreneur is one who organizes, operates and takes on the risk of a business venture. This definition may include a high tech, high growth “gazelle” firm, an existing business owner who adopts e-commerce strategies to build her business, as well as an artisan who markets his wares via a local farmers’ market and heritage trails program. The diversity encompassed in this broad definition reflects the diversity of entrepreneurial and small business talent that exists across the communities and regions of most states, Kentucky being no exception.

The importance of advancing ESB policies as a recognized and valued component of Kentucky’s overall economic development strategy is confirmed by understanding the current make-up of the economy. According to the U.S. Small Business Administration (SBA) Office of Advocacy,

*“...small businesses create most of the nation’s net new jobs, and they bring dynamic ideas, innovative services, and new products to the marketplace. They account for almost all of*



*the nation's employer firms and generate half of non-farm private output. New business creation is key to a state's ability to increase its gross state product, state personal income, and total state employment."*<sup>1</sup>

While the SBA defines small businesses as having less than 500 employees, data for Kentucky show the importance of even smaller enterprises. In 2004/2005, Kentucky had 336,610 small businesses, 99% of which had fewer than 100 employees. In fact, 78% of these businesses were non-employer firms, defined as firms that did not hire any outside employees.<sup>2</sup> It is these small businesses that form the backbone of the state's economy.

These firms are also important sources of employment growth and income in Kentucky. In 2005, small firms (less than 500 employees) accounted for 50% of employment in the state; firms with less than 100 employees accounted for 35% of total employment.<sup>3</sup> Perhaps more importantly, in 2003/2004, firms with less than 20 employees showed a 17.4% increase in net new jobs and firms with less than 500 employees showed a 21.2% increase, while those firms with 500 or more employees showed a 4.9% decrease.<sup>4</sup> In terms of income (defined as payroll), small firms (less than 500 employees) accounted for 45% of total payroll, with smaller firms (less than 100 employees) accounting for 31% of the total.<sup>5</sup> These figures show that small businesses are important sources of jobs and income in the state.

That said, Kentucky faces serious challenges in terms of its comparative position in the nation and of the distribution of entrepreneurial and small business activity across the state. Appendix A provides data on these challenges by looking at some indicators that measure entrepreneurship and

microenterprise employment, entrepreneurship income, and entrepreneurship contribution.<sup>6</sup> The main points are:

- There has been growth in nonfarm proprietor employment over the period 1997-2005, the effect of which has been felt to varying degrees across every county in Kentucky. Indeed, the number of counties with growth rates higher than the national average more than doubled. Nevertheless, Kentucky's overall rate of growth was six percentage points behind the nation as a whole. This pattern was repeated with microenterprise employment and microenterprise businesses where the rate of growth differential between Kentucky and the nation was 12 and 8 percentage points respectively.
- The relative position of Kentucky is worse still on indicators of entrepreneurship income. Nonfarm proprietor income levels are 73.6% of those of the U.S. and over the 1997-2005 period, 69 Kentucky counties saw a decline in nonfarm proprietor income, with only 12 counties experiencing growth rates greater than the national average.
- A measure of the contribution of entrepreneurship to the local economy is the nonfarm proprietor income share of total county personal income. In 2005, only six counties had a share higher than the U.S. average of 9.2%; 30 counties saw an increase in share between 1997 and 2005 whereas 90 counties experienced a decrease.

The obvious conclusions to be drawn are that Kentucky has much work to do both in expanding entrepreneurship across the state and in providing the conditions for survival and growth in employment and income from entrepreneurial and small business ventures.

## Role for the State in Entrepreneurship and Small Business Development

Assuming that Kentucky policy makers find value in creating a more diversified approach to economic development, the question becomes one of identifying the appropriate role for state policy in supporting entrepreneurs and small business owners. While ESB policies are not new in most states, the attention being given to new and existing businesses in policy discussions and the innovation in designing these policies is relatively new. A review of state policies across the country finds states most often engaging in three types of activities.

- **Providing resources to entrepreneurs and small business owners directly and to the service providers that support them.** Most states provide resources to serve the education, technical assistance, workforce development, and capital needs of entrepreneurs and small business

owners. These programs are often provided in partnership with the federal government and other institutional partners in the state, such as colleges and universities. For example, all states have a network of Small Business Development Centers that receive both federal and state support to provide counseling, technical assistance, and education to new and existing businesses.

However, some states are building a more extensive support infrastructure, through both public and private investment, that includes entrepreneurship education for business owners and youth, access to a wide range of financing instruments ranging from micro loans to working capital loans to angel and venture capital investments, networking opportunities for business owners, and other policies and programs

designed to meet the needs of specific types of entrepreneurs in the state, such as the funding of kitchen incubators and heritage tourism activities.

- **Creating an effective regulatory environment within which small enterprises operate.** The state's role as a regulator of business activity is well accepted, if not always lauded. State and local governments have an important role to play in establishing the “rules of the game” for business owners and entrepreneurs, from establishing zoning and signage regulations to protecting intellectual property rights to creating business licensing rules. However, there is increasing pressure to recognize the differential impact that regulations have on small businesses and entrepreneurs. Without dedicated legal and regulatory affairs staff, small business owners often find compliance to be a challenge. In interviews across rural North Carolina, entrepreneurs expressed a need for better information about what regulations applied to them and what steps they needed to take

for compliance.<sup>7</sup> Many states have responded by requiring assessments of the impact of new regulations on small businesses and creating other avenues for insuring that small businesses are fairly treated in the application of regulations, e.g., Small Business Ombudsman.

- **Helping to create awareness of the important role played by small businesses and entrepreneurs throughout a state's economy.** While the previous two roles also apply to economic development policy more generally, some states are playing a more unique role in supporting small businesses and entrepreneurs by raising awareness and acknowledging the important role they play in most local and state economies. Awards, business plan competitions, youth entrepreneurship, and the creation of Small Business and Entrepreneur legislative committees are some of the ways that states are encouraging greater recognition of the economic development role and importance of ESB policies.



## Implementation Imperatives for State ESB Policy

The RUPRI Center for Rural Entrepreneurship has focused much of its attention on identifying, understanding, and sharing effective practice in entrepreneurship and small business development. The RUPRI Center has studied activities undertaken by individual communities and organizations, regions and states. Through this discovery and outreach process, the RUPRI Center has identified implementation imperatives — elements of program and policy design that are essential for success. These implementation imperatives can be distilled as follows — **an effective ESB policy creates an entrepreneurship and small business development system that encourages and rewards collaboration across public, private, and non-profit sector partners and is driven by the performance of its entrepreneur and small business market.**

- **Taking a systems approach** — Effective policy focuses on connecting the dots or silos of the existing support infrastructure in a way that makes it easier for entrepreneurs and small business owners to find their way to the right service, at the right time.<sup>8</sup> Such a systems approach also facilitates the identification of gaps in the infrastructure that can be filled more effectively and without duplication of effort. And, the system recognizes the need to build a pipeline of entrepreneurs and business owners at one end and supportive entrepreneurial communities in which these enterprises can grow at the other end.
- **Encouraging and rewarding collaboration** — ESB policies are, by their very nature, cross-cutting. Multiple state agencies implement policies and programs, and public, private,

and non-profit sector partners are engaged in supporting new and existing enterprises. To be most effective, these numerous partners need to work together to provide a seamless system of support for small business owners and entrepreneurs — a “no wrong door” infrastructure that meets the entrepreneur where she is. However, getting to this seamless system requires collaboration among the partners; and collaboration requires resources and encouragement that becomes a central component to accomplishing the mission of each partner.

- **Making policy entrepreneur focused and performance driven** — ESB policy should be driven by the needs of the market, in this case, the entrepreneurs and small business owners in the state. Too often, scarce state resources are allocated to the latest economic development innovation, such as business incubators or biotech clusters, without specific consideration of how these innovations respond to the needs of the entrepreneurs and business owners who are creating new economic activity. In the same way, state resources need to be allocated to service providers based on outcomes and performance — counting what happens to a business owner as the result of training or counseling or an infusion of capital, rather than counting the transaction itself.

The systems approach advocated here has a number of key components that collectively contribute to the creation of more entrepreneurs and small business owners who are better skilled and, in turn, create and grow stronger, more productive and competitive businesses. In this way, the system contributes to economic development — creating jobs, wealth

and improving the quality of life. The components of the system include:

- **Entrepreneurship education** — an important component for creating more entrepreneurs by inspiring youth and adults in the idea stage to consider entrepreneurship development as an option
- **Technical assistance and support infrastructure** — the chief vehicle for improving the skills of entrepreneurs and business owners, helping them address challenges and find ways to meet their personal and business goals
- **Networks** — a way to encourage peer learning that can serve to inspire potential entrepreneurs and build the skills of

existing entrepreneurs and business owners

- **Capital access** — a resource for helping entrepreneurs and small business owners build stronger, more productive and competitive businesses
- **Regulatory environment** — a component that can facilitate business start up and growth.

Given these implementation imperatives and what has been learned about entrepreneurship and small business development systems across the country, a starting point for the rest of this policy assessment is to consider the current ESB policy environment in the state.



## Entrepreneurship and Small Business Development in Kentucky

A preliminary inventory of programs and infrastructure<sup>9</sup> to promote and support small business and entrepreneurship in Kentucky has, depending on how broadly or narrowly they are defined, around 100 entries, and as might be expected, there are to be found several examples of each of the above system components. Some of the main features of Kentucky's ESB infrastructure are:

- **The Kentucky Cabinet for Economic Development** provides a range of economic development services, with elements of support for small business and entrepreneurship to be found in three departments. For example, within the Department of Existing Business Development is the Division of Small Business Services that has branches concerned with business information, procurement assistance, and small and minority business. The Department of Financial Incentives has a range of financing programs, including the Direct Loan Program and the Small Business Loan Program administered by the Kentucky Economic Development Finance Authority (KEDFA). In addition, the Department of Commercialization and Innovation is the state's main driver for promoting technology-based businesses, addressing some of the gaps identified in the SRI report referenced below.
- **Other state departments** also provide funding and technical assistance for enterprise development in particular sectors. The Kentucky Department of Agriculture has a number of programs that support agritourism, the marketing of local agricultural products, and the development of niche market and business opportunities in horticulture, livestock, and aquaculture; also the Kentucky Center for Agricultural Development and Entrepreneurship provides business development assistance and builds entrepreneurial capacity

of farmers. Similarly, the Kentucky Department of Commerce supports information and marketing programs in the arts and culture sector as well as financing for tourism development.

- **The university and community & technical colleges** of Kentucky are very important actors in entrepreneurship development. The University of Kentucky has a strong emphasis on science and technology commercialization, and also has programs for supporting student, faculty, and alumni entrepreneurs as well as those in central Kentucky. The innovative Kentucky Entrepreneurial Coaches Institute, a program of the University of Kentucky and its Extension Service, began as a concerted effort to build entrepreneurial capacity in 19 tobacco-dependent counties in northeastern Kentucky — a response to the assessment of the support infrastructure in that region. The program is now expanding to 22 tobacco-dependent counties in the south central part of the state.

Eastern Kentucky University, Morehead State University, Northern Kentucky University, Western Kentucky University, the University of Louisville, Ashland Community & Technical College, Hazard Community & Technical College, and Southeast Community & Technical College all have programs with an entrepreneurship focus ranging from incubators to small business advisory services and business plan competitions to formal entrepreneurship curricula. There is also a well-established network of 14 small business development centers (SBDCs) co-sponsored by the U.S. Small Business Administration and administered by the University of Kentucky in partnership with regional universities, community and private colleges, and the private sector.

- **The non-profit sector** is particularly strong in Kentucky, with many organizations having a national reputation for being in the vanguard of entrepreneurship development, particularly in the area of access to debt and equity capital. These include the Community Ventures Corporation, the Kentucky Highlands Investment Corporation, the Kentucky Science and Technology Corporation, and the Mountain Association for Community Economic Development (MACED).

A 2003 report<sup>10</sup> on the status of entrepreneurship development in rural America included a case study of Kentucky. The report observed:

*There are a number of long-established non-profit institutions that provide high-quality entrepreneurial services. There has been innovative legislation that has taken a comprehensive view of what it takes to stimulate innovation and entrepreneurship in the state, with special outreach into the rural regions. There are a growing number of institutional and virtual networks and alliances that are weaving together the work of multiple non-profit organizations, educational institutions, and public agencies. There are people of vision and energy. There is recognition that there are entrepreneurs of all kinds in the rural communities but that special efforts have to be made to engender trust and confidence. Finally there is a readiness to use technology to supplement outreach into rural communities and an understanding of the importance of community capacity-building as a complement to economic development.*

*Much of what has been described is new and untested, but putting all these together should enable rural Kentucky to offer something close to a seamless system of support services. However, there appears to be no concerted effort at scale to create a pipeline of entrepreneurs through the engagement of young people in Kentucky's rural communities.<sup>11</sup>*

There have been other studies focused on assessing ESB policy in the state. A 2002 study commissioned by the Kentucky Science and Technology Corporation focused on identifying the gaps in support services for a narrowly defined group of entrepreneurs — those who are innovative, technology and growth focused. The report highlighted the lack of higher risk, early-stage seed funding, the lack of targeting of economic incentives to new economy industries, and operational barriers to technology transfer activities within the state's universities.<sup>12</sup> As described above, the state has been responsive in many ways to the findings of this report, creating a set of policies and programs that serve to encourage the creation and expansion of technology and innovation focused entrepreneurs in the state. Examples include the Commonwealth Seed Capital fund, the Kentucky Enterprise Fund, and the Innovation and Commercialization Centers, along with the programs

associated with the private sector Kentucky Science and Technology Corporation.

A study completed in 2003 assessed the state of entrepreneurship in northeastern Kentucky and took a broader view of entrepreneurship. The report concluded that most of the region had a relatively basic level of support infrastructure. Gaps identified included limited access to venture capital and micro-lending, lack of a strategy for youth entrepreneurship, regional support options that did not always translate into local support options, and limited recognition of the importance of entrepreneurs and small business owners to the local economy.<sup>13</sup>

To gain more insight into the actual functioning of Kentucky's ESB policy, the RUPRI Center combined a review of state programs compiled by MACED with key informant interviews to gather more in-depth information about the operation and performance of specific programs. The focus was on understanding the predominant public programs, as well as those that represent a partnership between the public, private and non-profit sectors in the state.<sup>14</sup> Based on this assessment, it is evident that five years after the *Mapping Rural Entrepreneurship* case study, many of the observations made then still hold true.

While Kentucky has many of the important elements or components of an effective support infrastructure, there is still no coherent **system of support** for entrepreneurship and small business development, although there are a number of efforts to coordinate resources and activities among organizations and agencies that make such a system achievable. Examples of such efforts include:

- **The Appalachian Development Alliance** is a collaboration of seven community development financial institutions (CDFIs) — Appalbanc/HEAD Corporation, Community Ventures Corporation, Kentucky Highlands Investment Corporation, Mountain Association for Community Economic Development, Mountain Economic Development Fund, Southeast Kentucky Economic Development Corporation, and East Kentucky Corporation, together with the Pine Mountain Community Development Corporation. The Alliance was created to leverage additional resources, combine expertise and minimize risk in providing financial resources to Kentucky businesses.
- The creation of the **Innovation and Commercial Centers** housed at the regional universities with networks of local centers is intended to improve the deal flow of technology-oriented business start-ups and expansions. This initiative is a joint program of the Kentucky Science and Technology Corporation and the Kentucky Cabinet for Economic Development.

- The **Kentucky Entrepreneur Accelerator Network (KEAN)** is a web portal and outreach effort to provide information to entrepreneurs and small businesses. It represents a partnership between the Center for Rural Development, Kentucky Highlands Investment Corporation, Southeast Community & Technical College, and the University of Kentucky.
- The process of semi-annual reviews conducted by the **Small Business Development Center network** is a conscious effort to understand the nature and scope of other programs and thereby avoid unnecessary duplication and encourage referrals.
- **Community Ventures Corporation** partners with local industrial foundations to implement its new microenterprise program.
- The **Advantage Valley Entrepreneurship Development System Collaborative** is one of the six projects funded by the W. K. Kellogg Foundation to promote collaborative and systemic approaches to entrepreneurship. Its region which extends into West Virginia and Ohio includes three counties in eastern Kentucky.

There are three principal **impediments** that explain why no statewide system has yet to emerge:

- There is **no overarching vision** for entrepreneurship and small business development in Kentucky to which public, private, and non-profit organizations can ascribe and adjust their priorities and methods of working. Certainly, there appears to be only a limited understanding of the importance of entrepreneurship and small business to the Kentucky economy, and thus there is a reluctance to consider an economic development portfolio that includes a significant emphasis on homegrown development.
- The **amount of funding** that is invested in entrepreneurship and small business development support is small, particularly when compared to the economic development resources that are devoted to business recruitment. This means that there is intense competition for funds, which undermines any imperative for collaboration among service providers. Moreover, the infrastructure of programs and organizations in Kentucky has developed over time in response to different political priorities, creating a complex layering of criteria, geographic coverage, and approaches.
- There is limited importance attached to **program evaluation and performance measurement**, and there is therefore no objective means for assessing which programs should be expanded and which should be terminated. Moreover, when new needs are identified, little consideration appears to be given to adaptation of the existing infrastructure, with the

result that additional programs and organizations are created, sometimes with responsibilities that overlap with those that are already in place. It is also the case that there are few, if any, incentives to encourage and support information-sharing, networking, and collaboration among organizations.

There has been some significant progress in **engaging young people in entrepreneurship** — an essential component of creating a pipeline of entrepreneurs. Some examples include:

- The **entreSchools Initiative** is a program of the Kentucky Science and Technology Corporation which has already involved some 27,000 people since 1999. The initiative includes an EdVentures Fund, an early stage venture fund to stimulate ideas for improving learning through “minds-on, entrepreneurial ventures.” There have been some 100 such investments in high, middle, and elementary schools across the state as well as district-wide investments in five counties. The power of this program has been its ability to unlock creative talent within the school system, an essential prerequisite for facilitating an entrepreneurial culture in the state.
  - The National Foundation for the Teaching of Entrepreneurship (NFTE) is partnering with **GearUp Kentucky** to provide after school and in-school programs. Currently over 150 eighth and ninth graders from seven schools participate. This is potentially a scalable program but is not yet integrated into the curriculum (in the way that Junior Achievement is) and resources are limited.
  - The **Center for Rural Development** has two programs that support youth entrepreneurship. The Entrepreneurial Leadership Institute aims to develop future business leaders and entrepreneurs in Southern and Eastern Kentucky. High school freshmen, sophomores and juniors from throughout the Center’s 42 county service area are eligible to apply. The institute is an intensive, weeklong program focused on developing creativity, teamwork, business and leadership skills.
- The Annual Excellence in Entrepreneurship Collegiate Business Concept Challenge is a joint program of the Center with Eastern Kentucky University, Berea College Entrepreneurship for the Public Good, and the Kentucky Highlands Investment Corporation. The competition invites business ideas from Eastern and Southern Kentucky university, college, and community college students to compete for cash awards and professional consultation. Both these programs have importance in increasing awareness and interest in entrepreneurship in rural Kentucky.
- The Kentucky Economic Development Cabinet supports an annual seven-day **Youth Entrepreneurship Camp** at Kentucky State University for 30 high school students, and the Appalachian Regional Commission has provided funding

for various entrepreneurship education initiatives in Kentucky schools and school districts.

One of the greatest challenges remains in **connecting the dots** between the different components of entrepreneurship and small business development in Kentucky. This will require an intentional effort to link entrepreneurship in schools and colleges to business advisory services to sources of capital to networking among entrepreneurs. As discussed earlier, the goal should be both to stimulate the emergence of more entrepreneurs and create the conditions where more of the businesses created survive and grow. The urgency of this task is underscored by the declining share of total personal income accounted for by non-proprietors in Kentucky. This trend has been recognized by the Kentucky Science and Technology Corporation who have introduced a “potential for exponential growth” factor in their due diligence for financial assistance, with the expectation that they should be making higher risk, higher return investments in order to reduce the per capita income gap between Kentucky and the nation as a whole.

Another challenge that was referred to in many interviews is the general **lack of awareness** of the support infrastructure

and, perhaps just as importantly, a **lack of appreciation** of the potential of homegrown development among local and community leaders. The introduction of the Kentucky Entrepreneur Accelerator Network (KEAN) was an explicit attempt to address the first issue by providing access to resources and technical assistance, and to host online discussion groups on key topics. The persistent and strong belief among local elected officials that business recruitment is the primary, if not only, means of pursuing economic development suggests the need for investment in awareness-raising and capacity-building at the community level — the Entrepreneurial Coaches Institute being a significant response to this need.


An assessment of Kentucky’s ESB policy environment at present is timely. There has been significant innovation and experimentation with entrepreneur and small business development policy and practice over the past five years that can provide the lessons learned about effective or model practice to guide state policy decision making. The following section addresses some of the gaps identified in the state’s support infrastructure and suggests models for building a more systems approach to ESB policy in Kentucky.

## Effective State ESB Policy and Practice

Kentucky is a state often looked to as a model of innovative practice, particularly related to support for innovation and technology-focused entrepreneurship. The state, with significant support from the Appalachian Regional Commission, has witnessed the creation of an important developmental venture capital industry. And, as described above, Kentucky has many of the components of an ESB support infrastructure related to the regulatory environment, entrepreneurship education, access to capital, and information/technical assistance. In each of these areas, however, there are insights to be gained from the experience in other states, which might help to increase overall effectiveness of ESB investments in Kentucky.

**Regulatory Reform.** The U.S. Small Business Administration Office of Advocacy has taken the lead in promoting model legislation and action by states to insure regulatory flexibility relative to the small business sector.<sup>15</sup> Almost half the states have responded with some type of legislative initiative, including Kentucky. The Kentucky Commission on Small Business Advocacy, created in 2000 and now part of the Cabinet for Economic Development, has a mission to “act as a business advocate, advising small business owners and helping resolve their concerns and questions about state and federal government regulations.”<sup>16</sup> To better engage the entrepreneurs and small business owners across the state, the Commission created RegWatch, a website and email alert system that provides updates on new and proposed legislation.

Kentucky’s actions parallel those in other states. For example, Georgia has undertaken a regulatory reform initiative, identifying a small business liaison within each state agency which is the focal point for small business input and concerns about existing and proposed regulations. Monthly reporting by these liaisons contributes to tracking regulatory comments and identifying areas where the state may need to take action to address the concerns of entrepreneurs and small business owners. However, the real innovation comes in those states that link regulatory reform and advocacy for small businesses to the existing support infrastructure in a seamless way.

One example from **North Carolina** is illustrative of this approach. The state has a Small Business Ombudsman — 



the point person for small business issues and concerns. Partnered with that office, however, is the North Carolina Business ServiCenter — a Department of Commerce initiative to create a one-stop call center that can connect businesses to the resources they need, wherever they might exist in state government, educational institutions, or the non-profit sector.

The lessons from North Carolina suggest that addressing issues of regulatory reform without also considering how to create a seamless system of support for entrepreneurs and small business owners provides only half a solution. The partnership in North Carolina has allowed the Ombudsman to address cross-cutting issues that may require legislative action, while the ServiCenter can address the information and technical assistance needs of the market. The Ombudsman and ServiCenter work hand in hand to address the needs and concerns of businesses throughout the state, increasing the effectiveness of both initiatives.

**Entrepreneurship Education.** Encouraging broad-based and institutionalized entrepreneurship education, specifically targeted to youth in grades K-12, remains a challenge for most states. As noted above, Kentucky has made some strides in the past five years to create entrepreneurship education opportunities through several mechanisms. Some promising practices exist across the states that may provide insight to making entrepreneurship education a more prominent component of ESB policy in Kentucky.

- In most states, entrepreneurship education is undertaken by a number of partners — 4H, Junior Achievement, state departments of public instruction — and tends to be teacher driven for the most part. A trained or innovative teacher brings curriculum or a program like Junior Achievement into his classroom. Often the experience is a one time opportunity for the student. Creating a more collaborative approach is one step states can take toward institutionalizing entrepreneurship education. In **North Carolina**, the Consortium for Entrepreneurship Education is a network of partners engaged in providing entrepreneurship education to youth and young adults. It includes the Department of Public Instruction, the university system, the community college system and private partners including NC REAL (Rural Entrepreneurship through Action Learning). The consortium provides an opportunity for these partners to share what they are doing and advocate for bringing a more comprehensive approach to entrepreneurship education, for example, by aligning the national Consortium for Entrepreneurship Education's National Content Standards with the state's performance standards.
- The National Foundation for Teaching Entrepreneurship (NFTE) has a curriculum that has proven outcomes related to students increased reading, engagement with school

leadership activities, and pursuit of college opportunities.<sup>17</sup> While Kentucky is currently using the NFTE curriculum in some school and after-school programs throughout the state, **South Carolina's** YEScarolina (Youth Entrepreneurship South Carolina) may offer a model for greater state support of this school-based curriculum. Started as a grassroots effort targeted to disadvantaged youth, YEScarolina began by training 17 teachers in its first year and 25 in the second year, relying on community donations. The program's proven track record garnered state support for teacher training and they have now trained 300 teachers and have over 135 middle and high school, and career & tech center partners. The state has proven to be an essential partner to achieving scale and impact with the program throughout the state.

- Many community colleges across the country are embracing a more substantial economic development role in their regions. While individual campuses across Kentucky are focusing resources on ESB support, there are additional benefits that can accrue from connecting these campus efforts into a broader network. **North Carolina's** 58 community college campuses have created the Small Business Center Network — a network of state-supported small business centers (SBCs) that are distinct from the Small Business Technology Development Centers associated with the university system and supported by the federal government. These SBCs are staffed by a director who works to connect entrepreneurs and small business owners with resources within the community college and across the state. The directors work together to make cross-referrals and act as a resource network for each other, coming together to share best practices. The community colleges have also become a primary delivery vehicle for NC REAL, a flexible, hands-on curriculum that is offered through the SBCs or as part of the curriculum at 54 of the 58 community college campuses. This network of SBCs and entrepreneurship education opportunities means that no entrepreneur or small business owner is more than 30 miles away from access to the support infrastructure in the state.

**Access to Capital.** The innovation in access to capital across the states generally is evident in the filling of gaps in the system. Three areas that have the most relevance to Kentucky's infrastructure needs are microlending, seed capital, and angel investing. Kentucky has recently supported the creation of microenterprise lending in the state but, at this early stage, may benefit from the experience in Nebraska. **Nebraska** has passed both the Microenterprise Development Act (1997) and the Microenterprise Tax Credit Act (2005) in support of microlending and technical assistance throughout the state. The Development Act directed the state to work through a private sector intermediary, the Nebraska Microenterprise Partnership Fund (NMPF), to direct funds to private, non-profit programs supporting microenterprise development. In 2005,

12 organizations received grants from the NMPF. At the end of FY2006, recipient organizations had 358 microloans on their books, with average loan size increasing over time to \$12,565 in 2006. With a current loan portfolio of almost \$4.5 million in 2006, the programs have leveraged another almost \$1.4 million in loans for microbusinesses. For every loan on their books, there was an average of 2.15 jobs created. The Tax Credit Act was established to attract additional private capital to microenterprises. Taxpayers are eligible for a tax credit of up to 20% of new investment in a microbusiness. The impact of the legislation's first full year has not yet been reported.

The **Oklahoma** Center for the Advancement of Science and Technology (OCAST) addressed concern about limited access to early stage, seed capital through the creation in 2006 of the Seed Capital Revolving Fund. Most of OCAST's capital programs are managed by i2E, a private, non-profit corporation that administers a range of technical assistance and capital access programs directed toward advanced technology companies in the state. State funds to support the Seed Capital Revolving Fund were provided for FY2007 and the program is accepting applications. OCAST's overall performance as a comprehensive entrepreneurial support organization has been dramatic — over 20 years, the state has invested \$138.6 million and OCAST has leveraged \$2.4 billion from private and federal sources.<sup>18</sup> The comprehensive approach and public-private partnership model may offer lessons to Kentucky moving forward.

Angel investing in the U.S. has become an increasingly important source of early stage capital for entrepreneurs and small businesses. While a number of states are taking steps to encourage such investment, **Wisconsin's** approach is comprehensive and effective. The state established in 2003 a tax credit program that provides angel investors and investor networks with a 25% income tax credit, taken over two years, for investments in qualified new business ventures. In addition to the credit, the Wisconsin Angel Network, a public-private partnership, provides services and resources to develop the early stage investment sector. And, the Wisconsin Entrepreneur Network works to provide information to entrepreneurs and small business owners, including connections to the angel investment resources in the state. The result of this comprehensive approach to building angel investment resources and capacity has been an increase in angel investing in the state, increasing by 54% from 2005 to 2006.<sup>19</sup> Wisconsin's approach suggests the value of linking tax credits to capacity building and service provision.

**Information/Technical Assistance.** As mentioned earlier, most states provide some basic set of support services to entrepreneurs and small business owners. However, the innovation in recent years has been in providing ways to help entrepreneurs navigate those support services and create a

more seamless and “one stop shop” approach to ESB policy. These innovations range from more passive, informational websites to more interactive counseling call centers.

**Minnesota's** BizPathways ([www.bizpathways.org](http://www.bizpathways.org)) was one of the first attempts to develop a statewide web portal that entrepreneurs and small business owners could use to access information about starting a business, including business plan templates and other materials, as well as to link with service providers at the state and regional/local levels. BizPathways was created by Minnesota Rural Partners, the state's rural development agency formed in the late 1990s through a state-federal partnership. Minnesota Rural Partners has continued to invest in the portal concept through the creation of Minnesota Entrepreneurial Gateway (<http://www.minnesotagateway.net/>).

The state of **Wisconsin** has also invested in a web portal, the Wisconsin Entrepreneur Network portal ([www.wenportal.org](http://www.wenportal.org)). While this portal provides similar information to that provided in Minnesota, it is also the home to the network of Inventor and Entrepreneur Clubs that have been seeded by state funds across communities in the state. More than 35 clubs have been started across the state, in urban and rural communities, and the web portal provides networking opportunities through a listserv and resources for club facilitators. These clubs provide one means of creating a more supportive community environment for entrepreneurs and small business owners, and of connecting these innovative people with the resources they need to create and grow their businesses.

One of the most proactive web-based support services is NetWork **Kansas**. Established by the Kansas Economic Growth Act of 2004, NetWork Kansas is a collaborative of over 400 service provider partners in the state. Entrepreneurs and small business owners can call one number, or visit one website, to engage with a counselor who, in turn, can assess needs and refer to the appropriate public, private, or non-profit service provider. The counselor follows the entrepreneur or small business customer through the referral, following up to determine outcomes and to make additional referrals as needed. NetWork Kansas is not a program in and of itself, but rather a conduit for entrepreneurs to access support services. NetWork Kansas has created a single door that customers can enter and be guided to the right resource among the key service providers in the state. The key to the effectiveness of this approach, however, was establishing the collaborative partnership among key service providers who agreed to build the system — a process that relied on resources that were provided through state legislation. Over time, new service providers have been added to the network as they have been uncovered.

While the approaches to information/technical assistance described here focus on coordinating statewide resources, there are also important regional innovations taking place

to build systems of support targeted to regional assets. Given the regional diversity across the state of Kentucky, policy makers may want to consider support for regional innovation along the lines of the Regional Flavor approach developed in Appalachian Ohio and elsewhere

(<http://www.microenterpriseworks.org/index.asp?bid=2191>) and the Regional Cuisines initiative in the Mississippi River Hills region in **Missouri** ([www.showme.net/MRH](http://www.showme.net/MRH)). Such efforts would be complementary to ongoing efforts in eastern Kentucky focused on heritage tourism and trail development.



## Giving Priority to ESB Policy

Some states have made intentional decisions to give priority to ESB policy as part of a broad set of economic development policies. This is not to suggest that in any of these states has the primary economic development strategy shifted from attraction to homegrown development. Rather, the four states offered here as potential models for Kentucky are taking steps to broaden their approach to economic development and to recognize the role and importance of entrepreneurs and small businesses to creating jobs, building wealth, and improving the quality of life in communities and regions across the state.

**Kansas.** The Kansas Economic Growth Act of 2004 made an important legislative commitment to ESB policy. The legislation was driven from the grassroots, through input received during a series of prosperity summits held around the state. Resoundingly, state policy makers heard from entrepreneurs and small business owners that while there was a range of state support programs, they did not know where to go for help. A significant outcome of the legislation was the creation of NetWork Kansas, described above. In addition to providing more streamlined and coherent access to service provider partners, the legislation provided for tax credits to support investments in small enterprises. In 2006, StartUp Kansas was created to provide entrepreneurs and small business owners with access to grants or unsecured capital that could be used in combination with financing from a NetWork Kansas partner. More recently, the state has piloted the creation of E-Communities across the state. Communities receive tax credits that can be used to create a locally administered fund to support entrepreneurs and small business owners, and they receive information and access to the wider resources associated with the NetWork Kansas partnership. Equally important, this legislation and the initiatives it spurred have helped to change the economic development conversation in the state to include discussion and action on ESB policies.

**Georgia.** In 2004, through the leadership of the governor (an entrepreneur himself), Georgia created the state Small Business and Entrepreneur Coordinating Network. This multi-agency group was designed to coordinate state efforts to support entrepreneurs and small businesses — in essence, to bring the service provider silos closer together. The network has promoted dialogue across the agencies and they worked together to address a capital access gap in the state through the creation of the ESB Loan Guarantee program. An

important product of the network's collaboration is an annual Entrepreneur Summit that serves to elevate the importance of the ESB community in the state. In addition to the network, however, the state also recognized the need to engage communities, creating the E Friendly Community Program. Department of Economic Department resource team members have worked with more than 100 communities, primarily counties, across the state to prepare them for E Friendly Certification. The original "readiness for entrepreneurship" approach has been supplemented with additional strategic planning support for communities that are ready to take the next steps and develop strategies to support their entrepreneurs and small businesses. To address another perceived gap in the support infrastructure, Georgia Tech, with support from the OneGeorgia Authority, established five sector-specific innovation centers across the state. These centers have become part of the Department of Economic Development's support system, which includes a team of Entrepreneur Outreach Specialists who work to connect entrepreneurs and small business owners with the resources embodied in these centers.

**Nebraska.** While Nebraska's microenterprise development strategies have become a model for other states, a newer piece of legislation provides a model for community engagement in support of ESB policies. The Building Entrepreneurial Communities Act was designed to create capacity in communities to build and sustain programs that can generate and retain wealth. The Act provides grants to two or more communities that are collaborating on a project that provides education/technical assistance to energize small business and entrepreneurship development or assistance with business transfer, builds community capacity and leadership programs, generates opportunities to retain or attract youth, or educates about and builds community philanthropy. The program is designed to encourage collaboration across communities, to require a commitment of community resources through a one-to-one match, and to address elements of a comprehensive framework for sustainable community development. The rationale for the act was based on experience gained through the HomeTown Competitiveness initiative, one of six entrepreneurship development systems funded by the W. K. Kellogg Foundation, and serves to address the need to build community capacity to engage in entrepreneurship development — providing the fertile ground within which entrepreneurs and small business owners can create and grow their businesses.

**North Carolina.** As part of a grant from the W. K. Kellogg Foundation to create an entrepreneurship development system for the state, a collaborative of partners in North Carolina has developed a framework for ESB policy. The framework was derived from the work of the collaborative and work groups that grew out of the state's first entrepreneurship summit in 2006. Progress toward achieving that framework includes the creation of Standing Committees on Commerce, Small Business and Entrepreneurship in both the North Carolina House and Senate. While their activity to date has been minimal, they serve a symbolic value of raising the profile of ESB policy within the legislature. The legislature also funded the Rural Venture Fund, a venture capital fund targeted toward investments in businesses operating in the most distressed rural counties in

the state. The Fund is operational and is considering its first round of investments, just a year after legislative approval of funding. Another piece of this framework, the Consortium for Entrepreneurship Education, was discussed earlier in this report as a potential model for networking education providers throughout the state. And, the Department of Commerce has devoted part of its Small Cities CDBG funds to entrepreneurship and small business related projects in communities for the past four years. Together these activities, stimulated by the Kellogg funding but rooted in a deeper understanding of the nature of community economic development across the state, have served to raise the profile of ESB policies and to bring proponents of such policies to the economic development table in the state.

## Recommended Directions for Legislative Action on ESB Policy

It seems clear that most, if not all, of the essential components of an effective ESB support infrastructure can be found in Kentucky, and in certain respects, some programs represent national models. Although there are lessons that can be learned from other states and programmatic ideas that might be applied in Kentucky, the main conclusion to be drawn from the review of current activities is not that there should be more or different programs, but that there should be a more explicit commitment to entrepreneurship and small business development as a priority economic development strategy for the Commonwealth.

This means:

- Increasing the visibility, scale, and reach of existing programs
- Investing in the capacity and capability of existing agencies and institutions
- Making better use of the resources and infrastructure already in place.

The recommended approach is to create and vigorously support a **system of entrepreneurship and small business development**, one which “connects the dots” between different service providers across entrepreneurship education, technical assistance, networking, capital access, and community capacity-building, with the express intent of meeting in a seamless and customer-oriented way the diverse needs of entrepreneurs and small business.

The following are recommendations for action by the Commonwealth of Kentucky to make this vision a reality.

### 1 RECOMMENDATION 1: Making a commitment to ESB development

The Commonwealth of Kentucky, through its Cabinets for Economic Development, Education, and Commerce and the Department of Agriculture, should make an explicit commitment as a central part of its economic development strategy to create more and better skilled entrepreneurs and small business owners, and stronger, more productive and competitive small businesses.

This will require:

- A commitment to increasing the share of state economic development resources that is made available to entrepreneurship and small business development
- An inclusive definition of entrepreneurship that recognizes the contribution that all entrepreneurs and small businesses make to the Kentucky economy, while ensuring that particular attention is given to those that have the potential to grow and create jobs and wealth in their communities
- A recognition that, apart from being legislator and regulator, the state has three principal roles in the facilitation of entrepreneurship and small business development — as advocate, investor, and enabler.

## 2 RECOMMENDATION 2: Advocating for an entrepreneurial Kentucky

The Commonwealth of Kentucky should be an advocate for entrepreneurship and small business development through support for events and processes that secure broad-based buy-in from legislators and elected officials (state and county), the entrepreneur and small business community, educators, and the general public.

Specifically, the state should create an **Entrepreneurship and Small Business Commission** — comprised of representatives from the many sectors and interests in this field — that reports annually to the Governor, the legislature, and the general public on progress and prospects. Its role would be to:

- Make recommendations to the Governor and the legislature on the implementation of an entrepreneurship development system for Kentucky (see Recommendation 3 below).
- Engage the research and analysis capacity within government and the universities to demonstrate the importance of entrepreneurs and small businesses to the Kentucky economy, and to produce regular easy-to-understand updates on key entrepreneurship indicators.
- Convene an annual entrepreneurship summit that provides information on progress being achieved statewide and celebrates the successes of entrepreneurs. This should also be the culminating event for regional and statewide competitions for business ideas and for entrepreneurial communities.
- Convene a consortium for entrepreneurship education that brings together the major educational partners in the public, private, and nonprofit sectors across the K-16 spectrum to make recommendations on how current efforts can be substantially increased in scale and reach so that entrepreneurship education becomes an embedded part of curricula. The consortium would be expected to engage in public dialogue with parents, students, and community leaders as part of its deliberations.
- Assume the role and duties of the Kentucky Commission for Small Business Advocacy, continuing to help entrepreneurs and small business owners navigate the regulatory processes and to be an advocate for small business as new regulations are being created.

## 3 RECOMMENDATION 3: Investing in an entrepreneurial system

The Commonwealth of Kentucky should operate as an investor in creating a system of support for entrepreneurship and small business development and not a direct retail provider of funds and services to small businesses.

The main elements of this investor role are to:

- Leverage federal and regional dollars and attract private and philanthropic investments to substantially increase the scale and scope of the investment pool.
- Target investments to key market audiences, specifically young people, early stage entrepreneurs, established small businesses, and communities, and ensure that all regions of Kentucky have the opportunity to participate. Investments should also be used to build the capacity of communities, particularly limited resource, distressed, and rural, to more effectively engage in entrepreneurship and small business development.
- Gear investments to increasing the capacity of existing institutions (or to creating new capacity where there are clear gaps) based on clearly articulated performance criteria. Such investments would be structured as long-term commitments, subject to meeting performance expectations.
- Make investments on a competitive basis, open to nonprofits, units within higher education, and regional development organizations, with selection criteria based on capacity and track record, connections to the markets and communities they serve, commitment to regional system-building and operations, and ability to innovate in product and process.
- Measure performance based on agreed metrics that relate directly to the markets served and the outcomes sought — businesses created, increased skill levels of entrepreneurs, more profitable and productive businesses, more informed and engaged communities — and incorporate a monitoring system so that outcomes can be readily aggregated statewide.
- Set aside a proportion of its investment funds to support innovation — ideas that do not fit into program categories but have the potential to create significant impact; such ideas should be submitted for peer review prior to approval.

## 4 RECOMMENDATION 4: Making the vision a reality

The Commonwealth of Kentucky should take responsibility for ensuring the effective implementation of an entrepreneurship development system while enabling the system itself to be entrepreneurial and non-bureaucratic.

Specifically:

- The Cabinet for Economic Development should significantly enhance the role and capacity of its Small Business Division to be the hub of the advocacy and investing roles outlined above.
- The role of enabler will include the functions of catalyst, convener, connector, and coordinator especially in the early

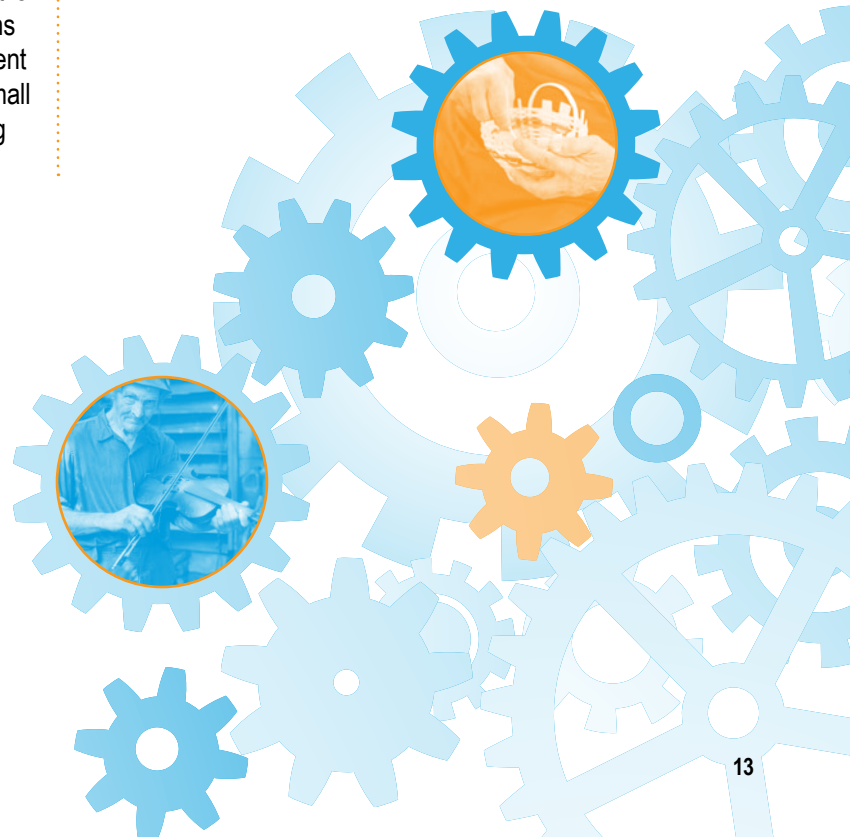
stages, with on-the-ground implementation being the responsibility of the investee organizations:

- o As catalyst — building interest and commitment among the various elements of the entrepreneurship development system
  - o As convener — providing a venue for building the trust relationships among the system participants, and for creating and agreeing upon work plans and outcomes
  - o As connector — ensuring that departments within state government are informed and engaged in the process
  - o As coordinator — providing leadership as needed to make timely progress toward achieving the vision.
- An investment fund should be established to support the creation and sustenance of statewide and/or regional systems, to cover some of the increased transaction costs associated with encouraging information sharing, combining expertise, cross-training, and seamless referrals among multiple agencies and organizations.

## Conclusions

Kentucky has a rich and diverse set of resources available to support entrepreneurs and small business owners. In fact, the state's commitment to supporting high tech, innovation focused entrepreneurs is highly visible and a model for other states. The state is not lacking in the assets needed to build a more effective system of support. However, what is lacking is acceptance of a broad, inclusive definition of entrepreneurs and recognition of the importance of these entrepreneurs and small business owners to economic development throughout the state. What is needed is support for connecting the dots — taking a systems approach to entrepreneurship and small business development that focuses on building the pipeline of entrepreneurs and small business owners through education and information; creating stronger, more profitable entrepreneurs and small business

owners through technical assistance, networking and capital access; and helping to translate these gains into economic development by creating local and state environments in which these stronger enterprises can grow. This systems approach should translate ESB policies into economic development impacts — creating jobs, income and wealth and enhancing the quality of life in communities throughout the state.





**APPENDIX A**

# Indicators of Entrepreneurship for Kentucky

## Entrepreneurship and Microenterprise Employment.

For the purposes of this analysis five measures are used to create a picture of entrepreneurship employment, and these are summarized in Table 1 below.

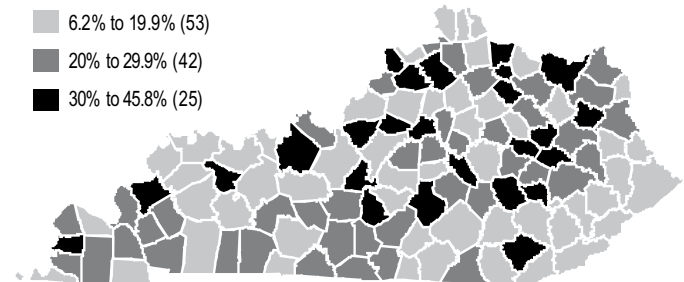
**Table 1: Indicators of Entrepreneurship Employment**

Indicator / Measure	1997 Value	2005 Value
<b>Nonfarm Proprietors Employment</b>		
U.S.	23,648,200	31,147,600
Kentucky	289,633	363,978
<b>Nonfarm Proprietors Employment/Total Nonfarm Employment</b>		
U.S.	15.5%	18.2%
Kentucky	13.9%	16.0%
<b>Number of Microenterprise Businesses</b>		
U.S.	19,197,236	24,511,431
Kentucky	258,327	309,845
<b>Estimate of Microenterprise Employment</b>		
U.S.	24,833,677	31,690,476
Kentucky	327,461	379,103
<b>Microenterprise Employment Estimate/Total Nonfarm Employment</b>		
U.S.	16.3%	17.9%
Kentucky	15.7%	16.7%

Sources: U.S. Census Bureau Nonemployer Statistics and County Business Patterns; Bureau of Economic Analysis, Regional Economic Information System

Nationwide, nonfarm proprietor employment increased 31.7% from 1997 to 2005; in Kentucky the growth was 25.7%. Figure 1 shows nonfarm proprietors' employment as a proportion of total nonfarm employment across the state of Kentucky. In 2005, there were 25 counties in Kentucky, up from 12 in 1997, in which nonfarm proprietors accounted for 30% or more of total nonfarm employment.

**Figure 1: Entrepreneurship Employment in Kentucky:**  
Nonfarm Proprietors as a Percent of Total Nonfarm Employment, 2005



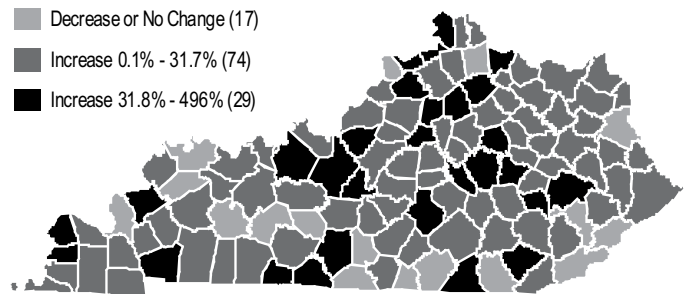
Data Source: Bureau of Economic Analysis, Regional Economic Information System

Map Prepared by RUPRI  
January 2008



Figure 2 shows how changes in nonfarm proprietor employment in Kentucky's counties compared with the national growth rate. All but 17 counties, mainly in the south of the state, saw levels increase between 1997 and 2005; 29 counties had growth rates higher than the national average. Many of these counties are on the periphery of the main urban centers.

**Figure 2: Entrepreneurship Employment Change in Kentucky:**  
Percent Change in Nonfarm Proprietor Employment, 1997-2005

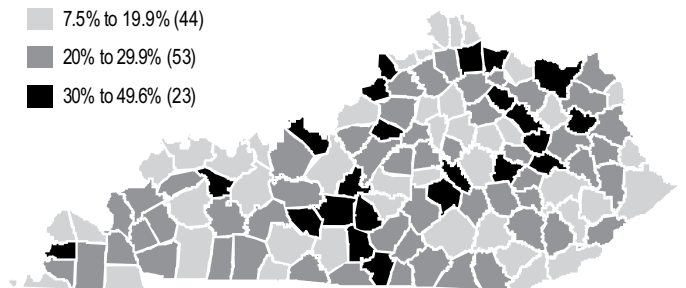


Data Source: Bureau of Economic Analysis, Regional Economic Information System

Map Prepared by RUPRI  
January 2008  
**rupri**

Figure 3 shows the distribution of microenterprise employment in establishments with fewer than five employees. In 1997, microenterprise employment as percent of total nonfarm employment was 16.3% for the U.S. and 15.7% in Kentucky. By 2005, these levels had risen to 17.9% and 16.7% respectively. In 2005, there were 23 counties in which microenterprise employment accounted for 30% or more of total nonfarm employment, up from 11 in 1997.

**Figure 3: Microenterprise Employment in Kentucky:**  
Microbusiness Employment\* as a Percent of Total Nonfarm Employment, 2005

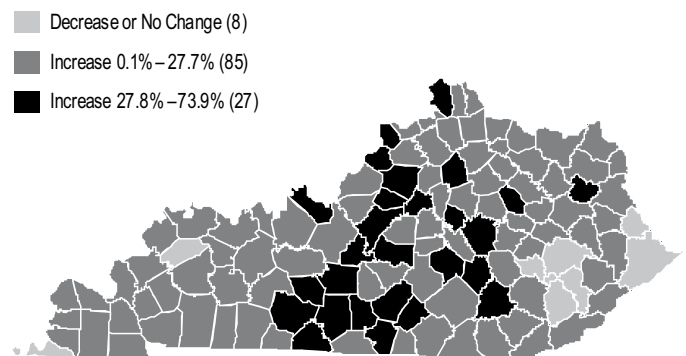


\*Microbusiness employment equals the number of nonemployees plus the estimated number of employees in establishments of employment size class 1-4 (2.5 employees per establishment).  
Data Source: U.S. Census Bureau County Business Patterns and Nonemployer Statistics; Bureau of Economic Analysis, Regional Economic Information System

Map Prepared by RUPRI  
January 2008  
**rupri**

From 1997 to 2005, the number of microenterprise businesses increased by 27.7% nationwide and 19.9% in Kentucky. Microenterprise employment increased by 27.6% in the U.S. and 15.8% in Kentucky over the same period. Figure 4 shows that the number of microenterprise businesses grew faster than the national rate in 27 counties, mainly in central Kentucky, and decreased in 8 counties to the east and west of the state.

**Figure 4: Microenterprise in Kentucky:**  
Percent Change in the Number of Microenterprise Businesses\*, 1997-2005

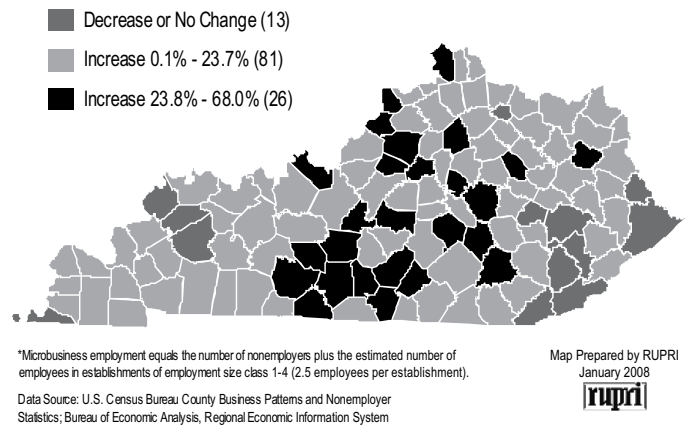


\*Microbusiness business are the number of nonemployees plus the number establishments of employment size class 1-4.  
Data Source: U.S. Census Bureau County Business Patterns and Nonemployer Statistics; Bureau of Economic Analysis, Regional Economic Information System

Map Prepared by RUPRI  
January 2008  
**rupri**

Figure 5 shows a similar picture in terms of the distribution of the number of microenterprise employees, with 26 counties having higher rates than the nation and 13 eastern and western counties seeing a decrease.

**Figure 5: Microenterprise in Kentucky:**  
Percent Change in the Number of Microenterprise Employees\*, 1997-2005



**Entrepreneurship Income.** One measure of entrepreneurship income is nonfarm proprietors' income per nonfarm proprietor. Table 5.2 shows this for 1997 and 2005 for the U.S. and for Kentucky along with comparative data on per capita income.

**Table 2: Indicators of Entrepreneurship Income**

Indicator / Measure	1997 Value (adjusted to \$2005)	2005 Value
<b>Nonfarm Proprietors' Income / Nonfarm Proprietor Employment</b>		
U.S.	\$27,881	\$30,193
Kentucky	\$19,663	\$22,220
Kentucky as a % of U.S. Value	70.4%	73.6%
<b>Per Capita Income</b>		
U.S.	\$30,827	\$34,471
Kentucky	\$25,377	\$28,272
Kentucky as a % of U.S. Value	82.3%	82.0%

Source: Bureau of Economic Analysis, Regional Economic Information System

In 2005 in Kentucky, nonfarm proprietor income per nonfarm proprietor ranged from \$5,485 to \$44,306, compared with a range of \$10,210 to \$55,001 (2005 dollars) in 1997. According to this measure, there has been a significant fall in income per proprietor over a period when there has been a growth in the number of businesses and employees. Figure 6 shows that only 5 counties had income levels above the national average.

**Figure 6: Entrepreneurship Income in Kentucky:**  
Nonfarm Proprietors Income per Nonfarm Proprietor, 2005

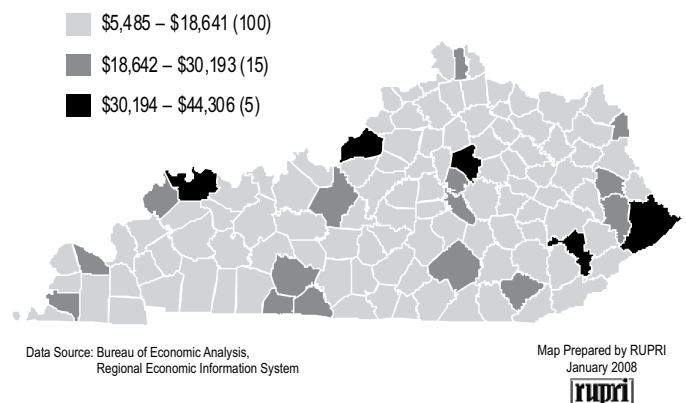


Figure 7 shows that 69 counties saw a decline in nonfarm proprietor income from 1997 to 2005, evenly distributed across the state. Only 12 counties experienced growth rates higher than the nation.

**Entrepreneurship Contribution to the Local Economy.** As Table 3 shows, Kentucky has fallen substantially behind the U.S in the share of nonfarm proprietors' income to total county personal income — a measure of the importance of entrepreneurship to the local economy.

**Table 3: Entrepreneurship and the Local Economy**

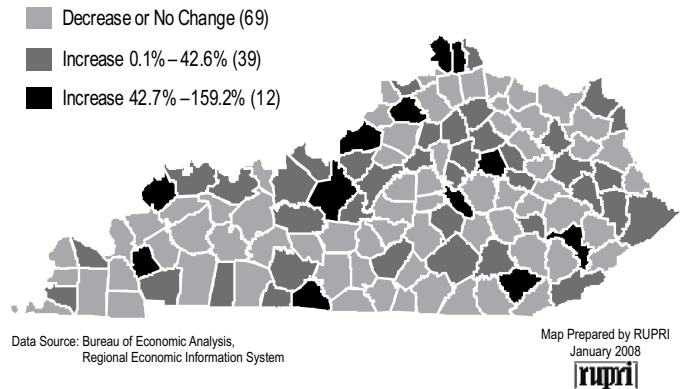
Indicator / Measure	1997 Value	2005 Value
Nonfarm Proprietor Income / Total Personal Income		
U.S.	7.8%	9.2%
Kentucky	5.7%	6.9%

Source: Bureau of Economic Analysis, Regional Economic Information System

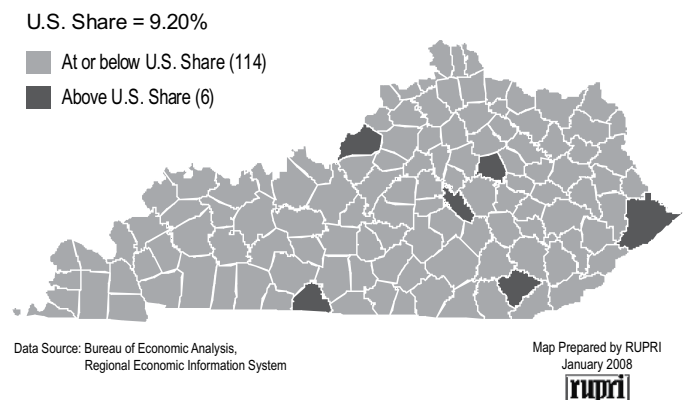
Figure 8 shows that only 6 counties in central and eastern Kentucky had a share higher than the U.S. share of 9.2%.

The dynamics of the changes in nonfarm proprietors' income share of total personal income is shown clearly in Figure 9. Thirty counties saw an increase in share, whereas 90 counties experienced a decrease in share.

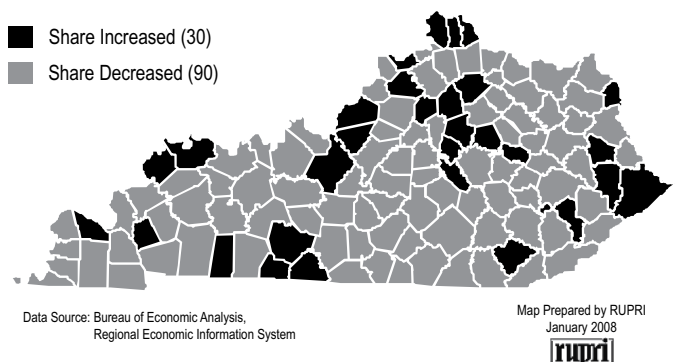
**Figure 7: Entrepreneurship Income in Kentucky:**  
Percent Change in Total Nonfarm Proprietors' Income, 1997-2005  
(1997 adjusted to 2005\$)



**Figure 8: Entrepreneurship and the Local Economy:**  
Nonfarm Proprietors' Income as a Share of Total Personal Income (TPI), 2005



**Figure 9: Entrepreneurship and the Local Economy:**  
Change in the Share of Nonfarm Proprietors' Income to Total Personal Income (TPI), 1997-2005





## Footnotes

- 1 Small Business Administration Office of Advocacy, Small Business Profile — Kentucky, 2007 <<<http://www.sba.gov/ADVO/research/profiles/07us.pdf>>> 24 January 2008.
- 2 Small Business Administration Office of Advocacy, 2007. These are the most recent actual figures available from SBA.
- 3 2005 County Business Patterns, <<<http://www.census.gov>>> 3 January 2008.
- 4 Small Business Administration Office of Advocacy, 2007.
- 5 2005 County Business Patterns.
- 6 The indicators used here serve as generally accepted proxies for entrepreneurial activity, as there is no single measure that captures the number of entrepreneurs in the economy.
- 7 Erik R. Pages and Deborah M. Markley, *Understanding the Environment for Entrepreneurship in Rural North Carolina*, RUPRI Center for Rural Entrepreneurship, January 2004, <<[http://www.energizingentrepreneurs.org/content/chapter\\_2/stories/1\\_000127.pdf](http://www.energizingentrepreneurs.org/content/chapter_2/stories/1_000127.pdf)>>
- 8 The Entrepreneurial League System® developed by Thomas Lyons and Gregg Lichtenstein provided an early and comprehensive articulation of this systems approach.
- 9 Melissa Fry Konty, *Kentucky Programs and Infrastructure to Promote Small Business and Entrepreneurship*, MACED unpublished (2008).
- 10 Brian Dabson, et al, *Mapping Rural Entrepreneurship*, Battle Creek, MI and Washington DC: W.K. Kellogg Foundation and CFED (2003).
- 11 Brian Dabson, et al., 50.
- 12 SRI International, *Audit of Kentucky's Policy Framework for Encouraging Entrepreneurial Development*, Report Submitted to the Kentucky Science and Technology Corporation, January 2002.
- 13 Eric Scorsone, et al., *The State of Entrepreneurship in Northeastern Kentucky: Current Trends, Best Practices, and Policy Implications*, Department of Agricultural Economics and Department of Community and Leadership Development, University of Kentucky, December 2003.
- 14 Given the short timeframe established for this policy assessment, the focus has been on the most visible, far-reaching state endeavors; this assessment should not be considered to be inclusive of all public, private, and non-profit programs and policies targeted to entrepreneurial and small business support.
- 15 Small Business Administration Office of Advocacy, Small Business Regulatory Flexibility Model Legislation Initiative, <<[http://www.sba.gov/ADVO/laws/law\\_modeleg.html#best](http://www.sba.gov/ADVO/laws/law_modeleg.html#best)>> 25 January 2008.
- 16 Kentucky Commission on Small Business Advocacy, <<<http://www.thinkkentucky.com/advocacy/>>> 25 January 2008.
- 17 See evaluation summaries on the NFTE website <<[www.nfte.com/impact](http://www.nfte.com/impact)>>.
- 18 2007 OCAST Impact Report, <<<http://www.ocast.state.ok.us/Performance/OCASTImpacts/tabid/168/Default.aspx>>> 24 January 2008.
- 19 Joe Vanden Plas, *Breaking Down Wisconsin's Angel Capital Numbers*, Wisconsin Technology Network, June 20, 2007 <<<http://wistechnology.com/article.php?id=4011>>> 25 January 2008.