

Winter 2011

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Recommended Citation

Alvarez, Stélios C. and Chamberlain, Linda (2011) "Passing Entrepreneurship 101," *Seidman Business Review*. Vol. 17: Iss. 1, Article 12.

Available at: <https://scholarworks.gvsu.edu/sbr/vol17/iss1/12>

Passing Entrepreneurship 101

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Michigan's entrepreneurial climate ranks 44th out of 50 states. In order to develop strategic objectives to significantly improve this score, we need to better understand the factors that drive global, national, state-wide, and regional dynamics of entrepreneurship. Fully researching how we fare compared to other cultures and societies will help provide a platform for applied and action-based learning to support a robust boost to West Michigan entrepreneurship.

The World and the United States

A recent study by the Small Business Administration (SBA) examined several traits of entrepreneurship in the United States relative to the rest of the world. The research paper, titled "Global Entrepreneurship and the United States," annually reports a measure called the Global Entrepreneurship and Development Index (GEDI). Again this year the United States ranked third, behind the leader Denmark and runner-up Canada. The rankings computation weighs three sub-factors: entrepreneurial attitudes, activities, and aspirations. The worst normalized scores for the U.S. were in the technology sector and in providing cultural support for entrepreneurship. The study also divides countries into three developmental stages of entrepreneurship, which are directly proportional to economic development: (1) factor-driven, (2) efficiency-driven, and (3) innovation-driven. The United States and

most of the European Union are in the most advanced third stage. China and India are in the second stage of development and most of the developing world is in the primary stage of entrepreneurship. What this suggests is that in order to remain competitive in a dynamic global marketplace; the United States must continue to, first and foremost, drive innovation.

Figure 1 shows the top 20 GEDI performers of 2010 in blue, and the bottom 20 in black. Of particular historical interest, as well as evidence for the significance of innovation and entrepreneurship in building economies, are the diametrically opposed stories of Singapore (blue) and Jamaica (black). John Lerner provides evidence that proactive management of entrepreneurial and educational infrastructure is central to the success of entrepreneurship in his historical contrast of the two nations, "The Future of Public Efforts to Boost Entrepreneurship and Venture Capital."

In 1965, the two countries had recently gained independence and were very similar on paper. Both had populations slightly under 5 million, were previously British colonies, favored sea-trade, and had annual GDP per capita figures of around \$2,800. Forty years later, Singapore's economy has soared and Jamaica's has stagnated. The 2006 GDP per capita for Singapore was \$431,400, while Jamaica's was only \$4,800.

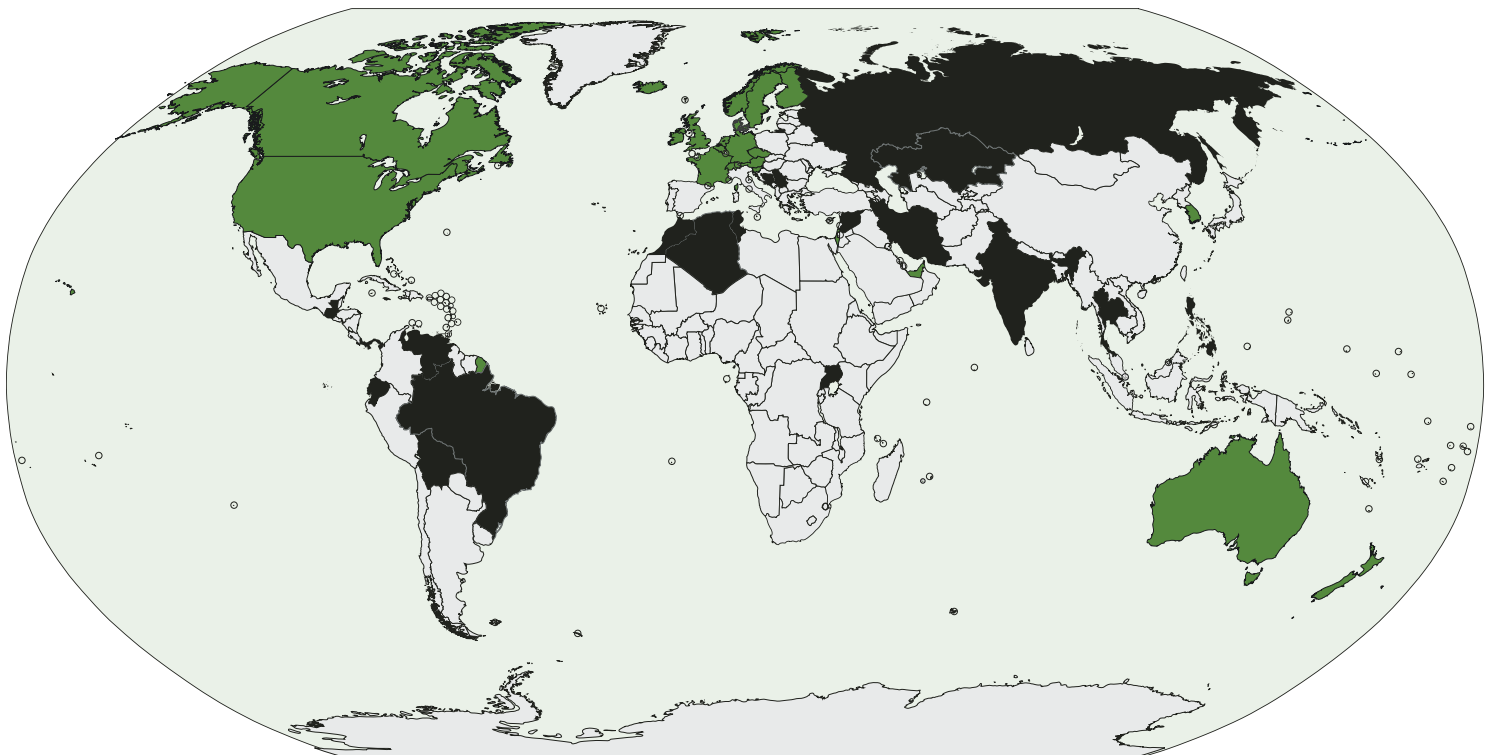


Figure 1: Top 20 (green) and Bottom 20 (black) climates for entrepreneurship, Source: SBA GEDI Ranking, 2010

This gross disparity can be directly related to proactive governing efforts to build entrepreneurial environments, which included strong educational components. What made Singapore so successful was a tailored approach to incentivizing entrepreneurship: (1) providing public funds for venture investors, (2) delivering subsidies for targeted technologies, and (3) encouraging potential entrepreneurs and providing mentoring. John Lerner suggests that public dollars spent each year on entrepreneurship have a long-term effect comparable to spending on education. The moral of the Singapore-Jamaica anecdote is that societies which actively pursue and support entrepreneurship can and should reap long-term rewards, where those who fail to capitalize on it suffer the reverse effect.

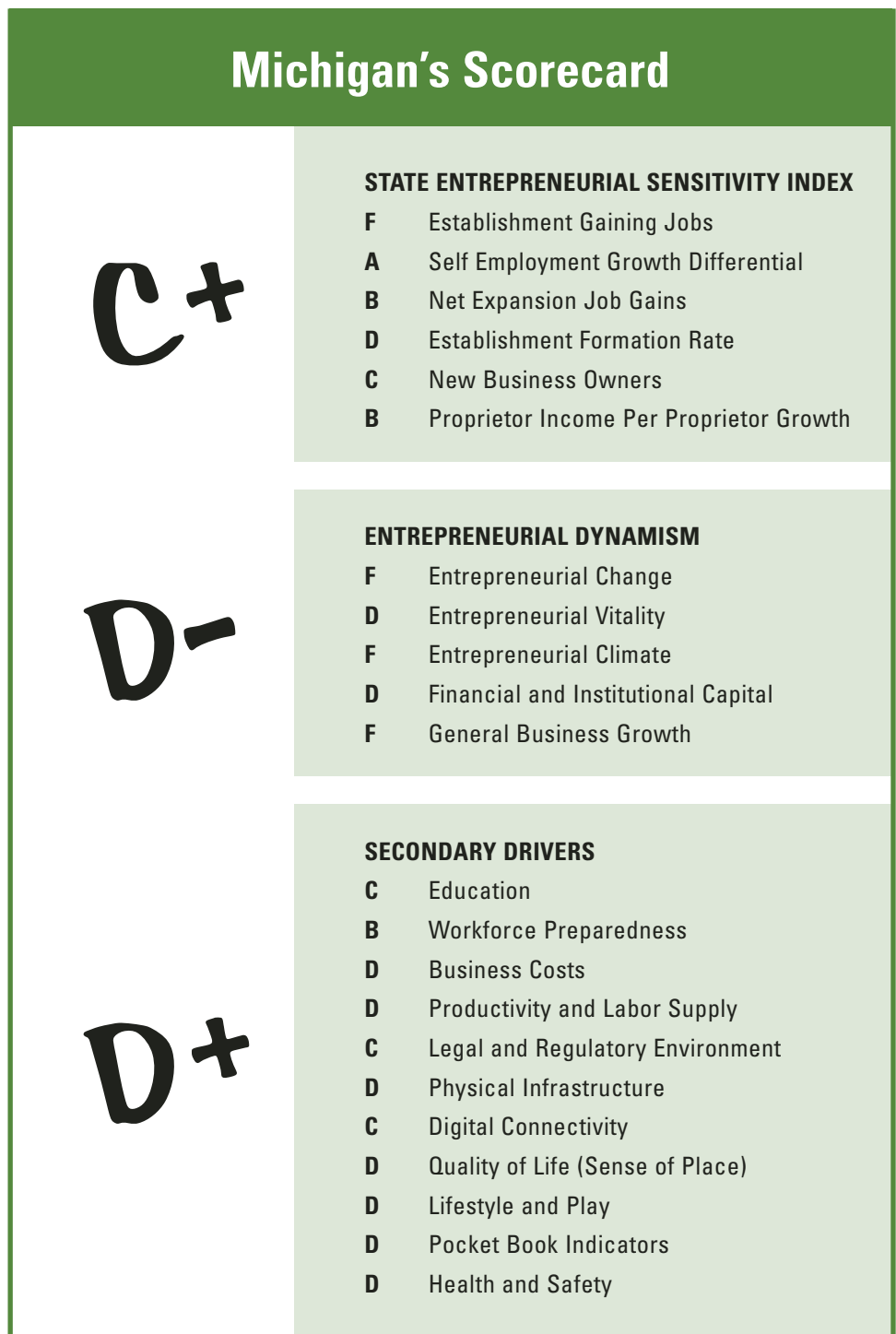
The United States, the Midwest and Michigan

According to the most recent *The Michigan Entrepreneurship Score Card*, published by the Small Business Foundation of Michigan (SBFM), our state underperforms the rest of the Midwest and most of the nation in providing an environment that enables effective investments in innovative activities and access to financial capital, and that exemplifies a level of economic dynamism. The study also ranks Michigan 48 of 50 in Entrepreneurial Change, which combines overall growth in the number of small businesses and small business payroll, as well as the increase in high performance firms and net establishment entrants. This tells us that Michigan has lost small businesses in the past four years, has been the worst in the nation at rewarding employees with higher wages, has been incapable of attracting high-performance companies, and has a higher-than-average failure rate for small businesses. Not to mention, we rank dead last in job growth.

Thankfully, Michigan ranks higher in specific sub-sets of the Entrepreneurship Score Card. We rank 21st in Research and Innovation, as well as 22nd in Entrepreneurial Sensitivity, measured by the State Entrepreneurship Sensitivity Index (SESI). This index combines a series of metrics relating to entrepreneurial job creation, business growth, and proprietary income growth. Another redemptive measure

is postsecondary education. Michigan ranks 21st overall and 9th in quality, consistently outperforming the national average for the past five years. Figure 2 shows Michigan's position for each entrepreneurial factor studied by the Entrepreneurship Scorecard.

Whereas the overall picture may seem bleak and disturbing, there is no better time for Michiganders to face the realities, learn best practices, and chart a new path catalyzed by innovation and entrepreneurship.



STATE ENTREPRENEURIAL SENSITIVITY INDEX

- F Establishment Gaining Jobs
- A Self Employment Growth Differential
- B Net Expansion Job Gains
- D Establishment Formation Rate
- C New Business Owners
- B Proprietor Income Per Proprietor Growth

ENTREPRENEURIAL DYNAMISM

- F Entrepreneurial Change
- D Entrepreneurial Vitality
- F Entrepreneurial Climate
- D Financial and Institutional Capital
- F General Business Growth

SECONDARY DRIVERS

- C Education
- B Workforce Preparedness
- D Business Costs
- D Productivity and Labor Supply
- C Legal and Regulatory Environment
- D Physical Infrastructure
- C Digital Connectivity
- D Quality of Life (Sense of Place)
- D Lifestyle and Play
- D Pocket Book Indicators
- D Health and Safety

Source: SBAM. 2010. Entrepreneurship Score Card Michigan.

West Michigan and the Seidman College of Business

Entrepreneurship culture occurs when favorable factors synergize around talent development, supportive policies and regulations, tolerance for taking risk, and accessible funding. West Michigan entrepreneurs, as well as those who benefit from the value they create, must have an enriching, embracing, and energizing culture enabling the formation, building, and adaptation of ideas into viable business opportunities. It is imperative we work together to make West Michigan attractive to entrepreneurs and small businesses, providing real opportunities for sustained value creation.

Currently, economic indices paint an encouraging picture of the West Michigan entrepreneurial climate. According to the most recent Business Outlook for West Michigan, published by the Upjohn Institute, four out of six metropolitan areas reported employment increases, while joblessness decreased to 13.0 percent (although still historically high). Retail activity in West Michigan has also increased, hinting at signs of renewed consumer confidence. Although these indicators offer a lukewarm indication of recovery, there is also optimism in the decrease in layoff activity. Macroeconomic factors aside, what our region needs is a grassroots revival of entrepreneurial culture.

The Center for Entrepreneurship and Innovation has facilitated idea-shares among entrepreneurs, investors, and business and community leaders, discussing best practices and engaging together in problem identification and solving, creating a sense of community. Competitions such as the Idea Pitch and Business Plan Competitions involve a younger generation and stimulate interest in entrepreneurship and the desire to turn ideas into viable businesses. Also, collaboration among regional advisory resources for Global Entrepreneurship Week and the launch of ENTREprnr.net, a portal that links entrepreneurs to key tools, services, and support infrastructure in the region. This is precisely where Grand Valley's Seidman College of Business has played—and continues to play—a leadership role by providing advisory services, coaching, and other resources to entrepreneurs and small businesses. From the Michigan Small Business & Technology Development Center, to the Center for Entrepreneurship and Innovation, to the Family Owned Business Institute, the Van Andel Global Trade Center, and the GVSU Business Portal (gvsu.edu/BusinessResource) which links entrepreneurs to GVSU resources, the College has invested heavily in outreach to enrich the region's entrepreneurial climate. And, as we move forward on the heels of an economic recovery, this is the time to be bold and brave and to think big. The Seidman College of Business is committed to West Michigan entrepreneurship.

We must move forward with innovation and entrepreneurship *now*. ■

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