

ENTREPRENEURSHIP POLICY DIGEST

MARCH 24, 2014

THE DOS AND DON'TS OF LOCAL ENTREPRENEURSHIP PROMOTION

Small businesses and large companies are vital economic players. But the principal sources of innovation and job creation are new, young, and growing companies. Entrepreneurs and the companies they start are responsible for nearly all of the [net new job creation](#) in the U.S. economy.

Research suggests that policymakers seeking to promote entrepreneurship in their city or state turn from past strategies and embrace a new approach that puts entrepreneurs at the center.



Shared space at 1776, a global hub for startups in Washington, DC, allows natural interaction between entrepreneurs and facilitates peer-learning.

AVOID INVESTMENTS & INCUBATORS

Public support for entrepreneurship traditionally has relied on two tools: investments and incubators. Research has demonstrated, however, that these strategies often are ineffective at promoting entrepreneurship.

SHY AWAY FROM PUBLIC VENTURE FUNDS

- Public venture funds may fill a market void, but they present significant challenges to the public sector, which often lacks the expertise to evaluate and support entrepreneurs on its own. Research shows that even 80 percent of private venture capital firms run by “pros” do not yield [market rate returns](#).

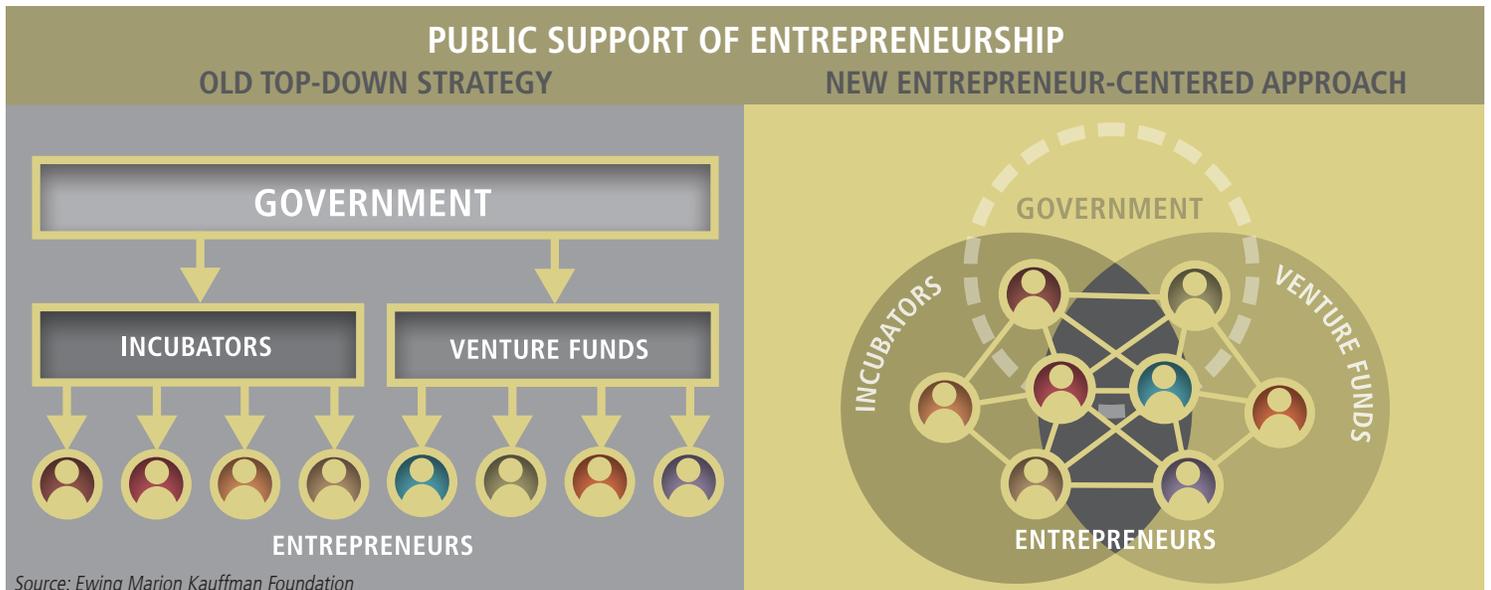
STEER CLEAR OF TRADITIONAL INCUBATORS

- “If you build it, they will come” is not necessarily true when it comes to entrepreneurship. Construction of a traditional incubator that offers startups office space and covers basic overhead costs will not necessarily lead to a surge in successful entrepreneurial ventures. [Studies show](#) there is no evidence that incubator firms perform better than non-incubator firms.

IMPLEMENT A NEW PLAN

Strategies anchored in investments and incubators have failed to foster entrepreneurship because the tactics are not suited to the experiential and collaborative process that characterizes entrepreneurship. Instead, there must be a long-term focus on entrepreneurs as individuals distinct from small businesses, who learn by doing and interacting with others. These connections are locally embedded even if entrepreneurs reach broad markets. The entrepreneurial experience is personal, and it is local.

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CULTIVATE NETWORKS & SUPPORT ACROSS ENTREPRENEURIAL STAGES

- Entrepreneurship often is a lonely, emotional, and challenging process that evolves over time. To be successful, entrepreneurs need connections to potential mentors, networks for learning, and emotional support from peers at all stages of the entrepreneurial process.
- Draw attention to organizations like [Startup Weekend](#) that bring together experienced and inexperienced entrepreneurs to test ideas.
- Programs like [Pipeline](#), which foster relationships and provide mentoring, help later-stage startups reach new levels of growth.

REINVENT INVESTMENTS & INCUBATORS

- If a public venture fund has already been established, avoid awarding one large prize. Instead, distribute many smaller prizes so that a group of entrepreneurs can benefit and become a cohort to face the entrepreneurial journey together.
- If incubators already exist, reorganize them to connect entrepreneurs and enhance peer-learning. Incubators should be more than offices; they should provide a shared space where entrepreneurs interact continually and in which regularly hosted events catalyze collaboration.

LET ENTREPRENEURS IN

REEXAMINE PROFESSIONAL & OCCUPATIONAL LICENSING

- [Nearly one-third](#) of American workers are required to have a government-issued license to do their job. Occupational licensing acts as a barrier to entrepreneurs seeking to bring new innovations and business models to market. Revisit requirements for licensing to spur entrepreneurial competition and new business creation.

WELCOME IMMIGRANTS

- Immigrants were more than [twice as likely](#) as native-born Americans to start businesses in 2012. Create a welcome atmosphere for all immigrants and embrace ethnic diversity to attract job-creating immigrant entrepreneurs.

LET ENTREPRENEURS COMPETE

SIMPLIFY TAX CODES AND PAYMENT SYSTEMS

- Taxes matter, but what entrepreneurs are most concerned about is [tax complexity](#). Simplifying tax codes and payment systems so they are easier to understand will relieve what many entrepreneurs feel is a burden on them and their businesses.

RETHINK NON-COMPETE AGREEMENTS

- Most entrepreneurs have prior industry experience that they leverage to create a new company. Employee non-compete agreements [disrupt](#) entrepreneurship by erecting barriers to the free movement of individuals.

MEASURE PROGRESS

COLLECT DATA TO TRACK PROGRESS & INFORM POLICYMAKING

- Beyond cataloging the number of firms and jobs created or the amount of capital raised, keep tabs on other entrepreneurial measures, such as successful exits and the mentorship network. Use the metrics to gauge progress and adjust efforts accordingly.

FOR MORE INFORMATION FROM THE KAUFFMAN FOUNDATION

Visit www.kauffman.org for access to the following resources, or contact Jason Wiens at jwiens@kauffman.org:

- Watch for *Entrepreneurship Promotion Guidelines for City and Regional Governments* (forthcoming).
- Watch the [keynote address](#) from the 2013 Mayor's Conference on Entrepreneurship, hosted by the Kauffman Foundation.
- [Subscribe](#) to the Kauffman Foundation's Entrepreneurship Policy Digest to receive upcoming educational policy briefs for state and local policymakers.

