

nature vs. nurture

Entrepreneurs play a unique role in the economy. Are they born that way or can their behavior be taught? BY CHARLES GERENA

Plato once said, “Necessity is the mother of invention.” True enough. But someone still has to recognize an unmet need or an unsolved problem and devise a solution. That someone is usually a determined, passionate entrepreneur like Penny Bond.

Last April, Bond quit her job as a substance abuse counselor in Swannanoa, a small town in the mountains of western North Carolina. Tendonitis in her right arm refused to go away, adding to the fatigue and pain she endured for 15 years from post-polio syndrome. “There I was — no work and looking at disability because everything the doctor tried didn’t work,” she recalls.

Then a friend introduced Bond to SCENAR, a battery-powered, remote control-sized device developed in Russia to relieve ailments using low-voltage current through the skin. The device worked for her. “I went home with no pain anywhere in my body, which was really bizarre,” she says. So Bond, a former teacher and medical student, bought a SCENAR and started treating people in their homes for various maladies, from heel spurs to hip pain.

At first, Bond didn’t recognize the profit potential in front of her nose. “I was just going around helping people out and not charging them because I wanted to see if it would work,” she explains. Then, Bond returned to her Master of Entrepreneurship classes at Western Carolina University (WCU) in nearby Cullowhee last August and her professors, James and JoAnn Carland, noticed how energetic and happy she was. “After class, they came up to me and said, ‘What in the world happened to you?’ I pulled out the SCENAR and said, ‘This happened to me.’” After trying it out themselves, the Carlands urged her to build a business around it.

Bond and her partner pooled their money with \$30,000 they collected from students in the entrepreneurship program and opened Healing Innovations in January. So far, they have treated more than 90 people from their office in Arden, a fast-growing community between Asheville and Hendersonville.

Bond’s story illustrates how entrepreneurs benefit the economy and society. If no one ever took a chance on doing something different, innovations from the automobile to the personal computer wouldn’t have improved our quality of life and generated economic prosperity. It also points out how specialized programs like the one at WCU are trying to cultivate this unique resource in the Fifth District. They add to the broader efforts of small business development agencies and incubators to foster entrepreneurship.

Call it the “grow your own” movement. At a time when local and state governments are doling out tax incentives to lure companies and jobs, some communities have focused on helping innovators create economic activity from within. A group based in Wilmington, N.C., has offered educational and networking events for entrepreneurs in the state’s coastal communities since 1995. The 3-year-old Blue Ridge Entrepreneurial Council in Asheville nurtures entrepreneurs in western North Carolina by focusing on four areas: education, mentoring, communications, and capital formation.

Whether such targeted efforts are necessary — or effective — is an open question. Wilmington and Asheville ranked among the top 50 labor market areas in the nation in terms of average annual growth in new firms, one metric of entrepreneurial

activity, between 1990 and 2001. (Raleigh and Charlotte are also in the top 50, along with Roanoke in Virginia and Spartanburg in South Carolina.) But some of that activity could have happened by itself.

Some people are born entrepreneurs, while others like Penny Bond need help. What may be more important than specifically fostering entrepreneurship is supporting an economic environment where anyone can discover their inner Bill Gates.

Portrait of an Innovator

It’s hard to cultivate something that is hard to define. We have an idea of who the entrepreneurs are in our society — the guy selling umbrellas on a rainy day or the Internet guru creating the next eBay — but entrepreneurship isn’t tangible like other factors of production, namely land, labor, and capital.

Using data on people starting new businesses and managing startups in 34 countries, the Global Entrepreneurship Monitor research consortium recently devised a general profile of entrepreneurs. Across all countries, regardless of output per capita, entrepreneurs tend to



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be young (between 25 and 34 years old), male (although rates of entrepreneurship are about equal between the sexes in the United States and several other countries), and otherwise employed.

A January 2004 paper co-authored by Thomas Lyons, director of the Center for Research on Entrepreneurship and Enterprise Development at the University of Louisville, noted that “an entrepreneur’s goal is to create or capitalize on new economic opportunities through innovation — by finding new solutions to existing problems, or by connecting existing solutions to unmet needs or new opportunities.” A 2003 paper published by the European Commission defined entrepreneurship as “the mindset and process to create and develop economic activity by blending risk-taking, creativity and/or innovation with

sound management, within a new or an existing organization.”

James Carland, who developed WCU’s entrepreneurship program with his wife two years ago, makes an entrepreneur sound almost prophetic. “It’s a person who sees what is not there and has the will to establish that vision as a reality,” he says.

Looking at these descriptions, certain traits appear to be central to entrepreneurial activity. They include the vision to look beyond what appears to be possible, the creativity to develop new approaches and combine resources in new ways, and the self-assuredness to see their ideas through to fruition.

Another distinguishing trait is how entrepreneurs weigh costs and benefits. While they expect something in return for venturing into new territory, they realize that not every risk is knowable or can be hedged against. Still, they push ahead and persuade

business partners, suppliers, and buyers to take a leap of faith with them, thus sharing the potential costs. Moreover, as University of Chicago economist Frank Knight argued in groundbreaking work during the 1920s, entrepreneurs are more willing to bear the financial and psychic consequences of uncertainty themselves.

Also, many entrepreneurs are passionate about having more direct control over their working lives. Once they have the opportunity to chase their dreams, they don’t want to go back to being a cog in a corporate machine.

Entrepreneurs tend to be more future-oriented too. Long-term gains are valued more highly than short-term pain. Perhaps this is how entrepreneurs often endure multiple setbacks and failures before they succeed.

Consider the case of Jay Cipoletti. He frustrated his managers at adver-

Rural America: Fertile or Fallow Ground for Entrepreneurism?

Rural communities once again have an abundance of labor. Entrepreneurial activity could emerge from this untapped resource, but the transition won’t be easy.

While the dearth of well-paying jobs has prompted many rural residents to leave their homes in search of better work, others stay behind for various reasons and need a way to make a living. Since there are fewer attractive employment alternatives, residents end up creating their own out of necessity. Deborah Markley, co-director of the Chapel Hill-based Center for Rural Entrepreneurship, refers to these people as “survival entrepreneurs.”

The same thing happens with “lifestyle entrepreneurs,” as Markley calls them. These people move to rural areas to rediscover their roots, get a taste of small-town living, or enjoy outdoor sports. But if they want to work and aren’t telecommuting, starting their own business may be their best option.

The employment losses in rural areas indirectly encourage entrepreneurship in another way. Those who weren’t willing to give up a factory job or bet the family farm to pursue their dreams are now free to take the plunge. “The opportunity cost associated with becoming an entrepreneur isn’t so high,” says Markley. “You aren’t giving up a \$15-an-hour manufacturing job with pension and benefits. It’s the unemployment benefits that are about to run out, or commuting two hours across the mountains to another textile plant that will likely pay \$8 to \$10 an hour.”

At the same time, the obstacles to economic growth in rural areas also hamper entrepreneurial activity. It’s more difficult for entrepreneurs to find the financial capital they need because of the limited number of lending institutions and venture capital firms.

Sometimes personal connections exist between business and community leaders in rural communities that can help entrepreneurs get financing. But they can also be obstacles, according to Brian Dabson, associate director of the Rural Policy Research Institute. “Business deals may receive less than rigorous objectivity, and intercommunity rivalries may reduce the scope for regional cooperation,” remarked Dabson in his presentation at a 2001 conference sponsored by the Federal Reserve Bank of Kansas City. “Existing businesses may resist new business development for fear of allowing further competition in a limited market. Local politics may blur lines of authority and decisionmaking processes.”

Human capital isn’t easy to locate in rural communities either, whether it’s specialized labor or other innovators to brainstorm with and learn from. “It’s harder for entrepreneurs . . . to network with one another,” says Markley, due to the relative isolation and low density of rural communities. “In urban places, you might meet fellow entrepreneurs every morning at the Starbucks on the corner or at the local watering hole.” This raises the transaction costs of locating support systems. “You drive two hours to sit in someone’s office and realize when you get there that it isn’t the place where you need to be.”

Likewise, there is a lack of role models to inspire entrepreneurs, a problem that also plagues low-income, inner-city neighborhoods. The picture of success is usually someone who manages to get steady, well-paying work at the local employer of choice. Taking a chance to start something new isn’t seen as a possibility. “It’s not a positive thing to be too far outside of the mainstream in culturally conservative rural places,” Markley says.

— CHARLES GERENA

tising agency Charles Ryan Associates by pursuing his ideas while neglecting assigned work that he found “mundane, and the upside wasn’t nearly as great.” He learned a lot by working at West Virginia’s largest ad shop, but he stayed for less than two years. “I came to the realization that there were too many things I wanted to do.” Today, he runs a marketing company with his father in Charleston.

Are entrepreneurs more optimistic when assessing the future? Cipoletti believes that entrepreneurs like himself are neither optimists nor pessimists, but realists who acknowledge the challenges around them and have the confidence in the final outcome of their actions to keep going. “You have to go in knowing that you are going to take a body blow, but you can’t let it knock you off track,” he notes. “Being able to deal with internal conflict is critical.”

Who They Aren’t

Entrepreneurs may be confident, but they aren’t necessarily foolish or reckless. “What they’re doing is really risky because, in most cases, they are stepping into unknown territory,” says Deborah Markley, co-director of the Center for Rural Entrepreneurship in Chapel Hill, N.C. “But they are not crazy, wild-eyed risk-takers like Evel Knievel. Successful entrepreneurs understand the risks and figure out how to manage them.”

Entrepreneurs are often thought of as mavericks who challenge the status quo and operate outside of the mainstream. Economists like Joseph Schumpeter described them as agents of “creative destruction” in the economy, creating better, more efficient ways of meeting demand that eventually render old industries obsolete.

But Amar Bhidé, a Columbia University business professor who has researched entrepreneurship for two decades, believes they are also sources of “nondestructive creation,” introducing products and services to meet desires that didn’t exist before. “It is the entrepreneurial activity of creating and satisfying new wants that keeps the system humming,” he noted in a



November 2004 lecture. “It employs the labor and purchasing power released by increased efficiencies in the satisfaction of old wants.”

The truth is not every entrepreneur turns the world upside down. Sometimes, their innovations involve subtle changes to existing processes or applying those processes to something new. For example, Cipoletti decided to apply his marketing acumen to packaging the assets of municipal governments. “Three-fourths of all cities had budget shortfalls in 2003, so generating nontax revenues is critical,” he says. So, his year-old company, Point Forward, helps governments raise revenue by doing things like selling the naming rights to a public stadium.

Entrepreneurism also tends to be associated with small startups that become fast-growing “gazelles.” But not every entrepreneur makes a big splash by creating a multibillion corporation with thousands of employees. Some are less interested in wealth, except as a barometer of their success, and more interested in achieving personal freedom. In the process, their innovations ripple through the economy.

Entrepreneurship helped Penny Bond take charge of her destiny after years of feeling imprisoned in her life. “Part of the reason why I took the master’s program was that, somewhere deep down inside of me, I knew that it might be a way out,” she says.

Another stereotype depicts the entrepreneur as someone who can turn dreams into a business reality, but can’t turn a profit. Look at the Internet and technology companies

JoAnn and James Carland (pictured right), professors of entrepreneurship at Western Carolina University, believe they can teach people how to become entrepreneurs like Bill Gates.

that had great ideas in the late 1990s but never translated them into a sustainable enterprise. The ones that did succeed often started with the ideas of an entrepreneur, but they eventually kicked out the visionary and put a “professional manager” in place.

WCU professor James Carland says that this doesn’t have to happen. Entrepreneurs are capable of innovating and running a company. Furthermore, they need to do both things well. “An entrepreneurial venture will shift its focus and reinvent itself as it sees changes in the marketplace,” he says. This need to continually evolve “isn’t good from a traditional management perspective because that doesn’t provide short-term profit maximization.” But it’s necessary for a business to remain viable in the long term.

Born or Bred?

For some people, the traits of entrepreneurship are innate. But that doesn’t mean others can’t learn these behaviors.

Based on research he has done and the work of other experts, Thomas Lyons at the University of Louisville believes that entrepreneurs “learned what they needed to know in order to be successful. They didn’t just pop out of the womb and have certain traits that allowed them to be successful.”

Carland concurs that nearly anyone can become an entrepreneur. He

remembers when Penny Bond entered the Master of Entrepreneurship program with her partner, Kathy Austin, just because they thought it would be interesting. Neither of them intended to start a business. “Now that I have been through the program, I realize I have much more of an entrepreneurial spirit than I had any understanding of,” says Bond.

The key is having the kind of drive and motivation that propels people toward the world of entrepreneurship. “Lots of us have wonderful ideas and we don’t act on them,” explains Carland. “Entrepreneurs need to have the confidence in their own ability to say, ‘We can produce this and people will want it.’”

That’s why entrepreneurship emerges wherever people have the will to make things better, even if it’s in a command and control economy like the former Soviet Union or in a volatile country like Iraq. “Entrepreneurial activity seeks cracks and crevices in the economy. Those don’t exist in a stable environment,” says Carland. However, in such economies this kind of activity is likely to be limited in size and scope. “If you’re afraid the state is going to step in and nationalize what you’ve done, take it away from you or regulate it out of existence, there’s not very much incentive to create anything.”

In the United States, the “rules of the game” give entrepreneurs the room to pursue their dreams with little interference. Business professor Bhidé says that our market system is very efficient at directing entrepreneurial

activity into ventures that promote technological change. “There is a process by which some ideas get selected and some get rejected,” he notes. “The ones that are selected are able to attract resources on a large scale to reach mass markets and change everybody’s lives.”

Sowing the Seeds

Communities like the Research Triangle region of North Carolina have been cited as fostering entrepreneurial activity. Is there anything that other communities can do beyond the usual business development efforts?

Economic development activities usually focus on business creation, attraction, and retention, often in specific industry clusters that officials see as promising. Lyons sees this approach as “an attempt to pick winners. That’s gambling because we really don’t know what’s going to be successful. Why play that game?” Instead, he advocates creating the necessary infrastructure to support entrepreneurial activity more broadly.

For example, experts believe that communities should invest in developing its human capital broadly rather than focusing on just the “cream of the crop.” This means improving overall education as well as teaching entrepreneurial skills. “It’s not just about building businesses,” says Deborah Markley. “It’s about helping human beings realize their potential.”

Also, social and financial networks are necessary for entrepreneurs to share information and combine resources, as well as develop word of mouth for their new products. Access to capital is par-

ticularly important in sustaining entrepreneurial activity. Lyons thinks communities should help create these support systems. “If it’s left entirely to serendipity, it’s not going to happen at a scale that’s sufficient to transform the economy,” he argues.

Networking is one of the functions of the Entrepreneurial League System (ELS), an approach created by Lyons and consultant Gregg Lichtenstein to identify and develop entrepreneurs. Advantage Valley, a regional development group that covers 12 counties in West Virginia, Ohio, and Kentucky, has been using the ELS model since June 2004.

So far, four “teams” have been formed with 40 members, including Jay Cipoletti. He believes that the monthly meetings with his teammates help “create a culture of development and accomplishment” in an area that has lacked a support system for entrepreneurs.

Creating an environment in which entrepreneurship can thrive doesn’t change the world over night. But if the point is to stimulate entrepreneurial activity that yields innovations for the economy, such long-term structural changes are useful. “Entrepreneurial activity may reflect, to a large extent, slow-to-change cultural and social norms and institutions,” noted researchers with the Global Entrepreneurship Monitor program, sponsored by Babson College and London Business School. “Short-term policies unable to influence culture and institutions may have little or transitory effects on the level of entrepreneurial activity.” **RF**

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