P latu 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 entrepreneurism.

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.
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-
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ling 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 main-
stream. Economists like Joseph

Schumpeter described them as agents

of “creative destruction” in the econo-

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ally 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,” intro-
ducing 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 rev-

enue 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 innova-
tions 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, some-
where 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

that had great ideas in the late 1990s

but never translated them into a sus-
tainable 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 innovat-
ing and running a company. Further-
more, 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 manage-

ment perspective because that doesn’t

provide short-term profit maximiza-
tion.” But it’s necessary for a business to

remain viable in the long term.

Born or Bred?

For some people, the traits of entre-

preneurism 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 entrepreneurism 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 particularly 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.”

Readings


Visit www.richmondfed.org for links to relevant sites and supplemental information.