

*Economies grow best when everyone has an opportunity  
to be productive and create wealth.*

By Dell Gines

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# THE IMPORTANCE OF INCLUSIVE ENTREPRE NEURSHIP ECOSYSTEMS

I am an Omaha, Nebraska, native. I was born, raised, and still live in our Black community here, which we call North Omaha. I remember vividly when a 2007 Omaha World Herald article titled, “Poverty Amid Prosperity” was released.<sup>1</sup> This article detailed the stark differences in economic outcomes in Omaha by race. Among these findings was that the city had the highest African American child poverty rate out of the 100 largest metro areas in the nation, and the third highest adult African American poverty rate. Only one other major metro area had a higher economic disparity rate between their black and white populations. In effect, Omaha truly was an example of the tale of two cities and it’s something I live and observe to this day.

The views in this presentation do not necessarily represent the views of the Federal Reserve Bank of Kansas City or the Federal Reserve System.

Omaha, known for its overall low unemployment rate, low poverty rate, and the fact that it has per capita, more Fortune 500 companies than anywhere else in the nation, makes the economic disparity of its Black population head-scratching. This phenomenon is not just occurring in Omaha. According to a 2018 article from the Pew Research Center, the median annual income of Hispanics and African Americans are respectively 63 percent and 65 percent of White Americans.<sup>2</sup> In addition to the income gap, the wealth gap between Hispanics and African Americans when compared to White Americans is also significant. According to research from the Federal Reserve Board of Governors, in 2016 the median net worth of Hispanics and African Americans was seven and 10 times lower than White Americans respectively.<sup>3</sup> These numbers are particularly troubling in light of the fact that the demographics of America are rapidly becoming more diverse.



Credit: H Street Main Street

**So, what can be done to improve income and wealth in communities of color if economies like Omaha can do very well and still have such a huge gap? Prioritizing inclusivity in the development of entrepreneurship ecosystems can provide part of the answer.**

In this article, I will take a look at the importance of entrepreneurship in our national and local economies, discuss the entrepreneurship ecosystem movement as an economic development strategy designed to spur local entrepreneurship, delve into the emerging focus of inclusive economic development, and conclude by examining ways to create inclusion in entrepreneurship ecosystems development.

## THE IMPORTANCE OF ENTREPRENEURSHIP

Small businesses are called the backbone of the U.S. economy because of the importance they play in creating jobs, wealth, and a local sense of place and community. Here are some of the important roles that entrepreneurship and small business play in the national economy:

### JOBS

Small businesses provide a significant number of job opportunities. As the following chart using data from the Congressional Research Service shows, 90 percent of all businesses in the nation have fewer than 19 employees and 99.7 percent have fewer than 500 employees. These small businesses employ 50 percent of all U.S. workers and are drivers of new job growth.<sup>4</sup>

### POVERTY ALLEVIATION

Entrepreneurship is often cited as a tool to eliminate poverty. For example, a 2009 research study on Appalachia, one of the poorest regions in the United States, found that entrepreneurship and small business growth increases local employment and income levels.<sup>5</sup> Other researchers have found that helping low-income individuals become self-employed can be a pathway out of poverty and also reduce welfare reliance.<sup>6</sup>



## US BUSINESS SIZE BY NUMBER OF EMPLOYEES AND TOTAL EMPLOYMENT



### SENSE OF PLACE

Cities, towns, and communities are not just areas where economic activity occurs, but places where individuals interact, develop relationships, and pursue a higher quality of life. Small businesses and entrepreneurs create a positive sense of place and culture in communities. According to research from the Federal Reserve Bank of Kansas City:

Lifestyle entrepreneurs provide many of the services needed by local residents, and, perhaps most important, they add to the personality and charm that characterize Main Street economies. And, many times, these smaller businesses radiate a quaint charm that attracts people to America's Main Streets.<sup>7</sup>



Credit: Pleasant P. Mann Courtesy Shaw Main Streets

## THE ENTREPRENEURSHIP ECOSYSTEM MOVEMENT

Entrepreneurship ecosystem building is a new, but often little understood, field of economic development. I define an entrepreneurship ecosystem as a community's local network of institutions, policies, physical infrastructure, leadership, relationships, and resources working together to influence the startup and growth of local businesses. This new form of economic development prioritizes building local economies with a specific focus on entrepreneurs, and developing the necessary environment to help them thrive.

Entrepreneurship ecosystems are what I call “fourth-wave economic development.” It’s important to understand the emergence of this fourth-wave in the context of modern economic development history. First-wave economic development began in the 1930s with the emergence of industrial attraction-based economic development, which uses incentives to recruit or retain large firms in a community. This is still the dominant form of economic development. Second-wave entrepreneurial development emerged in the 1980s. This development was driven by a shift in the economic structure of the U.S. from industrial to knowledge and service based, along with the reduction in many government dollars for local economic

development. It focused on developing incubators, microlending, state-run venture capital firms, and export support programs. In the 1990s we saw the emergence of a third wave of economic development, which focuses more on the local context that drives both industry and firm competitiveness. The most notable development strategy that emerged during

the third wave was economic cluster-based economic development, as originated by Michael Porter. In the 2010s, fourth-wave economic development emerged, which focuses on entrepreneurship ecosystem building. This new form of development is still finding its way, but is a potentially game-changing field of economic development.

## BRIEF HISTORY OF ECONOMIC DEVELOPMENT (1930–PRESENT)

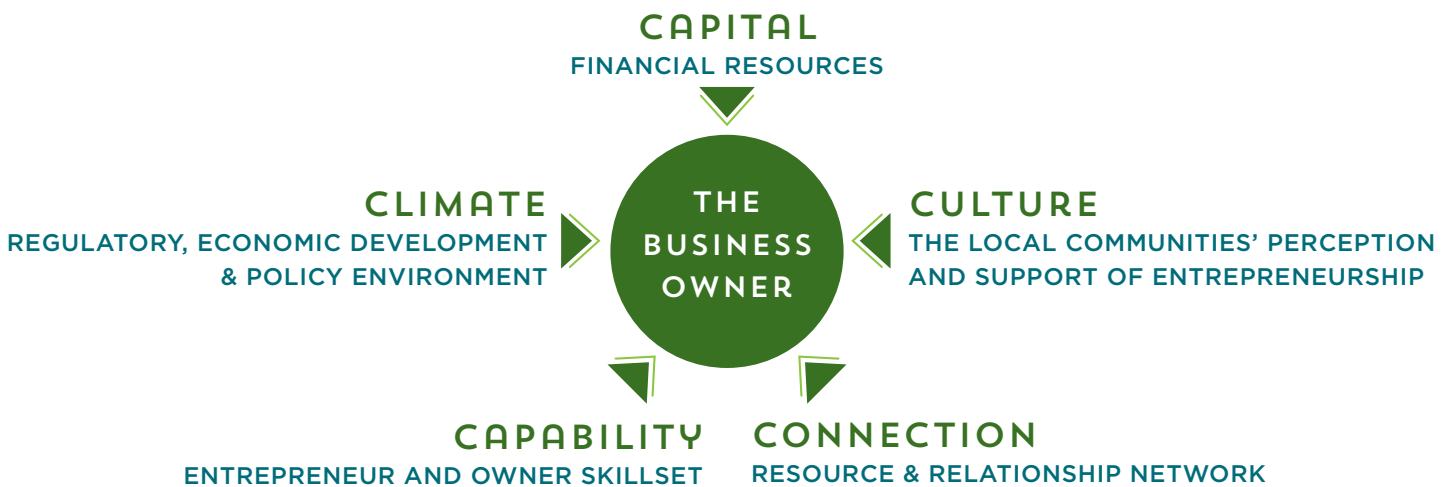
	1930S–PRESENT	1980S–PRESENT	1990S–PRESENT	2010S–PRESENT
<b>Type</b>	<b>FIRST WAVE Industrial Attraction Development</b>	<b>SECOND WAVE Entrepreneurial Development</b>	<b>THIRD WAVE Cluster Development</b>	<b>FOURTH WAVE Entrepreneurship Ecosystem Development</b>
<b>Summary</b>	Focuses on reducing firm cost to relocate or remain in a community.	Focuses on helping small businesses grow by accessing resources and markets through targeted programs.	Focuses on the economic development environment in which industries and firms group together and create a competitive advantage.	Focuses on the context and elements in a local community that enable entrepreneurs to efficiently start and grow companies.
<b>Application</b>	Provide tax incentives, lease abatements, and other forms of cost cutting to firms to induce them to locate in a community.	Provide access to capital, support with exporting, additional training, and provide incubators to help reduce early costs.	Identify the critical industry clusters in an area, and the things that influence those industries, and work to strengthen the clusters through policy, programs, and practice.	Foster collaboration and interaction between policy makers, capital providers, and entrepreneurship support organizations to create an environment that helps entrepreneurs start and grow as quickly as possible.
<b>Rationale</b>	Firms make location decisions based upon cost relative to profit, so if economic development reduces cost, they have a likelier chance of attracting or retaining a firm that is providing economic growth.	Small businesses create the majority of net new jobs, therefore, helping them start, grow, and access new markets is a key to economic growth.	Clusters occur and create a competitive economic development advantage. Therefore, an effective development strategy should be to strengthen the entire cluster, and recruit firms that fit the cluster to maximize economic growth.	High growth entrepreneurs create the majority of net new jobs, and drive new economic growth, so creating a resource rich environment should be a priority of effective economic development.

## ENTREPRENEURSHIP ECOSYSTEM CORE FEATURES

Researchers and industry experts have identified various core features of entrepreneurship ecosystems. For example, the Federal Reserve Bank of Kansas City identified six key elements of ecosystems, including talent, capital, connectivity, culture, infrastructure, and policy. Daniel Isenberg, a leading researcher from Babson College broke down the ecosystem into policy, finance, culture, support, human capital, and markets.<sup>8</sup> Finally, Don Mack and his counterparts at the Center for Rural Entrepreneurship defined five key elements in an entrepreneurship ecosystem—entrepreneurial talents, entrepreneurial culture, entrepreneurial infrastructure, human development focus, and youth engagement.<sup>9</sup>

I have taken the prior definitions and categories and broken them down into five components as illustrated in the chart below:

### THE 5 Cs OF AN ENTREPRENEURSHIP ECOSYSTEM:



## THE ROLE OF THE ECONOMIC DEVELOPER

Building an entrepreneurship ecosystem requires different skills than traditional attraction-based economic development and traditional Main Street development strategies. Economic developers or development teams need to cultivate the following key skills to be effective:

**Leadership Facilitator** The ability to bring local leadership together to develop consensus.

**Vision Oriented** The ability to help craft and keep stakeholders committed to a long-run economic development vision.

**Strategy Guider** The ability to help prepare and execute strategic plans and adapt to changing circumstances.

**Network Weaver** The ability to connect individuals together across the ecosystem and bring new stakeholders

into the network that will strengthen the ecosystem.

**Information Discoverer & Broker** The ability to discover and share new information that will strengthen a community's ability to achieve economic development goals.

**Collaboration Catalyst** The ability to reduce organizational silos to improve collaboration within the ecosystem.

**Culture Transformer** The ability to support and grow an entrepreneurial culture in a local community.

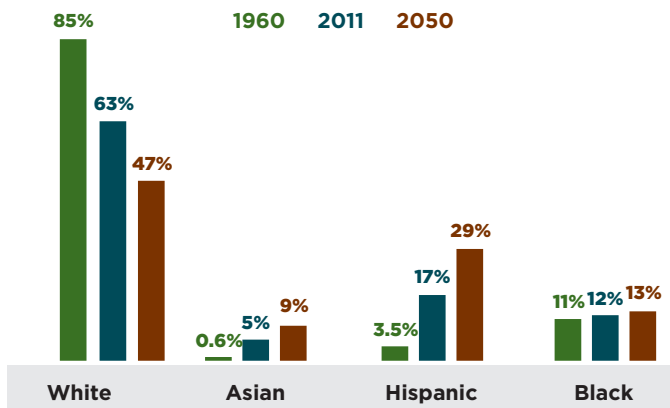
**Policy Advocate** The ability to be aware of and advocate for policies that improve the local climate for starting and growing small businesses.

**Business Spectrum Champion** The ability to champion businesses of all sizes and types, while strategically focusing on businesses that achieve economic development goals.

### DEVELOPING INCLUSIVE ENTREPRENEURSHIP ECOSYSTEMS

Over the next 35 years, America is projected to become a majority-minority nation. As the chart below demonstrates, the Hispanic community is expected to grow from 17 percent of the population to 29 percent. During this same period, the White population is expected to decline from 63 percent of the population to 47 percent.<sup>10</sup>

#### POPULATION BY RACE AND ETHNICITY ACTUAL AND PROJECTED 1960, 2011 AND 2050



With this major shift occurring in racial and ethnic demographics, ensuring that diverse entrepreneurs from different backgrounds are starting and growing firms is a national economic development priority.

Credit: Historic  
Kennett Square

### THE RISE OF INCLUSIVE ECONOMIC DEVELOPMENT

The attention on inclusivity in the entrepreneurship and economic development space is at an all-time high. In 2018, the Growing Entrepreneurial Communities conference hosted at the Federal Reserve Bank of Kansas City focused on communities and groups that traditionally do not get adequate entrepreneurial support—including rural communities, people of color, women, seniors, and youth. Similarly, The Kauffman Foundation's recent ESHIP conference focused primarily on inclusive entrepreneurship ecosystems and the theme of the International Economic Development Council's (IEDC) national conference was inclusive economic development.



By the year 2030 the senior population in the United States, ages 65+, is expected to grow to 19 percent of the total population, up from 12.4 percent in 2000.<sup>8</sup> This demographic group provides tremendous opportunities for communities and their economic development strategies. Seniors have significant human and financial capital and seek to be productive outside of traditional employment.

For example:

- ▶ Working retirees are three times more likely than pre-retirees to own their own business<sup>9</sup>
- ▶ One out of every four older adults is interested in entrepreneurship<sup>10</sup>
- ▶ Start-up rates are higher for Americans ages 55-64 than they are for those in their twenties and thirties<sup>11</sup>

According to Elizabeth Isele, international expert on senior entrepreneurship and Founder and President of Senior Entrepreneurship Works:

“We are on the leading edge of an extraordinarily powerful social change movement. Many of the complex societal challenges that we face require precisely that mix of life experience and understanding that older people have in abundance...We are creating strategies and means to harness seniors’ potential to create not only their own economic self-reliance but, even more, the economic self-reliance and revitalization of their communities, indeed their nations.”

Strategies that help leverage the entrepreneurial capacity of our growing senior demographic will be particularly important in rural communities, which tend to have older residents.

## DEFINING INCLUSION

Embedding inclusivity into the field of entrepreneurship ecosystem building is essential but has been difficult due to the ambiguity of the term itself. In general, the average user of the term “inclusivity” is indicating they are focusing on a group traditionally left out or underserved by some process or institution. However, the term is subject to interpretation. Do we mean that we are working to be inclusive of race and ethnicity, age, gender, geography, or business type?

This past October, the Federal Reserve Bank of Kansas City convened 15 foundations, venture capitalists, and inclusive entrepreneurship ecosystem builders to work through a series of questions designed to help create a national agenda for inclusive entrepreneurship ecosystem building. Before we tried to determine how to operationalize inclusivity in entrepreneurship ecosystems, first we had to clearly define what inclusivity meant to us. We concluded that the primary focus of our inclusive entrepreneurship ecosystem work were people of color, women, and the intersectionality of the two (i.e., Hispanic women).

The definition that we used to operationalize inclusivity may not be suitable for your entrepreneurship and economic development goals. For example, your focus may be geography centered. If you are a rural economic developer, your primary inclusion focus might be to connect rural entrepreneurs in your town or county to the broader state or regional entrepreneurship ecosystem. The point is, whether you define it broadly or narrowly, you need to clearly define the term to ensure everyone in the ecosystem is on the same page.



## CATEGORIES OF INCLUSION

In my experience, inclusion in entrepreneurship ecosystem building is most often associated with a demographic group(s) or geographic group(s) or a combination of the two. When inclusion is used in conjunction with a demographic group, it is most often associated with race, ethnicity, and gender. When it is associated with a geographic group, it is most often associated with rural or inner-city communities. The following chart shows some of the ways you can more clearly define inclusivity. Clearly defining the term makes adopting strategies to embed inclusivity into your ecosystem easier.

### INCLUSION CATEGORIES

GEOGRAPHIC	DEMOGRAPHIC	BUSINESS TYPE
Inner-city	Race	Microbusiness
Rural	Ethnicity	High Growth
Suburb	Gender	Startup
Local Community/zip code	Sexual Orientation	Lifestyle
Metropolitan	Age	Industry Type
County	Veteran Status	Business Age

In most cases you will define your inclusive targets in combination with multiple categories. For example, if you are a rural developer that has a fast-growing Hispanic population, you may define your inclusive target as high-growth Hispanic entrepreneurs located in your rural county or town. If you are worried about the baby boomer generation continuing to have economic impact, your inclusive focus may be senior entrepreneurs starting firms in your city. Regardless of how you define inclusivity for your entrepreneurship ecosystem purposes, it requires great insight into the groups you are working to support.

## INCORPORATING INCLUSION

In the entrepreneurship ecosystem model of development, the entrepreneur—not the company or industry—takes center stage. The needs of the individual working

to start or grow a company are understood to occur within a local system of relationships, resources, place, and policy. This means that to be inclusive, the entrepreneurship ecosystem builder has to truly understand how individuals that are not currently effectively supported by the ecosystem are experiencing the ecosystem. The simplest way to find this out is simply to ask. This could be done through focus groups, surveys, or informal conversations and listening sessions.

To get started, use this four-question framework I used when developing a resource report on Black women-owned businesses:

### FOUR-QUESTION FRAMEWORK

1

Why did you start?

2

What were your challenges?

3

What were your support systems?

4

What do you wish was in the ecosystem that you did not have prior to your launch?

These questions are not comprehensive by any means. What they do, however, is give the entrepreneurship ecosystem builder and economic developer insight into a few key things about the needs of the entrepreneur that can be used when working to create an inclusive entrepreneurship ecosystem.

Next, take the insights from this four-question framework and overlap them with each of the key elements of entrepreneurship ecosystems outlined on page 75. For example, in my research on Black women startups, one of the main challenges identified was the lack of general business knowledge prior to starting their company. If you were working to ensure Black women were being effectively included in your local entrepreneurship ecosystem, you could ask the question, “How do we ensure we are providing effective training to Black women to develop their entrepreneurial talent in our entrepreneurship ecosystem?” This then would



Credit: Kathy La Plante

lead to strategizing around program development and activities designed to address this need in your community.

One additional thing I want to make sure I share—inclusivity is not just about listening and then creating programs for inclusion in your ecosystem. It is also about allowing representatives from the groups you are working with a seat at the table in decision making, program design, and strategy.

### **FINAL THOUGHTS ON INCLUSION**

While inclusion is a growing topic of interest in entrepreneurship ecosystem building, there is still a lot of growth and figuring out to do. However, at the end of the day, all change and growth starts with intention. Being intentional about inclusion and then working to learn how to effectively include it in your entrepre-

neurship ecosystem building is a big first step. Next, learning how to define and communicate what inclusivity means for your economic development organization is key to advancing understanding that inclusivity looks different in every community. The definition should also be frequently revisited to ensure that it evolves with shifting demographics. Most importantly, you must listen to the individuals you are seeking to include in your entrepreneurship ecosystem and include these individuals in leadership positions and program design. It cannot be overstated that when creating inclusive entrepreneurship ecosystems, inclusivity is not just a stated outcome but integrated into every part of the planning process. Economies grow best when everyone has an opportunity to be productive and create wealth—this can only be done if everyone is involved from the start.

## A LIST OF DOS AND DON'TS

### DO

**Define clearly what inclusivity means for your economic development organization or entrepreneurship ecosystem.**

**Listen to the individuals from the groups or communities you are seeking to include in your entrepreneurship ecosystem.**

**Include individuals from your targeted groups in leadership and program design.**

### DON'T

**Be so broad in your definition that your strategy is vague, making it hard to build effective programs and activities around.**

**Just assume that programs in the entrepreneurship ecosystem that works for one group will work for other groups.**

**Be top down in your approach by excluding others from groups you are working to include in the leadership process.**

Learn more at [kansascityfed.org](http://kansascityfed.org)

### Endnotes

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