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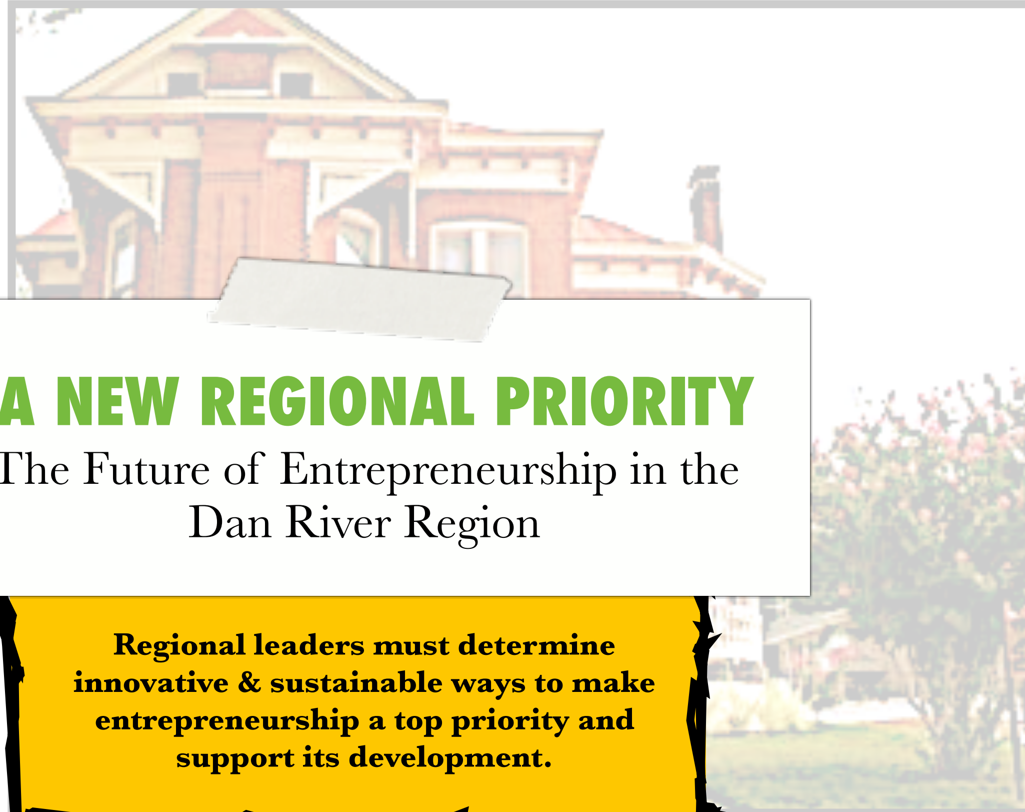


A NEW REGIONAL PRIORITY

The Future of Entrepreneurship in the Dan River Region

Regional leaders must determine innovative & sustainable ways to make entrepreneurship a top priority and support its development.

by Lauren Williams

A White Paper Sponsored by the Danville Regional Foundation

Entrepreneurs create new jobs, help increase local incomes, and connect the local community to the larger economy. Their decisions about exploiting opportunity and allocating resources are closely tied to the social environments in which they operate. Their activities can also play a pivotal role in creating social change. Consequently, regional leaders must focus on determining ways to promote entrepreneurship as a new regional priority. At this point in the Dan River Region's economic transition, local leadership can have a tremendous impact on both economic growth and the resolution of certain social dilemmas by using their influence to lay a solid framework and generate momentum to drive entrepreneurship.

Today, the Dan River Region is experiencing large-scale, dynamic economic restructuring. Principal employers have changed, predominant industries have shifted, and many local officials are searching for new, sustainable ways to enhance long-term economic performance. Placing regional energies behind entrepreneurship is the optimal way to drive economic progress and generate profound, lasting cultural transformation.

Historically embedded problems like inequality, discrimination, and restricted social mobility still challenge local officials and entrepreneurs operating within the local context. These problems manifest as barriers to social interaction, preventing trust formation and prohibiting resource and information sharing. Entrepreneurship requires trust and access to opportunity, information, and resources. Obstacles to entrepreneurship will impede economic growth.

Though tobacco and textile manufacturing once sustained the region's economy, offshore competition and the opening of global markets have led both industries to decline since the 1980s. In a 2006 study of regional competitiveness, Jim Johnson, Distinguished Professor of Strategy and Entrepreneurship at the University of North Carolina's Kenan Flagler Business School, found that local economic development officials have responded to the decline in once-prevailing industries by working aggressively to diversify the local economy. There are now high expectations for some regional economic development based on technology and entrepreneurship. These expectations place individual entrepreneurs and innovators at the center of the region's economic development discourse and call for local stakeholders to invest—financially, emotionally, and structurally—in entrepreneurs.

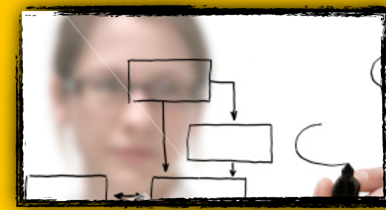
AUGUST 1, 2010

The importance of entrepreneurship

An entrepreneur, according to Stefan Kwiatkowski, an economist who studied the social and intellectual dimensions of entrepreneurship, is one who demonstrates "**the ability to perceive opportunities and to tap resources as necessary to exploit them**." First, an entrepreneur must exercise enough foresight to recognize emerging patterns or *opportunities*. Then, they have to figure out how, if at all, they can get the necessary *resources* to take advantage of such opportunity in a profitable way.

When Dan River Mills – once the area's largest employer – collapsed, the entire region was affected. Because the firm formed the foundation of a key regional industry, suppliers suffered, employees were left jobless, and other regional firms struggled to function in an economy where consumers demanded less than ever before. Local firm owners were forced to reevaluate their strategies for success. For example, by the time the textile industry had fallen, one local entrepreneur was already well positioned to succeed. Stuart Jennings founded Precision Electronics Services in 1985, when the regional context—including family ties, a booming industrial sector demanding electronic services, and a local training institution—placed the necessary opportunities and resources within his reach. Demand for his services dipped when the regional textile industry began to suffer, and Jennings lost the advantage provided by a huge local clientele. Because of his foresight, he was able to identify opportunity outside the region by employing new marketing strategies early on that reached across the nation.

In situations like these, resources and opportunities get rearranged and reallocated. Innovative minds like Jennings' that unite new ways of thinking and new combinations of resources can stimulate local development. Given the right incentives and support, entrepreneurs can create new firms and reinvigorate existing ones by taking risks on promising opportunities. By definition, entrepreneurs make carefully calculated yet risky decisions about how to align resources and opportunities to make profit. Their activities can grow to form part of a resilient economic system, especially if they have access to relationships that make it easier to get information and enter into trust-filled business partnerships.



The Entrepreneur must possess, above all, the ability to perceive opportunities and to tap resources as necessary to exploit them.

The core idea behind social capital is that there is value in the relationships that make up social networks.

Social Context Affects Entrepreneurial Activities

Entrepreneurs place themselves into social groups that will put them in contact with the *right* people—people who can help them identify opportunities and access resources. Because of this, the support entrepreneurs can gain from their social environment is pivotal in determining their chances at success. When entrepreneurs trust one another and those involved in the entrepreneurial process, they can more easily coordinate to take advantage of opportunities and access resources. Trust and information sharing are critical components of **social capital**.

Many view social behavior as a series of exchanges. Typically, we explain social exchanges where one person gains a considerable advantage over another by suggesting that the one who excels is a more capable individual. We assume that they must possess more human capital in the form of education, training, or experience. Instead, Ronald Burt – a prominent sociologist – argues that those who hold certain positions within the structure of these exchanges possess a different asset—*social capital*—that can improve the outcomes of their exchanges. In entrepreneurship, sharing information and investing resources are two exchanges whose outcomes can be improved when entrepreneurs have access to more social capital.

In communities where a solid foundation of trust does not exist, entrepreneurship becomes considerably more risky. Entrepreneurs make decisions about combining resources and exploiting opportunities in which the outcomes are unknown and indefinite. The less trust they have in their business partners, advisors, and general support system, the less sure they can be of the potential outcomes of their decisions. In the Danville region, domineering employers, discrimination, and poverty in recent history have shaped social interactions and present challenges to the formation of trust. Social networks in the area were once designed to become small and segregated with little diversity of race or class. Entrepreneurs could more easily access valuable social capital by working within tightly knit, often *exclusionary* social networks. Ronald Burt would have called this tendency *network closure,* or the idea that a group of tightly connected people generates social capital and results in rewarding exchanges.

Within closed networks, members have quicker access to higher quality information and can trust others within the network more easily. Network closure, based on historically rooted divisions, is a common characteristic in the Danville area. There are many distinct social groups based on characteristics like income, race, industry, and even according to family affiliations.

For the people inside, closed networks can generate abundant social capital. When paired with other kinds of capital, like financial resources or high skill levels, social capital can become even more valuable. In the Dan River Region, large quantities of social capital were once held in what Ken Moss called the "old establishment." Moss is an entrepreneur in the Dan River Region who most recently founded Piedmont BioProducts, a bio-fuel production firm with significant growth potential. He commented on the historical tendency for the "old establishment" to hold a tight grip on local business. While the mill operated, the only growth fueled by social capital involved the personal assets of a tightly knit group of elites who had amassed wealth by controlling carefully organized and *exclusive* social structures. At the same time, those exclusionary tendencies marginalized particular groups of people and made it more challenging for them to tap into those stocks of social capital.

For industry giants, the old establishment's tightly knit network represented an incredibly valuable asset. On the other hand, the way that social capital was isolated from other social groups made the situation problematic for anyone not within that closed network. "Too little" or "too much" social capital at any given level can in fact impair a community's economic performance rather than improve it, according to Michael Woolcock, a social theorist and development specialist. In this region, *too much* social capital in the control of too few people perpetuated inequalities in areas like income, education, and housing. Now, however, Moss has noticed a distinct transformation: the dynamic between the old establishment and the individual entrepreneur is quickly shifting. The social environment is changing such that closed networks are opening up and once isolated social groups are forming new connections with one another.

Social capital can also be created when we bridge gaps between disconnected groups of people. Burt calls these disconnects *structural holes;* they are gaps between distinct social groups, and those who form relationships that span those gaps are responsible for bridging structural holes. Those individuals gain more control over more diverse opportunities, better access to more pools of information, and more influence as actors amidst those networks. Given the region's history, marked by racial segregation and other forms of social hierarchy, disconnected closed networks are more common than the bridging of structural holes. However, the prevalence of network closure in the region represents a wealth of opportunity for bridging structural holes that might exist between them distinct social groups.

Closed networks and bridging structural holes are two means by which entrepreneurs generate the social capital that brings them closer to people with helpful information, necessary resources, and advantageous opportunities. Both methods create social capital, but by bridging structural holes an individual creates a type of value that can build social cohesion and trust in ways that resolve larger social challenges.

Entrepreneurial activity transforms social dilemmas

Social capital introduces a convenient way for us to bridge social and economic perspectives in order to better understand economic development. Development outcomes are more favorable when social capital is accessible to everyone involved in the local economy. As we know, economic development outcomes in the Dan River Region are not yet ideal. Social dilemmas make it harder to generate and retain social capital. So, in this region dealing with social challenges like poverty, inequity, discrimination, underemployment, and others, there are several challenges standing in the way of improved economic development outcomes. Those outcomes will improve as we identify ways to build social cohesion rather than division.

When entrepreneurs enjoy access to other local business people, financial institutions, governmental agencies, civic groups, and others, they enjoy access to a wealth of social capital. Accordingly, an economy in which people enjoy such access is more likely to experience growth. Interviews for this study probed at entrepreneurs', bankers', and other business people's key relationships and the social frameworks that help them gain access to business opportunities, information, and resources. The individuals interviewed offered their observations regarding relationships they have formed and the social groups within which they operate.

The interviewees suggested that some relationships are more established than others. For instance, in most cases their interactions with regional government agencies and officials were positive; many described local government and its subsidiaries as extremely helpful. Others talked about connections within their local communities—including friends, other business owners, and family—and described those relationships as deeply embedded. Many entrepreneurs from this region have deep family connections and other long-term, high-trust relationships that endow them with a useful advantage. They can comfortably rely on those connections for financial support, advice, patronage, and information sharing. Several have formed strong corporate relationships with firms and consumers outside the region as well. However, some entrepreneurs who deal more exclusively with a local clientele shared concerns about what they perceive as consumers' overwhelming "lack of exposure" on the part of local consumers. Simply put, many consumers have either never been exposed to life outside the region or seem unwilling to try out new products and services. This perceived lack of exposure makes it more challenging for firm owners to introduce innovative goods to a local audience. Perhaps improving relationships between local individuals and those from outside the region could work positively to accustom people to unfamiliar products and new ideas. Less-than-ideal development outcomes can be attributed in part to deficient relationships amongst firm owners, leaders, and citizens, both within and outside the region. It is critical that those local firm owners, local citizens, and local leaders invest fully in their capacity to build social cohesion and trust.

> **Social capital** stored in relationships can work to resolve social dilemmas by facilitating trust and information sharing.

If we expect entrepreneurs to *generate* social capital by bridging formerly disconnected social groups to gain better access to resources and opportunities, perhaps they can play a critical role in resolving social dilemmas as well. The same social capital that is created when an entrepreneur reaches beyond their immediate social group can work to resolve social dilemmas by facilitating trust and information sharing. In these varied relationships between social groups—whether business owners dealing with local government, linkages between local civic groups and outside communities, or merchants rallying around a historically rich Main Street—entrepreneurs have the capacity to serve as the ideal actors leading the way in building, maintaining, and growing social capital. The condition of regional social capital matters for the larger community as well, not just entrepreneurs. Communities with abundant social capital are better prepared to act on political interests, meet residents' economic needs, and protect local quality of life. When a community increases its stock of social capital, its ability to provide for its residents' needs improves as well. So, entrepreneurs become even more critical agents of economic development and social change in situations where they bridge previously disconnected social groups.

The Future of Entrepreneurship in the Dan River Region

RECOMMENDATIONS FOR CREATING A NEW REGIONAL PRIORITY

Obtaining regional development outcomes with the help of entrepreneurship will require the recruitment of entrepreneurs with high-growth potential and the retention of regional culture and appeal through lifestyle entrepreneurship.

Researchers identify a continuum of types of entrepreneurs, including high-growth, lifestyle, and subsistence. High-growth focuses on wealth maximization; lifestyle entrepreneurs strive to produce an optimal income for themselves and their families; while subsistence focuses on producing at least a minimum level of income. The following is most pertinent to high-growth and lifestyle.

The United States as a whole is known for demonstrating high rates of high-growth entrepreneurship, according to theorists like David Hart, a public policy professor who focuses on science and technology policy. High-growth entrepreneurship is classified by the entrepreneur's drive to create a world class firm in a field requiring high levels of innovation, not simply to seek self-employment. Rates of high-growth entrepreneurship, however, differ regionally, across states, and across counties throughout the nation. Many researchers, like Jason Henderson—senior economist at the Center for the Study of Rural America—argue that in rural areas, entrepreneurship rates are lower on average than in metropolitan areas. This disparity is attributable to factors like smaller size, remoteness, access to capital and technology, and the different skill sets of residents in rural areas. More entrepreneurs in rural areas practice lifestyle entrepreneurship than high-growth entrepreneurship. Lifestyle entrepreneurs operate in the interest of providing their families with sufficient income or becoming independent through self-employment rather than focusing intently on fueling their firms' growth.

Though we know that high-growth entrepreneurship provides the greatest economic benefit to communities, lifestyle entrepreneurs are equally as central to the economic development of a region as high-growth entrepreneurs for different reasons. Like high-growth entrepreneurs, lifestyle entrepreneurs can inspire innovative thought, create jobs, increase local wealth, and connect the local community to larger economies. Though they may do so on a smaller scale, they contribute even more to community development by adding to regional personality, culture, and appeal. We can expect more in terms of high-growth entrepreneurship if the lifestyle entrepreneurs creating social and cultural appeal are sufficient to attract and retain the pool of individuals that might launch high-growth ventures.

Both lifestyle entrepreneurship and high-growth entrepreneurship bring value to the local economy. The best development outcomes for the Dan River Region will result from a combination of the sweeping economic benefits of high-growth entrepreneurship and the quality of life benefits generated by lifestyle entrepreneurs. The push toward entrepreneurism must be focused on fitting the needs and skills of the existing population, inspiring and enabling lifestyle entrepreneurs to cultivate growth potential, and attracting people with the skills necessary to enable high-growth and high technology entrepreneurship.

> "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. This charm attracts many people to shop and live in rural communities" – *Henderson*

RECOMMENDATIONS FOR CREATING A NEW REGIONAL PRIORITY

When planning how to introduce innovations to attract and support entrepreneurs, local stakeholders must consider the social context within which they operate and take advantage of its defining features.

As discussed before, this region seems to feature abundant social capital stored in closed networks. The presence of many tightly knit, exclusive groups with access to abundant resources and information proves that there also exist many gaps between social groups. Because the social context of this region is so rich in network closure, it is also rich in opportunities for transcending social divides and bringing together stakeholders with diverse interests and resources.

Though entrepreneurs may be ideal brokers of these relationships between networks, they are not the only ones. In some cases, the most prolific people responsible for enabling the most valuable connections are other local leaders. It should become a goal of local leadership to both formally and informally support the bridging of formerly disconnected groups of people who may gain from sharing information and building trust. On all sides, individuals and communities stand to gain considerably from such exchanges.

As one entrepreneur mentioned, the leaders of the area are slowly being forced to embrace the individual rather than the corporation. The creation of a regional economy founded on entrepreneurism will require a broader community-wide mindset that focuses on cultivating growth by developing value from an individual level upward. Parties with decision-making power in the region should take advantage of the shifting regional attitude toward placing greater emphasis on the individual entrepreneur. This might involve structuring programs so that they focus on the entrepreneurially minded individual and support them, both financially and civically, with incentives and guidance.

For organizations in the Dan River Region interested in economic development with the freedom to design such initiatives, directly investing in incentives that draw young entrepreneurs to locate in the area could be very impactful. Furthermore, local organizations could also exercise great influence by applying venture capital strategies, resources, and skills—like long-term investment, strong leadership, a focus on measurable results from funding recipients, and capacity building—to philanthropic giving. This type of philanthropic activity is often referred to as venture philanthropy, and has been adopted by many mainstream foundations. Programs like these that could less feasibly be funded with public finances would be a highly efficient allocation of private foundations' funds. Unlike government agencies, philanthropic organizations may have the capacity to act more freely, take more calculated risks, and experiment more—much like the entrepreneurs these programs could support.

Local leadership must invest in the organizational capacity of local citizens and support the construction of bridges across communities and social groups. The best economic development outcomes will result from a combination of economic growth and social change. Ideally, this discussion—demonstrating the relationship between social capital, entrepreneurship, economic growth, and social change—has provided local stakeholders with a common language and will enable open communication about how the region can attract, retain, and support entrepreneurial activity.

Regional stakeholders must begin with a better understanding of the types of entrepreneurship that exist in the region to determine how they can best be supported and make sure that they collect and maintain data to track regional entrepreneurial progress.

A common grievance in the field of entrepreneurial study revolves around a basic, yet encumbering, lack of data. The Ewing Marion Kauffman Foundation, a widely recognized leader in the field of entrepreneurship study, reports that one of their greatest limitations in understanding the intricacies of entrepreneurial activity comes from unfulfilled data needs. Though their research tries to address some of those needs, their efforts deal primarily with an aggregated, national database. However, rates of entrepreneurial activity vary widely within sub-state regions and across county lines. As a result, we must identify the regional landscape of entrepreneurship before attempting to design tools or programs to support them.

Local business development agencies certainly maintain detailed records of their own clients, yet broader information sharing is critical to the sustainability of the entrepreneurial system. In many cases, client information collected by business support agencies is privileged, so making information about entrepreneurs available to outside sources becomes a challenge. If information about entrepreneurial activity on the local level could be aggregated, it could be used to conduct some incredibly useful research. By maintaining data that measures entrepreneurial activity and other indicators, researchers could track changes in entrepreneurial activity, the effectiveness of support programs, the availability of resources, and so on. Making sure the changes produced by a movement toward entrepreneurship are measurable is critical to demonstrating the effectiveness of support programs and to understanding where improvements can be made. Furthermore, local development agencies, bankers, private lenders, entrepreneurs, media, and so on can all make more informed and accountable decisions if they have more information concerning entrepreneurial activity.

It is imperative that local leaders have a full, detailed picture of local entrepreneurial activity in today's economy. This requires tracking certain indicators over time—rates of entrepreneurship, capital accessibility, indicators regarding entrepreneurship support programs, income generated by entrepreneurial ventures, and so on—in order to make educated decisions about the next steps needed to support economic development through entrepreneurship.

> *Entrepreneurial activity holds the capacity to motivate both economic and cultural development in the Dan River Region. The push toward entrepreneurism must be focused on featuring both the appeal provided by lifestyle entrepreneurs and the impactful economic benefits provided by high-growth and high technology entrepreneurship. Before acting, however, it is imperative that leaders have a clear understanding of the true entrepreneurial activities taking place here already and that they determine a means for measuring change going forward. Support for entrepreneurship must involve provision of the expected financial and infrastructural resources in addition to the full emotional and structural support of leadership and citizens willing to think critically, innovatively and sustainably. Ultimately, those resources must come together to form a regional system that supports and inspires entrepreneurship.*

About the Danville Regional Foundation

The Danville Regional Foundation (DRF) focuses on transforming the regional economy and creating a prosperous culture to benefit all Dan River citizens. It does this by making long-term investments to improve education, economic vitality, community wellness, financial stability and civic capacity for citizens throughout the City of Danville, Virginia; Pittsylvania County, Virginia; and Caswell County, North Carolina. Since its establishment in 2005, DRF has invested more than $40 million through over 40 grants. DRF is committed to fostering collaboration, establishing partnerships and working across borders and with many types or organizations to rethink tomorrow and create solutions, positioning the Dan River Region as a place of opportunities. DRF encourages and supports new approaches, and believes that initiative and courage to view things from fresh and different perspectives enables everyone working *"Together to Build a Brighter Future."*

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The author

Lauren Williams is a recent graduate of the University of North Carolina (UNC) at Chapel Hill with a B.A. in Economics and International Studies. In August 2010, Lauren will begin working as a Program Associate with the Corporation for Enterprise Development in Washington, DC. As a 2008-2010 Fellow with the UNC Alliance for the Graduate and Professoriate, Lauren worked closely with Dr. Maryann Feldman, the S. K. Heninger Distinguished Chair in Public Policy at UNC and a renowned researcher in the geography of innovation and economic growth. As a member of the Danville Regional Foundation's first intern class during the summer of 2009, Lauren became familiar with many of the specific challenges and promising opportunities presently facing the Dan River Region. Consequently, she focused her senior honors thesis—designed and carried out under the advisement of Dr. Feldman—on understanding the social mechanisms and regional characteristics that enable entrepreneurship in the Dan River Region. The Danville Regional Foundation sponsored this study in the interest of learning more about the region's entrepreneurial potential and determining ways that local organizations might be involved in fueling economic development through entrepreneurship. The study aggregated detailed, interview-based narratives describing the experiences of entrepreneurs operating in the region today. Using their accounts, Lauren investigated assertions regarding entrepreneurs' social interactions and regional development outcomes and drew connections between the regional social context and individuals' entrepreneurial behaviors. This report is based on some of the findings related to those assertions and the theoretical framework designed for the original study.

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