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# Real Economic Development comes from Entrepreneurship

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# ECONOMICS COMMENTATOR

South Dakota State University

No. 524

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## **Real Economic Development comes from Entrepreneurship**

by  
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### **Creating Economic Development**

Successful economic development is a difficult task, especially when the general economy is experiencing slow or no growth. The days of “smokestack” chasing or trying to lure large corporations into the state have been diminishing rapidly. The benefits from giving land, reducing taxes and providing infrastructure for large companies to move and provide near minimum wage jobs are often not enough to pay for all of the costs.

A more viable opportunity might be to encourage and promote local entrepreneurs to start new companies that provide products and services that are needed in the community and state of South Dakota. A report by the Small Business & Entrepreneurship Council, Small Business Survival Index 2009, ranks South Dakota at the top among all states and the District of Columbia as a friendly place to start a business and to operate a business. This 14<sup>th</sup> annual report ranks states based on the costs for small business owners such as individual capital gains taxes, personal income taxes, corporate income taxes, and other costs of doing business in a state.

Low start-up costs and expenses of doing business, especially during these tough economic times, help

businesses do well in South Dakota. The state ranks among the lowest in unemployment and has more opportunities for assistance than neighboring states. The availability of assistance from SDSU through the Horizons Community Development program and the Managing Your Business series from the South Dakota Cooperative Extension Service greatly helps communities to expand their business sector. The Enterprise Institute and Innovation Campus at South Dakota State University offer start up help for new entrepreneurs. In addition, the South Dakota University System’s six campuses and other private colleges offer many entrepreneurship courses. Other assistance is available for entrepreneurs through the Dakota Rising Program, Small Business Development Centers, Governor’s Office of Economic Development, local economic development groups, and many local lending institutions and programs. Tribal groups also have many programs for training, assistance and lending for entrepreneurs on the reservations.

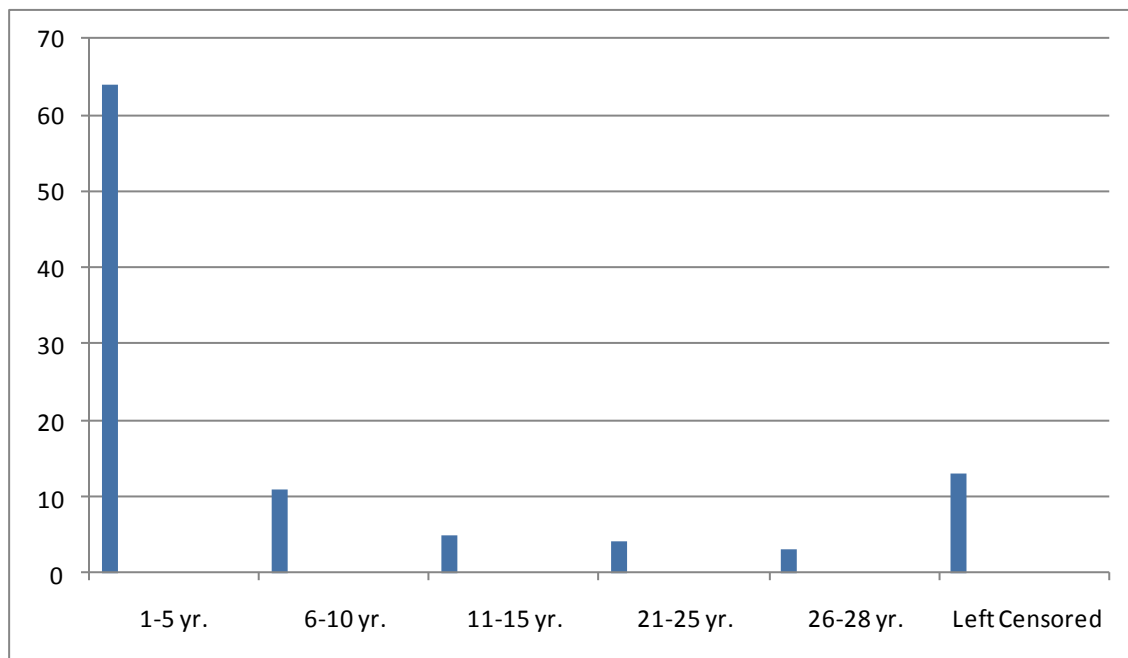
### **Need a Job? Hire Yourself -- Start a Business!**

At a time when jobs are hard to find, it might work for graduates and others who are unemployed to turn to entrepreneurship to provide their own opportunities. Becoming an entrepreneur used to be considered a risky career move. However, with many large companies freezing hiring and trimming benefits, the relative risks are not so high. With the resources available in South Dakota, new entrepreneurs can find help to get a business plan put together, receive technical assistance, do market research and find financing for a new business.

A number of studies by the Kauffman Foundation have determined that almost all of the new jobs created come from start-up entrepreneurial firms –

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Figure 1: Young firms account for largest share of job creation



Source: Special tabulation by U.S. Census Bureau for Kauffman Foundation from Business Dynamics Statistics.

not large corporations. It is well understood that companies of all sizes constantly create -- and destroy -- jobs. One might think that annual net jobs are positive for all companies. The studies by the Kauffman Foundation indicate that net jobs are created only through start up firms. The studies focus on the findings of the Business Dynamics Statistics, a U.S. government dataset compiled by the U.S. Census Bureau. The above chart indicates an example for 2007 of the net percentage of jobs created by firms of varying lengths of time in business. These data are consistent with findings from the past thirty years.

What the above chart means is that the most dynamic creation of new jobs has come from young companies. Firms that are one to five years of age created nearly two-thirds of the new jobs in 2007. If we are to grow our economy and create new jobs, it appears that encouraging entrepreneurship may be the most efficient way to create more employment.

### **Entrepreneurial Development**

Supporting and growing existing local talent in both the private and public sectors is important to overall economic growth. There are several strategies that

might be used to develop economic growth in South Dakota.

- An effort to Network between and among similar and complementary businesses with their service providers and to look for opportunities to achieve economies of size or scale. This is also an opportunity to help complementary businesses become more successful by opening up marketing between in-state companies rather than going out of the state for products or services.
- Develop a Value-added chain of producers, processors, marketers, etc. to keep all phases of products and services within the state of South Dakota. This can develop economic benefits as well as social and environmental benefits to the state and the economy.
- Another area that is important for success is Community Development Financing to focus on developing the local resources, building human capital, finding appropriate financing, inventorying built capital that is present,

improving poverty situations, and building social capital in all the communities.

### **Survival Tips for Entrepreneurs**

Here are some tips to help entrepreneurs become successful. The most important one is to prepare a sound feasibility/business/marketing plan for the business. This is absolutely necessary for success and allows for flexibility in getting the business running profitably. Much help is available in South Dakota to accomplish this most important tip. Other tips include:

- Find a mentor – make some good friends within the business community that you can trust and with whom you can talk and who will give you an honest perspective.
- Be a team player – work to get along with your community and appreciate them for their strengths. Also recognize your strengths and build on your positives.
- Respect your financial supporters – they can make you look good ... or really bad. Show your appreciation for help you receive.
- Get to know your local economic development council (EDC), city officials, county commissioners, bankers, and other “movers and shakers” in your area. Take the time to meet with them and find out what the needs of the community are from their perspective. Listen to people.
- Build relationships – be visible and get to know lots of people. Respect the diversity in the community and the different ideas and opinions.
- Develop your communication skills – keep others informed and make sure people know what you are doing and why you are doing it.

Don't be afraid to ask questions. Become friends with the local media.

- Always be prepared – be ready to make presentations and make sure you have that complete business plan available.
- Use local people as sounding boards – ask, listen, learn. Find out local needs and match them to your strengths.

Policy makers often focus all their attention on what larger firms are doing to create more jobs. The opinion of this paper is that there is overwhelming evidence that new jobs are created by new firms. It seems to make sense that we should be paying more attention to removing roadblocks to entrepreneurs who can lead us out of the current problems with employment and income.

The U.S. Census Bureau provides the first publicly available data set that incorporates the age of firms in a dynamic format. This data shows that firms in their first year add an average of 3 million jobs per year. We must understand that new firms only create jobs in their first year. All other firms both create and lose jobs. If we as a state focus on more entrepreneurial start-up creation, we have a higher probability of creating “real” economic development in South Dakota. The next step is to mentor and assist new firms to keep them successful and thriving.

All the tools are present in South Dakota to develop a friendlier entrepreneurial environment and focus our scarce resources in the right direction for economic development.

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**ECONOMICS COMMENTATOR**  
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75 copies of the newsletter were produced at a cost of less than \$100

## Opportunities for Entrepreneurship Classes through SDSU

South Dakota State University offers a unique set of classes that citizens of South Dakota can take via DDN classrooms throughout the state. If you want to develop your entrepreneurial venture you can take specialized one credit interactive video classes. Twelve separate classes are offered and if a person takes ten of the twelve they can achieve a Certificate in Entrepreneurship. The classes are held once a week for six weeks for two hours. The list of classes include:

- Intellectual property in entrepreneurship
- Marketing/promotion in entrepreneurship
- Strategy/pricing/location in entrepreneurship
- Human resource operations in entrepreneurship
- Finance/venture capital in entrepreneurship
- Legal issues/business structure/risk mgt. in entrepreneurship
- Taxation in entrepreneurship
- Financial analysis/recordkeeping/accounting in entrepreneurship
- Selling in entrepreneurship
- International & global marketing in entrepreneurship
- E-commerce in entrepreneurship
- The harvest in entrepreneurship

Each semester three classes are offered. During the Spring 2011 semester SDSU offers:

- Entr 208 – E-Commerce in Entrepreneurship
- Entr 302 – International & Global Marketing in Entrepreneurship
- Entr 306 – The Harvest in Entrepreneurship (how to exit or sell your business)

Contact Barb Heller, SDSU Entrepreneurship Coordinator at 605-688-6522 or e-mail at [barb.heller@sdstate.edu](mailto:barb.heller@sdstate.edu) for more information.