



# **Strategies for Sustainable Entrepreneurship**

Prepared by the Central Appalachian Network







**BUSY BOBBING**

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**FOLK**

**ART**

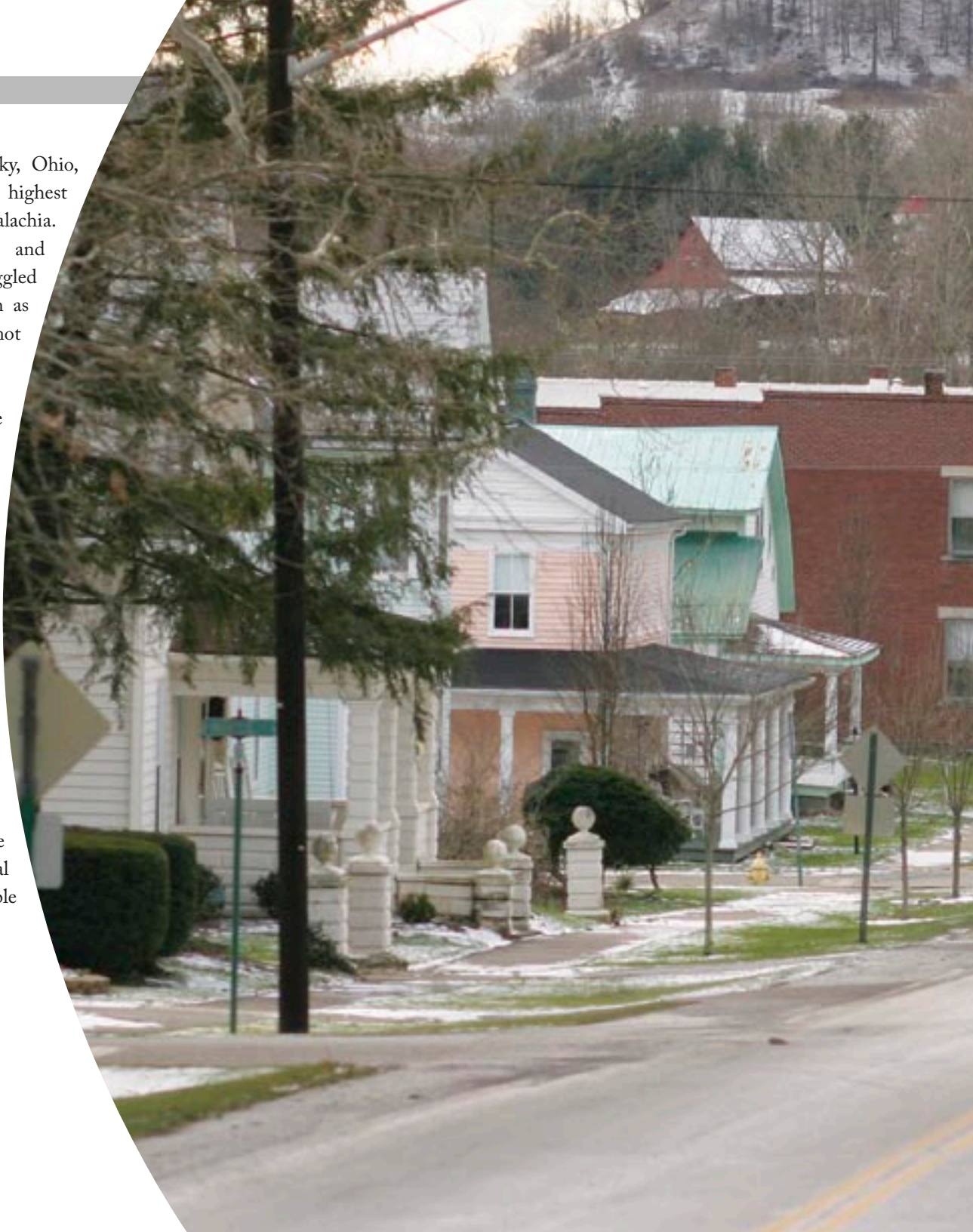


## FORWARD

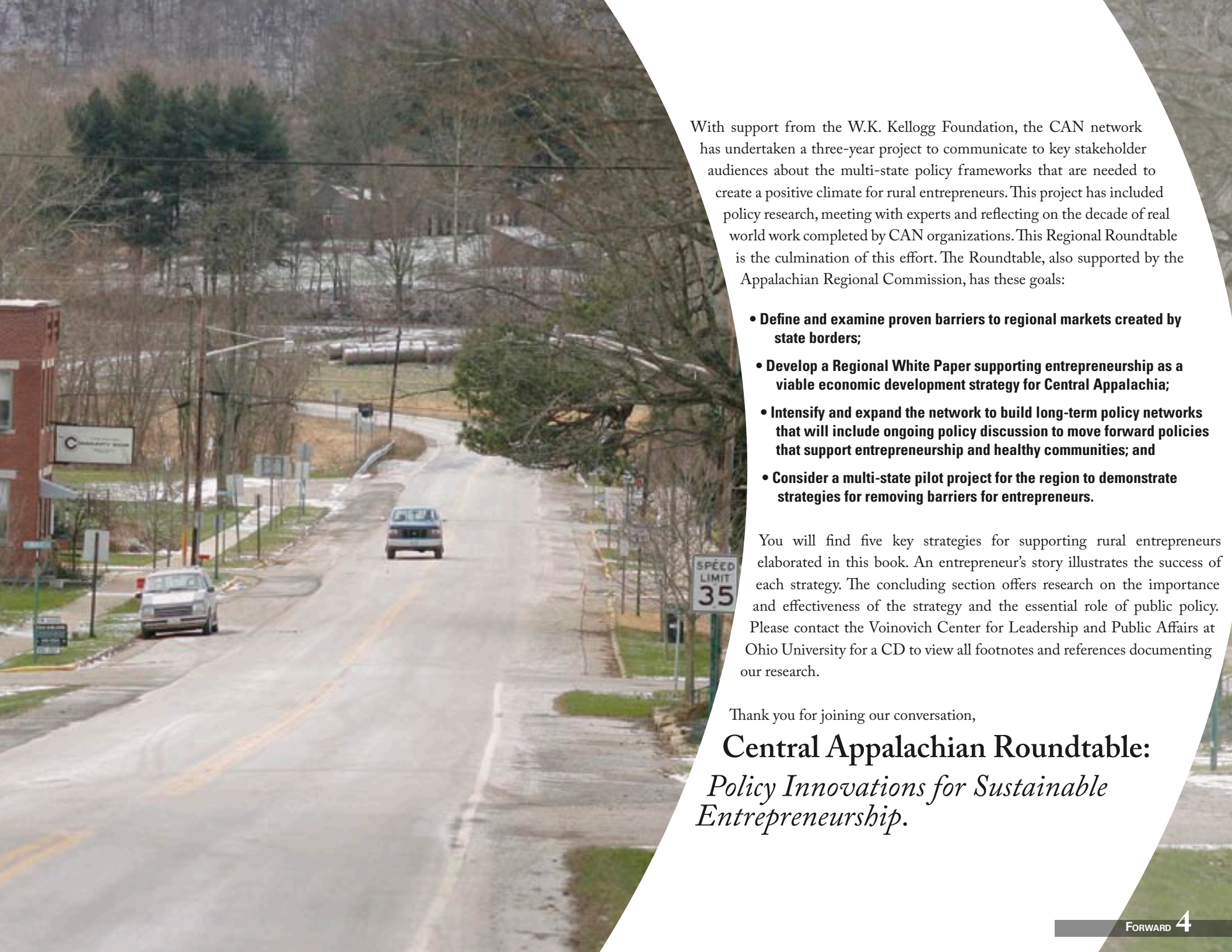
The Central Appalachian region comprised of Kentucky, Ohio, Tennessee, Virginia, and West Virginia contains the highest concentration of economically distressed counties in Appalachia.

Traditional industries such as coal, timber, agriculture, and manufacturing are no longer in demand, and Appalachia has struggled for decades to define a new economy. Popular solutions such as industrial recruitment strategies and biotechnology clusters have not created the hoped for success in this region's rural communities.

The Central Appalachian Network (CAN) has been meeting since 1993 to examine regional approaches to poverty alleviation. The nonprofits that make up the network have a shared focus on building a healthy and sustainable regional economy through ecologically sustainable rural development strategies, local self-reliance, and innovative community building. CAN members have a strong history of learning from each other and collectively building our knowledge and strategies for rural economic development. We see that economic revitalization for the region must result from a diverse new economy that includes not only business attraction investments, but also most importantly supports the region's entrepreneurs and small businesses. Markets for entrepreneurs' products and services are usually not confined by state boundaries; however, the policies and programs to help entrepreneurs access markets often stop at state borders. CAN believes that cross-border networks are essential to bringing about policy changes that encourage entrepreneurship and microenterprise development for the region. Regional strategies combined with local business development will lead to healthy and economically viable communities in Appalachia.







With support from the W.K. Kellogg Foundation, the CAN network has undertaken a three-year project to communicate to key stakeholder audiences about the multi-state policy frameworks that are needed to create a positive climate for rural entrepreneurs. This project has included policy research, meeting with experts and reflecting on the decade of real world work completed by CAN organizations. This Regional Roundtable is the culmination of this effort. The Roundtable, also supported by the Appalachian Regional Commission, has these goals:

- **Define and examine proven barriers to regional markets created by state borders;**
- **Develop a Regional White Paper supporting entrepreneurship as a viable economic development strategy for Central Appalachia;**
- **Intensify and expand the network to build long-term policy networks that will include ongoing policy discussion to move forward policies that support entrepreneurship and healthy communities; and**
- **Consider a multi-state pilot project for the region to demonstrate strategies for removing barriers for entrepreneurs.**

You will find five key strategies for supporting rural entrepreneurs elaborated in this book. An entrepreneur's story illustrates the success of each strategy. The concluding section offers research on the importance and effectiveness of the strategy and the essential role of public policy. Please contact the Voinovich Center for Leadership and Public Affairs at Ohio University for a CD to view all footnotes and references documenting our research.

Thank you for joining our conversation,

## **Central Appalachian Roundtable:** *Policy Innovations for Sustainable Entrepreneurship.*

# THE CENTRAL APPALACHIAN NETWORK

## Rural Action

Rural Action is a membership-based organization working for the development of just and sustainable communities in Appalachian Ohio. Rural Action organizes, trains, networks and supports citizens for revitalization of their own communities. [www.ruralaction.org](http://www.ruralaction.org)

## Institute for Local Government Administration and Rural Development (ILGARD) at Ohio University's Voinovich Center for Leadership and Public Affairs

Since 1981, ILGARD's mission has been to improve the performance, innovation and efficiency of government; serve as an applied research center for state, regional and local policy issues; provide information and technology services for increased regional competitiveness; and serve as a public service learning laboratory for undergraduate and graduate students. [www.ilgard.ohiou.edu](http://www.ilgard.ohiou.edu)

## Appalachian Center for Economic Networks (ACENet)

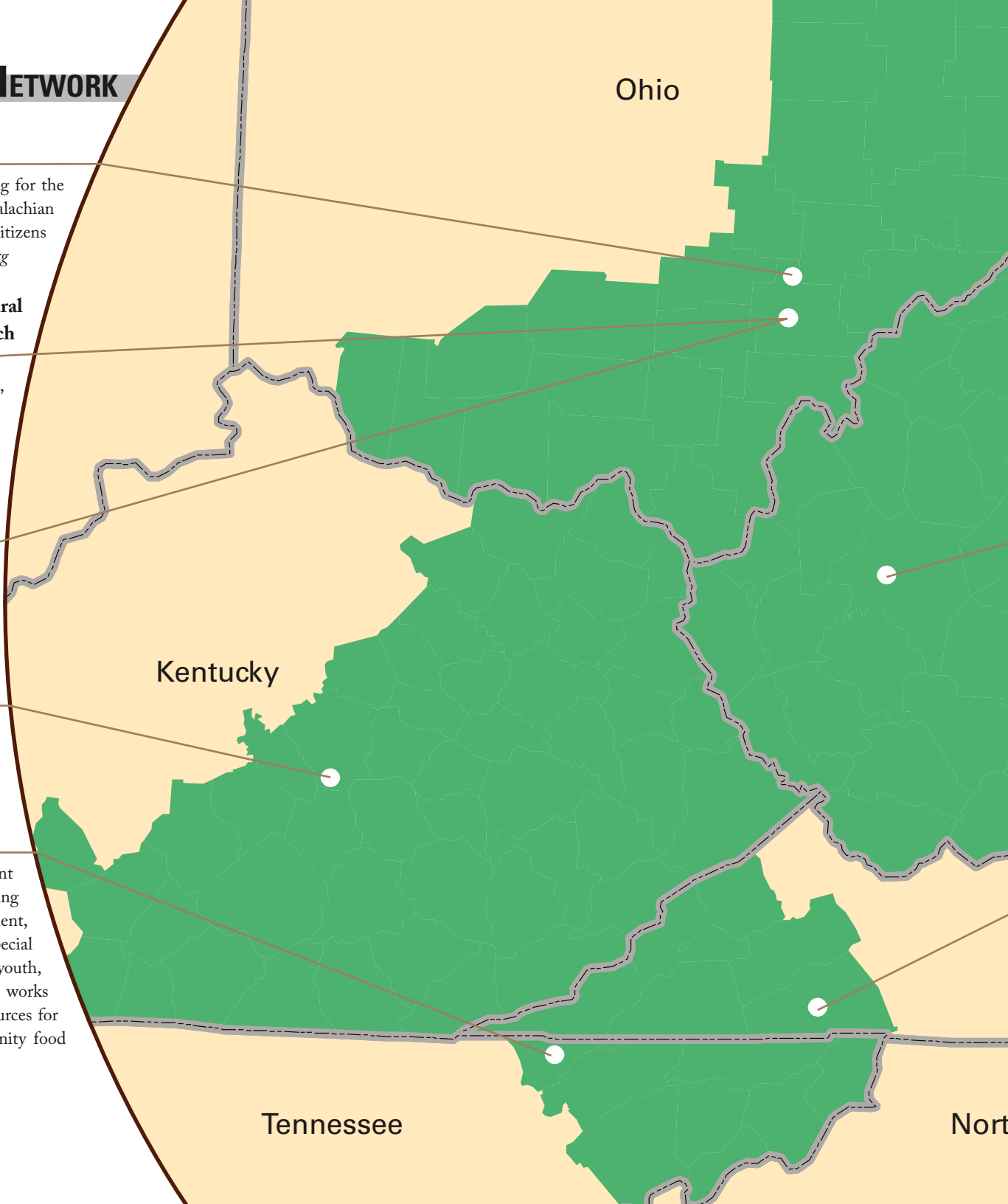
ACENet's mission is to increase the capacity of local communities to network, innovate and work together to create a strong sustainable regional economy that has opportunities for all. [www.acenetworks.org](http://www.acenetworks.org)

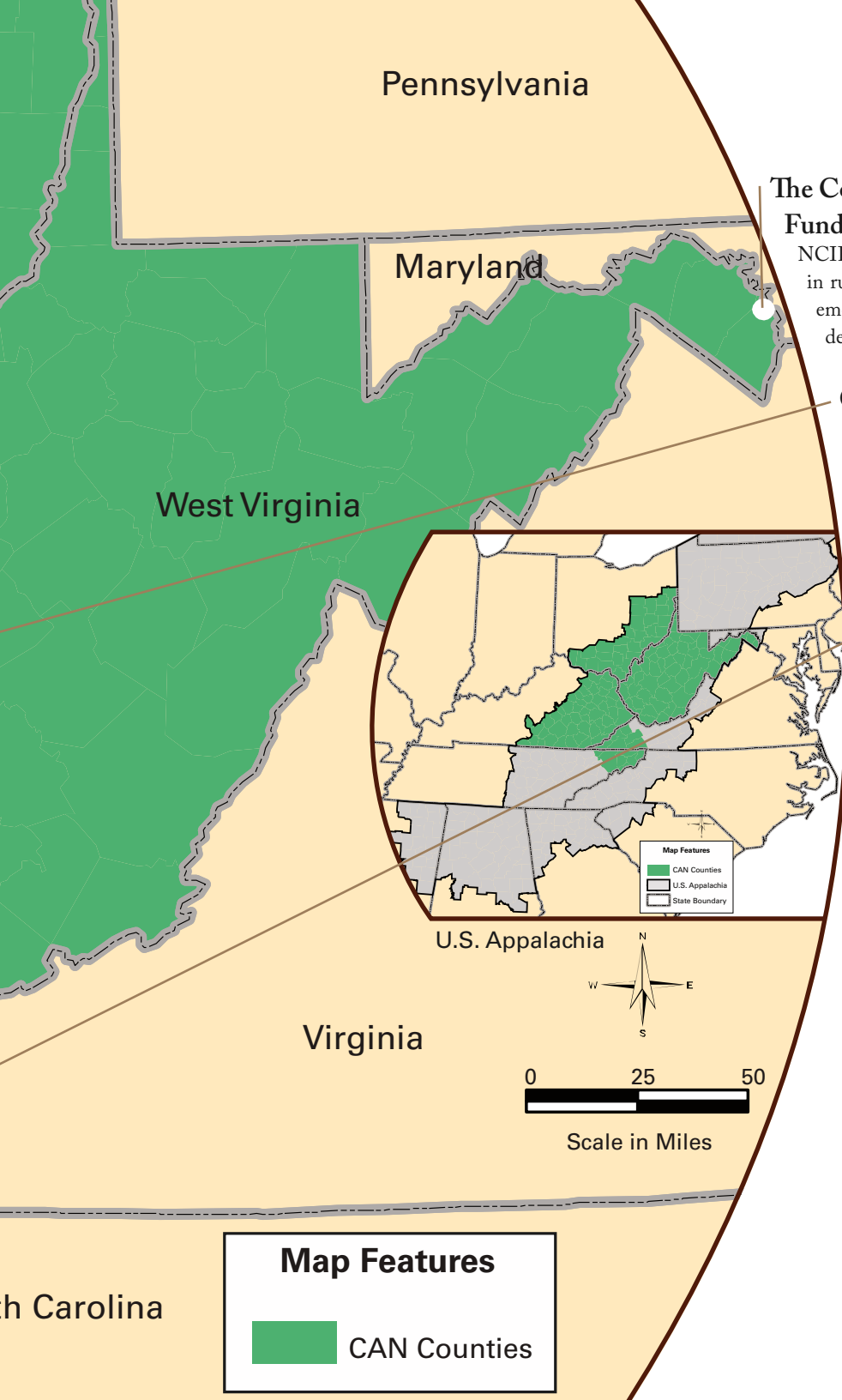
## Mountain Association for Community Economic Development (MACED)

MACED works with people in Kentucky and Central Appalachia to improve the quality of life by creating economic opportunity, strengthening democracy and supporting the sustainable use of natural resources. [www.maced.org](http://www.maced.org)

## Jubilee Project, Inc.

Jubilee Project assists in the economic and social empowerment of people in Hancock County, Tennessee, and nine surrounding counties through active programs in leadership development, youth development and economic development with a special focus on microenterprise incubation assistance with artisans, youth, farmers and food product entrepreneurs. Jubilee Project also works in local and regional coalitions to improve policies and resources for entrepreneurial and community development and community food security. <http://jubileeproject.holston.org>





Pennsylvania

Maryland

West Virginia

Virginia

North Carolina

**The Conservation Fund's Natural Capital Investment Fund, Inc. (NCIF)**

NCIF works to hasten the rate of enterprise formation and business development in rural West Virginia. NCIF provides debt and equity financing to high-potential, emerging natural resource-based businesses that will advance sustainable economic development in West Virginia. [www.wvncif.org](http://www.wvncif.org), [www.conservationfund.org](http://www.conservationfund.org)


**Center for Economic Options (CEO)**

CEO is committed to improving the sustainable economic well being of West Virginians, with a particular focus on people in rural areas who have historically been excluded from the economy. CEO's strategy is to promote economic self-reliance through business ownership by assisting small-scale manufacturers and artisans with accessing lucrative markets for their products. [www.centerforeconomicoptions.org](http://www.centerforeconomicoptions.org)

**Appalachian Sustainable Development (ASD)**

ASD brings together citizens living in and near the watersheds of the Clinch and Powell rivers to affirm the need for development that is sustainable and beneficial for nature and people, and for culture and community. [www.appsusdev.org](http://www.appsusdev.org)

**Map Features**

 CAN Counties



# CENTRAL APPALACHIAN NETWORK'S GOAL: Policy Networks that Support Entrepreneurship

## WHY ENTREPRENEURSHIP POLICY IS NEEDED

There will always be successful entrepreneurs who achieve their goals with little assistance. However, generating the numbers of entrepreneurs required to positively impact the regional economy requires entrepreneurship policy that will dramatically increase the numbers of individuals that start up businesses, improve their chances for success and enhance their ability to expand and create quality jobs. A comprehensive shift to an “entrepreneurial culture” where all stakeholders think and act to carry out a vision will require more than research and ideas. New roles, new programs, rewards and economic infrastructure are needed. This can only mean realigning resources at the state, region, and federal level.

*“Entrepreneurship policy should be constantly shifting toward ever-emerging opportunities.”*

**David M. Hart, The Emergence of Entrepreneurship Policy<sup>3</sup>**

## THE KEY COMPONENTS OF EFFECTIVE ENTREPRENEURSHIP POLICY

Entrepreneurship policy is not simply about providing technical assistance to individual firms, important as that may be. Even more important is policy that helps regions set up entrepreneur support systems. Those systems build on the strengths and natural capital of the region, encouraging everyone to play a role in creating a supportive environment for entrepreneurs. This policy framework is both “top-down” and “bottom-up,” a process that uses the specific needs of entrepreneurs and communities as the starting point. Policy should help entrepreneurs and local organizations join together to develop clusters that can organize joint marketing and product innovation. Policy should provide incentives for local communities to support entrepre-

neurs. And finally, policy should support organizations that play a catalyst role in helping these collaborations succeed.<sup>1</sup> Researchers have found that the capacity of local and regional policy makers to generate such entrepreneurship policy is one of the critical factors correlating to a robust economy.<sup>2</sup>

Entrepreneurship policy needs to help all entrepreneurs—whether microenterprises or gazelles. Networking microentrepreneurs into clusters that emphasize *regional flavor*, those businesses builds an extremely appealing environment and triggers creativity in other businesses. The result is an atmosphere that attracts and retains gazelles.

*“State and local governments increasingly look to entrepreneurship as a means of stimulating economic growth. However, can the public sector play a role in promoting entrepreneurial activity—and if so, what should that role be?”*

**Stephen J. Goetz and David Freshwater<sup>4</sup>**



## NEW WAYS OF FORMING POLICY

### **Involve entrepreneurs and entrepreneurial communities in a network for policy formation.**

Entrepreneurial and policy communities have much to offer one another. The involvement of entrepreneurs in designing and supporting entrepreneurship policy makes the efforts of policy-makers more politically viable and economically effective.<sup>5</sup> Groups of entrepreneurs mobilized through clusters and networks have the potential to bring relevant knowledge and requisite power to bear on the making of entrepreneurship policy.<sup>6</sup> In addition to entrepreneurs, the many universities, nonprofit organizations, and agencies that are part of regional entrepreneurship networks also have much to offer the policy making process.

### **Make policy more flexible and experimental.**

Entrepreneurship policy should be extremely flexible to effectively support innovation. It should reflect the innovative nature of entrepreneurship and encourage experimentation and change.<sup>7</sup> In such a situation, there is no way to be assured of successful policy in advance of trying it.<sup>8</sup> Therefore, small diverse experiments will tend to be more productive than large

initiatives. Government's role in the policy process is to keep it fluent and innovative and increase the adaptability of the whole process of economic and social development.<sup>9</sup> The Federal Reserve Bank of Kansas has identified some of the new governance structures that are being instituted both in the U.S. and Europe to generate the policy initiatives needed for economic revitalization.<sup>10</sup>

### **Make policy build regional assets.**

Policy should invest in assets that will continue to generate returns over time—endowed Innovation Funds; strong and sustainable Entrepreneur Support Organizations (ESOs); and clusters that help businesses expand and create jobs. Nonprofit ESOs and locally based public agencies need support to become sustainable, allowing them to focus their efforts on the delivery of programs to build the enterprise development system. Some of the most powerful changes in Appalachia have taken place because of institutions that are strong enough and have enough staying power to offer critical services.

### **Make policy regional.**

Most researchers recommend a regional approach that encourages the communities and jurisdictions to partner so that a more robust, sustainable and meaningful entrepreneurship strategy can evolve.<sup>11</sup> In a global economy, sub-state regions as well as multi-state regions can benefit from the development of entrepreneurship policy that guides innovative collaborations. With a global economy, Central Appalachia must restructure by turning to more competitive industries or by making the existing industries more competitive through policies aimed at improving economies of scale. The Central Appalachian Network believes that these policies can be most effective when they encourage collaboration, involve all stakeholders and work towards a comprehensive regional system to support entrepreneurs.

*“Good governance: policies that give invisible people a voice, crossing traditional jurisdictional boundaries, building and sustaining collaboration, achieving meaningful economic and social outcomes, and applying past lessons to future initiatives.”*

**Chuck Fluharty<sup>12</sup>**





# Strategies Informed from Practice

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## WHAT CAN HAS LEARNED

The Central Appalachian Network (CAN) organizations have tested many theories and tools during years of working towards healthy communities and sustainable, ecologically sound economies based on entrepreneurship. From our experience, we have learned that the following five factors interact to create a dynamic regional economy.

**We have learned that we can build on Appalachia's assets.** Central Appalachia is a beautiful place. The forests, farmland, rivers, lakes and mountains of our region represent our greatest potential economic asset. Unfortunately, these natural assets have often been undervalued yet over-utilized, resulting in heavy pressures on the land and limited economic impact. A place-based, asset building strategy can simultaneously protect or restore these resources while increasing economic value. CAN groups have explored new markets that are asset-based and driven by sustainable practices, such as organic products and ecotourism. We have also helped farmers and landowners add new income in areas such as agritourism and non-timber forest products, employing the wise use of natural capital to expand economic activity. We have developed our region's mountain heritage and unique regional character with recreational options, bed & breakfasts, interesting restaurants, artisan enterprises, festivals and specialty food offerings that make people want to stay.

**We have learned that small business is a local issue with local solutions.** Most of the new jobs in Central Appalachian communities are created by small businesses. Communities and local government that publicly acknowledge the importance of entrepreneurs, provide mentorship, and connect entrepreneurs to resources will see a rapid increase in the number of successful local businesses. CAN groups have worked with local governments, the banking community and successful entrepreneurs themselves to build networks, associations and support for emerging entrepreneurs.

**We have learned that it pays to invest in innovation.** We know that innovative businesses in Appalachia create more and higher quality jobs, and more spin-offs. CAN organizations have enhanced innovation by providing assistance in product or service development as well as through seed funding that promotes collaborative approaches. We have identified niche markets to add value for entrepreneurs' services and products. We know that innovation also increases with proximity, networks and collaboration, and so CAN groups have supported networks to stay connected with each other and with larger markets. Because the biggest return







is from helping entrepreneurs create new market spaces, CAN groups have built showcases, farmers' markets, storefronts and other important external connections for entrepreneurs.

**We have learned that rural entrepreneurs need regional markets.**

Central Appalachia's emerging regional clusters in rural areas include processed food, building fixtures, hospitality and tourism, business services and entertainment. CAN organizations have helped to build the "systems" or cluster of specialized services and suppliers to create regionally-based expertise and infrastructure in order to add value to "natural capital" and bring products to market in rural areas. Although we have the start of this infrastructure substantial gaps remain. In each of the clusters, businesses need to be networked to identify ways they can work together. Research and capital is needed to create or expand regional systems of dry kilns, mills and other wood processing facilities, and kitchen incubators and their packing/grading facilities for food. This infrastructure needs to be enhanced with integrated, region-wide marketing, and with regional distribution systems and retail venues featuring regional products.

**We have learned that entrepreneurs need to partner with regional catalysts to get things done.**

Regional catalysts and networks for entrepreneurial development are essential. Entrepreneur support organizations such as CAN members are locally-based, dynamic nonprofits who collaborate with opportunity-seeking entrepreneurs and partner with a broad spectrum of public and private organizations to enhance the performance of area entrepreneurs.

Many of the infrastructure needs of entrepreneurs can only be dealt with as part of a multi-state region. Multi-state regional networks and collaborations are needed in Central Appalachia to plan and implement demonstration projects that show the impact of regional infrastructure development, sourcing, marketing and distribution systems. Entrepreneurial networks are being built within each CAN state. The next critical element is a multi-state level network.



## BUSINESSES SPROUTING LIKE MUSHROOMS

Billy and Rebecca Webb's Sheltoewe Farm, a 200-acre mushroom farm located in Salt Lick, Kentucky, is composed of mountainous hardwood forest, bottomland and a 10-acre lake—the perfect environment for cultivating gourmet mushrooms. The Webbs began growing shitake and oyster mushrooms on their property in 2001. They also harvested the wild mushrooms that grew in their forest—morels, chanterelles and hen of the woods.

The Webbs knew when they began their business they would need consistent year-round production, especially if they intended to supply regional chefs, restaurants, caterers and retail consumers with fresh shitakes and oyster mushrooms. With help from loans from the Mountain Association for Community Economic Development (MACED) and the Kentucky Agricultural Development Board, the Webbs were able to construct an indoor mushroom growing facility. Later the Webbs used technical assistance from MACED to improve the farm's financial management and inventory systems.

*“Small business agencies wouldn't work with us because we were farming; agricultural lenders didn't see mushrooms or facilities to grow them as collateral. MACED had an answer for our immediate needs and worked with us to create solutions for our long-term viability.”*

Today the Webbs grow about 1,000 pounds of oyster and Japanese shitake mushrooms every month and deliver their organic mushrooms to almost 80 restaurants. Most of the restaurants are in or near Lexington but some are as far away as Atlanta.

“They have brought a very high quality and very consistent product to the market,” said John Schweder, chef at Dudley's Restaurant in Lexington. Schweder said he has expanded his use of mushrooms since the Webbs first delivered to him.







## *Keys to Success*

- **Building a business on the natural capital of the region**
- **Assistance in developing products for niche markets**
- **Access to capital**
- **Technical assistance needed to prepare for expansion**



*Billy Webb, Sheltowee Farm, describes his indoor mushroom growing facility.*



## GROW IT, DON'T POACH IT!

“Sangin,” or digging and harvesting of wild ginseng, is an age old tradition in the mountains, and ginseng harvesters can earn up to \$500 a pound for the roots. In Ohio alone, more than 4,557 lbs. of ginseng were harvested in 2003, making Ohio a top exporter in the U.S. But when Tom Johnson began growing ginseng as a semi-wild cultivated crop, conflicts arose when poachers helped themselves to his carefully tended crops. Poaching can be devastating for growers, especially when crops like ginseng that can take a decade to mature can simply disappear in the middle of the night.

Johnson quickly became involved in the Roots of Appalachia Growers Association (RAGA), a support network of southern Ohio medicinal herb growers who realized that if businesses like Johnson’s were to succeed, they would need support from policy makers, the public and law enforcement. RAGA members, together with Rural Action, a nonprofit community organization based in Appalachian Ohio, now work to educate policy makers, law enforcement and the public about the value of growing threatened herbs such as ginseng. They developed a campaign including a Web site, ([www.growginseng.org](http://www.growginseng.org)), educational materials, handouts and a new “Grow it, don’t poach it—Protect Appalachian Heritage” t-shirt.

There is an increased demand for woodland herbs, including goldenseal, black cohosh and bloodroot, particularly in Asian, North American and European markets. Although the current market is relatively small, it has the potential to be developed into larger enterprises—if growers can be protected in their expansion efforts.

Existing laws on ginseng poaching needed to be better enforced, and Rural Action worked with RAGA to support their efforts in reaching state and local officials about the business potential of semi-wild cultivated crops and the harm caused by poaching. Rural Action is working with the Ohio Division of Wildlife to ensure better enforcement of poaching laws, and they are broadening educational efforts to include judges and prosecutors.

*Rural Action and Roots of Appalachia Growers Association developed a campaign including a Web site, [www.growginseng.org](http://www.growginseng.org), educational materials, handouts and a new “Grow it, don’t poach it—Protect Appalachian Heritage” t-shirt.*





## *Keys to Success*

- **Forming a policy network to educate officials and enforce policies**
- **Developing entrepreneurship based on natural capital**
- **Supporting a network of growers in their leadership development**



*Tom Johnson, President, Roots of Appalachia Growers Association, works with Rural Action to educate others on the value of ginseng as a semi-wild cultivated crop.*



## RECYCLING CAPITAL

When the out-of-state owners of the Richwood Sawmill decided to sell off their holdings in Central Appalachia as part of a corporate restructuring program, they could not find a buyer and simply shut down the mill. Bill and Sharon Glasscock had been working at that mill for over 10 years.

As long-time employees, the Glasscocks realized that they had the necessary experience and loyal workforce to make the mill thrive. What they lacked was the capital to make it happen. Working with the West Virginia Small Business Development Center and BB&T Corp., they were able to raise sufficient capital to purchase the mill. But in order to close the deal, they needed to find a source of working capital for the day-to-day operations of their new business, the Laurel Creek Hardwood Corporation.

The Natural Capital Investment Fund provided a solution to the Glasscock's financial predicament. The group offered \$50,000 in subordinated debt for permanent working capital, thus allowing them to purchase logs and cover miscellaneous start-up costs. The group also raised grant funds to hire a financial management specialist to assist the company in developing an internal accounting system.

Bill Glasscock readily admits that the money was crucial to getting their business on its feet. But he says the help from the National Capital Investment Fund went beyond merely putting up capital. Glasscock says Marten Jenkins, the fund's manager, was instrumental in getting him and his wife to think hard about their business plan.

"The thing Marten did was that he made us go from A to Z for our short-range planning and our long-range planning," recalls Glasscock. "It was a great experience. [Marten Jenkins] made you thoroughly research your plans. It would have been much more difficult without the National Capital Investment Fund."

Laurel Creek Hardwood purchases a large quantity of logs from local, well-managed forestlands. The Glasscocks say they are committed to getting all their logs from Forest Stewardship or Sustainable Forestry Initiative certified suppliers.

In addition, the Glasscocks' opening of the business in April 2002 saved 23 jobs and since then has contributed more employment opportunities for locals. The company has also upgraded its equipment to increase production yields.

Under the former owners, the mill cut 95,000 board feet per week. But after the Glasscocks invested \$300,000 in more efficient equipment, they've recorded a 25% increase in production. Glasscock says the previous owners were apprehensive about making the investment. But any doubts over the purchase have been laid to rest. "It's already paid for itself," says Glasscock. Given the Glasscocks' attitude and work ethic, it seems that even greener pastures must lie ahead.

*"It was a great experience. [Marten Jenkins] made you thoroughly research your plans. It would have been much more difficult without the National Capital Investment Fund."*

**Bill Glasscock, Laurel Creek Hardwood Corporation**





## *Keys to Success*

- **Getting added sales and profits by serving the sustainable wood niche**
- **Access to subordinated debt**
- **Having excellent technical assistance**



*Bill Glasscock, Laurel Creek Hardwood Corporation, credits his success to high level technical assistance.*



## PROFITABLE NICHE MARKETS

“I grew my first tobacco crop when I was 12,” Bill Davidson, a Rogersville, Tennessee, farmer remembers. “In those days you could pay off your debts and have a little money to start again next year. Now you go from paying debts to borrowing again for next year.” For Davidson, tobacco just wasn’t bringing in the profits like it used to.

So today, after careful business and agricultural planning, Davidson raises cattle and grows fruits and vegetables and to make salsa, chow-chow, jellies and popular vegetable soup starters that are sold in the Davidson Country Store, a historic retail outlet that the Davidson family first opened in 1902. Davidson revitalized the store—now a must-see stop on the agritourism rounds—as a showcase for the value-added products made from his own produce. “These products may not save Tennessee agriculture but they can be profitable niche markets,” says Rob Holland, an extension specialist at the University of Tennessee.

Bill Davidson is pleased with his entrée into value-added products. “It’s a risk,” he says, “but not any greater risk than selling strawberries!” And this past November, Davidson was awarded an Honorable Mention in a national sustainable agriculture contest for his best practice farming methods and community service. But like many success stories, this one has many partners.

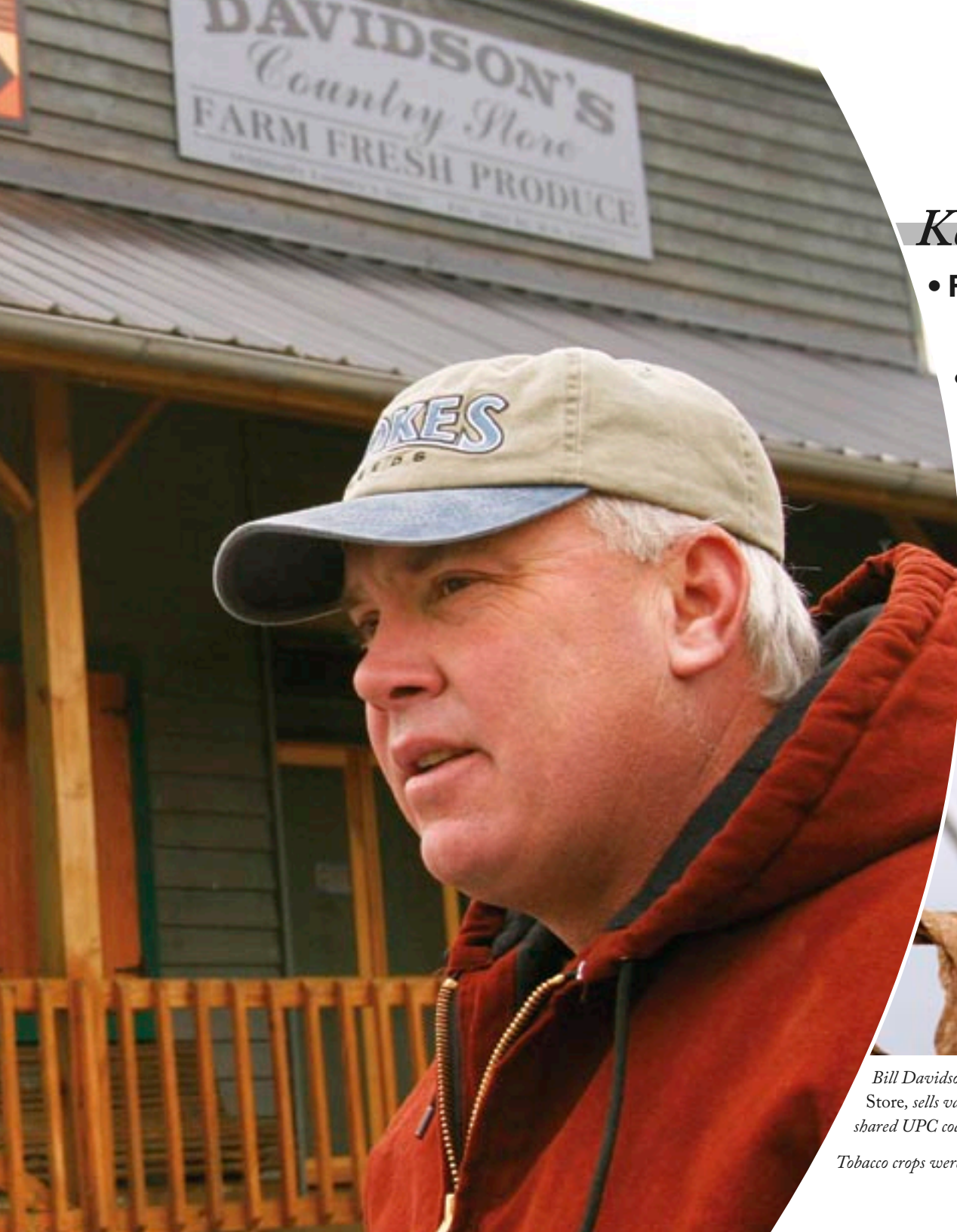
Davidson works with the Appalachian Spring Cooperative, a group of over 65 local east Tennessee farmers and entrepreneurs linked to the Jubilee Project, a Hancock County outreach program of the United Methodist Church. The co-op and Jubilee Project offer business planning, marketing services, a kitchen incubator for production and other assistance such as looking for opportunities to reduce start-up costs and expand farmers’ value-added products. A significant accomplishment for the group was the development of a shared UPC code that co-op members use to take their products to larger markets. Usually small businesses are not allowed to share codes, creating a hardship for smaller producers. Members now save the \$700-\$800 fee typically required for individual codes.

Davidson observes, “It’s been a good fit for me. No commercial processor would have been interested in the small batches we started with.”

*“It’s a risk, but not any greater risk than selling strawberries! It’s been a good fit for me. No commercial processor would have been interested in the small batches we started with.”*

**Bill Davidson, Davidson Country Store**





## *Keys to Success*

- **Forming a cooperative with a network of cluster businesses**
- **Addressing policy as a cooperative effort**
- **Developing value-added innovative agricultural products**
- **Access to cluster infrastructure**
- **Offering high visibility awards for entrepreneurs**



*Bill Davidson, owner of the historic Davidson Country Store, sells value-added agricultural products using the shared UPC code of the Appalachian Spring Cooperative.*

*Tobacco crops were once profitable. Now farmers need to diversify.*



## GROWING DAILEY'S TREASURES

When Jenni Dailey offered samples of her venison jerky at a convenience store where she worked in Reedsville, Ohio, she didn't expect it to alter her career path. But after receiving rave reviews from the customers who tasted the jerky, she decided to look into the possibility of producing the jerky commercially. Now, just three years later, Dailey's Treasures produces four marinades and two varieties of jerky.

After seeing a news broadcast on television highlighting a commercial kitchen in Huntington that provided services to start-up entrepreneurs like herself, Dailey researched similar facilities in the Athens area. She found out about the Appalachian Center for Economic Networks, which offers a commercial kitchen as well as training in marketing, product development and design, and advice on how to deal with retailers.

By providing her access to a bottling line and an industrial oven, the ACEnet commercial kitchen allows her to accomplish in two hours what previously took two weeks at home. "If there was no ACEnet, I wouldn't have been able to get up and running," she said. "Everything about the business, ACEnet has helped." Seed money encouragement came from a "Trickle UP" grant facilitated by ACEnet. Jenni Dailey's needs also pushed ACEnet to acquire its Ohio Department of Agriculture meat license this fall so that Dailey and other meat producers could fully utilize ACEnet's commercial kitchen.

Dailey is part of a regional brand called Food We Love that has helped her products gain entry into 28 stores throughout southern Ohio, and she hopes to be in 100 by late 2005. Dailey is now in negotiations with Kroger in hopes of getting her products on its shelves.

Dailey's road to success, however, has not been without obstacles. She says the biggest hurdle was the requirement that a barcode appear on the label of each jar. Called a "UPC code," it must be purchased before products can gain entry into the more lucrative markets such as Kroger. The barcode costs \$785 plus an additional \$250 each year, money that Dailey did not have readily available. "You've got to have capital behind you or it's going to be very slow like I've been," says Dailey.

Despite the hurdles and uncertainties that burden many small entrepreneurs, Dailey is moving ahead happily and hopes to make a profit in early 2005. Concerning the importance of ACEnet in this process, Dailey says matter of factly, "If it wasn't for ACEnet, I wouldn't be in business. I got to give them credit."







## *Keys to Success*

- **Access to a commercial kitchen with a meat license**
- **Being part of a regional brand**
- **Access to early stage capital**
- **Available training for improving quality and innovation**



*Jenni Dailey, owner of Dailey's Treasures, prepares her locally famous jerky products in ACEnet's commercial kitchen and sells under the Food We Love regional brand.*



## NETWORKS ADD VALUE

When an architect wanted local wood for a local project, it took a catalyst to weave the web of people necessary to make it happen.

Jeff Sties is an architect in Charlottesville, Virginia. A student of the renowned “green architect” Bill McDonough, Sties started his own firm, Sunbiosis, to promote sustainable residential and commercial design. His clients desired local, environmentally-sourced wood products, and Sties became frustrated by the difficulty in finding them.

Jennifer and Bob Wagner have a small farm that includes 10 acres of woodlands that has been in the family for decades. They needed funds to cover an unanticipated expense, and a local forester recommended a timber harvest, but Jennifer was reluctant. She didn’t want her woods “torn up,” and she wanted to protect a small patch of goldenseal.

Charlie Lawson runs Clinch Valley Millworks, a custom cabinet and millwork shop in Richlands, Virginia. Along with his six employees, Lawson has steadily built a customer base for his high quality cabinets, flooring, trim, molding and other wood products.

Charles Fugate bought a portable mill for personal use but found he had a lot of down time due to bad weather, wet ground and the time it took to move the mill from place to place.

In 2001, a value-added, ecologically sustainable wood products industry began to emerge in Appalachian Virginia, linking the Wagners, Fugate, Lawson and Sties in a dynamic wood manufacturing network. With Appalachian Sustainable Development (ASD) acting first as a catalyst for the project, and then as manager, the Sustainable Woods initiative began.

Under ASD’s management, Wagner’s woodlands were harvested by a local logger following rigorous, restorative forestry practices. When the logs arrived at ASD’s Sustainable Woods Processing Center, they were sawn into boards by Fugate, whose sawmill is now in an enclosed and ventilated shed constructed by ASD.

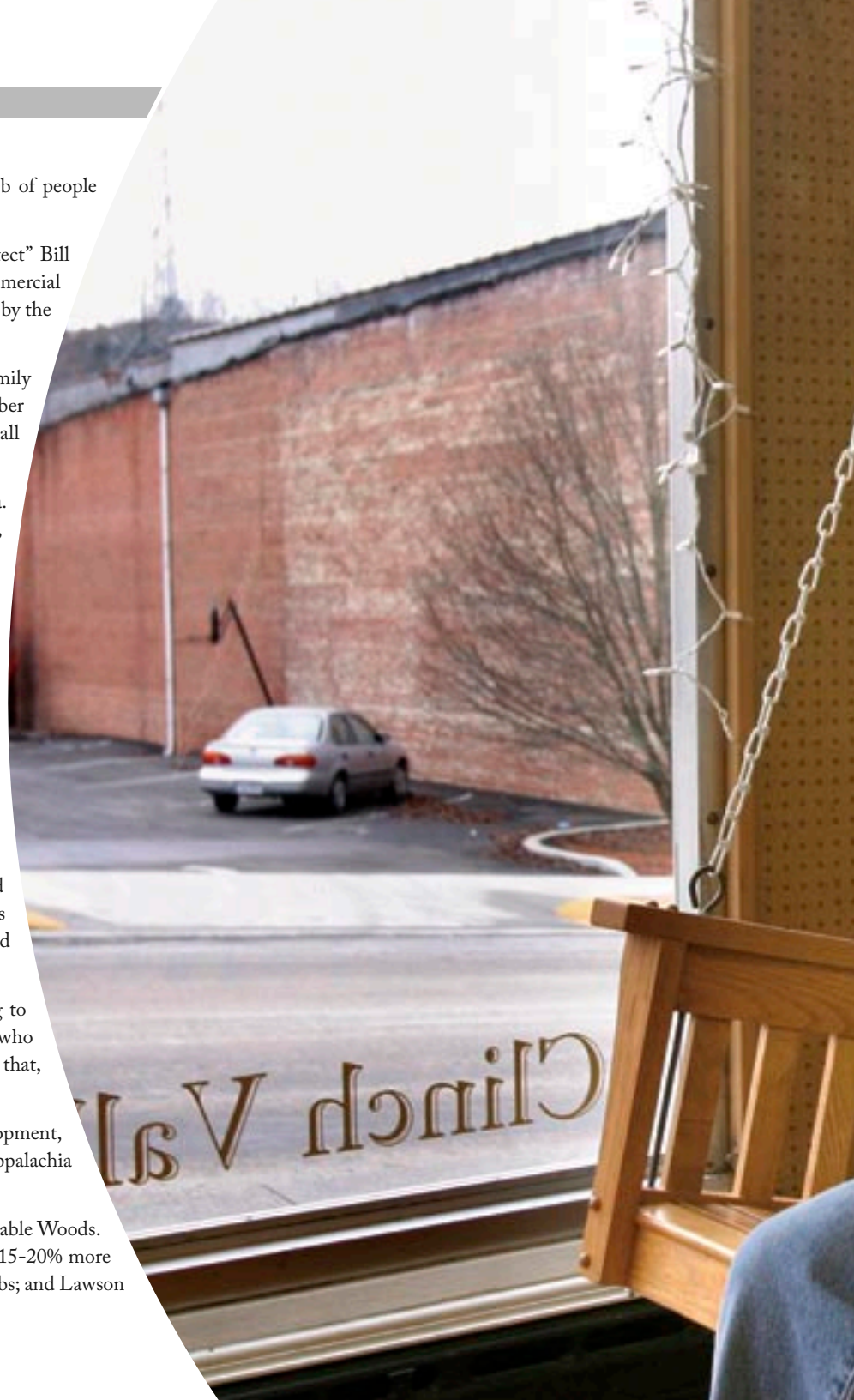
Once sawn, the boards are dried in ASD’s solar & wood waste kiln and then milled. The dried boards are milled into flooring, wainscoting, trim and other products at Lawson’s shop. Then, the Sustainable Woods products are sold and delivered to both residential and commercial builders, spurred on by retailers, contractors and architects like Jeff Sties.

The benefits of the Sustainable Woods initiative are obvious to those involved. “I like the idea of trying to improve the successive generations of timber instead of only going for the highest quality,” says Lawson, who has been involved with ASD for nearly four years. “You and me aren’t going to derive any benefit from that, but our kids and their kids will.”

Those familiar with the project note that an injection of capital for research and infrastructure development, such as the construction of a solar powered kiln used to dry the wood, could enable other regions of Appalachia to replicate, and benefit from, this progressive and forward looking development strategy.

Investment proves especially effective when channeled through dynamic networks such as Sustainable Woods.

The synergies of this network benefit multiple entrepreneurs: Loggers and landowners receive 15-20% more for their logs; Fugate’s output of sawn boards has more than doubled, increasing revenue and jobs; and Lawson has added \$15,000 in sales to his millworks business in the past year.







## *Keys to Success*

- Adding value to local forest assets
- Added sales and profits by serving the sustainable wood niche
- Building a regional wood cluster
- A regional catalyst, organizing the cluster and filling in gaps



*Charlie Lawson, Clinch Valley Millworks, builds high quality cabinets, flooring, trim and molding and other wood products as part of the Sustainable Woods network.*



## REGIONAL CATALYST OPENS MARKETS

It could have been a disaster. In 2000, the Center for Economic Options (CEO), a well-established Charleston, West Virginia, nonprofit, was providing on-going technical assistance to 20 micro-entrepreneurs who were preparing to participate in a major State Chamber of Commerce-sponsored business expo. This included purchasing booth space and designing a Microbusiness Pavilion for clients. At the last minute, the State Chamber canceled the event—a huge disappointment for the business owners needing the exposure and hoping to realize some holiday profits from the event.

For CEO it was time to rethink its mission as it launched into an innovative solution: CEO would open its own retail space for artisans and small scale manufacturers called Showcase West Virginia. Fortuitously, that same week a 480-square-foot retail space opened up for the holiday season in the Charleston Town Center Mall.

“Buy Local” is a great rallying call for consumers, but CEO quickly found out why “Sell Local” was equally necessary. The number of businesses accessing the lucrative Charleston market through Showcase West Virginia swelled from 20 to nearly 80 during this time. The little store grossed \$55,000 through consignment sales, which it split with the participating businesses, and CEO decided to keep the store open after the holiday season. But as renters in Charleston’s largest downtown shopping mall owned by an out-of-state company, policies and lease arrangements favored national stores, not small local retailers. In other words, access to local markets was controlled primarily by out-of-state entities. CEO launched a public awareness campaign that drew attention to the need to support local markets for local products.

CEO has since become a champion for policy changes that an entrepreneur working alone would be unlikely to tackle. With its combination of technical assistance skills, strategic communications capacity, statewide networks, and a focused access to the Charleston market, CEO is a perfect example of how a regional catalyst can help to build regional entrepreneurship. When CEO made the decision to focus on market access many new clients contacted the organization, saying that access to markets beyond their communities was their greatest need.

CEO is able to partner with opportunity-seeking entrepreneurs as well as with a broad spectrum of public and private organizations to enhance the performance of West Virginia entrepreneurs and identify specific policy issues to move their enterprises to a state-wide and regional scale. Regional catalysts like CEO need to be supported if we’re going to build healthy regional economies.

*When CEO made the decision to focus on market access many new clients contacted the organization saying that access to markets beyond their communities was their greatest need. Regional catalysts like CEO need to be supported if we’re going to build healthy regional economies.*





## *Keys to Success*

- **Creating a joint state-level marketing effort**
- **Proposing a regional plan for supporting entrepreneurs**
- **Building a policy network with entrepreneurs**



*Pam Curry, Executive Director, CEO, shows visitors Showcase West Virginia.*



## POWER OF A MAYOR'S NETWORK

Sewer and water infrastructure is one of the least glamorous issues in rural communities but one of the most critical to economic and entrepreneurial development. How does a part-time mayor of a village with a population of 185 best deal with a complicated issue like installing an entirely new water and sewer system for the community?

Amesville mayor Frank Hare tapped into his network of other mayors.

Hare participates in the Mayors' Partnership for Progress (MPP), a group of mayors from the cities and villages in an 11-county region in Appalachian Ohio. MPP serves as a powerful learning network for local officials as well as a way to work together to identify regional and local policy issues that impact their communities. Ohio University's Institute for Local Government Administration and Rural Development (ILGARD) staffs the MPP and provides research and technical assistance to the group.

Mayor Joe Sulzer of Chillicothe originally conceived the partnership. "The idea was born out of the issues of economic development. I began to realize that other mayors in the region were facing a lot of the issues I was facing.... I thought if we could come together and share our problems and solutions we could begin to have a voice in southern Ohio...and at the same time we would be heard by the State Legislature and Congress," says Sulzer.

For Hare, MPP was not only a sounding board; it was also a means to make changes to policies that might make sense for bigger cities but not for cities with small populations.

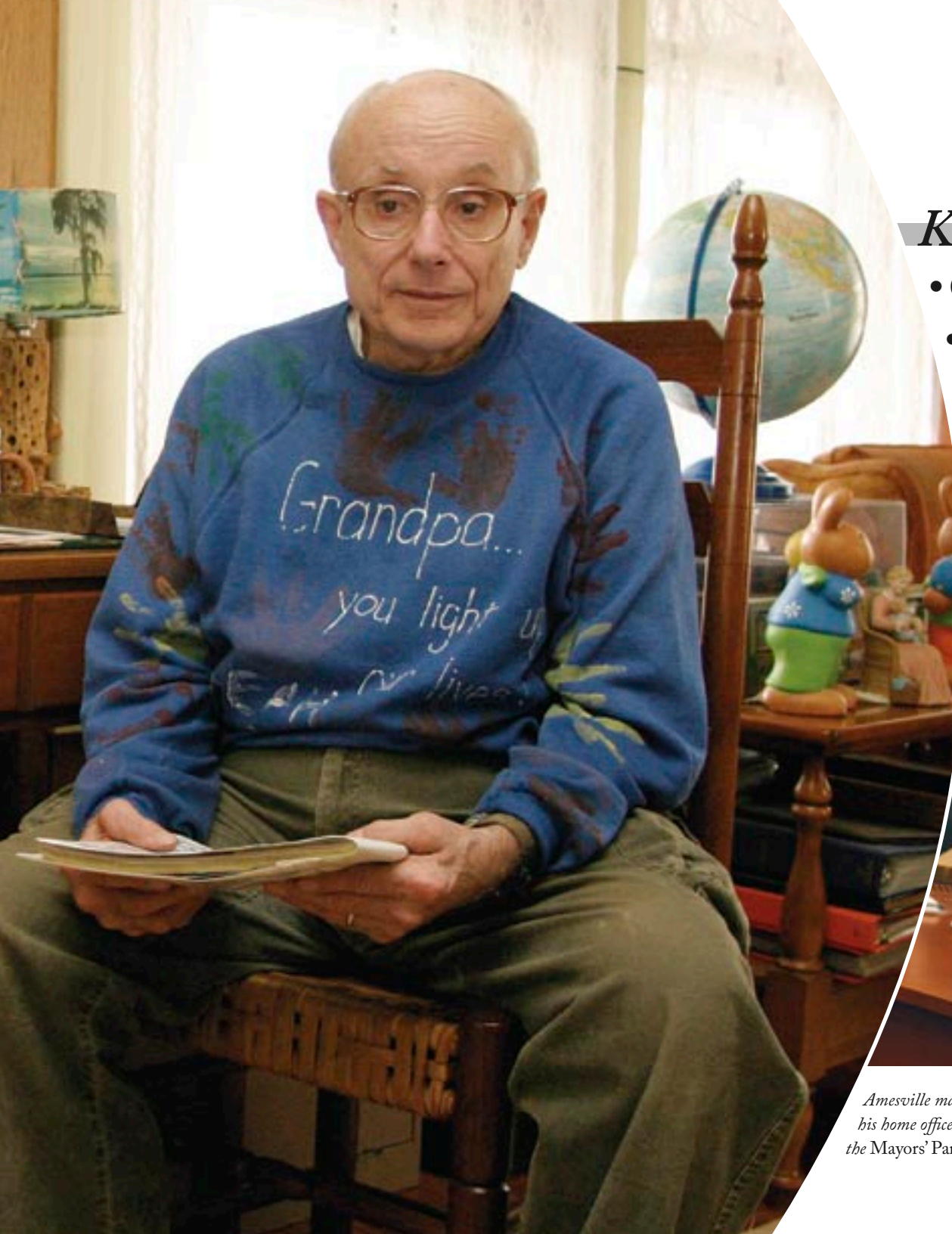
"We felt the estimates for a centralized community sewage plant were too high for a village the size of Amesville," says Hare. "All of our discussions are now about individual systems." Prior to that, technical and financial assistance agencies such as the Ohio EPA and others wouldn't consider individual systems an appropriate solution. Now because of the policy work by MPP and ILGARD, individual systems are seen as innovative, and the Amesville project is serving as a pilot effort for all of Ohio.

The mayors are also working on developing a buying group for supplies and equipment and organizing a consortium to purchase health care benefits for the partnership counties.

As a regional catalyst ILGARD promotes all the Partnership goals by becoming a voice for the network and acting at the state level on its behalf.

*The Mayor's Partnership for Progress serves as a powerful learning network for local officials as well as a way to work together to identify regional and local policy issues that impact their communities.*





## *Keys to Success*

- **Catalyzing a network of mayors**
- **Innovating to provide appropriate solutions**
- **Educating public agencies on rural issues**



*Amesville mayor Frank Hare works from his home office and also gets new ideas from the Mayors' Partnership for Progress.*







# Policy Informed by Research

- P. 31 BUILD ON APPALACHIA'S ASSETS**
- P. 35 SMALL BUSINESS IS A LOCAL ISSUE:  
SUPPORT LOCAL SOLUTIONS**
- P. 39 INVEST IN INNOVATION**
- P. 43 BUILD REGIONAL MARKETS FOR RURAL ENTREPRENEURS**
- P. 47 PARTNER WITH REGIONAL CATALYSTS**

*(The following principles summarize research and study documenting the significance of entrepreneurship in rural economies. A fully footnoted version of the research is available on a CD from the Voinovich Center for Leadership and Public Affairs at Ohio University.)*

The term entrepreneur refers to individuals who are seeking opportunities for adding value to current and potential economic activity. Entrepreneurs in a single community may be high-tech start-ups, individuals with low incomes and no business experience moving off public assistance, or artisans expanding into production manufacturers. Typically, entrepreneurs are focused on creating new, innovative products or services that will lead to further investment and growth.<sup>13</sup>

Entrepreneurship has become the driving force of wealth and growth across the nation.<sup>14</sup> A dynamic economy will have a high percentage of economic activity accounted for by small firms, a high level of self-employment, high business ownership rates, and high start-up rates.<sup>15</sup> Variations in rates of entrepreneurship may account for as much as one-third of the variation in economic growth.<sup>16</sup> The New Economy is based on innovation, and entrepreneurs are more likely than larger firms to generate substantive innovations.<sup>17</sup> Research shows that more than 70% of all new jobs are created by entrepreneurs.<sup>18</sup> Small businesses provide 67% of workers with their first job and job training.<sup>19</sup> Increased entrepreneurship is associated with higher rates of employment growth.<sup>20</sup> The presence of entrepreneurial businesses that are growth-oriented is critical to strong regional economies.<sup>21</sup> In addition, shifting economic activity away from large enterprises towards smaller firms results in lower unemployment over time.<sup>22</sup> Finally, most entrepreneurs will remain local owners, which means they will generate much more local economic activity—since locally-owned businesses generally spend more in the local community.<sup>23</sup>

Entrepreneurship can have other positive impacts for communities: income-generation can enable low-income people to move off public assistance; and entrepreneurs often become civic entrepreneurs through their leadership of community activities.

For entrepreneurship to be a positive force in regional economies, policy cannot simply provide support to individual businesses one at a time. Effective policy sets up a comprehensive system of support that builds on local assets, mobilizes local resources, integrates service providers, and catalyzes business networks. Drawing from the experience of the eight organizations in the Central Appalachian Network (CAN) that have been delivering entrepreneurship assistance for over a decade, as well as from extensive research, five interrelated approaches emerge as effective strategies that enable entrepreneurs to jumpstart a healthy economy: Build on Appalachia's Assets; Small Business is a Local Issue: Support Local Solutions; Invest in Innovation; Build Regional Markets for Rural Entrepreneurs; and Partner with Regional Catalysts.




# Build on Appalachia's Assets

## WHAT IS ASSET-BASED ENTREPRENEURSHIP?

The assets of a community that can play a powerful role in entrepreneurship development are its natural capital and the heritage of the people and the place. Natural capital entrepreneurship is based on the sustainable

use of forests, farmland, rivers, lakes and mountains of our region. Organic and niche crops, ecotourism, wood products made from sustainable harvested timber, and non-timber forest products such as ginseng are all products of entrepreneurship based on natural capital.

Place-based entrepreneurship draws on the beauty and heritage of our region through development of traditional crafts, music, foods and natural treasures such as historic bed & breakfasts.



*“Location is more, not less, important in the age of globalization...it creates sources of competitive advantage that reside in the local environment and which favor firms that are firmly embedded in the local clusters.”*

**Christian Ketels, European Union<sup>24</sup>**



## WHY ARE NATURAL CAPITAL AND PLACE-BASED ENTREPRENEURSHIP IMPORTANT?

**Asset-based entrepreneurship is a significant income generator.**

Tourism is a \$545 billion industry sector that employs 7.8 million people nationwide. In Appalachia, tourist spending contributed more than \$29 billion to the region's economy in 2001. Ecotourism is the fastest growing aspect of tourism, with 10-30% rate of annual growth.<sup>25</sup> Heritage tourism visitors generate more income per visit than the average tourist: Historical/cultural travelers spent an average of \$623 per visit, while the average tourist spends \$457 per trip.<sup>26</sup> Outdoor recreation is a \$1.6 billion industry in Pennsylvania. Watchable wildlife activities such as birdwatching are the fastest growing segment of outdoor recreation, an \$85 billion industry.<sup>27</sup>

American handmade crafts income totals \$14 billion.<sup>28</sup>

A Marshall University study on the *Craft Industry in West Virginia* reports that 2,539 craftspeople in the state generated a direct economic impact of \$54 million, with a total economic impact of over \$81 million in 2002. A University of Kentucky

study estimates total annual sales of Kentucky craft producers in 2000 at \$252.4 million with out-of-state sales of \$148.7 million.<sup>29</sup> The median household income for fulltime craft families is \$50,000, well over the average median family income in the U.S.<sup>30</sup>

The market for certified sustainable wood products emerging in the Central Appalachian region has long-term potential for entrepreneurs. Most lumber and home improvement companies now have policies that give preference to certified sustainable forest products.<sup>31</sup> With the development of the LEED Green Building Rating System® and a new national loan program to help buyers of homes that employ green building principles, markets for sustainable forest products will increase dramatically in the coming years.<sup>32</sup> The demand for organic produce and processed foods, as well as for natural meats, continues to expand by 20% each year compared to 3% for the rest of the grocery market.<sup>33</sup>

**Our region's assets are our competitive advantage.**

No other region has the unique beauty and heritage of the Appalachians. As a recent Appalachian Regional Commission (ARC) pamphlet announced: "The region's natural, cultural and structural assets are its unique calling cards."<sup>34</sup> One researcher noted that in most regions such assets are just "waiting to be unlocked."

**Place-based and natural capital entrepreneurship make this a great place to live and work.**

Natural capital and place-based entrepreneurship create an extremely attractive environment that enhances pride of local residents and attracts innovative and growth oriented businesses.<sup>35</sup> Restaurants, regional foods, festivals, artisans—all enhance the quality and authenticity of our lives.

Despite these successful efforts and the richness of the region, in general Central Appalachia is missing opportunities for celebrating its natural assets. Unfortunately, natural assets have often been undervalued yet over-utilized, resulting in heavy pressures on the land and limited economic impact. A place-based asset building strategy can simultaneously protect or restore these resources, while increasing economic value. Supporting natural capital and place-based entrepreneurs will ensure that tourism and recreation contribute as much to our economies as it does to those in other parts of the country.



## WHAT INCREASES THE CONTRIBUTION OF PLACE AND NATURAL CAPITAL ENTREPRENEURSHIP?

### Helping Entrepreneurs and Communities Focus on Niche Opportunities

Some of the fast growing segments of tourism are garden or farm related visits (agritourism) or ecotourism opportunities such as bird watching. In agriculture, non-timber forest products such as herbs and organic produce are fast growing niche markets.

### Regional Flavor

Unique places—whether historic villages, unusual landmarks or signature farms—have more market power when they are combined and bundled into a Regional Flavor—developing a region’s unique character. More economic activity is generated by regional brands based on high value products made from local natural capital—food, wood, tourism or artisan products. Creating a vibrant sense of place by linking businesses through joint marketing increases the power of Regional Flavor to contribute to economic health. Artisans and restaurants can be encouraged to serve niche markets for regionally-made products by becoming small manufacturers that turn out signature food items and household items.

### Improved Quantity, Quality, Density and Innovativeness of Products and Services

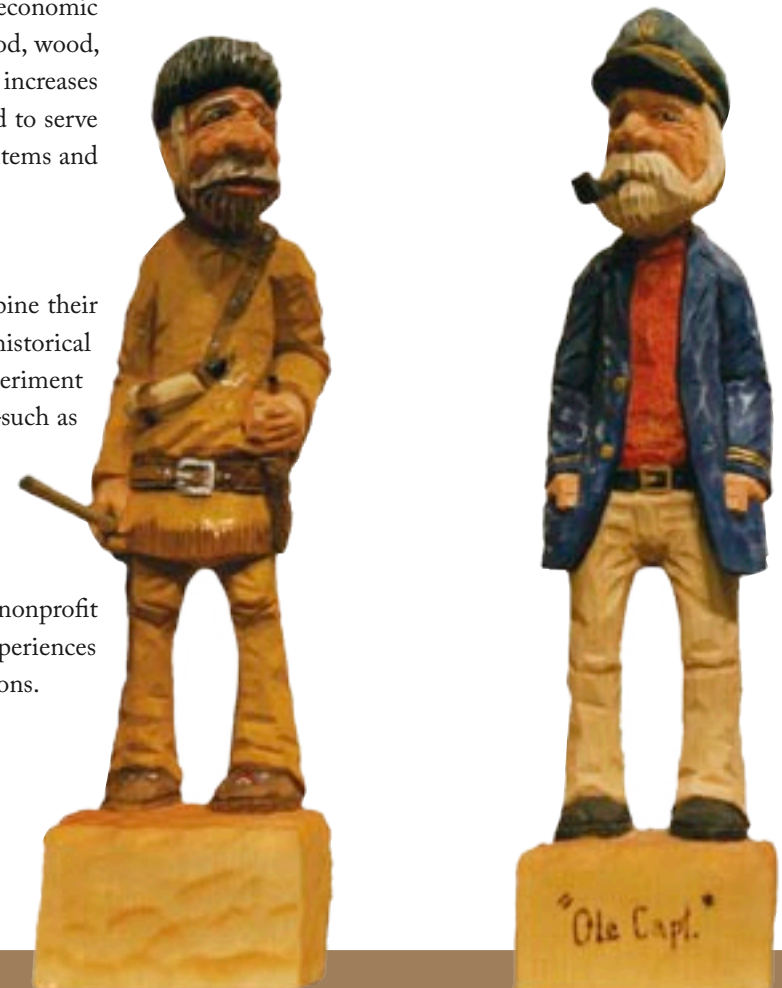
Products generate a higher return when they meet consumers’ needs. For example, entrepreneurs who combine their business offerings into a set of experiences that serve interests as varied as hikers, antique aficionados and historical re-enactors will generate more economic activity than those offering generic experiences. Farmers who experiment with unusual crops and add mazes or hay rides see their income increase. Communities that identify gaps—such as the need for lodging or restaurants—and provide incentives to entrepreneurs to fill those gaps find that the increased density of offerings attracts more customers.

### Regional Collaborations

Success will require a wide range of organizations in the tourism, agriculture, forest, artisan, government and nonprofit sectors throughout the region to collaborate with each other. For example, maps that help people organize experiences such as birdwatching or biking are most effective when they cover several states so that they offer many options.

*“Providing the critical mass to attract and sustain visitors—and their spending—is a constant challenge for communities. By banding together, rural and urban areas can strengthen their product offering to provide diverse tour experiences.”*

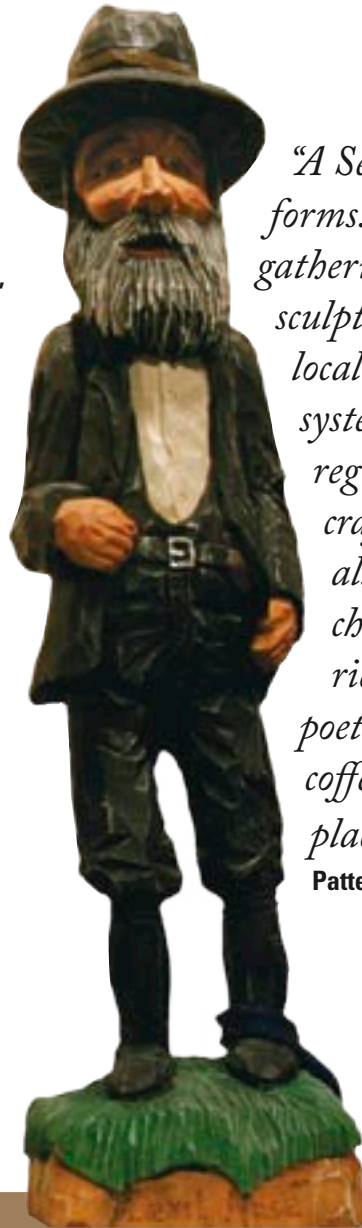
**Appalachian Regional Commission<sup>36</sup>**





*“A proven way to strengthen communities and their economies is to identify their cultural assets and stimulate local creative businesses and nonprofit organizations.”*

**Richard Florida,  
The Creative  
Class<sup>37</sup>**



*“A Sense of Place takes many forms: annual festivals, fairs, gatherings; rituals; paintings, sculpture, and site art; gardens; local currencies and trading systems; restaurants featuring regional and seasonal cuisine; crafts using local materials; buildings reflecting the changing seasons; songs, stories, and dances; plays and poetry; community bookstores, coffeehouses, and gathering places; essays and novels.”*

**Patterns of a Conservation Economy<sup>38</sup>**

*Wood carvings by Dale Hardwood,  
Hardwood Wood Carvings in West Logan  
WV, at Showcase West Virginia.*

## **POLICY RECOMMENDATIONS**

- 1. Support collaborative pilot projects that encourage entrepreneurs to add value to the region’s natural and place-based capital.** Set up a pool of regional funds for collaborative local and regional pilot projects that weave together the natural and place-based capital of the region into industries capable of impacting the regional economy on a significant scale.
- 2. Build capacity to improve quality and innovation.** Offer regional trainings for nonprofits and agencies to encourage development of natural capital and place-based entrepreneurship projects which are integrated, innovative and high quality.
- 3. Build and train leadership.** Offer regional trainings on skills needed for successful collaborations.
- 4. Create state-funded agricultural diversification programs.** Support feasibility studies and financial assistance to explore alternative agriculture opportunities.



# Small Business is a Local Issue: Support Local Solutions

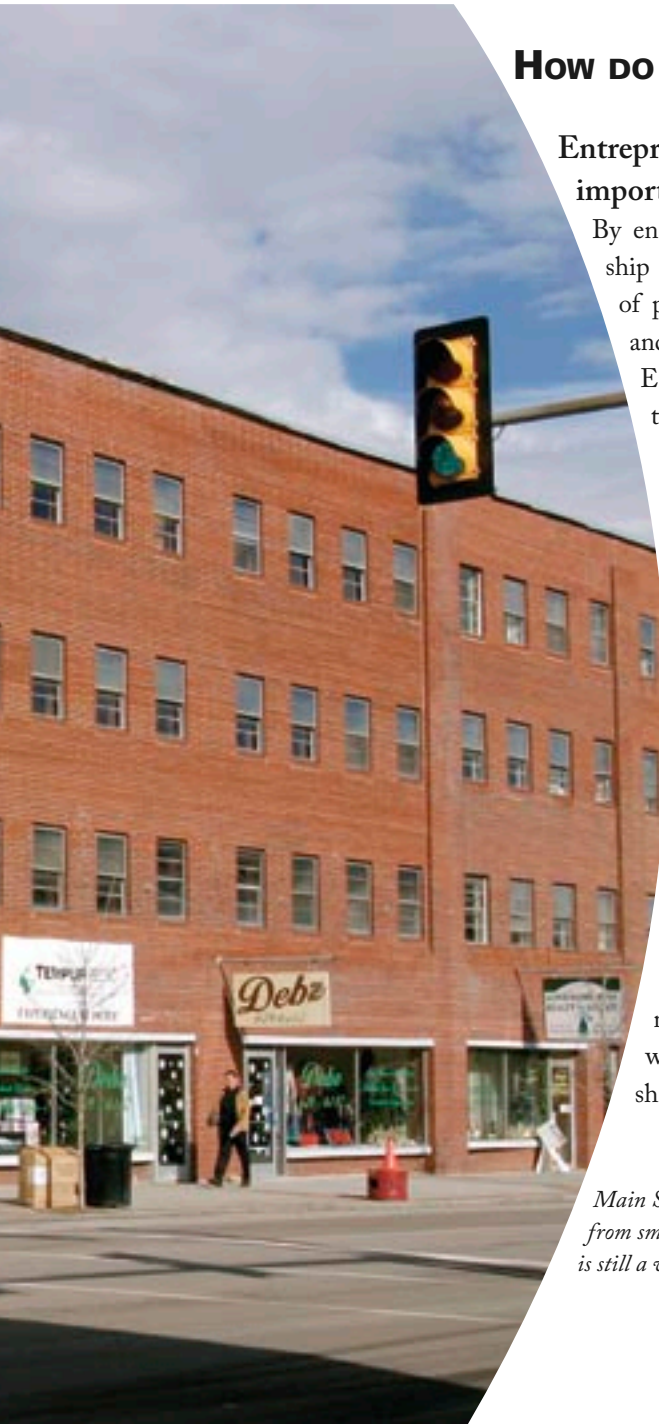
Numerous studies show the important role of local communities in entrepreneurial success.<sup>39</sup> Communities that publicly acknowledge the importance of small business and entrepreneurs, provide mentorship, and connect entrepreneurs to resources will see a rapid increase in the number of successful local businesses. Such communities are entrepreneurial communities. They are open to change and build a supportive environment for entrepreneurs.

*“Strong civic leadership can help to foster a ‘collaborative advantage’ by raising mutual awareness of local strengths and a shared vision for business growth.”*

**A Practical Guide for Cluster Development<sup>40</sup>**







## HOW DO ENTREPRENEURIAL COMMUNITIES JUMP START A HEALTHY ECONOMY?

### Entrepreneurial communities continually express the importance of entrepreneurs.

By encouraging young people and adults to consider entrepreneurship as a viable career path, local leaders not only expand the pool of potential entrepreneurs but also help trigger wider interest in and support for those seeking to start and grow new companies.<sup>41</sup> Entrepreneurial communities create high-profile public awards that celebrate and recognize the importance of local entrepreneurs.<sup>42</sup> They make sure the local media frequently contains stories about entrepreneurs and their successes.<sup>43</sup>

### Residents of entrepreneurial communities support local entrepreneurs through their actions.

Bank officers are more open to lending to entrepreneurs and local government officials generate new policies that support entrepreneurs.<sup>44</sup> This includes seed and loan funds; resources for Enterprise Facilitators or Enterprise Scouts who identify entrepreneurs and link them to resources; and Enterprise Support Networks, local volunteer boards that mentor entrepreneurs.<sup>45</sup> This broad-based civic leadership can generate a ‘collaborative advantage’ based on the ability to identify local strengths and work together to build on those strengths.<sup>46</sup>

In entrepreneurial communities local residents know which businesses are locally owned and purchase their products or services whenever possible. Local businesses participate in entrepreneurship education programs offered by the schools.<sup>47</sup>

*Main Street may be disappearing from small towns, but small business is still a vital part of the rural economy.*

### Entrepreneurial communities intentionally create a supportive infrastructure.<sup>48</sup>

Entrepreneurial communities intentionally create a supportive infrastructure. Entrepreneurial communities have experienced service providers such as lawyers, accountants and consultants who are knowledgeable and involved with entrepreneurs. The community is a great place to live, with a reasonable cost of living, cultural amenities and an excellent educational system.<sup>49</sup> Entrepreneurial communities have sidewalk cafes, restaurants, music venues and active outdoor recreation.<sup>50</sup> Entrepreneurial communities invest in a skilled workforce so that small businesses have the workforce they need to grow. Entrepreneurial communities have volunteer Enterprise Support Networks that continuously examine and improve the community’s and the region’s infrastructure for entrepreneurs.<sup>51</sup> Entrepreneurial communities assess the types and amounts of capital available in their region and work together to fill the gaps.<sup>52</sup>



### Entrepreneurial communities encourage diversity, creativity and opportunity-seeking.<sup>53</sup>

An entrepreneurial community encourages all forms of creativity; this means creativity in the arts as well as creativity in business.<sup>54</sup> The creation of spin-off businesses is much more likely to happen in entrepreneurial communities that value creativity and innovation.<sup>55</sup> Several researchers have shown that places that are diverse, tolerant and open to new ideas attract the kind of creative people who will drive a regional economy.<sup>56</sup> Qualities such as local networks, acceptance of controversy, and connections to the outside have been identified as critical characteristics of entrepreneurial communities.<sup>57</sup> Open, inclusive communities—where women, minorities, the poor, and the young are included in the entrepreneurial economy—not only end up with more entrepreneurial activity, but begin to solve other social problems as well.<sup>58</sup>

### Entrepreneurial communities assist entrepreneurs in forming networks.<sup>59</sup>

Building an entrepreneurial environment requires a holistic approach. Numerous government agencies, private sector leaders, and nonprofits must come together to build a network that provides education, learning opportunities, and other services for local entrepreneurs.<sup>60</sup> Enterprise Support Networks of volunteers weave informal networks composed of entrepreneurs, aspiring entrepreneurs, professional service providers, local development officials, and investors. Networks serve to link entrepreneurs to the entrepreneurial life support system—resource people both within and outside the community.<sup>61</sup> The role of entrepreneurial communities is to make the pathway to these services and resources transparent.

### Entrepreneurial communities encourage entrepreneurs to give back to the community.<sup>62</sup>

When successful entrepreneurs agree to mentor others and lead local civic activities, the entire community benefits.

*“Entrepreneurs are classically depicted as rugged individualists who single-handedly build great companies. In reality, entrepreneurs are consummate networkers who thrive in communities.”*

**Edward Lowe Foundation Building Entrepreneurial Communities<sup>53</sup>**



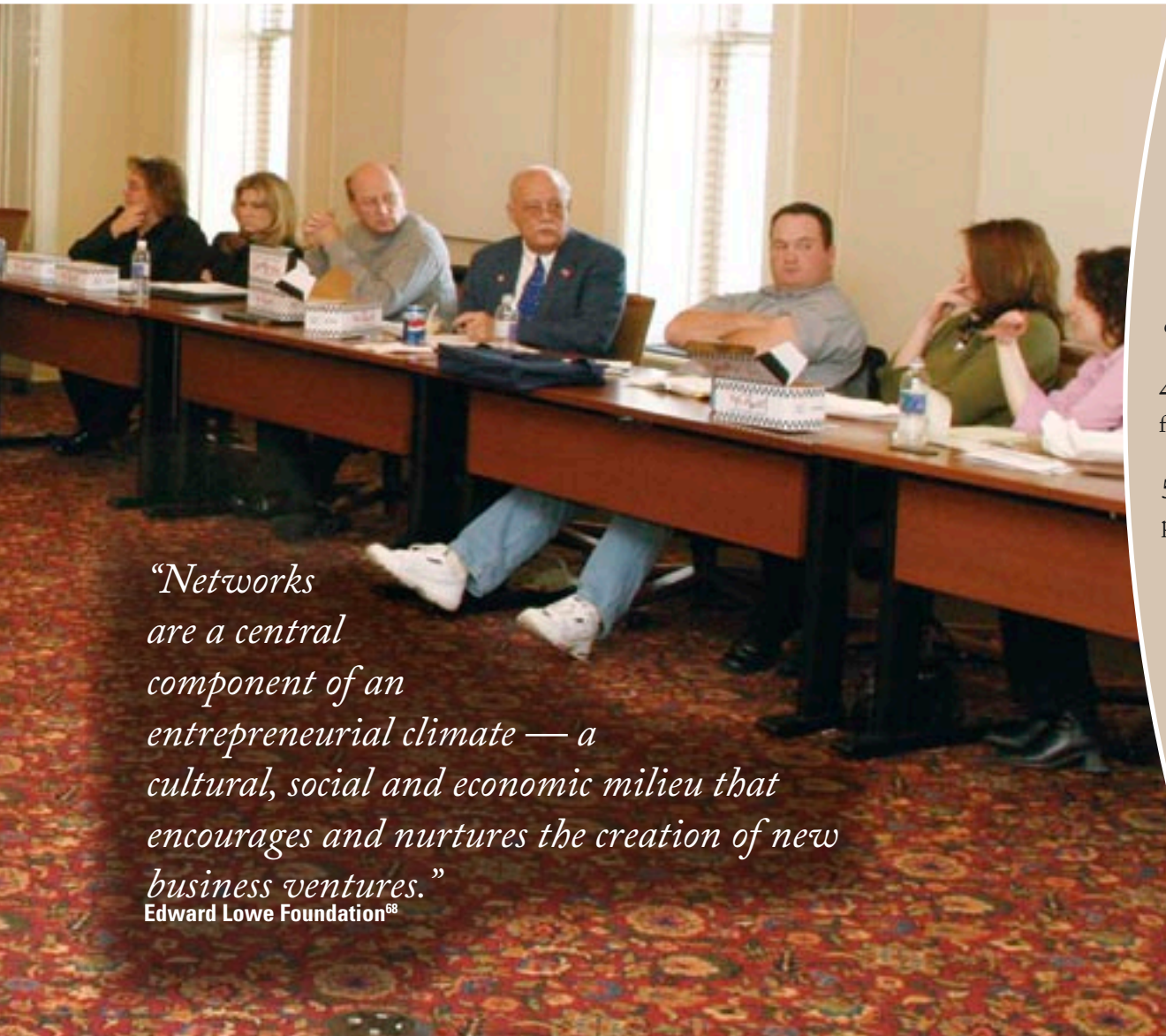
*“Entrepreneurship requires a supportive social context that can stimulate and nurture creativity.<sup>64</sup> Regional economic growth is driven by creative people who prefer places that are diverse, tolerant, and open to new ideas.”*

**Richard Florida<sup>65</sup>**



## EXAMPLES OF LOCAL SOLUTIONS

West Virginia, Georgia, North Carolina and Minnesota each sponsor an annual entrepreneurship summit. Other states have supported capacity building in communities so that local development organizations can better network their entrepreneurs to the most appropriate and best sources. Maine has altered its workforce programs to allow self-employment as an option for retraining. CDBG funds have been used for Sirolli local entrepreneurship programs. Nebraska has used social service funds for micro-lending.<sup>66</sup> In Nebraska, Enhancing, Developing, Growing Entrepreneurs (EDGE), in operation since 1993, is a community based program of support for entrepreneurs that has served 14,000 entrepreneurs.<sup>67</sup> Community capacity is developed while providing business skills for potential entrepreneurs. Communities have also increased volunteer hours in the community as a result of the new networks that are developed through EDGE. Keys to success are local leaders who are committed to the success of the program and a strong local coalition enhancing the efforts of the program.



*“Networks are a central component of an entrepreneurial climate — a cultural, social and economic milieu that encourages and nurtures the creation of new business ventures.”*  
Edward Lowe Foundation<sup>68</sup>

## POLICY RECOMMENDATIONS

- 1. Develop a regional plan** for local governments and planning or development districts to invest in building an environment supportive of entrepreneurs.
- 2. Provide regional training** for local government officials on the importance of entrepreneurship and the significant steps they can take to create a more entrepreneurial community.
- 3. Create a regional Access to Capital Network** that would work with local and regional banks, loan funds, angels and venture funds to increase the flow of capital to entrepreneurs.
- 4. Set up high visibility state and regional awards** for outstanding entrepreneurs.
- 5. Provide incentive funds** to set up programs and projects to support entrepreneurs in communities.



# Invest in Innovation

## WHAT IS INNOVATION?

Innovation includes successful development and marketing of new products, innovations in markets and market position or organizational innovations such as improved production processes.

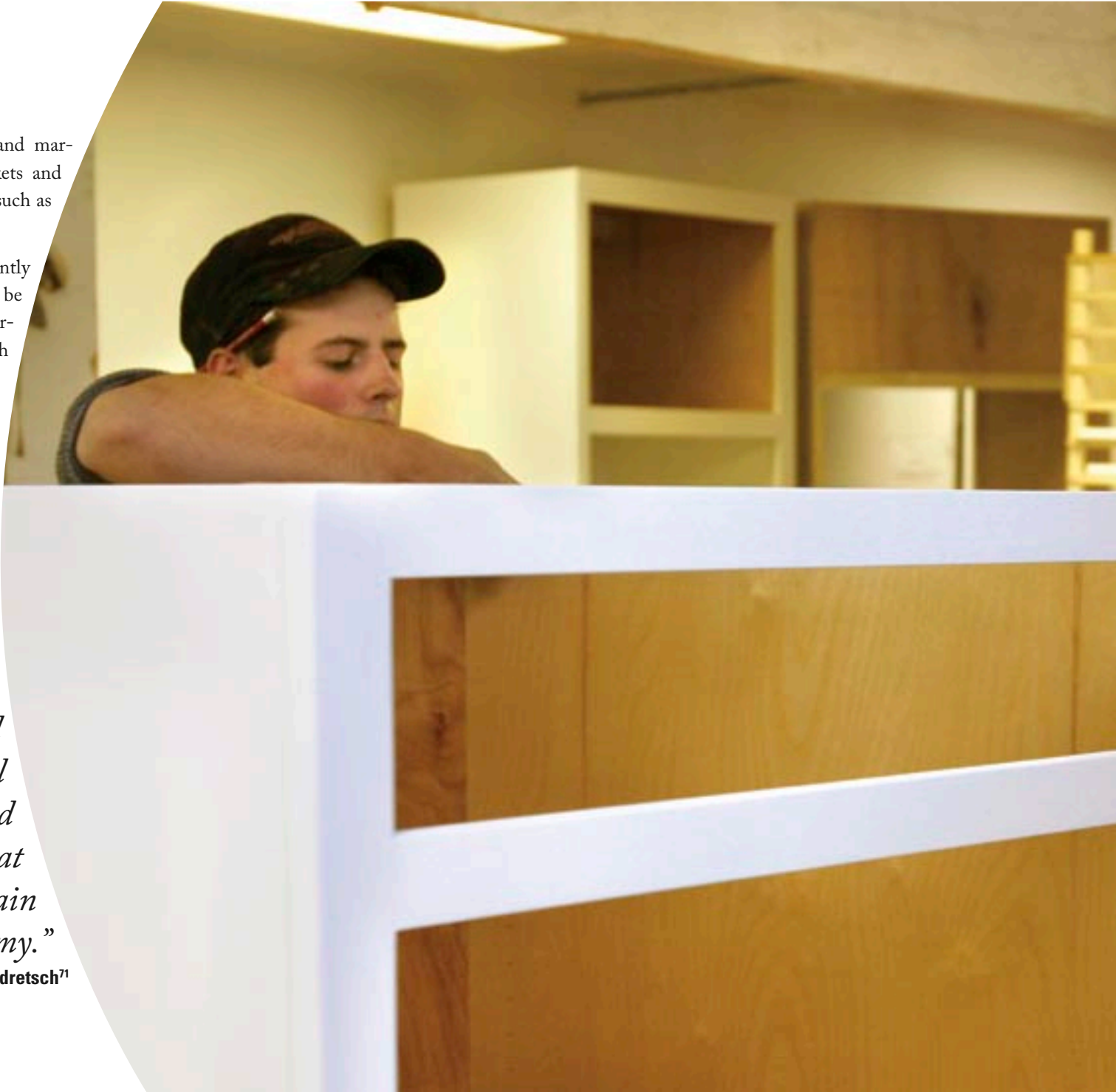
Small, and often new, firms are frequently the source of innovation. They appear to be particularly able to exploit research from universities when they have open communication with those institutions.<sup>69</sup>

*“In today’s economy, innovation is survival, no matter what your product or service line is.”*

**Lee Munnich, Knowledge Clusters<sup>70</sup>**

*“Small entrepreneurial firms provide an essential source of new ideas and experimentation that otherwise would remain untapped in the economy.”*

**David B. Audretsch<sup>71</sup>**







## WHY IS INNOVATION SO IMPORTANT?

### **Innovative entrepreneurs generate more wealth.**

Fourteen percent of business launches creating new markets accounted for 28% of total revenues and 61% of total profit.<sup>72</sup> About 40% of the variation in per capita regional income can be explained by differences in innovation performance.<sup>73</sup> Innovative manufacturing firms that create new products every year generate a higher return on investment.<sup>74</sup>

### **Innovative entrepreneurs create spin-offs.**

The single factor contributing most towards spin-off creation is the stimulation of a social culture inclined to innovation and entrepreneurship.<sup>75</sup>

### **Innovative entrepreneurs create quality jobs.**

Manufacturing firms that create jobs fastest are those that focus their R & D efforts on product innovation.<sup>76</sup> Innovative manufacturing firms that create new products every year create more, higher quality jobs and are more resilient in downturns in the economy.<sup>77</sup> Smaller firms tend to create proportionately more jobs than larger ones when they innovate.<sup>78</sup> Innovation increases the need for highly skilled workers, who earn higher wages.<sup>79</sup> Studies show that innovation in any industry—even traditional ones such as food processing and wood products—can increase the number and quality of jobs in that industry.<sup>80</sup>

*Cabinet makers at Clinch Valley Millworks*





## WHAT INCREASES INNOVATION AMONG ENTREPRENEURS?

### Proximity spurs innovation.

Competitive regions are those that are able to encourage innovation to spread throughout the region.<sup>81</sup> Innovation is most effectively undertaken when entrepreneurs are near each other, so that knowledge transfer occurs informally through interactions among businesses on a local level as they work on joint projects.<sup>82</sup>

### Networks, collaboration and projects support innovation.

Innovation is not limited to research and development efforts at universities and is not limited to high-tech firms. More often, successful innovation occurs when the institutions and entrepreneurs in a region work together. Innovation is closely tied to organization of business activity into projects or innovation networks. These short-term teams, which often include people from several different businesses and support organizations such as nonprofits or universities, work to develop a specific opportunity or perhaps a new product. Projects help businesses become more innovative, and they help regions become more innovative.<sup>83</sup> Innovation requires the development of networking and knowledge transfer mechanisms that encourage the free flow of information between large firms, researchers, entrepreneurs, inventors, consultants, patent agents, intermediaries and local authorities.<sup>84</sup>

### Churn is not always negative.

High rates of business births and deaths are closely linked to innovation and to economic growth. When there are few barriers to business entry and exit, this stimulates the supply of future entrepreneurs. It tends to be new businesses—whether they succeed or not—

that introduce breakthroughs, which are then taken to market by others.<sup>85</sup> Small firms produce eight times more successful new products per million dollars than large firms.<sup>86</sup>

### Diffusion of innovations benefits a region.


When new ideas move rapidly throughout a region, and when new products and services diffuse rapidly throughout the economy, a region benefits. Often inventors are not the ones to take an innovation to market, so some countries assist this flow from inventor to other entrepreneurs.<sup>87</sup> Regions where small firms are linked to each other, to universities and to larger firms benefit most from innovation.

### Market enhancement boosts innovation.<sup>88</sup>

The biggest return comes from helping entrepreneurs create new market space or redefine market or product boundaries.<sup>89</sup> Innovation is founded on the entrepreneur's ability to recognize market opportunities and then react quickly to these opportunities.<sup>90</sup> This requires external connections that often spark the community network linkages to develop the product and take it to market.

### Diversity builds a creative environment.

Creativity thrives when the environment allows people of all lifestyles, cultures and ethnicities to interact. Regions that wish to encourage economic creativity must also encourage diversity.<sup>91</sup> When a critical mass of entrepreneurs in a community creates innovative products, that becomes the norm, and new entrepreneurs are likely to generate innovative products as well.



*“Innovation in all contexts requires a capacity for collective entrepreneurship.”*

Phillip E. Auerswald and Lewis M. Branscomb, *Start-ups and Spin-offs*<sup>92</sup>

*“The main driver of economic growth is the process by which change diffuses through the economy.”*

Future Directions of Innovation Policy in Europe<sup>93</sup>

*“Innovation arises from complex interactions between individuals, organizations and their operating environment.”*

European Union Report<sup>94</sup>



## EXAMPLES OF INVESTMENT IN INNOVATION

Maine has developed an Innovation Index to track progress on innovation. This index measures R & D capacity, education capacity, connectivity capacity, innovation capacity, and employment capacity.<sup>95</sup> In Appalachian Ohio, the Yellowroot Fund at the Foundation for Appalachian Ohio provides seed funds to innovative projects. These funds have leveraged additional funds, and created an environment of innovation. Several states, such as California, offer tax credits for innovative activi-



## POLICY RECOMMENDATIONS

Innovation tends to be a regional phenomenon, so policies that support innovation should operate at the regional or multi-county level.<sup>96</sup>

- 1. Invest in joint product development.** Set up a regional Innovation Fund, an endowed fund that provides small, leveraged seed grants for collaborative new product development.<sup>97</sup> Such a fund is particularly important for natural capital industries, such as food production and processing and wood products, where product innovation can have enormous impact on the regional economy.
- 2. Encourage innovation networks**—linkages between small firms, Entrepreneur Support Organizations and university researchers.<sup>98</sup>
- 3. Develop a Regional Innovation Index** to track the region's progress.
- 4. Encourage links outside the region** that provide trends, inspiration and expertise needed for successful innovation.
- 5. Offer tax credits for innovation.**<sup>99</sup>
- 6. Provide training in collaborative skills** to entrepreneurs so they can function well in innovative teams and networks.
- 7. Invest in Entrepreneur Support Organizations** that assist entrepreneurs with product innovation.



# Build Regional Markets for Rural Entrepreneurs

*“A growing number of economic experts now believe that clusters provide a unique way for small rural factories to compete effectively in the global economy. If true, then rural developers might consider abandoning the traditional strategy of trying to land one big fish, and instead assemble a cluster of small but similar firms that can form synergies.”*

**Mark Drabenstott, Kansas Federal Reserve<sup>100</sup>**

## **WHAT ARE REGIONAL CLUSTER MARKETS?**

Clusters of like businesses are the medium that encourages the spread of innovation.<sup>101</sup> Clusters are informal geographic concentrations of entrepreneurs, specialized suppliers, service providers, trade associations, regional development agencies, universities and governments who serve similar markets and collaborate in a variety of ways for mutual gain.<sup>102</sup> Clusters are often composed of small, nimble, niche-seeking firms that are exceptionally able to identify and serve high value markets.<sup>103</sup> Some of the regional clusters that are expanding in rural areas include processed food, building fixtures, natural endowment industries, hospitality and tourism, business services and entertainment.<sup>104</sup>

*“Rural areas need to think beyond traditional jurisdictional boundaries to create natural regional clusters of economic activity, innovation, and prosperity.”*

**David Sampson, EDA<sup>105</sup>**





## WHY ARE CLUSTERS IMPORTANT FOR OUR REGIONAL ECONOMY AND ENTREPRENEURS?

### Clusters create more, higher quality jobs.

Even in traditional sectors—such as food manufacturing and wood products—businesses in clusters tend to be more innovative, a quality that also improves performance and increases the creation of high quality jobs.<sup>106</sup> Earnings are also higher.<sup>107</sup>

### Clusters improve the performance of entrepreneurs.

Businesses in clusters have better business performance due to joint purchasing and marketing, informal sharing of knowledge, and product innovation.<sup>108</sup> Cluster firms create and disseminate knowledge interactively through their many collaborations, and this increases their innovation.<sup>109</sup> Clustering provides access to more suppliers and customized support services, to experienced and skilled labor pools, and to the inevitable transfer of knowledge that occurs when people meet and talk business. Companies that cluster can

operate as a system, use their resources more efficiently, and collectively produce more than the sum of their individual outputs.

### Clusters enhance firm growth.

Research has shown that entrepreneurs in cluster networks tend to grow more than those not in clusters.<sup>110</sup>

### Clusters shape successful policy.

Clusters articulate workforce needs so that colleges can modify their programming to better fit these needs. Clusters are a major way to gather input to shape state and regional economic development and workforce policy.<sup>111</sup>

### Clusters overcome rural barriers.

Clusters and their innovative activity are increasingly emerging to take away the handicaps conventionally associated with remote locations.<sup>112</sup>

*“Organizations involved in modern innovation clusters are able to achieve synergies and leverage economic advantage from shared access to information and knowledge networks, supplier and distribution chains, markets and marketing intelligence, competencies, and resources in a specific locality.... Clusters, as conduits of innovation, capture the linkages, complementarities, and spillovers that cut across industries and firms.”*

Camille Ryan<sup>113</sup>





## WHAT ARE THE KEYS TO SUCCESSFUL CLUSTERS?

### Cluster hubs and infrastructure.

These may include cluster-based innovation centers, cluster incubators (kitchen incubators, arts incubators, wood incubators), specialized technical institutes, research centers, or other key cluster infrastructure, such as a solar kiln or wood sorting yard that may be needed to introduce new technologies.<sup>114</sup> These hubs enable entrepreneurs in the cluster to start up with less capital due to shared-use equipment, they often provide a central location that increases informal networking and knowledge transfer, and they offer specialized services.

### Cluster networks.

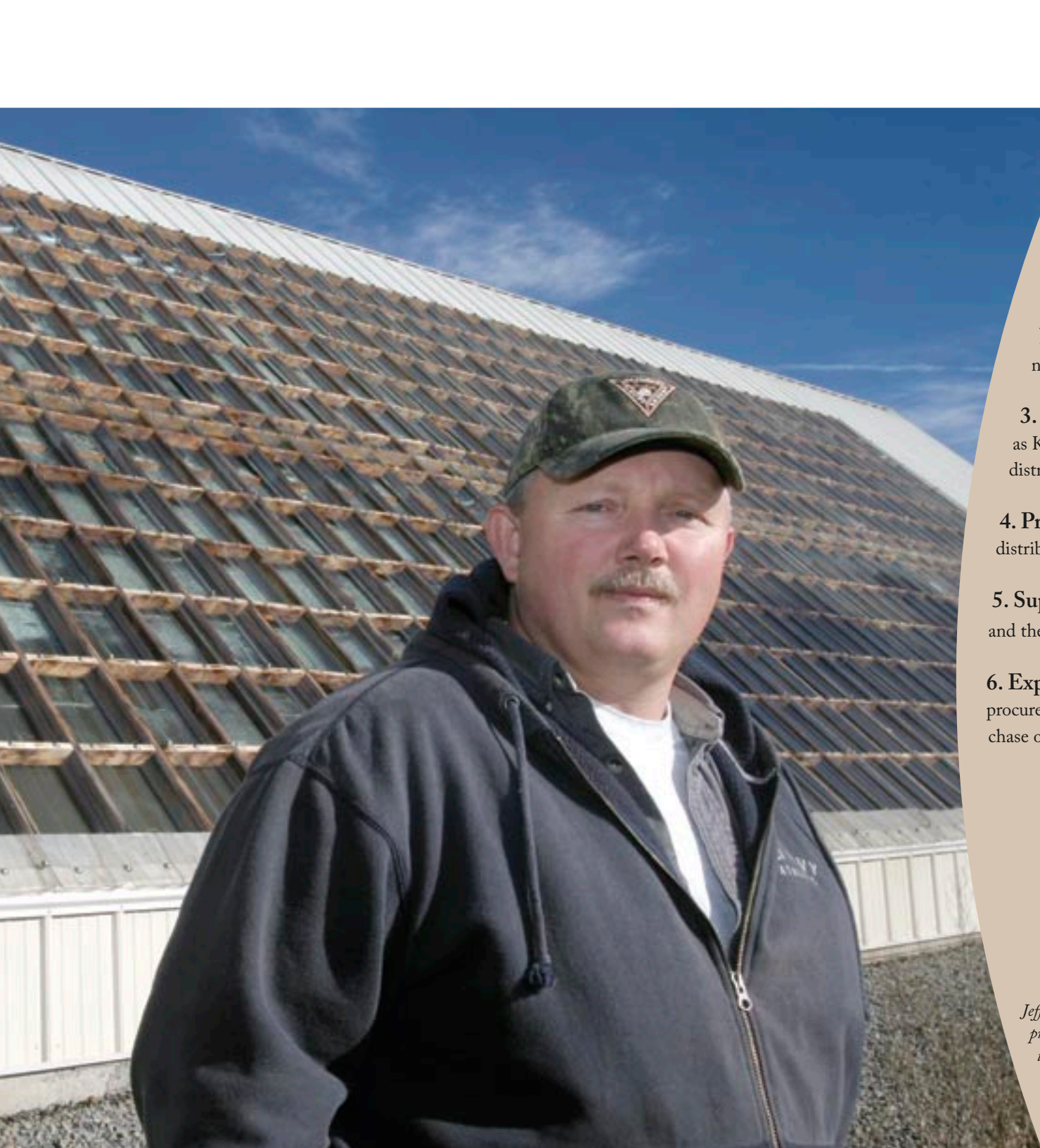
National Governors' Association Center for Best Practices urges states to support the development of cluster networks: "States can support clusters by encouraging the development of industry networks that provide a channel for businesses to work together."<sup>115</sup> Cluster networks provide peer support and learning opportunities.<sup>116</sup> They help entrepreneurs move from personal networks of friends to more useful marketing networks, knowledge networks, and innovation networks.<sup>117</sup> Network Brokers, working for local agencies, serve as facilitators or systems integrators, linking entrepreneurs to each other and to other cluster resources and helping entrepreneurs identify cluster gaps.<sup>118</sup>

### Cluster services.

- **Innovation and product development.** The evidence shows that product development and well-developed research structures enable clusters to remain on the front end of the market.<sup>119</sup> Product development and innovation support activities must be tailored to the particular needs, trends and dynamics of the specific cluster. Entrepreneurs need to be sharing knowledge and identifying new products to make rural clusters work.<sup>120</sup> Investing in explicit joint product development is an investment that brings significant returns to rural communities.<sup>121</sup>
- **Marketing and distribution.** The most powerful services are those that assist clusters in identifying new market opportunities. In addition to providing trend information that enables entrepreneurs to develop new products, new market opportunities can be opened through integrated, region-wide marketing, development of regional brands, regional distribution systems and retail venues featuring cluster products.<sup>122</sup>
- **Workforce.** The best cluster service programs are cross agency and include economic development, higher education, and workforce development.<sup>123</sup> The key to the success of almost every cluster is a labor force with the appropriate skills for, and knowledge of, the industries located within the cluster.<sup>124</sup> To meet the need of cluster businesses for highly skilled workers, states have deployed colleges and universities as training centers.<sup>125</sup> Cluster businesses tend to create jobs one at a time, so clusters need to help small firms aggregate training needs.







## POLICY RECOMMENDATIONS

1. **Invest in regional cluster initiatives** that network entrepreneurs and assist them in the development of new products and markets.
2. **Set up a Regional Product Innovation Fund** that would provide seed funds to entrepreneurs for developing innovative products.
3. **Invest in cluster-based infrastructure** such as Kitchen Incubators, solar wood kilns, and regional distribution systems.
4. **Provide incentive funds** for joint marketing and distribution projects for clusters.
5. **Support initiatives that enable entrepreneurs** and their workforce to find each other.
6. **Expand markets for clusters** through government procurement policies, such as those that encourage the purchase of certified wood or locally grown food.

*Jeff Coffey, Manager, Sustainable Woods processing center in Stickleyville, VA, in front of the solar kiln that serves the entire network.*



# Partner with Regional Catalysts

*“Finally, the research is clear that for support services to be helpful, the people and organizations running them must be entrepreneurial.”*

**Southern Rural Development Center<sup>126</sup>**

*“States should explore strategies to evolve regionally and state based systems of support through the integration of existing public and private programs.”*

**Don Macke, National Center for Rural Entrepreneurship<sup>127</sup>**

*“Nonprofit organizations are leading many of the efforts now aimed at changing economic development visions and strategies.”*

**Karl Stauber, Northwest Area Foundation<sup>128</sup>**

*“Only through regional cooperation across multiple jurisdictions and through regional institutions can there be sufficient scale, resources, and expertise to enable individual communities to play their full role.”*

**Brian Dabson<sup>129</sup>**







## WHAT ARE REGIONAL CATALYSTS?

### Catalysts build an infrastructure of support.

Our region does not have enough resources to provide each entrepreneur with the resources he or she needs for success. The region needs regional catalysts—organizations and individuals who facilitate collaboration—to build local and regional systems of support that can assist many entrepreneurs. The major catalysts will be Entrepreneur Support Organizations, such as CAN members, dynamic nonprofits that collaborate with opportunity-seeking entrepreneurs and partner with a broad spectrum of public and private organizations to enhance the environment for entrepreneurs. Government officials and agencies

*Anthony Flaccavento, Executive Director of Appalachian Sustainable Development, works in the office and in the fields to support ASD's Sustainable Agriculture program. Growers market products and crops under the brand, Appalachian Harvest. Robin Robbins, a grower, helps examine plants for pruning.*

also play a critical catalytic role in building a strong regional support system for entrepreneurs.

### Regions are more important than ever as globalization increases.

Many of the infrastructure needs of entrepreneurs can only be dealt with as part of a multi-state regional system of support—they need the critical mass of regions to succeed.<sup>130</sup> For example, sustainable wood products require a region-wide system of coordination so that builders and product manufacturers have reliable and continual supply of wood. Regions need the commitment and capacity to solve problems and coordinate new projects.<sup>131</sup> Multi-state regional networks and collaborations plan and implement demonstration projects—regional infrastructure development, sourcing, marketing and distribution systems—that remove barriers to business expansion and profitability.

*“Regional partnerships are invaluable in developing the critical mass needed for rural places to compete.”*

**New Approaches to Rural Policy<sup>132</sup>**



## HOW DO REGIONAL CATALYSTS AND REGIONAL SUPPORT SYSTEMS INCREASE ENTREPRENEURSHIP?

### Regional Catalysts coordinate systems of training and mentoring.

Local communities who want to develop systems of support for entrepreneurs need guidance, especially focusing on “growth poles”—micropolitan areas that are likely to generate self-reinforcing economic activity.<sup>133</sup>

### Regional Catalysts enhance the diffusion of innovation by organizing clusters.

Clusters cannot be legislated but must be nurtured from the bottom up so that appropriate regional solutions emerge.<sup>134</sup> Catalysts network businesses in clusters, set up cluster-based business incubation strategies to raise the rates of company formation and survival,<sup>135</sup> link entrepreneurs to external expertise and innovation,<sup>136</sup> and organize cluster-specific services and resources. Each cluster will discover opportunities and will need assistance in developing those opportunities.

### Regional Catalysts build a network of business service providers who are attuned to the needs of entrepreneurial companies.<sup>137</sup>

Service providers need assistance to work together to develop joint marketing and effective referral and communication systems.<sup>138</sup> The result will be an integrated system where each organization plays a role. In addition to traditional business assistance services, an important role is a network broker that helps link businesses to each other.<sup>139</sup>

### Regional Catalysts harness workforce development and community development to support entrepreneurship.<sup>140</sup>

Without a doubt, finding good people is the number one challenge facing America’s entrepreneurs.<sup>141</sup> The region needs to transform workforce development programs so that they serve the needs of small but growing entrepreneurs who are creating jobs one at a time and need support in their training efforts. To keep up with larger economic shifts, workers need to learn how to innovate and improve products and processes.

### Regional Catalysts facilitate regional entrepreneurship networks.

Entrepreneurs’ unmet needs can be identified and addressed by organizations and entrepreneurs throughout the region.<sup>142</sup> Many effective types of support for entrepreneurs, such as regional brands and cluster infrastructure, require regional coordination.

### Regional Catalysts can build policy networks.

Catalysts are needed to build policy networks that include entrepreneurs and entrepreneur support organizations as well as more traditional policy players. Policy needs to support programs that have been shown to work for entrepreneurs.<sup>143</sup> Catalysts are needed to research effective strategies and policies.



Showcase West Virginia associate, Leslie McLaughlin, organizes a display for WV entrepreneurs.





## POLICY RECOMMENDATIONS

### 1. Invest in and support the sustainability of Entrepreneur Support

**Organizations** in their regional catalyst role training entrepreneurial communities, forming clusters, linking workforce development activities to entrepreneurship, and organizing collaborative projects.

2. Commit to the formation of a **Central Appalachian Entrepreneurship Network** that will meet annually to identify high leverage regional entrepreneurship activities.



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# **Strategies for Sustainable Entrepreneurship**

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