ENTREPRENEURIAL
Arkansas: CONNECTING THE DOTS
The Winthrop Rockefeller Foundation commissioned Entrepreneurial Arkansas: Connecting the Dots to draw attention to entrepreneurship as a viable economic development strategy. This study examines the environment that is supporting current entrepreneurial activity, provides an overview of those activities, and makes recommendations designed to enhance the ability of Arkansans to create and grow successful enterprises.

WINTHROP ROCKEFELLER FOUNDATION

In 1974, the Trustees of Governor Winthrop Rockefeller’s estate endowed the Winthrop Rockefeller Foundation to continue the work of The Rockwin Fund. Governor Rockefeller established The Rockwin Fund in 1954 and, on an annual basis from 1956 until his death in 1973, funded projects and programs he believed were important to improving the quality of life in Arkansas.

The Winthrop Rockefeller Foundation is a private, nonprofit foundation whose mission is to improve the lives of Arkansans by funding programs and projects that improve education; economic development; and economic, racial, and social justice. During the past 29 years, the Foundation has awarded over $65 million in grants.
ENTREPRENEURIAL Arkansas: CONNECTING THE DOTS

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A STUDY COMMISSIONED BY THE WINTHROP ROCKEFELLER FOUNDATION
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Preface

Much of the preparatory work for this study was conducted during the spring and summer of 2002, although its origins go back to September 1999 when the Winthrop Rockefeller Foundation held a 25th anniversary convening, Strengthening Collaboration between State, Regional, and National Funders: Making a Difference in Arkansas. A goal of the conference was to “increase awareness and understanding of critical issues facing Arkansas that align with the Foundation’s grantmaking goals—specifically the need for strategic economic development programs that build on the unique assets of Arkansas’s people and business climate…”1 One of the conference sessions, Strategies for Small Business Economic Development, was organized around a report analyzing the small business finance industry prepared by Corporation for Enterprise Development (CFED).

Subsequently, the Foundation commissioned CFED to update that report with the help of an Advisory Committee of representatives from state economic development agencies, academia, community development financial institutions, and entrepreneurs. At its first meeting, the committee shifted its focus from small business development to entrepreneurship—an important change that mirrored the recommendations of a recently released report2 from the Southern Growth Policies Board. The Board had set some major goals for transforming the region, including:

- **Encourage and support innovation and entrepreneurship**—focusing on entrepreneurial culture, public and private research and development, access to capital and technical/management assistance, and global opportunity.

- **Create a culture of learning throughout the South**—focusing on making pre-K–12 education efficient and effective, raising postsecondary educational achievement, promoting lifelong learning, overcoming skill shortages, educating those left behind, and ensuring basic competency in Information Age tools.

Responsibility for the analysis and recommendations rests with CFED, but acknowledgments and appreciation of the advice and direction provided are particularly due to: members of the Advisory Committee as well as John Ahlen, Woodrow Cummins, Steve Floyd, Steve Franks, William Goolsby, Miriam Karanja, Tina Powis-Dow, Janet Roderick, Sonya Schmidt, Tim Stephenson, Doyle Williams, and Mark Young.

The wise counsel and patience of Sybil Hampton and Bill Rahn at the Winthrop Rockefeller Foundation was crucial in the development and finalizing of the report.
Executive Summary

Entrepreneurship—the process by which entrepreneurs are created and encouraged—is one of the most critical missing ingredients in securing economic prosperity and a high quality of life for all Arkansans. Entrepreneurship is at the heart of an effective home-grown economic development strategy and is critical for better positioning the state for the new economy. It is also increasingly recognized as the great—or even the last—hope for economic survival and regeneration for much of rural America.

The theme of this report is “connecting the dots” because much of what is needed to create and sustain an entrepreneurship strategy—the know-how and the institutions—is already in place in Arkansas. However, there needs to be a high-level commitment to homegrown economic development that would enable existing economic development and education priorities and programs to be adjusted. Great levels of collaboration among public, private, and nonprofit institutions—many of which have not worked together before—must also be encouraged. Additionally, a modest investment of resources, even in these difficult times of state deficits, tough court rulings, and economic uncertainty, could yield significant and long-term benefits for the economic well-being of Arkansas.

This report proposes three closely linked objectives for an entrepreneurship strategy for Arkansas:

1. **Creating of a pipeline of entrepreneurs** by forming a large and diverse pool of people who are starting and building enterprises. From this pipeline would flow a steady stream of high achievers with interests in creating businesses, jobs, and wealth in their communities. Wal-Mart, J.B. Hunt, Tyson’s Foods, Alltel, and Acxiom were all created by such Arkansans. This strategy requires incorporating entrepreneurship education into the curricula of the K-12 school system and two- and four-year colleges across the state and providing encouragement for entrepreneurs through networking and greater public recognition.

2. **Upgrading the existing array of public, private, and nonprofit business-support services** into a seamless system that can deliver financial, technical assistance, and real estate services that are appropriate for entrepreneurs at different levels of development wherever they are located within the state.
Introducing a system of promotion and oversight for entrepreneurship development that steers public resources, attracts private and philanthropic support, benchmarks performance, and raises public awareness.

The strategy comprises eight specific goals:

1. **Bringing entrepreneurial education programs to at least half of Arkansas’s 310 school districts within five years.** This would build on the experience of the successful Environmental and Spatial Technology and Economics America programs by introducing nationally recognized experiential curricula.

2. **Offering credit courses in entrepreneurship in at least half of Arkansas’s 23 community colleges and all of the public four-year colleges within five years.** There is already some experience and much interest in the university system upon which such an expansion could be founded.

3. **Making training opportunities for fledgling entrepreneurs readily available in all parts of the state.** This would require existing NxLevel and FastTrac programs to be expanded statewide, offered by a greater range of institutions and organizations, and made more affordable through sponsorship.

4. **Ensuring affordable, convenient, and effective sources of information and technical assistance to entrepreneurs across the state.** The recent contraction of the Arkansas Small Business Development Center network would need to be reversed with the goal of making it a national model for integrating entrepreneurial education and business services.

5. **Promoting an entrepreneurship culture within the most economically disadvantaged parts of the state.** One approach would be to launch a rural initiative in conjunction with local community-based organizations to provide aspiring low-income entrepreneurs with entrepreneurship education and support, financial literacy, and Individual Development Accounts—matched savings accounts designed to help low-income families save and accumulate financial assets, including a home, small business, and postsecondary education. Another might be to create an enterprise facilitation project similar to the type being promoted in other states by the Sirolli Institute.

6. **Raising the profile of Arkansas’s entrepreneurs and the state’s improving entrepreneurial climate.** This would mean extending the successful annual Governor’s Award for Entrepreneurial Development to recognize entrepreneurial talent outside as well as inside the universities and in all parts of the state.
Ensuring access to equity and debt capital in all parts of the state. For equity capital, this would require continued and expanded support for the Arkansas Venture Capital Forum in its efforts to attract venture capital firms and create formal statewide and regional angel networks. Current patchiness in access to debt capital should be addressed through greater collaboration between banks and local community development financial institutions.

Making entrepreneurship a high-priority economic development strategy for Arkansas. This would require leadership from the private sector in partnership with academic, nonprofit, and public institutions. This partnership may be structured as a board or commission, which would serve as the advocate and guardian of the strategy and publisher of an annual report on the state of Arkansas entrepreneurship.
The Strategy: Connecting the Dots

The Vision

Entrepreneurship is the critical missing ingredient in securing economic prosperity and a high quality of life for all Arkansans. Entrepreneurship offers a way to engage and excite people from all walks of life and from across the state to take control of their own economic destinies.

It will take many actions to adjust existing economic development and education systems and programs and a high level of commitment to make these adjustments. It will mean collaboration and partnerships between public, private, and nonprofit organizations and institutions, some of which have never worked together before. Building on assets within the state, the strategy for entrepreneurship connects the dots of existing activities to create a new picture of prosperity in Arkansas.

The Rationale

Entrepreneurs are people who create and grow enterprises—the Global Entrepreneurship Monitor study concluded that one in 10 Americans is an entrepreneur. Entrepreneurship is the process through which entrepreneurs are created and developed. CFED concurs with the classification devised by the Center for Rural Entrepreneurship:

- **Potential Entrepreneurs** are primarily young people who, given a supportive environment, can acquire the motivation and capacity to engage in entrepreneurial activity.

- **Aspiring Entrepreneurs** are mainly adults who are considering creating, running, and growing an enterprise.

- **Active Entrepreneurs** are those directly engaged in creating, running, and growing enterprises and who come in three types:
Survival Entrepreneurs are individuals and families who, particularly in rural America, piece together a number of income generating ventures to allow them to survive and remain in a community or on the farm.

Lifestyle Entrepreneurs are people who choose to live in a particular place and are able to achieve their desired quality of life through their enterprise.

Growth Entrepreneurs are those who are motivated to create and grow their enterprises and who can have a significant impact on local and regional economies.

Entrepreneurial Growth Companies are the high-performing gazelles that are the main drivers of the American economy.

Entrepreneurs are key economic agents, partly by generating revenues that drive local and state economies. They create the majority of jobs and are vital local players who strengthen local economic, philanthropic, and cultural communities. They cannot be dismissed as being on the margins of economic development policy and practice. It is from the hard work and sheer determination of individual entrepreneurs that large employers and wealth producers emerge as Arkansas’s own Wal-Mart, J.B. Hunt, Tyson’s Foods, Alltel, and Acxiom can attest. And as has been shown around the country, people from the poorest communities can become successful entrepreneurs.

Across the nation, there has been a growing interest in entrepreneurship and what it takes to create an entrepreneurial climate. For some, this interest may be regarded as a major policy or cultural shift; for others, it is little more than another variation on business development approaches that have been tried for years.

Small businesses have long been understood to be the engines of job growth—indeed, the vibrancy of the small business sector and its ability to create the bulk of new jobs is generally accepted as being at the heart of America’s prolonged economic success. A recent study by Bain & Company on enterprise development in the Delta region of Arkansas, Louisiana, and Mississippi, showed that 72% of all current Delta jobs are provided by small and medium-sized firms, yet compared with similar regions, the Delta has a shortfall of 4,000 such firms that translates into a potential opportunity of 48,000 jobs.
Nationwide, there is a myriad of programs, federal, state, and local, together with an infrastructure of agencies and institutions created to deliver these programs. The assumption is that the provision of more services will create more small businesses; in other words, supply will generate more demand.

The shift being pushed by the latest wave of thinking about entrepreneurship is to focus effort—whether private, public, or nonprofit—on the demand side of the equation. This means working directly to expand the pool of entrepreneurs. The assumption here is that entrepreneurial behavior is not a genetic trait, but can be created and encouraged. It means taking the human capital in a state, a region, or a community and converting a growing proportion of it into entrepreneurial human capital. Throughout much of rural America and in many metropolitan areas, it is increasingly obvious that entrepreneurship may be the great—even the last—hope for economic survival and regeneration.

Entrepreneurs create the majority of jobs and are vital local players who strengthen local economic, philanthropic, and cultural communities.
The Objectives

1 Creating a Pipeline of Entrepreneurs

There should be an infrastructure of lifelong learning from elementary school to the golden age, based on the simple principle that it is never too early or too late to be an entrepreneur. Although some argue that entrepreneurs are born and cannot be created, while others believe that there is an entrepreneur in all of us who is waiting to come out, the premise of this report is that appropriate support can significantly increase the number of active entrepreneurs. The aim should be to create a large and diverse pool of people, across a spectrum of entrepreneurial motivations, out of which there will flow a steady stream of high achievers with an interest in creating businesses, jobs, and wealth in their communities. The strategy involves incorporating entrepreneurial education into the curricula of the K–12 school system and the two- and four-year colleges across Arkansas and providing continuing support and encouragement through networking opportunities and by raising the public profile of successful local entrepreneurs as role models.

2 Enhancing Business Services for Entrepreneurs

The current array of business service providers should be upgraded into a seamless system that can deliver effective financial, technical assistance, and real estate services to entrepreneurs at different levels of development. The aim should be to “graduate” significant numbers of start-up enterprises into companies and organizations that will provide quality jobs in communities across the state. The strategy focuses on access to both equity and debt capital and on integrating financial and technical assistance services.

3 Ensuring Implementation

There should be a system of oversight for entrepreneurship development in the state that steers public resources, attracts private and philanthropic support, benchmarks performance, and raises its public profile. The aim should be to secure the full commitment of the governor and state legislature to promote entrepreneurship as a high-priority economic development strategy in Arkansas.
The Goals

1. Hands-on entrepreneurial education should be fully integrated into the curricula of elementary, middle, and high schools in Arkansas.

Over the next five years, the Arkansas Department of Education should commit to incorporating entrepreneurial education programs in at least half of Arkansas’s 310 school districts. The starting point should be to build upon the experience of the Environmental and Spatial Technology (EAST) program and the Economics America program of the Arkansas Council on Economic Education to introduce a complementary experiential entrepreneurial education initiative devised by a nationally-recognized organization such as Rural Entrepreneurship through Action Learning (REAL) Enterprises.

2. Hands-on entrepreneurial education should be offered as a credit option throughout Arkansas’s postsecondary educational system.

Over the next five years, at least half of Arkansas’s 23 community colleges and all of the public four-year colleges should be offering entrepreneurship credit programs in, but not limited to, their business, engineering, and science disciplines. One starting point would be to focus effort and resources on a group of linked four-year and two-year institutions—Arkansas State University or University of Arkansas—and to share in a structured fashion the lessons learned with other postsecondary institutions.

3. Entrepreneurship training should be available to aspiring and active entrepreneurs wherever they are located in the state.

Over the next five years, entrepreneurs in every Arkansas county should have access to high-quality entrepreneurial programs. The NxLevel program currently operated by the Arkansas Small Business Development Center (SBDC) in Little Rock and the FastTrac programs managed by the Enterprise Corporation of the Delta and the Arkansas Women’s Business Development Center in Pine Bluff should be expanded statewide, working with a broader range of educational institutions, community-based organizations, and private providers and made affordable for all participants through sponsorships from banks, economic development groups, utility companies, and others.
There should be a statewide system that enables entrepreneurs wherever they may be located to tap into affordable, convenient, and effective sources of information and resources that will enable them to flourish.

Over the next two years, the seven-center SBDC network should be upgraded and possibly extended into underserved areas—the aim being to make the Arkansas SBDC network a national model for integrating entrepreneurship education and business services in a manner that meets the needs and schedules of entrepreneurs in all parts of the state. Given recent funding cuts, the SBDC network needs to give priority to gathering and communicating evidence of its effectiveness in serving the needs of the state’s entrepreneurs and its impact on economic vitality and job creation.

Priority should be given to the promotion of an entrepreneurship culture within the most economically disadvantaged regions of the state.

A rural initiative should be launched in conjunction with local community-based organizations to provide aspiring low-income entrepreneurs with entrepreneurial education and support, financial literacy, and Individual Development Accounts—matched savings accounts designed to help low-income families save and accumulate financial assets, including a home, small business, and postsecondary education. The Arkansas Department of Economic Development should evaluate the experience of the Sirolli Institute’s enterprise facilitation projects in other states, and if found appropriate to Arkansas’s needs, should consider launching a series of such projects—on similar lines to the demonstration just announced in Kansas—and committing to matching funding of two dollars for every dollar raised locally.

The support of the private sector, philanthropy, and the media should be sought to raise the profile of Arkansas’s entrepreneurs and the state’s improving entrepreneurial climate.

The Governor’s Award for Entrepreneurial Development, organized by the Capital Resource Corporation, should be extended and diversified to promote annual competitions, awards, and other events that recognize entrepreneurial talent around the state. The effort should be structured by age, so that K–12 students, postsecondary students, and adults can compete and collaborate with peers, and organized regionally as well as statewide, so that all parts of the state have opportunities to be recognized.
Entrepreneurs should be able to access appropriate types and sources of equity and debt capital wherever they are located within the state.

The Arkansas Venture Capital Forum should just be the first of several initiatives by the Arkansas Science and Technology Authority and others to establish a significant venture capital industry for the state, with the aim of attracting venture capital firms and establishing formal statewide and regional networks of angel investors. The current patchiness in access to debt capital should be tackled by the Enterprise Corporation for the Delta and Southern Financial Partners taking the initiative to bring to the table in-state bank holding corporations, locally owned independent banks, and community development financial institutions (CDFIs), with the aim of creating stronger partnerships between banks and CDFIs that ensure easy referrals and risk sharing on lending propositions.

Entrepreneurship should be a high-priority economic development strategy for Arkansas.

The entrepreneurship strategy would only have an impact if there is leadership willing to take it on as an important cause. This leadership would have to come from the private sector—from among both established businesses and up-and-coming entrepreneurs—working with the academic and nonprofit communities and the public sector. This partnership may be structured as a commission or board, which would serve as advocate and guardian of the strategy and publisher of an annual report on the state of Arkansas entrepreneurship.

Entrepreneurship benchmarks should be established that measure the performance of Arkansas against its peers, the progress of the state’s sub-state regions, and of the various agencies and institutions responsible for delivering the components of the strategy. This should be the responsibility of the partnership but undertaken by a business school, a state agency, or a respected nonpartisan research organization.
The Assessment

Entrepreneurship is one of the main hopes for reviving and strengthening America’s rural economies.

The Economy is Global, Ready or Not

Economic leaders in Arkansas, in common with those in states and localities across the country, face enormous challenges in the 21st century. They have to position their communities and their businesses to be able to compete effectively against workers and firms across the globe. Traditional economic development tools of recruitment and physical infrastructure that have been used in an era of domestic competition are no longer sufficient in the changed circumstances that we all now face. Ready or not, Arkansas is part of the global economy, and the state’s leadership has to understand the forces now at play in order to create more effective policies and tools that will improve the economic prospects and quality of life for all Arkansans.

Economic Development for the New Economy

There is growing consensus on the imperatives for economic development. Globalization is a reality—we deal with it, or we get left behind. Regions, particularly metropolitan regions, are now the competitive unit in the global economy—local rivalries undercut regional competitiveness. Knowledge is the key currency in the new economy, the advancement and application of which occurs best in industry clusters. Entrepreneurship is the essential vehicle for knowledge advancement. Yet place still matters. Localities are critical for setting the context for competitiveness and for enhancing quality of life. Quality of life is critical for attracting and retaining knowledge workers and entrepreneurs.

For Arkansas, this reality is both an enormous challenge and a potential major opportunity. The state is primarily rural in character, with the Little Rock metropolitan area being the main regional competitive unit. Forging a role for rural America in the new economy is the subject of major concern across the country. Karl Stauber, the head of the Northwest Area Foundation, at a major conference last year, sparked considerable debate by asking the question, “Why invest in rural America?” He raised many eyebrows by suggesting new roles such as protecting and restoring the environment, producing high-quality, de-commodified food and fiber, and producing healthy, well-educated future citizens. At the same conference, Brian Dabson of CFED argued, “Entrepreneurship is one of the main hopes for reviving and strengthening America’s rural economies.”
The key point to note is that economic development in the new economy has to be more than recruitment and incentives, more than roads and physical infrastructure, more than providing grants and debt capital, and more than adult retraining programs. It has to be these and much more and requires the involvement and commitment of a broader range of institutions and organizations than is the normal practice. Economic development efforts have to be focused on what CFED in its annual Development Report Card for the States calls “Development Capacity”—the underlying fundamentals of an economy—which includes human, technological, and financial resources and its infrastructure, amenity, and innovation assets. The premise is that a strong development capacity will facilitate higher levels of business vitality—competitiveness, economic diversity, and entrepreneurial energy—which in turn will achieve our aspirations for enhanced economic performance. Performance in this context refers to the improvement of earnings, job quality, employment, poverty, equity, and quality of life.

An emphasis on development capacity requires states and localities to adopt a comprehensive approach to economic development, which includes focusing on:

- Educational institutions, from kindergarten through four-year college, to deliver well-educated and motivated young people able to thrive in the new economy.

- Providing conditions for the next round of big ideas—research and development both in universities and within companies—and keeping and attracting a talented and qualified workforce.

- Financial institutions of all types to ensure that capital is available for entrepreneurship and industrial investment.

- The quality and maintenance of roads, public transport, water supply, sewage treatment, and digital infrastructure—the essential public services upon which economic prosperity depends.

- Ensuring affordable energy, housing, and health care, and safeguarding air quality and environmental and recreational assets.

- Reducing inequities between rich and poor people and among regions within the state that can undermine future stability and economic health.
The conclusion to be drawn is that Arkansas is not currently well-positioned for the new economy.

CFED’s 2002 Development Report Card for the States provides comparative measures across a broader scope of new economy requirements. Arkansas’s report card, while presenting a picture of limited development capacity, erratic business vitality, and below-average economic performance, highlights the strengths upon which to build and some critical weaknesses that need to be addressed (see Appendix 1 for tables showing Arkansas’s top 20 and bottom 10 rankings).

The Development Capacity index shows some strength in financing for small businesses, in physical infrastructure, and in some increasingly important factors, such as affordable energy and housing and overall air quality. There is good news in the Business Vitality index, with one of the lowest rates of business closings in the country and above average levels in competitiveness and economic diversity. There are also some positive trends in the Performance index, with recent growth in employment levels combined with better than average income distribution and some inward migration to the state.

On the less positive side, there are some very significant weaknesses in Development Capacity in terms of educational priorities and performance and in the capacity of Arkansas to participate in the new economy, whether we are talking about digital infrastructure, usage of computers, or investments in research and development. Business Vitality measures show some of the lowest levels in the nation of new company formation and employment growth in new companies, and the Economic Performance index shows the result in the numbers of working poor, low wages, high poverty rates, and increasing disparities between urban and rural areas.

**Measuring Arkansas for the New Economy**

Three nationally-respected comparative indexes paint a similarly bleak picture of Arkansas’s preparedness for the new economy. The Public Policy Institute’s 2002 State New Economy Index ranks Arkansas 48th in the nation in its progress to adapt to the new economic order. The Milken Institute’s State Technology and Science Index published in 2002 ranked Arkansas last, its best ranking on any of five composite benchmarks being 45th.

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Entrepreneurship: One of Three Key Investments

The conclusion to be drawn from both the data and the wider national experience is that Arkansas is not currently well-positioned for the new economy and that action will be required across a broad front to create widespread wealth and economic opportunity. But the analysis does clearly indicate where effort and resources need to be invested: in the interrelated areas of education, technology, and entrepreneurship. This report focuses on entrepreneurship.

The title of this report, Connecting the Dots, was chosen to reflect the fact that although much needs to be done in Arkansas, there is already a great deal of activity underway or planned, some of which has attracted national attention and acclaim. The purpose of this report is to recognize, build upon, and connect this activity into a sustainable strategy.
Creating a Pipeline of Entrepreneurs

There should be an infrastructure of lifelong learning from elementary school to the golden age, based on the simple principle that it is never too early or too late to be an entrepreneur. Although some argue that entrepreneurs are born and cannot be created, while others believe that there is an entrepreneur in all of us who is waiting to come out, the premise of this report is that appropriate support can significantly increase the number of entrepreneurs. The aim is to create a large and diverse pool of people, across a spectrum of entrepreneurial motivations, out of which there will flow a steady stream of high achievers with an interest in creating jobs and wealth in their communities. The strategy involves incorporating entrepreneurial education into the curricula of the K–12 school system and the two- and four-year colleges across Arkansas and providing continuing support and encouragement through networking opportunities and raising the public profile of successful local entrepreneurs.

Creating Future Generations of Entrepreneurs

There are two economics education programs operating in Arkansas that have importance in sowing the seeds of interest in entrepreneurship as a potential career option. The largest economics education program in the country is Junior Achievement, which has only limited penetration in Arkansas, primarily in the Little Rock and northwest Arkansas areas. Junior Achievement focuses more on business and economics education than entrepreneurship, but for many young students it represents their first exposure to the business world. The organization’s mission is “to educate and inspire young people to value free enterprise, business and economics to improve the quality of their lives.” Junior Achievement has been operating for over 80 years and in that time reckons to have taught some 39 million students—last year alone, there were over 4 million participants across the country. With very substantial backing from corporations, a network of volunteers and educators work in nearly 13,000 elementary schools, 3,000 middle schools, and 3,000 high schools.

Better established in Arkansas is Economics America, run by the Arkansas Council on Economic Education (ACEE) and working with 115 school districts and private schools across the state. Some 2,000 teachers receive training and support each year through five...
university-based centers in Arkadelphia (Henderson State), Fayetteville (University of Arkansas), Jonesboro (Arkansas State), Magnolia (Southern Arkansas), and Monticello (University of Arkansas). ACEE, an independent nonprofit organization, is housed within the Arkansas Department of Education and has been welcomed into the school system partly because Economics America is based on voluntary national content standards for economics devised by the National Council on Economic Education. One of the 20 content standards focuses specifically on entrepreneurship, its risks, returns, and characteristics, and the Fayetteville center provides workshops for teachers on Mini-Society, a curriculum devised by the Kauffman Center for Entrepreneurial Leadership to teach entrepreneurship concepts to elementary school students.

One homegrown product of which Arkansas can be justly proud is EAST. This innovative program seeks to engage young people in the requirements of the new economy through experiential learning. EAST began working in the state's high schools in 1995 by offering "a performance-based learning environment" in which students apply advanced computer hardware and software to solve problems in their local communities. With a presence in 152 schools, involving some 15,000 students, EAST has recently expanded its operations to California and is working with five other states.

In 1994, the Kauffman Center for Entrepreneurial Leadership polled over 1,000 high school students across the nation and found that 69% were interested in starting a business of their own. Yet less than 20% admitted to having at least a good understanding of what was involved, and some 44% rated their capacity to start or manage a business as "poor" or "very poor." As the National Commission on Entrepreneurship has noted, "A thriving sector devoted to entrepreneurship education has emerged in response to this market demand."

Many of the key players at national and state levels are connected through the Consortium on Entrepreneurship Education, which champions entrepreneurship education with a particular focus on experiential learning and provides a clearinghouse for technical assistance, advocacy, networking, and materials to leaders across the country. The Consortium's membership includes 20 state departments of education—Arkansas is not a member—a number of school districts, and some of the main nonprofit organizations and foundations that provide and fund entrepreneurship education. According to the Consortium, there are at least 30 national entrepreneurship programs and organizations, of which 12 focus on youth entrepreneurship, but few of these have found their way into the Arkansas education system.
The largest and best-known provider of experiential entrepreneurship education is the National Foundation for the Teaching of Entrepreneurship (NFTE). Based in New York, NFTE teaches low-income young people aged 11-18 “to be economically productive members of society by improving their academic, business, technology, and life skills.” Some 40,000 young people in the United States and across the world have experienced NFTE’s programs, and its certified training program instructs 500 educators each year, providing them with the tools to teach entrepreneurship in school and after-school settings. NFTE has developed four versions of its curriculum for use in high schools and middle schools, for postsecondary institutions, and as an on-line course.

Significantly, NFTE has invested heavily in research and evaluation. Studies by Brandeis University and the Koch Foundation in the 1990s contended that entrepreneurship indeed can be taught, that NFTE’s program positively influences student’s beliefs about their entrepreneurial potential and abilities, and that the program has a direct impact on the business formation rates of youth entrepreneurs. Currently, the Harvard Graduate School of Education is conducting a multi-year longitudinal evaluation to assess students’ academic performance and their participation in the NFTE program.

Another example of an effective program for engaging youth and communities in entrepreneurship, particularly in rural areas, and with roots in the South, is REAL. Based in North Carolina, REAL is a nonprofit intermediary for a national network of organizations, individuals, and corporations committed to making entrepreneurship education available to all. It provides tools to elementary, middle, and high schools, community and four-year colleges, and others to increase awareness of the value of entrepreneurship as both a career option and a way of thinking. There are currently 12 state REAL organizations, and the experiential curriculum is taught in schools in another 20 states nationwide.

One of its programs is REAL Entrepreneurship, used in high schools, postsecondary institutions, and community-based organizations, which guides participants through a process of creating small businesses of their own design. The process includes self-assessment, community and market analysis, researching and writing a business plan, and in some cases access to start-up capital. The curriculum contains over 180 individual and group activities that help participants develop skills in finance and marketing, as well as critical thinking and life skills. The program is designed to be flexible and encourages communities to tailor the course of study according to local circumstances and needs.
Among the array of programs, curricula, and other materials designed to foster entrepreneurial behavior, REAL stands out because it is the only national program that focuses on entrepreneurial training for youth in rural communities. Its methods for effective entrepreneurial preparation for economically and socially disadvantaged youth are comprehensive and experiential, rather than academic. It uses an activity-based approach to learning, coupled with a focus on developing businesses rooted in the community’s needs, which makes it particularly appropriate for use by rural schools and community-based organizations.

The best example of a statewide commitment to REAL is North Carolina. In 2000–2001, 1,496 students participated through 31 high schools, 45 postsecondary institutions (mainly community colleges), and eight community organizations, involving some 117 REAL-trained instructors. Projections for the current year show further growth and representation in 84 out of the state’s 100 counties, as well as 14 Spanish REAL programs, three on-line programs, one elementary and three middle schools, and a youth camp. This is achieved with an annual budget of around $600,000, of which $375,000 comes from the state and the balance from foundations and the Appalachian Regional Commission. It should also be noted that North Carolina REAL, as in other states, has been able to demonstrate that the competencies associated with the REAL curricula are readily matched with state accreditation standards—an issue that will have to be faced in Arkansas.

Connecting the Dots... The exciting connection that needs to be explored is whether and how a program like REAL can be introduced to complement and enhance EAST and possibly Economics America. The strong emphasis on experiential learning and local community engagement shared by REAL and EAST appears to be a good basis upon which to add an entrepreneurship curriculum to the network of technology laboratories. Similarly, REAL could provide additional tools for economics teachers for bringing to life the entrepreneurship component of the Economics America program.

College-Level Entrepreneurship

Entrepreneurship is clearly a stated priority in many places within the postsecondary education system in Arkansas. Two examples illustrate how universities are beginning to integrate entrepreneurship education with small business advisory and other related activities.
The Delta Center for Economic Development at Arkansas State University in Jonesboro is an umbrella organization that brings together small business assistance, professional and workforce development, and regional and community development. Its Center for Entrepreneurial and Family Business Practice offers two academic courses, each for 12 to 20 students, on small business management and entrepreneurship and has aspirations to grow this program to degree status.

The Don W. Reynolds Center for Enterprise Development at the University of Arkansas at Fayetteville similarly offers a number of business advice, business and economic research, management and executive development programs, and education activities, including the Bessie B. Moore Center for Economic Education. The Department of Management offers a small business and entrepreneurship concentration that currently attracts some 30 students each year, with the longer-term vision of a fully-fledged entrepreneurship course serving all the University’s departments so that architects and agriculture specialists can integrate entrepreneurship into their learning. Likewise, the College of Business at the University of Arkansas at Little Rock, soon to be moving to new purpose-built premises, plans to offer entrepreneurship and business courses for the whole campus, expecting to bring in students from a wide array of disciplines from fine arts to engineering.

Connecting the Dots... There are other campuses where entrepreneurship education is underway, in planning, or at least being considered. There seems to be an understanding that the long-term interests of the Arkansas economy will be greatly enhanced by equipping students across most disciplines with a strong and practical understanding of what it takes to create and grow a business. For a relatively small (in population) state, Arkansas is blessed with an abundance of postsecondary institutions—11 four-year public universities, 22 two-year public colleges (of which six are affiliated with the four-year system), and 12 independent colleges and universities, as well as nine technical institutes and a large number of vocational and adult education programs. The challenge is to find ways in which hands-on entrepreneurial education can be offered as credit courses across all these institutions in a cost-effective manner. One way forward might be to focus attention on a group of linked four-year and two-year institutions, such as Arkansas State University at Jonesboro and its affiliated community colleges at Beebe, Mountain Home, and Newport (or the University of Arkansas system and the affiliates in Batesville, Hope, and Morrilton), with a view to making available cross-disciplinary courses as a pilot for other institutions across the state. Another might be to launch a pilot project under the auspices of the Arkansas Association of Two-Year Colleges. Either approach would almost certainly require some challenge grant dollars to encourage effective participation.
Educating and Supporting Adult Entrepreneurs

There are two nationally recognized programs available in Arkansas for providing entrepreneurial training for adults: NxLevel and FastTrac. The NxLevel Training Network, based at the University of Colorado at Denver, engages with small business development centers, chambers of commerce, business incubators, private industry councils, planning districts, community development corporations, and many other types of local organizations “to develop and disseminate business-oriented training programs that assist in strengthening an entrepreneurial spirit in communities.” It develops replicable training courses, provides “train the trainer” programs, and assists states and communities in implementing their training programs in five areas: small business, tourism, community economic development, youth enterprise, and shared-use commercial kitchen development. The Arkansas SBDC in Little Rock, which provides a broad range of business seminars and training courses, is the NxLevel network member for Arkansas.

FastTrac was first created by the University of Southern California in Los Angeles in the mid-1980s and then launched nationally by the Kauffman Center for Entrepreneurial Leadership and the Ewing Marion Kauffman Foundation in 1993. Programs are being provided in 150 cities in 38 states, and it is estimated that some 50,000 people have completed the classes. FastTrac is also delivered through an extensive network of local organizations, such as chambers of commerce, small business development centers, women’s business centers, minority business centers, community colleges, universities, and consultants. FastTrac programs are grouped into three categories: community development, micro-enterprise community development, and college and university courses, each of which comprises components tailored to specific sectors or stages of enterprise development. The local partner is the Enterprise Corporation for the Delta, which contracts with the Arkansas Women’s Business Development Center in Pine Bluff and private consultants to serve the Pine Bluff area and the eastern region of the state.

Connecting the Dots... NxLevel and FastTrac are very similar programs—indeed they share common origins—and choices have been made on their use on the basis of cost to trainees, appropriateness for particular target groups, and flexibility. FastTrac is more expensive, causing it to be stopped in Fayetteville, but it continues in the Delta region through the Arkansas Women’s Business Development Center thanks to a subsidy from the Enterprise Corporation for the Delta. The SBDC network has found the less expensive NxLevel to be better suited to its needs and cites a partnership with the city of Little Rock to have been particularly effective in serving the needs of African American entrepreneurs. Wider access to these programs across the state would be greatly helped by sponsorship—and attendant publicity—from local governments and the private sector, particularly banks, economic development groups, and utility companies.
Networking Entrepreneurs

Entrepreneurial networks are one of the key strategies promoted by the Kauffman Foundation-sponsored policy group, the National Commission on Entrepreneurship. Its research has shown that networks provide entrepreneurs with critical opportunities for peer learning, and their presence is an important factor in achieving higher levels of entrepreneurial activity. Networks can be formal gatherings, such as trade associations or adjuncts to chambers, or very informal, such as periodic coffee and donut sessions. Potential benefits claimed include relationship brokering, fostering cultural change, creating civic leaders, and improving regional competitiveness, but at a less ambitious level, they can provide an inexpensive and effective way of sharing information and providing counsel on matters of common concern.

Southern Financial Partners has contracted with alt.Consulting, a nonprofit Memphis-based consulting firm, to host roundtables in Helena, Pine Bluff, and West Memphis. These meet monthly or quarterly to provide a forum for entrepreneurs—significantly both white and black business owners—to share information and resources. Initially they were structured by alt.Consulting but now are increasingly self-directed.

A related approach attracting attention is the practice of “enterprise facilitation” pioneered by the Sirolli Institute. This was first developed by Ernesto Sirolli in rural Western Australia and has since been applied in some 200 communities in Australia, New Zealand, Canada, and five states in the United States. In essence, enterprise facilitation builds on the passion for entrepreneurship within a community. The community selects a facilitator whose job is to serve as a management coach to local citizens interested in starting new businesses and to link these people to a range of marketing, capital access, and partnering services and opportunities. A trained local management board of up to 40 people supports the facilitator with expertise on all the issues that need to be addressed in starting a business. It is a grassroots approach that relies on local knowledge and skills and on the mobilization of local volunteers passionate about product development, marketing, and finance.

The model has been applied with some success in Oregon, Minnesota, South Dakota, Montana, and Idaho, and recently the state of Kansas announced the launch of three demonstration projects, each of which is in a multi-county area, using the enterprise facilitation approach. The lieutenant governor is quoted as saying, “The rhetoric of a declining rural Kansas has gone on long enough. The reality is stark. We can and must provide rural Kansas the tools to rebuild.” The Small Cities Community Development Block Grant will provide two thirds of the estimated cost of $300,000 over three years for each site, and the local partners, one third.
Connecting the Dots... Creating networking opportunities has proven to be a simple and highly effective way of attracting and retaining entrepreneurs. It can be done very inexpensively by hosting coffee and donut sessions, or it can be more structured through the use of facilitators. Local chambers, county governments, and other community institutions are ideally placed to provide a meeting ground for entrepreneurs, both aspiring and active, and this should be encouraged. However, in those parts of the state where entrepreneurship needs particular encouragement, the Arkansas Department of Economic Development is well-placed to sponsor a series of enterprise facilitation projects, building on the experience of other rural states.

Raising the Profile

Raising the profile of successful entrepreneurs is critical in both sparking interest among those thinking about starting a new venture and creating a supportive environment in which entrepreneurship can flourish. Each January, Arkansas holds an Entrepreneurship Day. In 2002, the Arkansas SBDC organized a trade center at the Rotunda in order to bring to the attention of legislators the contribution that entrepreneurs and small businesses make to Arkansas and the local economies.

Business plan competitions are a widely used means of shining the spotlight on local talent. In Arkansas this has been done with great effect through the annual Governor’s Award for Entrepreneurial Development organized by the Capital Resource Corporation and sponsored by the Arkansas Capital Corporation Group, foundations (including the Winthrop Rockefeller Foundation), and a number of private companies.

Prize money for the 2002 competition totaled $102,000, making it the nation’s fourth largest awards pool. The award for the best graduate and undergraduate business plans attracted 46 student applicants from seven Arkansas universities. The winning team of graduate students from the University of Arkansas at Fayetteville presented a business plan for custom prefabricated residential outbuildings; second place was an undergraduate from the University of Arkansas at Little Rock with a plan for an indoor shooting range and retail firearm and safety device outlet. The organizers anticipate that the business plan competition will continue to be refined through networking with successful entrepreneurs, lenders, and investors, mentoring, training, and media exposure. Of particular importance to the need to raise the profile of entrepreneurship in the state was the fact that the awards banquet attracted 1,000 attendees and significant media attention.
Connecting the Dots... A worthy objective would be to broaden the scope of the competition so that the ideas and talents of students and adult entrepreneurs may also be given due recognition. A good example for encouraging entrepreneurship within the school system, for a modest cost, is the new Springboard Entrepreneurship Award organized by the Appalachian Regional Commission with the U.S. Department of Education and the National Commission on Entrepreneurship. Six winners from high schools and middle schools in Appalachia were each awarded $2,000 in prizes to support the ongoing work of the school entrepreneurship program. Winners were selected according to three main criteria: demonstrated student competency in opportunity recognition, idea generation, venture creation and operation, and critical thinking; clearly defined and measurable outcomes that provide value to participants and the community; and sustainability. The winners also traveled to Washington, DC, to present their projects to a major conference and to attend a lunch on Capitol Hill, thus generating considerable media attention in their home states and communities.

Recognition of aspiring and newly active adult entrepreneurs could be given through low-cost regional competitions, with regional winners being able to compete for a statewide prize as part of the Governor’s Award.

Postscript

This report uses the analogy of a pipeline to convey the idea of a continuous supply of aspiring entrepreneurs who have been motivated by their experience in schools and universities to take the step to set up their own business ventures. A different analogy drawn from baseball that may work better for some is the “farm system.” Gregg Lichtenstein and Thomas Lyons,17 who have researched and written extensively on entrepreneurship, have proposed an entrepreneurial development system for developing entrepreneurial talent similar in many respects to the way professional sports ensure a continuous flow of skilled players to the highest levels. An entrepreneur’s development is defined by degree of technical, managerial, and entrepreneurial skills, as well as personal maturity. Ultimate success is measured by high achievement in all these dimensions. Lichtenstein and Lyons go a step further by proposing a set of new entrepreneurial development functions that go well beyond traditional enterprise development activities—scouts, diagnosticians, mentors, success team managers, alliance brokers, and a general manager. This represents an approach that is far more proactive and interventionist than proposed in the Connecting the Dots strategy but one perhaps Arkansans may aspire to once the fundamentals are in place.
Enhancing Business Services for Entrepreneurs

The current array of business service providers should be upgraded into a seamless system that can deliver effective financial, technical assistance, and real estate services to entrepreneurs at different levels of development. The aim is to “graduate” significant numbers of start-up enterprises into companies and organizations that will provide quality jobs in communities across the state. The strategy focuses on access to both equity and debt capital and on integrating financial and technical assistance services.

Access to Equity Capital

As Federal Reserve Chairman Alan Greenspan notes, “An important key to success of small and large business is having access to capital and credit. First and foremost, I would emphasize that credit alone is not the answer. Businesses must have equity capital before they are considered viable candidates for debt financing... the newer the firm, the greater the importance of the equity base.” A 1998 study by Mt. Auburn Associates looking at capital access in Appalachian states found that with the lack of access to formal sources of equity, entrepreneurs were heavily dependent on personal savings, retained business earnings, and support from family members, friends, and colleagues for risk capital. As in Arkansas, given the low levels of personal wealth in the region, such reliance has translated into scarce levels of financing. Moreover, informal sources, “business angels,” were not a significant source, particularly for start-up and early stage ventures.

Leslie Lane of the Arkansas Science and Technology Authority has conducted some initial research and analysis on the demand for venture capital investment in the state. Using a set of optimistic assumptions to gauge potential scale, his calculations indicate that Arkansas might be able to support a venture capital industry of between $1.3 billion and $2 billion that would successfully invest in over 60 firms, yielding 8,500 jobs and $18.7 million annually in corporate taxes. Raising the capital would be partly a matter of applying the Small Business Administration’s Small Business Investment Company (SBIC) program as leverage to a mix of pension fund, insurance company, foundation, and wealthy donor contributions. Given Arkansas’s bottom 10 rankings in the Development Report Card for the States for both SBIC and venture capital financing, and given the fact that although the South has 28% of the nation’s population but only 3% of the

“Businesses must have equity capital before they are considered viable candidates for debt financing... the newer the firm, the greater the importance of the equity base.”
nation’s venture capital under management, the state clearly has a long way to go. Nevertheless, Lane provides a target for which Arkansas must strive if it is to function as a globally competitive entrepreneurial state.

The state legislature passed two acts during 2001 with the purpose of stimulating the supply of equity to entrepreneurs and businesses. One, Act 1584, aims to encourage individuals to make more seed investments in companies too small for venture capital companies by exempting investments in certain technology businesses from state capital gains taxes as long as the investment is held for at least five years. The other, the Arkansas Venture Capital Act, provides $60 million in state tax credits for a fund of funds—the Arkansas Institutional Fund—that will invest in a variety of venture capital funds willing to consider equity capital investments in locally based companies. Modeled on a similar venture in Oklahoma, the hope is to significantly increase the flow of funds to retain and attract high-growth companies.

There is a need for low-return patient capital to support the risk capital needs of the large majority of entrepreneurs who fall short of the growth rate requirements of the typical venture capital funds. There are few providers of such capital in Arkansas. The largest is Diamond State Ventures (DSV), an affiliate of Arkansas Capital Corporation. DSV is a $56 million venture capital fund that operates a federally licensed SBIC under the Small Business Investment Act of 1958. DSV provides patient capital to revenue-generating companies with operations located primarily in Arkansas and the region. Investments range from $250,000 to $3 million, which can be used for early stage operations, later stage expansion, or acquisition financing. Enterprise Corporation of the Delta Investments makes a limited number of investments each year in the range of $50,000 to $1 million in companies that offer good wages, benefits, and training opportunities to their workers. Southern Financial Partners (formerly Arkansas Enterprise Group) has made some equity deals and has plans to raise capital for a community development venture capital fund for its geographic area.

There are a few informal angel networks in the state that invest entirely through established relationships and referrals, but currently there is no formal angel investor network that would allow potential investors to share the risk on ventures or provide opportunities for entrepreneurs to make their case for investment. A major step to addressing this problem was made in May 2002, when the inaugural Arkansas Venture Capital Forum was held in Little Rock. More than 350 entrepreneurs, venture capital investors, and state officials—more than triple the organizers’ expectations—came together in an attempt to match business ideas with equity capital, but it may take several years of such brokering before the flows reach a critical mass.
Connecting the Dots... The challenge of making equity capital available to Arkansas entrepreneurs has become a widely accepted priority for state agencies and the private sector. A combination of legislative initiatives and high profile efforts to bring together venture capitalists and entrepreneurs represents the crucial first steps in what will be a long haul. An effective strategy may be to pursue a twin-track approach of creating a mid-South regional venture capital industry, recognizing that Arkansas alone will not generate the deal flow necessary to divert capital from the main hubs in California, Massachusetts, and New York, and pursuing local initiatives across the state to establish angel networks that can provide relatively modest investments in entrepreneurs and small businesses.

Access to Debt Capital

As in most states, debt capital for businesses in Arkansas is mainly provided by the banks, with a mix of nonprofit and public development finance institutions serving people and areas underserved by the banks.

Banks. The banking industry everywhere is undergoing radical change brought about by consolidation, fierce competition, and increasing uses of technology, which has left Arkansas with one-third fewer banks than it had a decade ago. National trends indicate that small loans of under $250,000 as a category represent a shrinking share of total bank lending, while at the same time there is evidence to suggest that banks are increasingly looking “down market” to find new markets for their products. Moreover, small banks, particularly in rural areas, which have traditionally focused on agricultural, consumer, and mortgage lending, have been reluctant to engage significantly in lending to entrepreneurs and early stage businesses.

Opinions vary as to whether all these swirling forces will ultimately improve access to capital for entrepreneurs. Those who take the positive view see the emergence of strong, regional banks that can leverage economies of scale and portfolio diversification as being better able to operate in difficult markets. Strong competition also enables businesses to shop around for the best loans, and wider use of technology and credit scoring has allowed banks to reduce costs of making smaller loans. The optimists are also able to point to the emergence of newly chartered niche banks that serve markets that regional banks find hard or expensive to serve.

The counterview is that regional banks located out of state do not have the connections with local businesses—indeed, some small businesses have found themselves being served by a succession of banks as merger followed merger—and the use of technology and credit scoring has brought to an end longstanding lending relationships.
**Development Financial Institutions.** Development financial institutions pursue small business lending as a strategy for creating economic opportunities for people and communities that have been denied access to credit from banks and publicly funded sources. They tend to be rooted in local communities and are well-positioned to partner with a wide array of private, public, and nonprofit organizations to achieve economic, social, and community goals. Arkansas has about 25 such institutions—private nonprofit organizations, planning and development districts (multi-county regional development organizations), and state-financed institutions.

The U.S. Treasury has certified eight organizations that serve Arkansas CDFIs, which makes them eligible for awards from the CDFI Fund and places them in good standing with private financial institutions. The CDFI Fund also provides incentives to banks to invest in CDFIs through its Bank Enterprise Award program. After New York, Arkansas is the most active state in the country in terms of the number of awardees, with some 24 banks placing deposits in local CDFIs, including Elk Horn Bank and Trust and the Enterprise Corporation of the Delta.

There are two main state-financed institutions that provide debt capital. Arkansas Development Finance Authority lends directly to businesses through five revolving loan funds with different sectoral targets. The Disadvantaged Business Enterprise program, for example, provides working capital loans to minority businesses that are successful bidders on construction contracts; the Capital Access program provides a loan loss reserve for banks and nonprofit lenders making loans to marginal small businesses. Arkansas Capital Corporation is a quasi-nonprofit state-funded institution that provides loan financing of $25,000 to $1.3 million directly to small businesses or as participants in bank financing deals. Its subsidiary, Arkansas Certified Development Corporation, manages the Small Business Administration’s 504 loan program that provides financing for fixed assets and has some $100 million in net assets under management.

Across the country, research and experience seem to suggest that, in both urban and rural areas, debt capital is available in the marketplace. Sources as diverse as the National Federation of Independent Businesses and the U.S. Department of Agriculture Economic Research Service concur that credit in rural areas is generally priced comparably to urban credit, and that urban and rural banks perform as well as each other in terms of capitalization, profitability, and problem loans. Indeed, it is not uncommon for banks and other financing institutions to assert that the problem is not lack of debt capital but deal flow—a shortage of bankable lending deals.
Connecting the Dots... The reality in Arkansas, however, is that an individual entrepreneur’s experience of access to debt capital is likely to be determined by the type of product she is seeking and her location within the state. The infrastructure is in place to facilitate a greater deal flow, but greater collaboration between the banks and the CDFIs would seem to be an essential prerequisite for addressing capital access challenges, particularly in the Delta and other more remote rural areas.

Technical Assistance

There is, and should be, a strong interplay between entrepreneurship training, technical assistance, and the provision of finance. From the viewpoint of the entrepreneur or small business owner, complicated, fractured provision of business services can be frustrating, time consuming, and potentially damaging. The aim should be to create an effective system that either offers “one-stop shop” services or a seamless referral process managed by an equivalent to a caseworker.

The basic components appear to be present in Arkansas upon which a system could be developed, but there are concerns about poor coverage, especially in the rural areas, and inconsistency in quality. The challenge facing Arkansas is the same that faces all states: technical assistance is critical for both entrepreneurs and for the organizations that provide them with financing, but it is expensive and hard to fund in any sustainable way.

Apart from the university centers mentioned earlier that provide a number of related education, advisory, and training services under one roof, there are a number of institutions, networks, and programs that offer technical assistance across the state. One such network, the Arkansas SBDC, is part of a major nationwide program initiated by the Small Business Administration. The lead center in Arkansas is housed within the University of Arkansas at Little Rock and provides oversight and coordination of seven regional offices and subcenters—recently reduced from 10—based at a variety of higher educational institutions. These SBDCs provide a range of information, consulting, and training (including NxLevel) services, either for free or at low cost, to aspiring and active entrepreneurs.

Continuing assessments of economic impact, customer satisfaction, and training evaluations by the Arkansas SBDC, as well as formal reviews conducted in line with Baldridge criteria by the Association of SBDC’s National Accreditation Board, show that the quality of individual SBDCs is greatly enhanced when there is a team of three advisors with the expertise and experience to offer finance, marketing, and training services. Not all of Arkansas’s SBDCs meet this requirement, and as a consequence, the quality and scope of service is not uniform from region to region. Unlike many SBDC networks across the
country, there is no state funding of the network, with the $750,000 annual budget covered by a Small Business Administration grant and cash and in-kind contributions from host universities and colleges. The network’s financial vulnerability has been graphically demonstrated by the recent decision to reduce the number of centers from 10 to seven, in effect as of January 2003. A matching grant from the state would enable each of the existing centers to be a full-service operation and possibly the network to be expanded into currently underserved areas, but this would require the SBDC network to more effectively demonstrate how its services add value and why it deserves public support.

Another service with Small Business Administration funding is the Arkansas Women’s Business Development Center, one of 80 nationwide. This center, with locations in Pine Bluff, Forrest City, and Helena serving a 48-county area, is part of the Southern Financial Partners organization. Created as a five-year initiative in 1999, the Arkansas Women’s Business Development Center provides some 400-500 women each year with information, training (First Step FastTrac), mentoring, counseling, and technical assistance services.

A statewide network of a more specialized nature is the Arkansas Manufacturing Extension Network, a program of the Arkansas Science and Technology Authority. Field engineers, based in five locations, advise mainly small manufacturing firms on how to increase sales, cut costs, and improve processes. This service is funded by the National Institute of Standards and Technology and Arkansas Science and Technology Authority.

Two examples of organizations that provide comprehensive business development services are Southern Financial Partners and the Enterprise Corporation of the Delta; they are profiled on the following pages.

Business incubators are also part of the services infrastructure. These provide premises, often with shared office support services, together with access to technical assistance opportunities for networking among entrepreneurs and sometimes a critical mass of activity in areas needing revitalization. There are a number of active and proposed projects in Arkansas, including the Little Rock Incubator, the Genesis Technology Incubator in Fayetteville, the Delta Center for Economic Development in Jonesboro, and the new Spotlight Business Accelerator for Entrepreneurs at Ashdown.

Incubators can be expensive to create—Spotlight received a U.S. Economic Development Administration grant of $466,000 together with $200,000 from the state. They can also be expensive to operate, and it is not uncommon for them to progressively reduce the level of business services and revert to conventional real estate projects. It is not surprising that there has been around the country widespread interest in the concept of “incubators without walls”—indeed there was one proposed at the University of Arkansas at Pine Bluff.
With a mission to revitalize rural economies, Southern Financial Partners (SFP) is a 501(c)(3) nonprofit organization providing lending services and technical assistance to entrepreneurs and small business owners. SFP is a nonprofit affiliate of Southern Development Bancorporation, a $350 million community development bank holding company based in Arkansas. SFP is a certified CDFI, a Small Business Administration Micro-Lender, and a certified USDA lender that has provided more than $30 million in small business loans, creating or saving some 6,000 jobs.

SFP has four offices, each of which has a discrete service area: Arkadelphia—Southwest Arkansas (18 counties), Helena—Delta (Phillips County, plus 9 Mississippi Delta counties), Stuttgart—Southeast Arkansas (12 counties), and Marianna—Northeast Arkansas (17 counties). SFP provides financing for start-up businesses, business expansion, and working capital lines of credit to small businesses in rural communities that traditionally have difficulty obtaining access to credit. Funding limits range from $5,000 to $400,000. SFP works with a range of funding partners, including local banks, the Small Business Administration, state and quasi-state agencies, and planning and development districts. Through the Arkansas Women’s Business Development Center, women and minority entrepreneurs are offered training, technical assistance, and access to financing, mentoring, and technical assistance.

The Good Faith Fund, a separate nonprofit SFP affiliate organization, invests in people by providing services that include:

- Asset development: The Rapid Asset Individual Development Accounts program helps low-income residents save money for homeownership, home improvements, education, and small business development.
- Public policy development: This program focuses on legislative initiatives to advocate for public policies and economic development strategies that help low-income families in Arkansas, primarily the working poor, to increase their income and assets.

The current national model is operated by the Eastern Maine Development Corporation, which won the National Association of Development Organizations Pioneer Award for Leadership in Entrepreneurial Promotion in Rural America. The award, made in conjunction with the Kauffman Center for Entrepreneurial Leadership, gave recognition to the way the agency had used regional cooperation with a number of community action agencies to meet the challenges of scale, the absence of rural entrepreneurial networks, distance to markets and services, and limited capital availability.

Connecting the Dots... The SBDC network represents the beginning of the pipeline for aspiring adult entrepreneurs and the catalyst through its services for converting a proportion of these into active entrepreneurs. Its strong connections to the postsecondary education system and its extensive outreach make its upgrading and possible expansion a priority.
A particular challenge will be to ensure that all elements of the entrepreneurship strategy reach into the more rural parts of the state. The fear was expressed in consultations that resources would inevitably be channeled into the main urban centers and that once more the economically disadvantaged would be left out. One strategy to be explored might be to develop a very focused rural entrepreneurship program that would engage with local community-based organizations and churches to provide entrepreneurial education, financial literacy, and individual development account (matched savings) programs. A good starting point might be Southern Financial Partners and its Good Faith Fund and the Arkansas Women’s Business Development Center.

The Enterprise Corporation of the Delta

The Enterprise Corporation of the Delta (ECD) is a private, nonprofit business development organization whose primary mission is to improve the quality of life for low- and moderate-income residents of the Delta and rural regions of Arkansas, Louisiana, and Mississippi. ECD accomplishes its mission by providing market-driven financial and technical assistance to firms, entrepreneurs, and homeowners; forging strategic partnerships with private, public, and nonprofit organizations; and otherwise promoting the development of the region’s human and economic assets.

ECD has two offices in Arkansas, located in Jonesboro and Pine Bluff, and offers products and services in 22 counties, grouped by region: Southern Arkansas (6 counties), Central Arkansas (7 counties), and Northeast Arkansas (9 counties).

ECD’s commercial financing products include working capital lines of credit, construction financing, short-term bridge financing, letters of credit, and medium- to long-term loans for fixed assets and venture capital. ECD is certified to participate in several Small Business Administration, USDA, and state credit enhancement and lending programs. Since 1995 ECD has closed 171 loans totaling more than $27 million, leveraged $33 million in additional financing from other sources, and made nearly 40% of its loans to minority- and women-owned businesses.

ECD has developed a network of public and private technical assistance providers that assist Delta businesses in areas such as workforce development, sales and marketing, accounting, and engineering. Examples of these efforts include:

- FastTrac: The FastTrac training program helps entrepreneurs learn to use low-cost marketing strategies, develop financing strategies, hire personnel, and manage cash flow.
- Delta Employment Enhancement Project (DEEP): DEEP promotes public programs and incentives that benefit low- and moderate-income workers and their employers.
- Delta BusinessLINC: BusinessLINC facilitates mentoring, buyer-supplier, and other business relationships between large corporations and smaller Delta firms.
- Over 1,000 entrepreneurs have benefited from ECD’s technical assistance and training programs.
The argument has been made that for Arkansas to better position itself for the new economy, priority has to be focused on the closely interconnected themes of entrepreneurship, education, and technology. A very similar message is coming from the Arkansas Department of Economic Development’s Knowledge-Based Task Force. The findings of this report indicate that a great deal of the infrastructure is already in place both to create a pipeline of entrepreneurs across the state and to provide advice, support, and capital for entrepreneurial development. For a relatively modest financial investment from public, private, and philanthropic sources in entrepreneurship, there could be substantial benefits in jobs, increased incomes, and economic growth.

The priority for the state has been and continues to be to assist existing businesses to expand and to recruit new businesses into the disadvantaged regions of the state. This leads to a considerable emphasis on establishing a competitive position against other southern states using a variety of recruitment incentives and tax abatements. A recent study commissioned by the Arkansas legislature pushed for the allocation of more effort and resources to better position the state to attract a large manufacturing plant. CFED for many years has consistently argued that entering into such competition rarely represents an effective strategy for sustained economic development, particularly if it is pursued at the cost of investing in the fundamentals—education, technology and innovation, capital access, infrastructure, amenities, and of course, entrepreneurship. If Arkansas believes that it should follow Alabama’s example and be prepared to offer incentive packages on the order of $200 million to attract a car plant, then it should also seriously consider dedicating a small proportion of that investment to encouraging homegrown business development.

For just 1% of such a package each year, it would be possible to introduce a statewide youth entrepreneurship program in the school system, upgrade and expand the SBDC network, contract for an enterprise facilitation program in the Delta, and further expand the entrepreneurship activities within the postsecondary educational system. For a further 1%, the Governor’s Award for Entrepreneurial Development could be significantly expanded, and there could be further statewide enhancements within the K-12, two-year, and four-year school systems and investments in intermediary organizations that can connect the dots in the more economically disadvantaged portions of the state.
In preparing this report, CFED encountered considerable enthusiasm for the strategy and objectives—what is needed now is to translate this into firm commitments. As a first step, established business leaders and up-and-coming entrepreneurs should be encouraged to assume leadership of an “entrepreneurial initiative” for the state. They would need to work in close partnership with deans and program directors in the two- and four-year college systems, with leading nonprofit economic development and development financial institutions, with senior state officials in education and economic development, and with others committed to economic progress and equity in the state. The initiative could be structured as a standing commission or a board and would serve as advocate and guardian of the strategy and publisher of an annual report on the state of Arkansas entrepreneurship.

Entrepreneurship benchmarks should be established that measure the performance of Arkansas against its peers, the progress of the state’s sub-state regions, and of the various agencies and institutions responsible for delivering the components of the strategy. This should be the responsibility of the partnership but undertaken by a business school, a state agency, or a respected nonpartisan research organization. A design for an Arkansas Entrepreneurship Benchmarks System developed as part of this study is presented in Appendix 2.
Appendices
Appendix 1: Development Report Card Rankings

Table 1: Arkansas Top 20 Rankings in 2002 Development Report Card for the States

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Source: Corporation for Enterprise Development. 2002 Development Report Card for the States. Available: w w w .d r c. c f e d.or g
Washington, DC: CFED
Table 2: Arkansas Bottom 10 Rankings in 2002 Development Report Card for the States*

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*Abbreviations: R&D, research and development; SBIR, Small Business Innovation Research.

Background

Information Is the Cornerstone

Information provides a crucial cornerstone of an effective entrepreneurship development strategy. The specific strategies are framed by data analysis; appropriate benchmarks are identified for setting performance goals. This data-driven analysis is also important, since data can play an important role as the lingua franca for multiple stakeholders with varied perspectives on entrepreneurship. During implementation, updating the initial market assessment and sharing information resources support the strategy and help position it for success.

While there is ample information on small business, the data on entrepreneurship tend to be mostly qualitative, even anecdotal. In this information vacuum, data collection and analysis must be done somewhat creatively. No one data set offers a complete picture; however, taken together, the data can form a credible pointillistic framework.

The Arkansas Entrepreneurship Benchmarks System

Overview

To support the Entrepreneurial Arkansas project, CFED created an Arkansas Entrepreneurship Benchmarks System (AEBS) that includes indicators at both the state and sub-state regional levels. The AEBS is based on four fundamental concepts. First, the Arkansas economy is not homogenous—it incorporates distinct and diverse sub-state regional economies that often ignore state boundaries. Second, these regional economies can be analyzed in ways that inform effective market-oriented entrepreneurship strategies. Third, key characteristics can be mapped (using GIS software) to create a powerful, strategic communications vehicle. Finally, data are most useful when offered in an interactive tool that can be queried dynamically by local stakeholders.

With these principles in mind, the AEBS was developed to support both the initial strategy development and subsequent efforts to promote entrepreneurship in Arkansas. It is important here to be clear about the role of benchmarks: simply put, the goal is to assist decision-makers in helping Arkansas to do better—not cast judgment. The state’s beleaguered practitioners and policymakers know the story of the state’s lagging performance all too well. Years of being at the bottom of national rankings and lists of economic indicators have taken their toll. “We beat ourselves up over this all the time,” one state official noted. Rather, the AEBS was designed to help highlight those areas that are performing well, while it also assists to identify those areas needing improvement. In the process, it is hoped the tool can be helpful in refocusing the energies and efforts of key players in Arkansas.

The AEBS was also designed to complement efforts by other organizations working to fill the information gap, including:

- The Southern Innovation Index—Developed by the Southern Technology Council (STC)—an advisory arm of the Southern Growth Policies Board, co-chaired by Governor Mike Huckabee—this index identifies benchmarks for Arkansas and 12 other southern states. STC plans to work with each state to develop state-specific 10-year targets for each benchmark to encourage an outcome-oriented approach to transforming the southern economy.

- Regional Entrepreneurship Catalyst—Supported by the Kauffman Center for Entrepreneurship Leadership, this initiative aimed to “develop a baseline of regional socioeconomic factors to inform regional analyses of entrepreneurial activity from an analysis of all 394 U.S. regions. Comparable to other regions and the nation as a whole, the data generated would provide a foundation for assessing national activity and regional variation.” To accomplish this, the project was to have conducted in-depth research on 26 randomly selected U.S. regions, including one in Southeast Arkansas. Unfortunately this project has been placed on indefinite hold pending review by the Kauffman Center.

AEBS State Entrepreneurship Benchmarks

The AEBS State Entrepreneurship Benchmarks consolidate key indicators that describe the state’s entrepreneurial
climate. These indicators are based on CFED’s annual Development Report Card for the States, supplemented by two key secondary sources: the Southern Innovation Index and The State New Economy Index. Additional data were collected from publicly available sources— including the U.S. Census, Economic Development Administration, and the Small Business Administration—that track issues such as self-employment, minority business ownership, and growth rates for the smallest businesses.

These state-level indicators allow Arkansas to be benchmarked on both a regional and national basis. For this purpose, CFED created a regional peer group of 10 Southern states that includes largely rural states that are structurally similar to Arkansas, including its neighbors Mississippi, Louisiana, and Tennessee. The comparative framework is presented to help identify relative strengths and weaknesses to inform an Arkansas entrepreneurship strategy.

AEBS Sub-State Regional Benchmarks

The AEBS Sub-State Regional Benchmarks include extensive data on the state’s economic activity by sector and sub-sector, as well as key information on the businesses that drive its local and regional markets. It also includes data on the state’s 184 banks and other financial institutions. To create the benchmarks, primary data were collected for analysis at eight different geographic levels:

- **Counties** form the basic building blocks of the sub-state regional benchmarking system (75 counties in Arkansas; 3,141 in the United States).
- **Commuting Zones (CZs)** are geographical areas constructed of continuous counties as spatial proxies for local labor markets. County-level data are organized to correspond to the CZ geography (24 CZs in Arkansas; 779 in the United States).
- **Labor Market Areas (LMAs)** are aggregations of counties into geographical regions that contain a high proportion of residential-work location trips. Many of the LMAs cut across state boundaries to better represent local economic areas (13 LMAs in Arkansas; 394 in the United States).
- **Sub-State Regions (SSRs)** are designated areas tailored for this project. The state’s SSRs are grouped into five regions for strategic analysis: Central, Northwest, Northeast, Delta, and Southwest.
- **Economic Development Districts (EDDs)/Planning and Development Districts (PDDs)** are the traditional boundaries used for economic development purposes. The state’s eight EDD/PDD regions were designated when Congress passed the Public Works and Economic Development Act of 1965.
- **Bureau of Economic Analysis Economic Areas** are defined by the BEA. These are included primarily because they are the unit of analysis utilized by Michael Porter and colleagues in their recent cluster mapping project (7 BEA Economic Areas in Arkansas; 172 in the United States).
- **Metropolitan Statistical Areas (MSAs)** include the state’s largest cities and surrounding areas (7 MSAs in Arkansas).
- **State-level data** remain important, particularly for developing state-level strategies. Primary and aggregated data are both used at this level.

County-level data form the basic building blocks of the system—there are abundant data available at this level that can be analyzed by county or easily aggregated into larger geographic regions. This flexibility allows the benchmarks to inform dynamic strategies that reflect local markets. It also provides a framework for leveraging complementary efforts. For example, a local analysis can be linked to the emerging work of the Regional Entrepreneurship Catalyst project simply by using the same unit of analysis—in this case, LMA 41 in Southeast Arkansas.

The data are organized in a series of Excel workbooks that are set up with filters for easy analysis. Much of the sub-state data are also linked to GIS mapping software that provides a powerful vehicle for both analysis and communications. Four sample maps are attached for illustration. Three maps represent firm density by LMA, CZ, and SSR. A fourth map shows 1990–1998 population change by county. Even a quick look at the large-scale population shifts here—most notably, the growth in Northwest Arkansas and the Little Rock area, in contrast to the decline in the Delta counties of Southeast Arkansas—begins to tell a story that calls for further analysis.
Endnotes


12 **Corporation for Enterprise Development.** 2001. op.cit.

14 The National Commission on Entrepreneurship, located in Washington, DC, was created by the Ewing Marion Kauffman Foundation to promote public policy relating to the role of entrepreneurship in the national economy. It acts as a resource on policy and research to local, state, and national leaders.


16 It is appropriate to disclose that the author currently serves as the chair of the Board of Directors of REAL Enterprises.


20 The characteristics of Arkansas’s banking sector can be summarized as follows:

- As of December 2001, there were 187 banks located in Arkansas, with total assets of $31.6 billion.

- There are some 100 locally owned independent banks with an average asset size of $209 million, which, with a few exceptions, tend to be traditional lenders with a focus on agricultural lending and limited experience with small businesses.

- There are 21 multi-bank holding companies headquartered in Arkansas and operating some 70 banks across the state with total assets of $8.2 billion. These may offer the best possibilities for increased development lending. They have responded to competitive pressures by emphasizing their community roots and continued reliance on relationship banking, yet are large enough to absorb the risks and costs of developing small business lending programs.

- There are six out-of-state bank holding companies. These are most likely to employ credit-scoring techniques when assessing small business loans rather than rely on established relationships and less likely to respond to community needs.

- Data for 2000 show that 120 Arkansas banks reported over 72,000 small business loans (less than $1 million) outstanding, totaling $4.2 billion. Banks with less than $500 million in assets accounted for 80% of these loans; the smallest banks with less than $100 million in assets, although amounting to one third of all banks, account for just 16% of small business loans outstanding.


22 Smith, David. April 23, 2002. Big business passing state by: Incentives not sweet enough to pull them in, study finds. Arkansas Democrat Gazette, pages 1A and 7A. Refers to study by Fluor Global Location Strategies for the Arkansas Legislative Council.

Regional Entrepreneurship Catalyst website: [www.regionalcatalyst.org](http://www.regionalcatalyst.org). The 394 regions mentioned here are the labor market areas (LMAs) described later.

The Southeast Arkansas region (LMA 41) includes the following 12 counties: Ouachita, Dallas, Calhoun, Union, Bradley, Cleveland, Jefferson, Lincoln, Drew, Ashley, Desha, and Chicot.
Winthrop Rockefeller Foundation Entrepreneurship Advisory Committee

This study benefited greatly from the expertise of a diverse group of individuals serving in an advisory capacity. While the advisory committee’s input helped guide the research, the recommendations contained herein are not necessarily those of individual committee members.

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Ann Brown  University of Arkansas Cooperative Extension, Marshall
Bill Bynum  Enterprise Corporation of the Delta, Pine Bluff
Mark Diggs  Ontology Works
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John Squires  Community Resource Group, Inc., Fayetteville
Gerry Thomas  Tri-Link Technologies, Pine Bluff
Sam Walls  Arkansas Capital Corporation Group, Little Rock
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CFED supports the public, private, and nonprofit sectors through research and demonstration; field services; policy design, analysis, and advocacy; and communications. Founded in 1979, CFED is headquartered in Washington, DC, and has offices in San Francisco, CA and Durham, NC.