

Remarks by Governor Edward M. Gramlich

Community economic development

**At the Northwest Side Community Development Corporation's 20th Anniversary Luncheon, Milwaukee, Wisconsin
June 13, 2003**

It is a pleasure to be here today. I enjoyed meeting many of you during this morning's activities and appreciate the opportunity to see firsthand your work to improve the economic viability of this community. Since the mission of the Northwest Side Community Development Corporation (CDC) is to promote small business and community economic development, I would like to discuss some of these issues.

Capitalism is defined by its focus on private ownership. Ownership provides the avenue for building wealth, and it is also the channel through which price incentives work. While we typically associate capitalism with Wall Street or corporate leaders, capitalist principles work just as well in promoting entrepreneurship and economic development, the topic of our discussion today.

Broadly speaking, to be entrepreneurial is to create new value through innovation and the creative use of resources. The U.S. Economic Development Administration characterizes the entrepreneurial theory of development as one in which development proceeds as changes in firms and industries produce more resilient, diverse local economies. The essential ingredient in this process is innovation, which is associated with improvisation or creative risk-taking. Entrepreneurs make development happen. Other things equal, we try to promote and reward entrepreneurial endeavors.

Many entrepreneurs are found in small businesses--defined as those with fewer than 500 employees. Statistics from the U.S. Small Business Administration (SBA) indicate that these small firms create about three-quarters to two-thirds of net new jobs and employ about 50 percent of the workforce. Very small firms--those with fewer than 20 employees, represented 89 percent of all firms in the country in 2000. In Wisconsin, these firms represented 85 percent of all employer firms and accounted for 15 percent of the state's annual payroll.

Data reported by the Global Entrepreneurship Monitor illustrate the degree to which these small businesses are involved in entrepreneurship.¹ This organization finds that in 2001 more than 11 percent of the total adult population in the United States was involved in a start-up process or in a business less than 42 months old. Although this measure of total entrepreneurial activity has declined lately, the United States consistently ranks among the most entrepreneurial nations in the world.

Other statistics describe the potential benefits of entrepreneurial endeavors on individuals' financial status. Data reported by the Bureau of Economic Analysis indicate that nonfarm proprietor income increased nearly 5 percent from 2001 to 2002, while income reported from wage and salary disbursements from all industries increased slightly more than 1

percent.

In terms of the value of business ownership, the Federal Reserve's Survey of Consumer Finances (SCF) demonstrates a positive effect of business ownership on families' financial status. These data indicate that the median value of families' holdings in private business equity increased 53 percent between 1998 and 2001, about twice the rate of increase in the median value of families' holdings in publicly traded corporate equities. In addition, the 2001 SCF shows a direct correlation between entrepreneurial endeavors and family net worth. For families with any entrepreneurial activity, that is, those reporting private business ownership or a self-employed status, the median value of net worth is more than five times that of families without entrepreneurial activity. Further, even for families reporting a household income of less than 80 percent of the median, the net worth of entrepreneurial families is still about five times that of families without entrepreneurial activity. These statistics indicate the important effect that entrepreneurial endeavors can have on the ability of families at all income levels to accumulate wealth.

Going beyond these overall statistics, as the role of large industrial and manufacturing firms in the overall economy declines, small business entrepreneurs become critical in providing a new engine for economic growth. With the dawning of the "new economy," entrepreneurial activity, particularly in technology-related enterprises, gives the promise of economic rejuvenation by providing new sources of employment opportunities and tax revenues.

Further, entrepreneurial activity continues to be an important means of promoting local and regional economic development. A report by the National Governors Association (NGA) explored the importance of creating linkages between public- and private-sector systems to foster the growth and development of entrepreneurial activity.² The report observes that states that have been successful in attracting entrepreneurs have developed comprehensive support systems that integrate the resources of academic, corporate, and governmental institutions to create a favorable business climate. Many states, including Wisconsin, offer a wide variety of financing packages, technical assistance programs, and organizational support mechanisms, such as incubators and network groups, to aid fledgling enterprises. These programs typically augment and leverage federally sponsored efforts, such as those offered by the U.S. Small Business Administration and the U.S. Department of Commerce, to support investment, development, research, and funding for small businesses. The U.S. Department of Agriculture is exploring the value of promoting community-led entrepreneurial development that capitalizes on the unique natural, human, and cultural resources of rural communities. In addition to these government-sponsored efforts, nonprofit organizations, such as the Social Compact and Initiative for a Competitive Inner City have focused on devising new methodologies for measuring demand in underserved inner-city neighborhoods and for attracting private investment and capital to their communities.

The Federal Reserve undertakes a variety of activities to promote these flows of information and capital. To gauge credit conditions and availability of financing to commercial enterprises from banks, the Federal Reserve conducts a quarterly survey of senior loan officers. In addition, a survey of small business finances is conducted every five years to gather information on firm and owner characteristics, as well as to track trends in small businesses' use of various financial service products, services, and providers.

Beyond these research activities, the Federal Reserve's Community Affairs Offices seek to promote small business development in low- and moderate-income areas. These initiatives focus on collaborative efforts to support enterprise growth and development. Examples

include the following:

- The Federal Reserve Bank of Chicago initiated the Small Enterprise Capital Access Partnership (SECAP) to engage Chicago-area small businesses in an evaluation of the funding process of new solutions for improving capital access to traditionally underserved communities. The partnership offered recommendations for bridging gaps in small business financing and for underwriting, technical assistance, equity investment, and marketing.
- The Federal Reserve Bank of Boston co-sponsors microenterprise development training for lenders and technical assistance providers.
- The Federal Reserve Bank of Cleveland assisted in the establishment of a statewide network to facilitate technical assistance and financing resources among microenterprises throughout Ohio.
- A collaborative effort between the Federal Reserve Bank of Richmond and the Board of Governors in Washington, D.C., convened representatives from local government agencies, financial institutions, and universities to discuss community development strategies, resulting in the creation of a full-service resource center serving small businesses in an area targeted for commercial revitalization.

Although small business proprietors and entrepreneurs are often grouped together, the NGA does differentiate between the two groups. The NGA contends that entrepreneurship is the critical element in bringing new wealth to a community. The presence of a viable entrepreneurial business sector provides a strong economic base and serves as a reliable source for employment opportunities, household income generation, and tax revenues. Activities and innovations by these firms also increase marketplace efficiencies. In addition to these benefits, increases in local private investment enrich a community by enhancing the resources available to educational, cultural, and civic institutions.

An important characteristic of the entrepreneurial approach to development is the ability to recognize and respond to new opportunities, regardless of the scarcity of resources. By understanding and accepting calculated risks, entrepreneurs promote further innovation in an industry, a product, a service, or a delivery mechanism to the benefit of the consumer. Community developers understand these relationships and often display commendable ingenuity in creating opportunities in traditionally underserved neighborhoods. These community development organizations seek to reengineer their neighborhood economies by bringing together resources for small business development, home ownership, and services through innovative strategies and collaborations. Northwest Side CDC is a clear example of such an entrepreneurial spirit.

As today's event celebrates, the Northwest Side CDC has worked in this neighborhood for the past two decades to promote community-based economic development for the betterment of the residents and the community. Its efforts have increased both the economic viability and social framework of this community. Northwest Side CDC's approaches to economic opportunity have been innovative and resourceful and range from the establishment of the Northwest Industrial Council to the creation of a business incubator that has launched nearly 90 businesses and created approximately 300 jobs. Other creative initiatives promote local enterprises through a supplier linkages program and increase the competitive advantage of neighborhood firms through technology-based services connecting them with e-business opportunities.

Another notable achievement of Northwest Side CDC is its partnership with the Eaton Navy

Controls Division in training local residents in the manufacturing of new technology for ship propulsion. The resulting job training initiative provided Eaton with qualified employees, and over time it gained a reputation for reliable advanced technology products. Between 1994 and 2000, Eaton grew 174 percent and increased its employment 50 percent. This partnership, as well as the other initiatives of Northwest Side CDC, shows how entrepreneurial investment can increase both economic capital and human capital, and thereby contribute to the financial sustainability of the community and individual residents.

Corporate entrepreneurial managers try to create environments that encourage employees to seek innovative and creative approaches and establish management structures that are responsive and resilient. Similarly, community economic development leaders explore entrepreneurial approaches, particularly in the face of diminishing funding sources, to increase the sustainability of their organizations without compromising social impact and mission.

A study published jointly by Harvard University's Joint Center for Housing Studies and the Neighborhood Reinvestment Corporation considered various aspects of entrepreneurial community development.³ This analysis applies private-sector principles for business management to not-for-profit organizations to improve long-term financial sustainability. The study suggests that, like corporations, community development organizations should improve their organizational discipline, implement accounting and performance tracking systems, adopt an overall strategic plan as well as individual business plans for each activity, and identify and invest in core competencies. Other fruitful strategies mentioned by the study include collaborating with public and private organizations, achieving economies of scale, diversifying funding streams, and consolidating with other CDCs to reduce redundancies.

In addition to these strategies, the study also suggests methods for improving sustainability by identifying income-earning activities and creating strategic alliances. Income-generating activities require a balance between the mission of the organization and the pursuit of income streams. For example, while a CDC may offer a unique service that has market value, assessing a fee for that service may conflict with the organization's mission, or it may be otherwise inappropriate to charge for certain services. The creation of strategic alliances requires entities to identify areas in which enlightened self-interest serves the interests of all parties.

The collaboration between Northwest Side CDC and Eaton demonstrates an entrepreneurial approach to community economic development, characterized by the creation of an innovative strategy to respond to the market need for skilled workers while, at the same time, fulfilling a social need for increased employment opportunities. Successful strategic alliances among other CDCs have taken the form of homebuyer counseling and loan-packaging services provided to financial institutions, which have used these services to increase their market share of mortgage loans in targeted lower-income communities.

As I indicated earlier, community developers are innately entrepreneurial and assume calculated risks for the betterment of neighborhoods. As the community development field confronts continued funding challenges and mounting demands for services and expertise, there will be an increasing need for further innovation and creativity, in both organizational structure and service delivery in order to fulfill the mission of expanding economic opportunity for low-income populations and communities.

For the past twenty years, Northwest Side CDC has embraced entrepreneurial principles and

provided leadership and vision for residents and other community development organizations. It has been innovative in its strategies for creating economic opportunities and for increasing its organizational capacity. I congratulate you on your past successes and look forward to your future accomplishments.

Footnotes

1. Andrew L. Zacharakis, Heidi M. Neck, William D. Bygrave, and Larry W. Cox, Global Entrepreneurship Monitor, National Entrepreneurship Assessment--United States of America: 2001 Executive Report (Kauffman Center for Entrepreneurial Leadership at the Ewing Marion Kauffman Foundation, 2002).[Return to text](#)
2. Thom Rubel and Scott Palladino, Nurturing Entrepreneurial Growth in State Economies (National Governors Association, Center for Best Practices, 2000) (<http://www.nga.org/cda/files/ENTREPRENEUR.PDF>).[Return to text](#)
3. Ellen Stiefvater, Entrepreneurial Community Development: Exploring Earned-Income Activities and Strategic Alliances for Community-Development Nonprofits (Joint Center for Housing Studies of Harvard University and Neighborhood Reinvestment Corporation, November 2001) (<http://www.nw.org/network/lessonsLearned/pdf/entrepreneurialCommDev.pdf>).[Return to text](#)

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