Economic Gardening: A Homegrown Approach to Growth

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Julie Gunter: *Welcome to the Federal Reserve's* Economic Development *podcast series. I'm Julie Gunter with the Federal Reserve Bank of Dallas.*

Can an economic development strategy that is focused on fostering small businesses and a culture of local entrepreneurship truly grow a local economy? While these approaches have been actively deployed in some communities as a defined strategy, what results have been achieved?

Today we'll hear from two groups who will answer those questions. The Kansas City Fed's "Grow Your Own" research focuses on approaches that seek to grow small businesses and encourage local entrepreneurs. And Gallup's researchers and economists embarked on a decadelong study to identify talents that successful entrepreneurs possess, and from that developed their Entrepreneurship StrengthsFinder.

We're speaking to Todd Johnson, global channel leader, entrepreneurship and job creation at Gallup, and Dell Gines, senior community development adviser at the Kansas City Fed.

Thanks for joining me today, Dell and Todd, and let's begin by clarifying terminology. Dell, can you explain this "grow your own" concept, and the related idea of "economic gardening?" How do these concepts play out in local economies, and are the strategies and tactics different in urban and rural communities?


Dell Gines


Todd Johnson

Dell Gines: At a high level, grow your own is developing an economic system that exclusively focuses on entrepreneurship as the primary form of economic development. That doesn't mean you can't do some attraction-based economic development, but the primary focus of that is the creation of and the scaling up of existing businesses within your particular area.

Economic gardening is a subset of grow your own in that it focuses specifically on stage-two growth companies between 10 to 99 employees and have usually normal revenues between $1 million to $50 million. Research shows between 1995 and 2012, these stage-two companies, who only represented about 12 percent of the total U.S. small businesses, generated almost 35 percent of all the new jobs and almost 35 percent of the sales.

There's really not much difference in the way that you do entrepreneurship-based economic development in rural and urban communities. The biggest difference is that in rural you're often focusing on a small town or small county, and in urban areas you're really focusing on a geographic area within a city, such as a block, neighborhood, or set of communities to do this form of economic development in.

Gunter: *These concepts are not new to the economic development field, so there are lessons that have been learned along the way. Generally speaking, what are some of the successes and challenges with the grow-your-own strategy?*

Gines: I think some of the successes are the fact that it helps to develop communities that don't have access to traditional attractive amenities and transportation. So if you're a rural community that's off the beaten path, for example, and don't have access to a major highway, don't have access to a large workforce that would be attractive to an outside company to come in, it makes it much more real for that community to be able to develop it using what they already have and growing it from the ground up. And this is the same for the urban-core communities that are facing similar issues of lower education rates and lack of amenities where other areas in their very own city may be more attractive for a company to relocate.

Probably the most important success was the economic gardening movement back in the late '80s in Littleton, Colorado. They eliminated all incentives for attracting new businesses and determined that they're going to focus all their resources on growing existing companies. And so during that 20-year period that they practiced economic gardening, jobs grew from about 15,000 to about 30,000, and sales tax revenue more than tripled from $6 million to $21 million without any recruiting incentives or tax rebates.

Another smaller county practices grow-your-own models in Kansas: Phillips County with a population of about 5,500. They spent approximately 95 percent of their time on the creation, expansion, and retention of existing businesses and only 5 percent on attraction. And the results that they have shown have been $181,000 in sales revenue in 2003 jumped to $399,000 in 2012.

The challenges are still that we're an attraction-based economic development system, where folks try to go out and actually acquire companies to come in to their communities.

The challenge is, that model often is not successful in certain key areas such as urban-core communities and many of our smaller rural communities. And so it's very important that they begin to look at alternative models of economic development like economic gardening or grow-your-own-based models.

Gunter: *Dell, will you share a more recent example of how a community has deployed economic gardening successfully?*

Gines: A more recent model, which is more particular to grow your own, is Valley County in Nebraska, whose core city is Ord. Their new economic developer focused exclusively on entrepreneurship as a tool for development and continued on some of the work that they've already started. As a result, he can point to the fact that for the first time in multiple decades they finally have seen the head count of new kindergarten students begin to occur in that community, indicating that the population is beginning to return to this smaller local town within the Nebraska region.

Economic gardening at the state level has really been led by Florida who in 2009 created their economic gardening program, and to date has assisted in the creation of 13,000 jobs by 2013 and over $1.14 billion in sales revenue for the Florida economy.

Gunter: *Todd, tell us about the background for Gallup's work to develop an Entrepreneurship StrengthsFinder, and how this relates to the Kansas City Fed's efforts.*

Todd Johnson: Gallup has been studying talents, those recurring patterns of behavior that lend themselves to success in a given role, we've been studying that since 1965. It was shortly after our Gallup World Poll in 2002 when we began focusing our study specifically to entrepreneurs. We worked on the model through South Africa, through Mexico, and through Nebraska, building an assessment that would enable us to psychometrically identify those recurring patterns of behavior in successful entrepreneurs. We found there are 10 key dimensions to successful entrepreneurship: risk taking, promoting (think sales), relationship building, confidence, business focus, determination, knowledge seeker, independence, creative thinking, and delegator. So we went to work to study successful entrepreneurs, and we actually built an assessment that will enable others to understand their relationship with those key dimensions of entrepreneurship.

Gunter: *So can you tell us more about how those findings from the work have been deployed?*

Johnson: We found some very interesting discoveries during that 10-year research process, one of which is that really only three out of 1,000 adults have the talent to build a significant business. Also very interesting and related is that only 25 percent of small businesses actually want to grow; 75 percent want their own independence, but the key is finding those 25 percent of small businesses that truly want to grow.

We've built the ESF (the Entrepreneurial StrengthsFinder) and deployed it in a number of different capacities. One example is in Mexico, where we're identifying the entrepreneurial talents in high school students across Mexico City. The Thurgood Marshall [College] Fund is about to deploy the ESF with a number of college students who are focusing on entrepreneurial endeavors. So we're excited about the different applications of early identification and then, of course, working with different partners to engage and develop that entrepreneurial talent.

Gunter: *Todd, continuing on along those lines, unemployment, especially for low- and moderate-income communities, is a significant challenge. Some have suggested developing local business may provide a credible alternative to those who find difficulty in the traditional job market. What are your thoughts on this?*

Johnson: I think that's a very important point. This is a little cliché, but I think communities really need to focus on finding the job makers, not just the job seekers. So the ability to identify those entrepreneurial talents as early as possible and put them into the programming and the mentorships and the internships is just key for any economy. At Gallup we did a study of eighth graders, and we found that 55 percent of all eighth graders across the United States wanted to grow a business of significance. We only found, within the same segment, 7 percent had access to a mentor or to an internship. So I think as community leaders we need to work very systematically, very scientifically toward identifying those job makers and putting them into the programming that can enable them to accelerate their success.

Gunter: *To wrap up, I'd like to ask both of you to address our last question. While most state and local economic development efforts are centered on recruiting and retaining large businesses, how and why might economic developers incorporate these concepts into their overall efforts? What would you suggest as some metrics that would indicate a successful campaign?*

Johnson: I think one of the key metrics that any community should focus on is how many businesses are being started up? According to Gallup economists, this economy needs over 1 million start-ups to run our GDP upwards of 6 or 7 percent. According to the Kauffman Foundation, we're only starting up just over 400,000 companies a year across the country. It's very concerning data. We're actually closing down more companies than we are starting up in our current economic environment.

A very specific key metric would be how many high school students know their entrepreneurial talents? How many high school students are in programs that enable them to manifest those talents and think about entrepreneurship as a vocation and as a future?

Gines: Two other things that I would point to as necessary indicators: one is the concept of business density, which is the total number of businesses per thousand of the population. But also, what goes along with that is the distribution of businesses by type. That's very important because in many particularly urban communities you have so many businesses that are located in the service sector and oftentimes those aren't the ones that are generating a lot of the new jobs in sales and economic opportunities.

So distribution, and then also scaling up. How are your businesses scaling up within your particular area? You need to be able to effectively analyze are businesses growing, or ones that have the potential and desire to grow, are they actually growing? And then for the economic developer, it's structuring strategies around achieving those metrics, which is going to be unique to the traditional way that economic development is measuring their success, which is essentially how many businesses they have recruited in and how many jobs those businesses have brought in.

Gunter: *Thank you for speaking with us today. This concludes our podcast. We've been speaking to Dell Gines at the Kansas City Fed and Todd Johnson at Gallup.*

The Federal Reserve Banks of Atlanta and Kansas City and Rutgers University will cohost a conference on the Future of Workforce Development at Rutgers campus in October 2014. More information about this conference is available on their websites. We hope you will join us.

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