



# Promoting Entrepreneurship: Innovations in State Policy

A REPORT BY THE NCSL FOUNDATION PARTNERSHIP  
ON JOBS AND INNOVATION





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*A key goal of the partnership is to improve the dialogue among state legislators, business representatives and other organizations interested in state policy decisions. The partnership convened a National Jobs Summit to bring state policymakers together with the private sector partners in September, 2013, and is publishing a series of issue briefs on state policies related to job creation and innovation.*

*This brief is one of three.*

*Other briefs in this series include:*

*The State Role in Rebuilding the Manufacturing Sector*

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# Promoting Entrepreneurship: Innovations in State Policy

**A**widely accepted and enduring claim is that entrepreneurial activity is vital for healthy economic growth. Yet despite their importance to the economy, entrepreneurs are not always well-supported by state policy

## What is Entrepreneurship?

The National Commission on Entrepreneurship<sup>1</sup> defined entrepreneurs as leaders of companies based on innovation and designed to grow quickly. Entrepreneurs are not necessarily the same as inventors. Instead, they are people who are able to put together all the pieces—capital, labor and strategy—to come up with a new and innovative way of doing business. Entrepreneurial firms represent a small but critical component of the economy. And while only a fraction of the new businesses

started each year, they play a large role in creating jobs and fueling the economy. These firms are distinct from the majority of small businesses whose main objective is usually to provide employment and income for the owner and family.

## Why is Entrepreneurship Important?

Successful entrepreneurs improve the quality of life with their innovations, provide employment opportunities and create economic growth.

Entrepreneurs are devoted innovators, constantly refining and redefining how they work and what they produce. As a result, they develop new ways of thinking that create new industries and new employment opportunities. For example, personal computers, which brought unforeseen changes to the world, were introduced in the 1970s when everyone was focused on mainframe and supercomputers. This revolutionary new idea not only changed the way in which people worked, but also changed the way they lived. While rare, these types of innovations are highly visible and industry-changing.

Much of the thinking on entrepreneurship today is based on conclusions made in the 1980s by the small-business research pioneer, David Birch.<sup>2</sup> Birch found that rapidly growing firms, which he termed “gazelles,” were responsible for most employment growth. Since then, a substantial amount of research has expanded on his work and come to similar conclusions about the role these firms play in creating jobs and spurring economic growth.

The Ewing Marion Kauffman Foundation currently

Arkansas Senator  
Joyce Elliott  
talking with Ingrid  
Vanderveldt,  
Entrepreneur-in-  
Residence at Dell,  
during the 2013  
NCSL Jobs Summit.



supports a lot of the empirical research on entrepreneurship, including a new dataset collected by the U.S. Census Bureau<sup>3</sup> that measures a number of business features not previously tracked. Using these new data, researchers found U.S. private-sector business startups over the 1980 – 2005 period were responsible for about 3 percent of all jobs per year.<sup>4</sup> While this is a small portion of overall employment, it reflects all new jobs. As such, 3 percent is large compared to the average annual net employment growth of the U.S. private sector for the same period (about 1.8 percent). This simple comparison highlights the importance of business startups to job creation.

The 1990s witnessed a period of tremendous growth in entrepreneurship, sparked in large part by the Internet, the boom in new technology and the proliferation of electronic commerce. Many successful entrepreneurs such as Bill Gates, Steve Jobs and Mark Zuckerberg, have become household names and sparked interest in entrepreneurship among younger generations.

Despite its appeal, entrepreneurial activity declined during the 2000s. According to the U.S. Bureau of Labor Statistics, which collects data on new businesses and job creation, the number of new business establishments for the year ending in March 2010 was lower than any year since the tracking began in 1994.

In addition, the number of jobs created by establishments less than 1-year-old decreased from 4.1 million in 1994, to 2.5 million in 2010.<sup>5</sup> This trend, along with fewer new establishments overall, indicates that the

number of new jobs created by each new business is declining.

Several factors have made it more difficult to start a business. Lenders are traditionally reluctant to loan money to firms with less than two or three years of financial records showing a profit, and they became even more reluctant after the credit freeze in 2008. Also, equity in a home or other real estate has been a traditional source of start-up capital, but the plunge in real estate prices during the Great Recession left many would-be entrepreneurs without any equity to draw on. And friends and family, who previously might have helped finance a start up, may no longer have the financial resources to invest.

While not yet reflected in government statistics, there are some anecdotal signs that entrepreneurship is on the rebound. Venture capitalists speaking at the Kauffman Foundation's annual State of Entrepreneurship event in 2013 claimed that the interest level in starting a business among recent college graduates was higher than ever. In addition, the costs associated with launching a new business in the technology sector have come down and venture capital is more readily available—thanks in part, to policies by states and the federal government that facilitate access to capital.

### State Policies that Facilitate Access to Capital

One of the most important challenges facing entrepreneurs is the ability to finance their product or service from the time of inception through maturation.





From left, Vermont Representative William Botzow, Illinois Senator William Delgado and Illinois Representative La Shawn Ford confer at the 2013 NCSL Jobs Summit.

## Common Terms Used to Define the Stages of Entrepreneurial Development

- **The concept or seed stage.** Funding for the new idea is often provided by individual investors.
- **The start up or launch stage.** Funding is needed during this stage for marketing and product development.
- **The fund growth and expansion stage** (often called stages 1, 2 and 3 or rounds A, B and C)
- **The exit stage,** which is often funding to cover the Initial Public Offering (IPO).

Traditionally, entrepreneurs finance early-stage start-ups with personal savings, home equity loans, family loans and credit card debt. But once those sources have been exhausted, they often look for venture capital sources (often called risk capital).

Venture capital investments typically come from wealthy individuals and venture capital firms in exchange for stock shares and an active role in the invested company. Venture capital investors usually provide unsecured funds to start-up companies. This type of invest-

ing inherently carries a high degree of risk, but also has the potential for high rewards to the investor.

Venture capital activity soared during the entrepreneurial boom of the 1990s, peaking in the year 2000, then falling off substantially after the dot-com crash. In the following decade, state policymakers developed a much more sophisticated understanding of the financing needs of entrepreneurs, and created a variety of ways to promote the use of venture capital.

Some states actively participate in venture capital programs by committing state funds to venture capital investments. In other cases, states leverage state funds, usually through the use of certified capital companies or the creation of a Fund of Funds. However, the most common state strategy is to encourage private investment through the use of tax credits.

## Direct Investment

State policymakers first began dabbling in the venture capital arena in the 1980s by setting up quasi-public corporations to make direct investments in companies. The hope is that states can target specific industries that have high growth potential but are overlooked by venture capitalists. For example, companies might be solid performers from an economic development perspective (i.e., creating high-quality jobs in an area or industry that needs the jobs), but provide lower financial returns than private sector venture capitalists expect. Massachusetts presents a good example of a state venture capital program.

- MassVentures is one of the longest-running state-

## New Capital Through Crowdfunding

Equity Crowdfunding is a new phenomenon with the potential to revolutionize the way in which entrepreneurs access capital. A proposed rule change in 2013 (the final rule is expected to take effect late in 2014) by the Securities and Exchange Commission (SEC) lifts the current ban on public solicitation, opening the door to a much broader marketplace for capital and creating a new way for entrepreneurs to raise money.

Under the new rules, start-ups can actively ask for public investments and individuals can invest for a financial return. Crowdfunding web sites provide the platform to bring new business ideas and potential funders together, allowing entrepreneurs to reach revenue sources they could not access before. Because equity crowdfunding means selling small ownership stakes of private companies to ordinary investors online, it is different from existing fundraising sites like Indiegogo and Kickstarter that provide a platform for individuals to donate money to a particular project or cause.

While the potential of crowdfunding is exciting, it also raises many new challenges for policymakers. In addition to the usual on-line business fears that scammers will masquerade as legitimate crowdfunding sites, there are concerns that the general public may not be very savvy as investors—that many people underestimate the risk and overestimate the success rate of new businesses.

To address some of these concerns, the SEC has imposed limits to protect investors. People who earn less than \$100,000 a year can invest up to \$2,000 or 5 percent of their annual income or net worth, whichever is greater. Those who make more face a cap equal to 10 percent of their annual earnings or net worth, whichever is greater. Companies are limited to raising \$1 million in any given year, and must share some financial information with investors. The crowdfunding websites approved by the SEC also will have a role in preventing abuse.

initiated capital programs in the country. It was formed in 1978 as a quasi-public corporation by the legislature, governed by an independent board of directors, and managed by venture capitalists. Its goal is to provide seed and early-stage venture funding to high-growth start-ups as they move from concept to commercialization. The program claims the following success:

- One hundred percent of its investment money has remained in the state.
- Of the 132 companies in which it has invested, more than 60 percent have been located in economically targeted cities and towns.
- Its portfolio of companies have employed more than 7,500 individuals in the state with an annual estimated payroll of \$612 million.
- Over its 30-plus year history, the MassVentures Traditional Fund has generated a gross internal rate of return of 16.5 percent.
- Eighty-six percent of funds have been generated through gains in investing, not government funding.

Direct investment programs, however, raise many questions and have many detractors. They argue that investment in start-up companies is not an appropriate role for state government and the risky nature of venture capital is an unacceptable use of public funds.

Rather than investing state revenues directly in start-ups, a number of states have opted to leverage state funds to encourage private investment instead.

## Leveraging State Funds

### CAPCOs

1983, Louisiana became the first state to create a Certified Capital Company (CAPCO) program to encourage venture capital funding in the state. Other states followed suit in the 1990s, and several states including Colorado, Florida, Missouri, New York, Texas and Wisconsin added CAPCOs to their list of economic development incentives.

The idea behind CAPCOs is that insurance companies are an underutilized source of funding for venture capital. These programs use insurance premium tax credits to draw insurance companies into early-stage investments. States allocate insurance premium tax credits to CAPCOs, which are state-certified investment companies. CAPCOs sell the tax credits to insurance companies and use the funds to invest as venture capital in start-ups. Insurance companies get tax credits on their investments (as kind of a substitute for interest rates), and they receive their capital back at the end of the program, giving them an above-average return with almost no risk.

## A Hybrid Program

Invest Maryland was signed into law in 2011 as a way to raise money for Maryland start-up companies. Through an insurance tax credit auction in 2012, the state raised \$84 million to invest in the development of technologies in software, communications, cyber-security and life sciences.

Two-thirds of the Invest Maryland funds are managed by private venture firms that will invest the funds with a commitment to return, if successful, 100 percent of the principal and 80 percent of the profits to the state's general fund. The remaining third is invested by the state-run Maryland Venture Fund (established in 1994). Funds are apportioned through the following three programs:

- Venture Capital Firms (67 percent) are selected for potential investment awards by the state secretary of the Department of Business and Economic Development's.
- Maryland Venture Fund (24.75 percent) is a state-funded and early-stage equity fund within DBED that will invest new funds from Invest Maryland into emerging companies.
- Equity Participation Investment Program (EPIP) (8.25 percent) is directed by the Maryland Small Business Development Financing Authority and managed by Meridian Management Group. It is designed to expand business ownership by socially or economically disadvantaged entrepreneurs.

Critics of CAPCOs argue that the funding mechanism is too complex and the process for selecting CAPCOs is generally not very transparent. In addition, these programs are costly for the state with terms that heavily favor the insurance companies. As a result, these programs have generally fallen out of favor. Instead, some states have turned to what is called the Fund of Funds model.

### *Fund of Funds*

In a Fund of Funds, state revenues are leveraged to incentivize private venture capital companies to invest in start-ups in the state, often in targeted industries. These programs are structured to be financially self-sustaining, with profits from the fund's investments paying back financiers. Oklahoma launched a Fund of Funds in the mid 1990s and variations have been established in several other states such as Arkansas, Iowa, Michigan Ohio and Utah.

The Funds do not directly invest money into any company or individual, but rather invest in venture capital and private equity funds committed to establishing a working relationship with businesses in the state and investing in qualified companies.

The Funds are financed in different ways. In Ohio, for example, initial financing for the Fund was raised through the bond market. In Utah, it was provided by a third party lender. Regardless of how the revenues for the Fund are raised, states back them with contingent tax credits to protect investors from losses. Only in the case of a shortfall is the state required to honor the tax credits.

## A Fund of Funds Cautionary Tail

A Fund of Funds program is not without risk lawmakers in Iowa recently discovered. Like many states, its program (established in 2002) was to leverage funds for venture capital investment. The investments in the venture capital funds were funded by a revolving loan with \$100 million in contingent tax credits as collateral.

In 2010, the tax credit cap was reduced from \$100 million to \$60 million, triggering a chain of events endangering the revolving loan arrangement to the point of default in early 2012. An agreement was reached between all parties to avoid the loan default and in 2013, legislation was enacted to reflect the terms of the settlement and to wind down the Fund of Funds program 25 years sooner than envisioned

Usually, the venture companies are required to invest a good portion of this money in companies located in the state to qualify for state dollars and frequently, they are required to open local offices.

Critics of the Fund of Fund approach caution that while not as risky as direct investment, nor as costly as CAPCOs, state tax credits are being used to back up the

## Searching for Angels in Wisconsin

The Qualified New Business Venture program (also known as the Angel Investment Program) was created by 2003 Wisconsin Act 255 and went into effect in 2005. It established a state tax credit of up to 25 percent in qualified new venture investments. The amount of the credit available each year is limited. Since the inception of the program, however, the annual limits have been increased multiple times including in 2011 when they were increased to \$20 million. Unused tax credits may be carried over into the following tax period, and an additional \$250,000 in credits is available to nanotechnology companies. The maximum total amount of credits that could be claimed was \$47.5

million, but legislation in 2014 eliminated that cap.

A 2012 performance report published by Wisconsin Economic Development Corporation found that the program had helped create at least 1,112 Wisconsin jobs since its inception (that number did not include successful companies that graduated from the program and were no longer required to report employment numbers).<sup>6</sup> In addition, a 2013 Legislative Fiscal Bureau report found that a total of \$36 million in tax credits had been awarded by the state (leaving only \$11.5 million left under current law), resulting in more than 4,500 angel investments for a total of \$143.5 million.<sup>7</sup>

investment. Should the investments fail, taxpayers are on the hook

### Tax Incentives

It is far more common for states to promote private investment in entrepreneurs through the use of targeted tax incentives.

Many of these incentives are designed to attract angel investors—high net worth individuals who invest in start-up companies. These investors may be former entrepreneurs or executives who cashed out and retired early from successful businesses. Because of their business experience, many angels invest more than just their money. They also seek active involvement in the business, such as consulting and mentoring the entrepreneur.

Angel investors have become a much more important source of financing for new and emerging businesses, particularly in the very early stages when the enterprise is too small to attract the attention of venture capital firms. Typical angel investments range from about \$25,000 up to \$2 million.

Angel tax credits can be quite substantial, although the typical credit is 20 percent of the amount invested. The incentive can be as high as 60 percent in rural areas of Maine. And at one time, Hawaii offered a 100 percent credit for investments in high technology businesses (that credit expired in 2010). Some states impose caps on the amount available for the credit, either per investment or as a total cap on the amount of credits the state can award.

States also provide tax credits to venture capital firms that invest in start-ups. Venture firms are often used after an angel investor gets a project off the ground. Because venture firms often have rigorous application process

and invest larger amounts, venture capital is usually used after the initial round of funding.

### Are Credits Worth the Cost?

An important question for policymakers to consider is whether or not tax credits succeed in meeting their goal, whether the goal is to increase early stage investment in potential high-growth ventures or whether the goal is growing new businesses and jobs.

Many economists are skeptical of the value of angel and venture capital tax credits, arguing that they are based on the unproven assumptions that the private sector is under-investing in new businesses and that tax credits will counteract that underinvestment. They claim that tax credits would rarely entice someone to make an investment who otherwise would not. And at the same time, tax credits won't make angels invest in a company that they wouldn't invest in without the credit. A bad investment is a bad investment, and while angels are risk-takers, most of them won't throw their money away because someone waves an incentive in front of them.<sup>8</sup> Others argue that the investment would likely have happened anyway and that tax credits simply reward investors for investments they are making anyway. As a result, tax revenues decline but no new investment occurs in response to the credit. In addition, a tax credit may not increase the number of companies receiving new money. Because tax credits don't improve the quality of the unfunded deals, investors might remain focused on the deals they were willing to make without the credit. In this case, tax credits might attract more investors to the same deals, leading not to more companies getting funded, but to competition for deals, which could increase valuations and reduce returns.

One of the biggest challenges of tax incentives is try-



ing to measure the impact. Even though most states produce tax expenditure reports in which they try to quantify the amount of foregone revenue as a result of tax breaks, data on incentives, once implemented, is often incomplete. For example, the Arizona Legislature regularly reviews income tax credits. In fact, a law enacted in 2010 made this process much easier by authorizing the Department of Revenue to disclose confidential statistical information gathered from taxpayers. The evaluation of tax credits in terms of their economic benefits to the state is still difficult to conduct, however, since the data is rarely available. For instance, the amount of certified angel investment is reported, but there is no data on the number of new jobs associated with these investments.

The Pew Charitable Trusts has conducted significant research into how states evaluate incentive programs. Researchers found that only nine states—Arizona, Arkansas, California, Connecticut, Delaware, Iowa, Nebraska, Oregon and Washington—regularly evaluate major tax incentives. Half of the states have not even taken the basic steps needed to know whether their incentives are effective.<sup>9</sup>

In order to conduct a solid cost/benefit analysis of tax incentives, states need to track the long-term impact of their investment and few states have the necessary systems in place to accomplish this task. That seems to be changing, however, as policymakers have shown more interest in the matter of tax expenditures. Lawmakers in Washington recently developed new evaluation metrics.<sup>10</sup>

In addition to promoting access to capital, states can support entrepreneurship in other ways such as simplifying the start-up process and by fostering a general culture of entrepreneurship in the state.

### State Policies that Help Simplify the Start-up Process

States can help simplify the start-up process with one-stop centers that reduce the administrative burden of setting up a new business. In addition, states can help entrepreneurs understand and comply with state regulations.

#### One Stop Centers

Some states have created one-stop service centers for business licensing and registration. These can be both physical and on-line locations where businesses complete all registration and licensing procedures at once. For example, Michigan and Virginia have on-line, one stop Web pages for anyone starting a new business.

Michigan's site features a business start up tool that lets the user create scenarios for starting different types of businesses. The tool will determine the state requirements for that type of business, including costs and time frames.

**TABLE 1. STATE INCORPORATION FEES FOR LLCs AND LLPs**

State	LLC Filing Fee	LLP Filing Fee*
Alabama	\$100	\$100
Alaska	\$250	\$250
Arizona	\$50	\$16
Arkansas	\$50	\$50
California	\$70	\$70
Colorado	\$50	\$50
Connecticut	\$120	\$120
Delaware	\$90	\$400
Florida	\$125	\$25
Georgia	\$100	\$100
Hawaii	\$50	\$25
Idaho	\$100	\$100
Illinois	\$500	\$200
Indiana	\$90	\$90
Iowa	\$50	\$50
Kansas	\$165	\$165
Kentucky	\$40	\$40
Louisiana	\$75	\$125
Maine	\$175	\$175
Maryland	\$100	\$100
Massachusetts	\$500	\$500
Michigan	\$50	\$100
Minnesota	\$135	\$135
Mississippi	\$50	\$50
Missouri	\$105	\$55
Montana	\$70	\$20
Nebraska	\$100	\$200
Nevada	\$75	\$75
New Hampshire	\$100	\$100
New Jersey	\$125	\$125
New Mexico	\$50	\$50
New York	\$200	\$200
North Carolina	\$125	\$125
North Dakota	\$135	\$35
Ohio	\$125	\$125
Oklahoma	\$100	\$100
Oregon	\$100	\$100
Pennsylvania	\$125	\$125
Rhode Island	\$150	\$200
South Carolina	\$110	\$100
South Dakota	\$150	\$125
Tennessee	\$300	\$250
Texas	\$300	\$400
Utah	\$70	\$22
Vermont	\$100	\$50
Virginia	\$100	\$100
Washington	\$180	\$180
West Virginia	\$100	\$250
Wisconsin	\$130	\$100
Wyoming	\$100	\$100

Source: NCSL search of state web sites, 2013

\* Based on two partners.

Virginia's one-stop page provides specific guidance for anyone who is either considering, starting, running, expanding or relocating a business in the state.

These sites also help users navigate the mysteries of structuring and registering new businesses. Basic administrative costs of starting a business vary substantially from state to state. For example, filing fees to register a new LLC range from \$40 in Kentucky to \$500 in Illinois and Massachusetts as shown in Table 1.

### *Navigating State Regulations*

Another big challenge for start up businesses is complying with state regulations. To help businesses through the regulatory maze, some states have an official Small Business Advocate Office to provide information and answer questions for small business owners about state regulations. These offices also assist in the resolution of issues concerning small businesses and state departments and agencies.

In an effort to bring more awareness to the impact of regulations on small businesses, some states require agencies to prepare small business impact statements when proposing new regulations. Such statements are publicly released documents that contain information about the potential impact a regulation will have on small businesses. Similarly, South Carolina has established a regulatory review task force to evaluate South Carolina's current regulatory burdens on businesses and to propose recommendations to relieve those burdens.

### **State Policies that Help Foster a Culture of Entrepreneurship**

One of the most important things policymakers can do to develop innovative new businesses is to foster a culture of entrepreneurship. Strategies include:

- Integrating entrepreneurship into state economic development efforts
- Promoting technology development
- Developing networks of entrepreneurs
- Offering recognition and awards to successful entrepreneurs

### *Integrate Entrepreneurship*

States can begin by integrating entrepreneurship into state economic development efforts. While more and more states recognize the value of the entrepreneurial sector, state development agencies often overlook the unique needs and flexibility required of start-up companies and continue to be organized around traditional business retention and incentive-based industry recruitment programs. Economic development officials often focus on high-profile businesses looking to expand or relocate. This has led to an emphasis on expensive in-

## **Regulatory Reform in Rhode Island**

In 2012, the General Assembly passed a measure requiring each agency to review 25 percent of its regulations each year for four years until all existing regulations were evaluated for any adverse impacts on small businesses. Governor Chafee accelerated the review by directing regulatory entities to complete an evaluation of 25 percent of its regulations within a 120-day review period. Each regulatory entity was asked to provide the Office of Regulatory Reform recommendations to revise, repeal or keep the regulations based on its review. Of the first 1,089 regulations reviewed, 399 were found to have a small-business impact. Of those, 38 (9.5 percent) were identified for amendment or repeal.

centive packages designed to train workers, invest in infrastructure and create a competitive business climate. These economic development tools don't necessarily help entrepreneurs until their businesses are more established.

Focusing on entrepreneurial needs can be a cost effective and politically palatable use of economic development funds. Entrepreneurs don't require anywhere near the same scale of investment as traditional economic development incentives. Furthermore, a fairly modest public investment has the potential to reap huge rewards should an entrepreneurial venture flourish. According to the Small Business Administration, local economic development officials would benefit from recognizing the better use of resources in cultivating high-growth firms rather than trying to attract out-of-town companies.<sup>11</sup>

Some states have taken that advice. For example, in its 2012-2016 economic development strategic plan, Louisiana lists as one of its five goals: Reposition Louisiana as one of the best places in the country in which to start and grow a small business, as well as create a more vibrant entrepreneurial culture in the state. Kentucky recently created an Office of Entrepreneurship within the state economic development agency and Ohio broke new ground with its Third Frontier Program.

### *Promote Technology Development*

There is a strong link between successful entrepreneurs and the product development that comes out of research universities. California's Silicon Valley is inexo-

## The Role of the Small Business Advocate in Maine

Maine's Small Business Advocate serves as an independent voice for Maine small businesses within the state's regulatory system. The advocate works directly with small businesses (fewer than 50 employees) to help them understand and comply with Maine's regulatory requirements.

The advocate testifies on legislation and comments on rules affecting the interest of Maine's small businesses. Based on its work with small businesses, the advocate identifies statutes and rules that present an unnecessary regulatory burden on small businesses.

The advocate is an appointee of Maine's secretary of state, outside both the executive and the legislative branch of government. The advocate serves small businesses in the following way:

- A small-business owner who feels aggrieved by a state agency through its regulatory enforcement action contacts the Small Business Advocate requesting assistance, offering sufficient information regarding the grievance to

enable the advocate to effectively research and address it.

- The advocate conducts fact-finding by researching pertinent statutes and rules and regulations, then consulting with the small business and state agency involved.
- The advocate then serves as an intermediary between the small business and the agency to determine, if appropriate and if the agency has discretion, whether there is an alternative means of effective enforcement possible that would not cause a significant economic hardship to the business.
- When necessary, the advocate will request that the secretary of state issue a regulatory impact notice to the governor outlining the fact finding and recommending an alternative means of effective enforcement that would relieve the small business of the significant economic hardship imposed.

## New Efforts to Promote Entrepreneurship in Kentucky

In 2013, Kentucky created a new Office of Entrepreneurship in its Cabinet for Economic Development to enhance existing efforts to help businesses at every step of the growth cycle.

The goal of the Office of Entrepreneurship is to develop an entrepreneurial climate for new talent in Kentucky; provide guidance and support to start-up operations; assist existing small businesses with growth opportunities; and create a pipeline of business activity that can be streamlined with the traditional growth opportunities the cabinet already offers to encourage job and investment creation in the state.

The office oversees the Kentucky Innovation

Network, which includes 10 Innovation and Commercialization Centers (ICCs) and two satellite offices. The office also guides the cabinet's resources for small and new businesses, as well as innovate and high-tech companies, with funding, marketing assistance, advocacy and resource referrals along with a variety of financial and incentive programs to encourage new investment and job creation.

The hope is that linking entrepreneurial and small business development efforts with existing business recruitment and expansion activities will better serve state businesses at all ends of the growth spectrum.

rably tied to Stanford University, while North Carolina's research triangle is the result of its universities. Going from the research stage to a viable product, however, is a complex process that involves technology transfer and commercialization.

Technology transfer is the process of transferring scientific findings from one organization to another for the purpose of further development. The process typically includes identifying new technologies and protect-

ing them through patents and copyrights.

Commercialization is the term given to the process of introducing a new product or service into the general market. Strategies include marketing and licensing to existing private sector companies or creating new start-up companies based on the technology.

States can help promote entrepreneurship by seeking new methods for speeding up the commercialization of innovations developed at research facilities.



## Breaking New Ground with Ohio's Third Frontier

Created in 2002, the Ohio Third Frontier is a state economic development program that invests in new technology-based products, companies, industries and jobs. The \$2.3 billion initiative supports applied research and commercialization, entrepreneurial assistance, early-stage capital formation and expansion of a skilled talent pool that can support technology-based economic growth. Its strategic intent is to create an "innovation ecosystem" that supports the efficient and seamless transition of great ideas from the laboratory to the marketplace.

According to research from Ohio State University, the program to develop industry clusters in

targeted high-tech sectors successfully changed Ohio's economic landscape in such areas as biomedical imaging and advanced materials. As of June 2011, the \$764 million that had been expended in Third Frontier funds had leveraged over \$6.6 billion of additional funding and created an estimated 79,464 direct and indirect jobs. At the time, more than 700 companies had been created, capitalized or attracted to Ohio by Third Frontier Funds.

In May 2010, Ohio voters approved a bond issue to provide an additional \$700 million in funding over four years, extending the program through 2015.

### Develop Entrepreneur Networks

Networks of entrepreneurs facilitate new businesses and help existing ones grow. States can promote formal networks to bring entrepreneurs together with each other and third party investors. For example, Indiana's Elevate Ventures is a nonprofit that operates for the Indiana Economic Development Corporation (IEDC). Elevate Ventures provides advisory and technical assistance to entrepreneurs, assists and provides support to entrepreneurs seeking federal grant funding, oversees a large network of angel investors and oversees the state's 21 Fund, which supplies venture capital to entrepreneurs on a competitive basis.

Some states have entrepreneur centers that offer business counseling as well as workshops and other training resources for entrepreneurs. For example, Virginia's Entrepreneur Express was developed to help new and early stage businesses. Pilot tested in Southwest Virginia in late 2006, the half-day workshops proved so popular and effective that they were taken statewide in mid-2007. It is a partnership among the state economic development agency and many local, state and federal resources providers.

### Entrepreneur-in-Residence

Sometimes used by private sector companies to spark more innovative thinking, states can adopt an entrepreneur-in-residence (EIR) programs that places real entrepreneurs inside government agencies for limited periods of time. The role of the entrepreneur is to identify and resolve obstacles that stand in the way of job creation.

State EIR programs have two objectives:

- Identify inefficient and duplicative government

programs that negatively impact entrepreneurs trying to start or expand a business, and to recommend solutions.

- Provide a point of contact within an agency, a visible advocate and mentor for entrepreneurs who understands their needs, concerns and frustrations in dealing with government.

The hope is that EIR's in government will:

- Provide outreach to entrepreneurs and small businesses.
- Provide recommendations on ways to streamline and improve government operations that impact small business.
- Recommend ways to improve programs available to entrepreneurs.
- Facilitate meetings and forums to educate entrepreneurs on programs and requirements.
- Provide technical assistance or mentorship to entrepreneurs in navigating government programs and requirements.

The goal is to make state government programs simpler, easier to access, more efficient and more responsive to the needs of entrepreneurs and small business.

Dell was one of the first private sector firms to actively promote this type of government participation. It has numerous resources devoted to this concept and provides support to states wishing to pursue EIR programs. The idea gained some traction in 2013 and legislation was introduced in Connecticut, Massachusetts, Michigan, Ohio, Tennessee and Virginia. Texas went a step further and adopted EIR legislation that allows state agencies to use open full-time positions to employ an entrepreneur-in-residence.



## Taking Ideas to Market

Recognizing the importance of exploiting the \$4.5 billion spent on basic research at the universities, research institutions and research hospitals in the state, the Massachusetts legislature created and funded the Massachusetts Technology Transfer Center in 2003. The center has a government mandate to help any inventor in any non-profit research institution to commercialize his or her technology. It also helps entrepreneurs start companies and helps researchers market their patents through a broad array of high quality programs and resources.

The center works closely with other programs, including the Massachusetts Technology Collaborative, the John Adams Innovation Institute, the Massachusetts Technology Development Corporation and the Trust Fund, and provides services to support the work of the Commonwealth's technology transfer offices with Massachusetts-based companies and investors.

The center facilitates the activities of all technology transfer offices in the Commonwealth by providing services to support their work with Massachusetts-based companies and investors. If an institution does not have a formal technology transfer office, the center will assist with the validation of markets for new technologies and support the development of commercializa-

tion plans for these technologies. In addition, the center can help these institutions identify consultants or companies that will undertake the licensing work.

Utah has a Technology Commercialization and Innovation Program designed to accelerate the commercialization of promising technologies that have strategic value for Utah. It is a state-funded grant program developed by the Utah Legislature in 1986 to help accelerate the process of taking university-developed, cutting-edge technologies to market. Historically, grants were only awarded to Utah universities. In 2007, however, the Legislature expanded the law to allow grants to companies that license technology developed at Utah's colleges and universities.

Similarly, New York's Technology Transfer Incentive Program provides awards to institutions of higher education working in partnership with New York businesses to move leading-edge technologies from the research lab to the marketplace. The program supports a wide array of activities, including improvement of product prototypes and existing commercial products, new product development, development of manufacturing processes to commercialize prototypes and filing patent applications.

Kathy Schill,  
Legislative Fiscal  
Analyst from  
Minnesota, and  
Representative  
Ross Hunter  
from Washington  
exchange ideas  
during the 2013  
NCSL Jobs Summit.

### *Incubators*

Another way to develop networks is to create business incubators. The National Business Incubation Association (NBIA) defines business incubation as a process that accelerates the successful development of start-up and fledgling companies by providing an array of targeted resources and services such as office space and equipment, Internet service, conference rooms and business support services.

Incubator programs are funded by: economic development organizations, government entities and academic institutions and have grown in popularity over the past decade. Policymakers and development officials like incubators because they can be used to provide basic business services to entrepreneurs in underserved urban and rural populations.

For example, Georgia identified six strategic industries— aerospace, agribusiness, energy life sciences and information technology, logistics and manufacturing; and created Centers of Innovation to provide networks within each industry. State-funded incubators are located throughout the state to connect entrepreneurs to key resources, emerging technologies and university research.

### *Accelerators*

Accelerators are similar to incubators in that they are created to provide support for young businesses. While incubators are often geared toward companies in their infancy, accelerators are geared toward slightly more established businesses and often bring in early investors. They are designed to accelerate the trajectory and path of the business, not start it from scratch.

Connecticut Innovations (CI) was formed by the Connecticut legislature in 1989 to help promising technology companies get off the ground. In 2009, CI added a small business innovation team and merged with the Connecticut Development Authority. Now it serves businesses in all stages of growth.

Colorado's Advanced Industries Accelerator Programs were created in 2013 to promote growth and sustainability in targeted industries by helping drive innovation, accelerate commercialization, encourage public-private partnerships, increase access to early-stage capital and create a strong ecosystem that increases the state's global competitiveness. As part of the strategy to support these critical industries in their various phases of growth, the state offers four types of grants and a global business support program. Grants are available for proof of concept, early-stage capital and retention, infrastructure funding and advanced industry exports. In addition, a

network of consultants and an export training program are available.

### **Offer Recognition and Awards to Successful Entrepreneurs**

States can help promote and celebrate successful entrepreneurs. Awards programs such as Entrepreneur of the Year Awards and business plan competitions can increase awareness of entrepreneurship and to help create an entrepreneurial culture. Many states have pursued this option thanks to the low cost and high visibility often associated with such efforts. These efforts also supplement other national awards efforts such as Ernst and Young's Entrepreneur of the Year Award and the SBA's annual awards for small business owners.

In 2013, Maryland launched a challenge in which the state would award \$100,000 in prizes to the most impressive companies in three categories: information technology, life sciences and general. Qualified companies had to employ fewer than 25 people and bring in less than \$1 million a year. Companies in the information technology and life sciences categories had to be based in Maryland; companies in the general category could be from out of state but had to agree to move the business to Maryland if they won.

Lawmakers in Indiana established the Young Entrepreneurs Program in 2011 to assist young entrepreneurs in making their business plans become a reality. The Indiana Small Business Development Center, in partnership with the Office of Community and Rural Affairs and the Indiana Economic Development Corporation, works with local and regional communities to provide incentives to college-aged entrepreneurs who dream of owning their own business. Qualified participants must be enrolled in an educational institution located in Indiana or have graduated from an educational institution located in Indiana within the last three years. These incentives can include, but are not limited to, free rent, grants, loans and utility support. In exchange, the Young Entrepreneur must agree to locate their start-up business in Indiana.

### **Summary**

Entrepreneurship is important to economic growth and job creation. Many state governments have embraced entrepreneurship, and some are developing specific entrepreneurship policies. Entrepreneurs have unique needs that can best be addressed with state initiatives that promote access to capital, help simplify the start-up process and promote a culture of entrepreneurship.



## Endnotes

- 1 *The National Commission on Entrepreneurship* was established in 1998 (it has since been dissolved) as an initiative of the Ewing Marion Kauffman Foundation to focus public policy on the role of entrepreneurship in the national economy and to articulate policies that would foster its continued growth into the 21st century. It was made up of entrepreneurs and funded by the Kauffman Center for Entrepreneurial Leadership.
- 2 David Birch overturned the long standing thesis that large firms were the primary drivers of job creation in 1979 with his seminal work, *The Job Generation Process*.
- 3 *The Business Dynamics Statistics (BDS)* is a product of the U.S. Census Bureau that measures business openings and closing, startups, job creation and job destruction by firm size, age, industrial sector and state. information can be found at <http://www.census.gov/ces/dataproducts/bds/>.
- 4 John Haltiwanger, University of Maryland; Ron Jarmin, U.S. Bureau of the Census; Javier Miranda, U.S. Bureau of the Census, *Jobs Created from Business Startups in the United States*, *Business Dynamics Statistics Briefing*, Kauffman Foundation, January 2009.
- 5 *Entrepreneurship and the US Economy*, Bureau of Labor Statistics, <http://www.bls.gov/bdm/entrepreneurship/entrepreneurship.htm>
- 6 <http://www.angelcapitalassociation.org/data/Documents/Public%20Policy/State/WisconsinQNBVAnnualReport2012.pdf>.
- 7 <http://legis.wisconsin.gov/lfb/publications/budget/2013-15%20budget/documents/budget%20papers/281.pdf>.
- 8 *Wall Street Journal Online*, *Should Angel Investors Get Tax Credits to Invest in Small Businesses*, March 19, 2012, <http://online.wsj.com/news/articles/SB10001424052702304459804577283420497271022>
- 9 *Pew Center on the States, Evidence Counts; Evaluating State Tax Incentives for Jobs and Growth* (Washington, DC, 2012).
- 10 The entire report is available at <http://leg.wa.gov/JLARC/AuditAndStudyReports/2014/Documents/LegAudGuidance-DraftingTaxPrefLeg.pdf>
- 11 *Small Business Administration report* <http://archive.sba.gov/advo/research/rs328tot.pdf>