

Needs Assessment Report: Entrepreneurship

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Prepared for:

**Employ Florida Banner Center of Excellence
Career Academies/Secondary**

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Introduction

Entrepreneurs are at the heart of economic activity in a capitalist society. They translate ideas into action, allocate scarce resources to their most efficient use, and create the wealth that is the basis for a modern and healthy economy. New business startups, and the resulting successful businesses contribute substantially to increased employment and national economic growth. Although not every talented person has the drive, initiative or tolerance for risk that characterize most successful entrepreneurs, many people may well have the ability to substantially improve their economic performance through the organization and management of enterprises. If U.S. and Florida businesses are to compete successfully in a globalizing economy, policymakers must continue to press for increased rates of innovation. This implies a strong need to provide a fertile environment for the entrepreneurial activity that will drive future economic development.

This report assesses the need for career technical education in entrepreneurship at the secondary school level within Florida. We begin with an analysis of the trends in entrepreneurship and highlight the importance of Florida as a state with substantially more entrepreneurial activity than most other states. Then we discuss the impact of the changing structure of the U.S. economy (resulting from globalization and technology adoption) on the challenges that face entrepreneurs. Finally we outline the implications of the trends in entrepreneurship for student education and training, and underscore the need for career academies specialized in entrepreneurship training within Florida.

Trends in Entrepreneurial Activity

Entrepreneurship means different things to different people, and a succinct definition is perhaps not straightforward. Definitions range from “one who starts his or her own business”¹ to “one who assumes the financial risk of the initiation, operation, and management of a given business or undertaking.”² Further, there are several traits commonly identified with entrepreneurial activity, including creativity, innovativeness, risk taking, and others. Perhaps because the term embodies so much about personal characteristics and behaviors or individuals, rather than simply specific business practices, particular skill sets, or procedures, it is likely that no one pure definition exists.

To describe Florida’s strengths in the area of entrepreneurship, and the likely need for training, we begin with two indicators of entrepreneurial activity. One measure of entrepreneurial activity

¹ www.umich.edu

² www.business.gov

is the number of new business start-ups. The National Entrepreneurship Assessment report indicates that more than 80 percent of new start-up businesses will employ at least one person within the next five years. Figure 1 breaks out new small business establishment births (with between one and four employees³), by state, from 1999 through 2003, providing an overview of the concentration of small business start-ups.

Figure 1 - New Establishment Births (1-4 Employees) - 199-2003

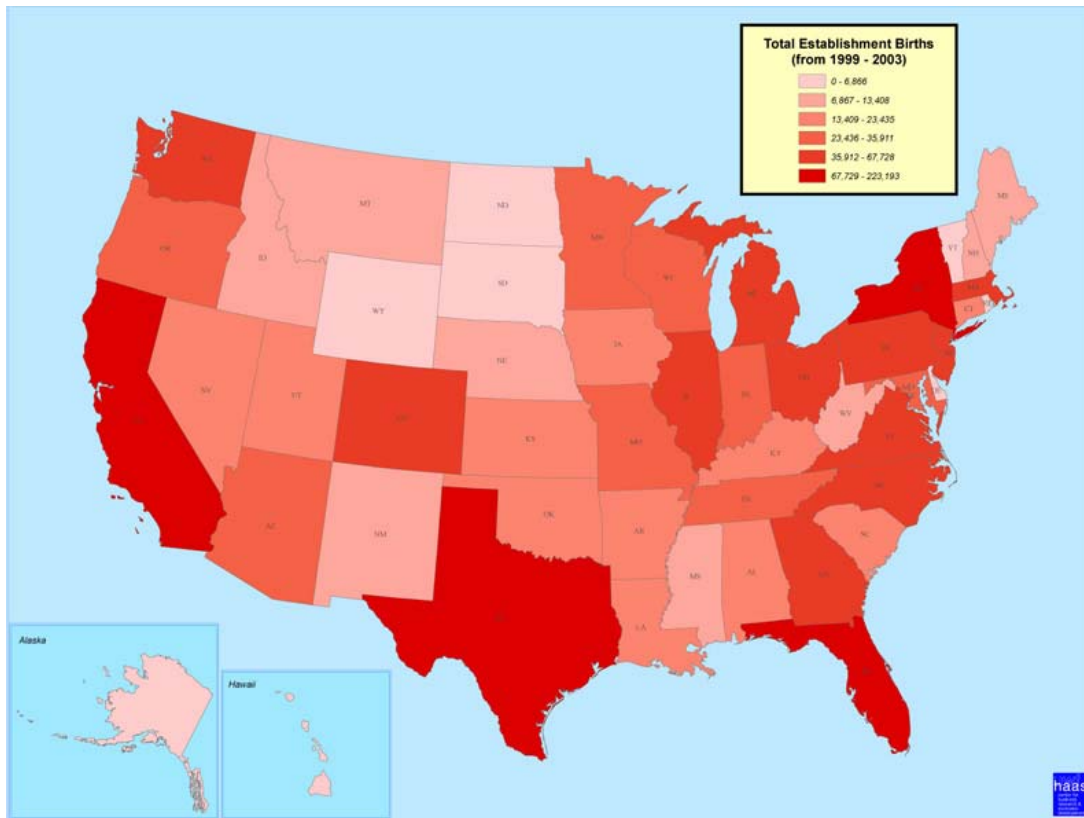
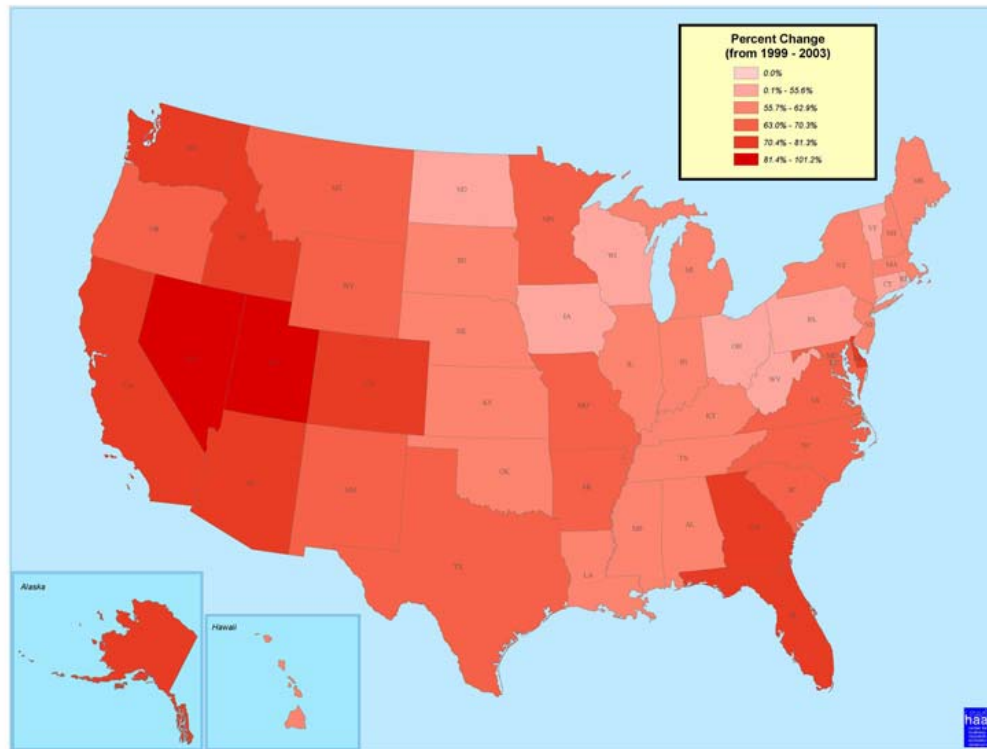


Figure 1 shows that relative to most other states, Florida had a higher number of small business start-ups over the period 1999 through 2003. Only California and Texas had more small business start-ups over this period. As would be expected due to its large population, Florida is a leading state in entrepreneurial activity.

³ U.S. Census Bureau

Figure 2 provides the same data, by percent change over the four year period.

Figure 2 - Percent Change in New Establishment Births (1-4 Employees) - 1999-2003



In terms of the percent increase in new establishment births from 1999 through 2003, Florida ranks third in the nation, behind Nevada and Utah. Therefore not only is Florida adding significant numbers of new small firms to the economy each year simply due to its large population, but it is also one of the fastest growing states in terms of the rate of growth (percent change from year to year) of business start-ups.

The second indicator of entrepreneurial activity is provided by the Kauffman Index of business creation across the U.S. The Ewing Marion Kauffman Foundation is perhaps the world's leading source of information on the role of entrepreneurship in society, and the Foundation is dedicated to understanding and encouraging the development of an entrepreneurial society. The Index measures business creation at an individual ownership level. This includes all industries and also a comparison of states and municipalities in terms of creation and growth of businesses.

According to the Kaufmann Index, there were approximately 465,000 new businesses created each month in the United States in 2006. Using data from the Census Bureau Current Population Survey (CPS), the Kaufmann Index indicates that the state of Florida creates 340 entrepreneurs out of every 100,000 people (see Table 1). This ranks Florida at 15th in the nation. This measure is independent of a state's population and puts Florida in the top one-third of states in terms of the entrepreneurial inclinations of its residents. According to the Kauffman Index, Montana has the highest concentration of entrepreneurs in the nation with 600 entrepreneurs out of every 100,000 people.

Table 1 - Kauffman Index (2006)

	2006			
	Index	Confidence Interval		Sample Size
		Lower	Upper	
United States	0.29%	0.27%	0.30%	591,606
Montana	0.60%	0.39%	0.81%	5,792
Mississippi	0.52%	0.31%	0.72%	5,402
Georgia	0.44%	0.32%	0.56%	12,841
Oklahoma	0.43%	0.27%	0.58%	7,282
Maine	0.42%	0.30%	0.54%	11,381
South Dakota	0.41%	0.27%	0.55%	8,568
Hawaii	0.40%	0.24%	0.55%	8,519
Oregon	0.38%	0.24%	0.52%	7,857
Vermont	0.38%	0.24%	0.52%	8,734
Arkansas	0.37%	0.22%	0.52%	6,386
Idaho	0.37%	0.22%	0.52%	6,837
California	0.35%	0.29%	0.40%	47,404
Massachusetts	0.35%	0.22%	0.47%	9,103
New Mexico	0.35%	0.20%	0.49%	5,900
Florida	0.34%	0.27%	0.42%	24,408
Nevada	0.33%	0.22%	0.45%	9,466
New York	0.33%	0.26%	0.41%	24,708

Source: Kauffman Index

Drilling further down into the data, and examining the 15 largest metro areas in the nation, Miami ranks number one in terms of the concentration of entrepreneurs, with 500 entrepreneurs per 100,000 people (see Table 2).

Table 2 - Kauffman Index of Entrepreneurial Activity, Fifteen Largest MSA's

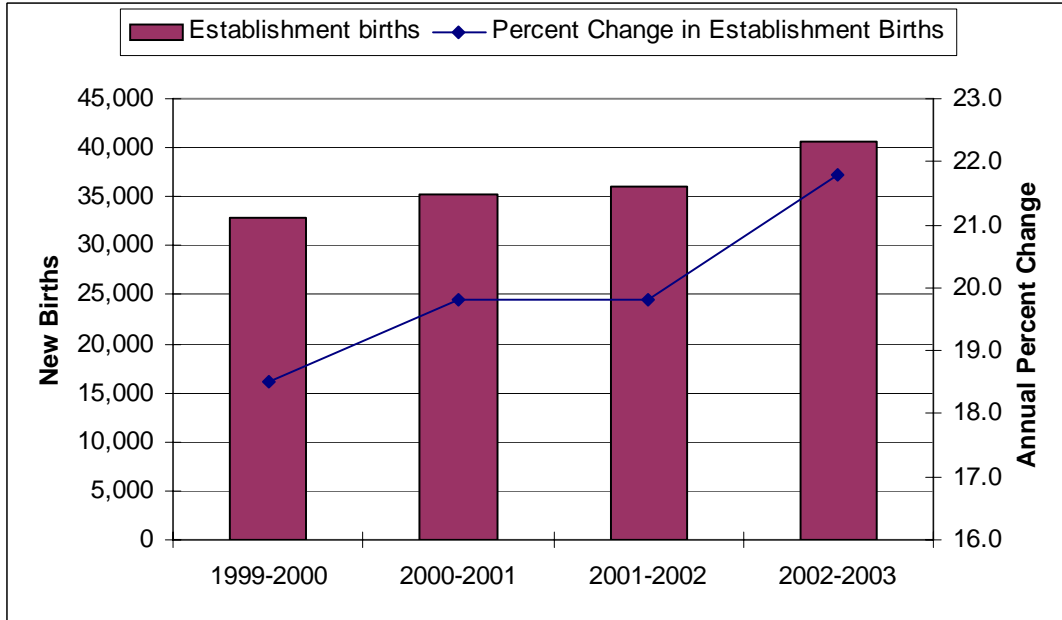
Metropolitan Statistical Area	Index	Lower	Upper	Entrep per 100,00 people
Miami-Ft Lauderdale-Miami Beach, FL	0.50%	0.33%	0.66%	500
Atlanta-Sandy Springs-Marietta, GA	0.49%	0.32%	0.66%	490
San Francisco-Oakland-Fremont, CA	0.44%	0.26%	0.61%	440
New York-Northern New Jersey-Long Island, NY-NJ-PA	0.39%	0.31%	0.47%	390
Riverside-San Bernardino, CA	0.38%	0.21%	0.55%	380
Boston-Cambridge-Quincy, MA-NH	0.38%	0.23%	0.54%	380
Los Angeles-Long Beac-Santa Ana, CA	0.34%	0.25%	0.44%	340
Houston-Baytown-Sugar Land, TX	0.33%	0.19%	0.47%	330
Washington, Arlington-Alexandria, DC-VA-MD-WV	0.28%	0.18%	0.37%	280
Dallas-Ft Worth-Arlington, TX	0.24%	0.13%	0.35%	240
Phoenix-Mesa-Scottsdale, AZ	0.23%	0.11%	0.36%	230
Philadelphia-Camden-Wilmington, PA-NJ-DE	0.23%	0.12%	0.34%	230
Seattle-Tacoma-Bellevue, WA	0.22%	0.09%	0.34%	220
Chicago-Naperville-Joliet, IN-IN-WI	0.18%	0.11%	0.26%	180
Detroit-Warren-Livonia, MI	0.13%	0.04%	0.21%	130

Source: Kauffman Index

Thus, not only does Florida create more businesses due to an existing large population, but the rate of growth of population implies that there are new market opportunities. This gives Florida an extremely rapid rate of start ups, measured as a percent change from year to year. Both the new business start-up data and the Kauffman Business Creation Index indicate that entrepreneurship is particularly important in Florida relative to other states in the nation.

Focusing again at the state level, Figure 3 shows that the annual rate of new small business start-ups is increasing over time. The vertical solid bars measure the number of new start-ups over the course of a particular year. The blue line measures the percent change from year to year in the number of start-up small businesses in the state. However, because it does not also account for business deaths over the same period, it is a gross measure of business creation, not a net measure. Annual small business start-ups have risen from approximately 33,000 in 1999 to over 40,000 in 2003, representing a 21 percent increase in new business starts over the four year period. This rate is substantially faster than the overall rate of population growth for the state.

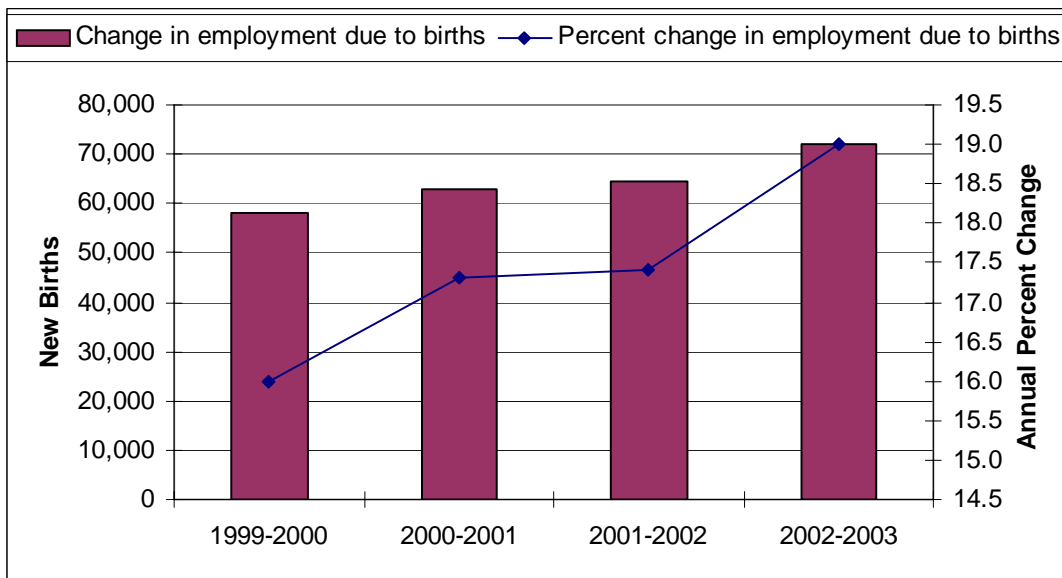
Figure 3 - Small Business Start ups - Florida (1999-2003)



Source: U.S. Census Bureau

As a result of the increase in new establishment births, employment in small businesses also continues to rise.

Figure 4 - Small Business Start ups - Florida (1999-2003)



Source: U.S. Census Bureau

Figure 4 shows that new employment due to small business start-ups increased from approximately 58,000 in 1999 to almost 72,000 four years later, for a cumulative change over the period of some 24 percent. Overall, the job growth data suggest that Florida provides a strong base for entrepreneurial activity and that the ensuing economic growth via new business start-ups encourages substantial job creation.

Changing Structure of the U.S. Economy

In order to accurately assess the need for entrepreneurship training in secondary schools in Florida, we must have an understanding of the impact of the changes in the structure and operation of our economy over time, and the effect of these changes on entrepreneurial activity. This section describes how globalization is lowering the barriers to entrepreneurial activity, creating new opportunities and changing the demographics characteristics of, or the “face” of, a typical entrepreneur.

Local, state and national economies all operate in a new era of economic structure and development. Technological advances have flattened the economic world, enlarging the potential benefits, as well as the challenges, faced by economies around the globe. Globalization has significantly altered the structure of the U.S. economy, necessitating changes in business practices, driving growth in demand for some occupations and shrinking demand for others. Concomitant with these economic and market structure changes are changes in needed education and skills training for workers. Changes in the way business is conducted clearly have significant implications for entrepreneurial activity. Among the more visible technological advances are ubiquitous access to personal computers and the internet, and the ability to capture, store and transfer almost limitless quantities of data and other information. New businesses, and the entrepreneurs that start them and manage them, can capitalize on unlimited access to information and lowered barriers to entry in many market segments.

Demographic Differences

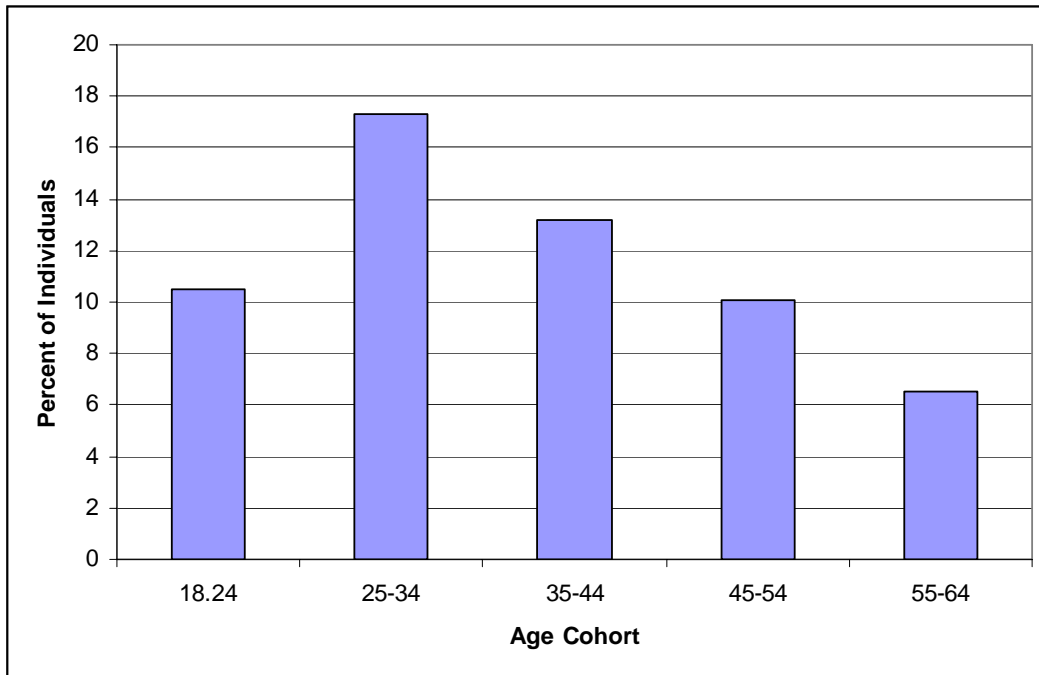
Lower barriers to entry have expanded entrepreneurial opportunities so as to include a more diverse set of individuals. A generation ago, the typical entrepreneur might have been a middle-aged white male. Today, entrepreneurs include a broad spectrum of individuals, from those about to enter the workforce, to retirees. Women have become a force in entrepreneurship either as a result of hitting a “glass ceiling” in the corporate world, or via seeking independence, flexible schedules, and better life-work balance. Immigrants are also likely to start their own businesses,

thereby contributing to entrepreneurial activity. The National Entrepreneurship Assessment report provides a breakdown of entrepreneurial activity by ethnic breakdown, and reveals that African Americans display the highest total entrepreneurial activity rate (16.5 percent), with white Americans exhibiting the lowest (10.8 percent).

Additionally, in the next decade the “Baby Boom” generation (those born between 1946 and 1964) will spawn more entrepreneurs driven by their interests, financial needs, and social goals. The Boomers possess greater access to capital and more contacts than younger people and will prove to be a driving force in entrepreneurial development. The hiring done as a result of this new small business activity may provide substantial opportunities for younger partners, including secondary school graduates with appropriate training, to participate in entrepreneurial activities.

Another very important age cohort in regard to entrepreneurial activity is Generation “Y” (those born between 1976 and 1994). As the first generation to grow up immersed in technology, members of this generation are thought to be accustomed to multi-tasking, strong in technology adoption, and capable of building on ideas to adapt or reinvent as necessary. They may well be ideal candidates for starting their own businesses. Supporting this notion, the National Entrepreneurship Assessment Report finds that entrepreneurial activity rises quickly with age, peaks, and then declines. Specifically, the highest entrepreneurial activity occurs in individuals aged between 25 and 34 (see Figure 5).

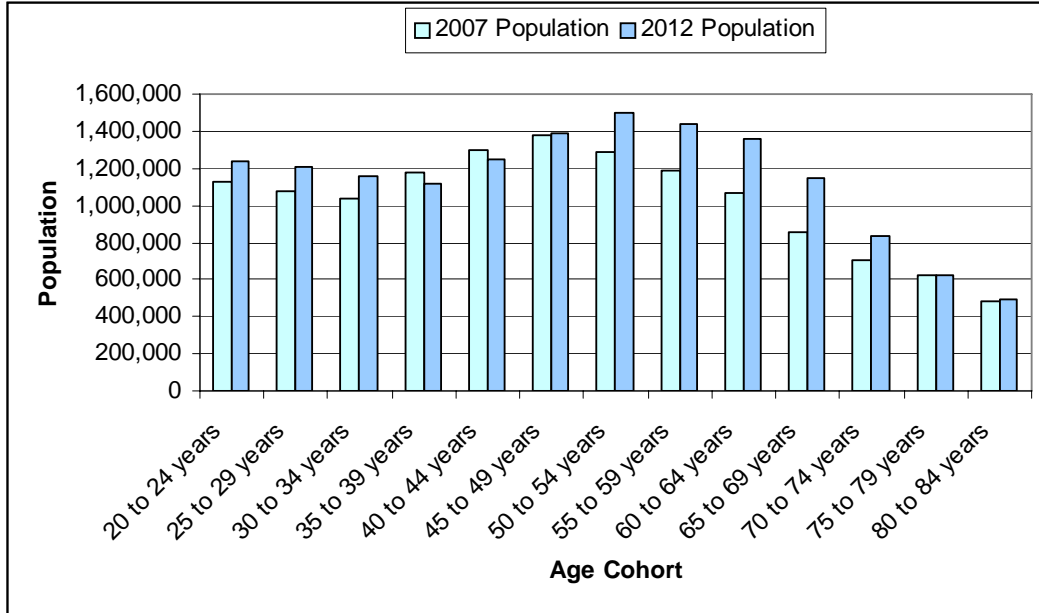
Figure 5 - Entrepreneurial Activity by Age Cohort (2003)



Source: National Entrepreneurship Assessment Report

Activity in the 45 to 54 age cohort is roughly similar to the 18 to 24 cohort, but entrepreneurial activity then tapers off as retirement approaches. Comparing this finding with Florida's demographic breakdown (see Figure 6) indicates that the younger population base is expanding in Florida, suggesting that educating and training students in certifications and business practices that promote entrepreneurial activity can drive economic development across the state.

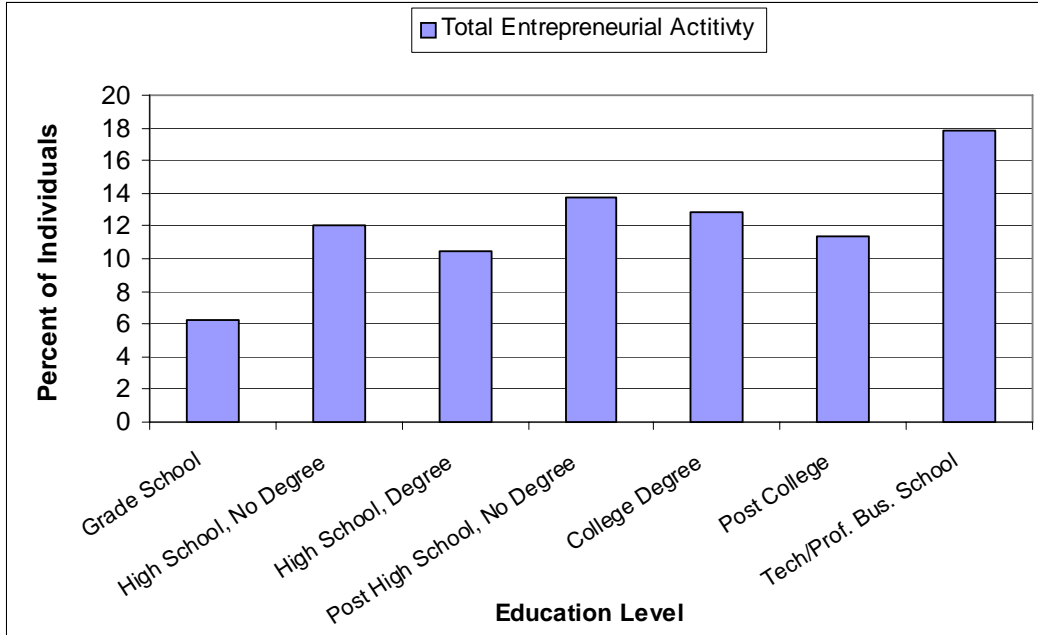
Figure 6 - Population Trends - Florida (2007-2012)



Source: Economic Modeling

The demographic breakdown of individuals most likely to engage in entrepreneurial activity suggests that returns to education are realized relatively soon. Further, the National Entrepreneurship Assessment report finds a relationship between education levels in the U.S. and entrepreneurship. Figure 7 shows that the lowest total entrepreneurial activity (TEA) rate is associated with individuals with no more than grade school education. Figure 7 also illustrates that more education is not necessarily conducive to more entrepreneurial activity. For example, individuals with post-college education engage in less entrepreneurial activity than those with some post-high school education, but no college or university degree.

Figure 7 - TEA Rates by Education (2003)



Source: National Entrepreneurship Assessment Report

Importantly, the data are consistent with the suggestion that an important enabler of entrepreneurial activity is a specialized technical certificate or business degree. That is, the highest TEA value is for individuals with a professional, technical, or business school degree, suggesting that secondary school career academies focused on entrepreneurship may be able to play a major role in developing entrepreneurial activity in Florida. Also, because the demographic profile of entrepreneurial activity suggests that returns to entrepreneurial education are realized early, there may be significant value-added associated with career academies in entrepreneurship.

Current Initiatives

Vocational schools currently exist, including such diverse elements as culinary institutes and schools for the arts, which offer entrepreneurial education courses. Entrepreneurial education is also developing in primary, secondary, and tertiary levels of education. For example, the National Foundation for Teaching Entrepreneurship (NFTE) initiated a program in the summer of 2005 in the Miami MSA. The program began with 115 students at the high school level in November 2006, and expanded to 52 teachers in 22 schools, covering 2,000 students in 2007. The NFTE is also present in 28 states in 13 countries and is offered to schools where a minimum of 40 percent of students qualify for free or reduced lunch programs. The program's goal is to teach young

people the basics of starting a company. These concepts include basic market research (identifying potentially viable ideas), necessary steps for start-up, costs and cost control, along with marketing and financial projections. Funding of \$500,000 is provided for the program from the school board and corporate sponsors⁴.

At a higher level, there are also 1,600 colleges and universities across the nation offering programs in entrepreneurial development in order to meet the strong demand for entrepreneurial education. Curricula offered vary but many institutions provide courses specifically designed to educate prospective young entrepreneurs in starting and managing a successful company in today's business environment. For example, The Pennsylvania Governor's School for Global Entrepreneurship identifies talented high school students and exposes them to creative processes and effective business practices intended to inspire future business leaders. Students learn about what it takes to be successful in business and tour a variety of local businesses to observe entrepreneurship in action. The Institute for the Future suggests that the major limitation in entrepreneurial education is the lack of and access to faculty with both entrepreneurial experience and the academic background to teach entrepreneurship effectively.

According to the Intuit Future of Small Business Report, evidence suggests that entrepreneurial programs increase the success rate of businesses launched by graduates of entrepreneurial programs. Research in 2003 found that graduates of entrepreneurship programs are 3 times more likely to be self-employed and 3 times more likely to be involved in forming new ventures than those with non-entrepreneurial degrees. Therefore, providing an entrepreneurial focus at all levels of education can have significant statewide economic benefits.

Conclusion

With data highlighting Florida as a leading state in entrepreneurial activity and the changing structure of the economy providing more entrepreneurial opportunities for young individuals, the importance of education programs providing students with training in the use of the latest technology and courses designed to teach what it takes to be successful in today's business climate is clear. Career and professional education have played an important role in providing workers with skills to meet business needs at the national, state, and local levels in the United States. They can also play a major role in exposing high school students to entrepreneurial programs that provide the requisite tools to expand on Florida's entrepreneurial heritage.

⁴ South Florida Business Journal, November 10, 2006

Senate Bill 1232, which became law in June 2007, calls for career academies to become more closely aligned with business needs for education and skills training. The legislation provides for the establishment of career academies which meet and exceed current national and state general education guidelines, and which are directly keyed to local and state workforce needs. To that end, the legislation specifies several key components. Each district is required to develop a five-year plan, with likely workforce needs to be ascertained in conjunction with local workforce boards and state-approved postsecondary institutions. The plan will develop and implement career academies with career and professional training for those careers determined to be in high demand. The plan also requires collaboration with local businesses via the use of both private facilities and private personnel, ensuring that students are trained in the latest practices on the most modern equipment for vocational careers. Also, partnerships with colleges and universities ensure that coursework completed by students will transfer to approved post-secondary institutions as college-level credits. This is an important component of SB 1232, as all career courses should lead either to industry certification or college credit that can be linked directly to that particular career theme.

SB 1232 provides an ideal backdrop for districts to identify local industry strengths and provide career academies in entrepreneurship to drive further economic development. For example, The Council for Entrepreneurial Development administered a survey at Research Triangle Park, North Carolina, considered by most to be a "hot spot" of entrepreneurial activity, to gain insight into creating and sustaining an entrepreneurial business for the region. The reported found the telecommunications, information technology, education, and health care industries as the leading industries for entrepreneurial activity. These are also highly competitive industries in Florida. As such, SB 1232 allows each district, in conjunction with local workforce boards and state-approved postsecondary institutions to consider a career academy in entrepreneurship that addresses the specific needs of the regional economy.