

Business Education as an Economic Development Driver

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Global economic growth has emphasized economies of scale through large production facilities and advanced automation, placing value on more output with lower costs. Large scale manufacturing and distribution that export goods and services bring financial resources and jobs into a community, leading economic development professionals to seek large employment centers to operate in their region. However, relying on a few large companies to provide employment opportunities leaves a community vulnerable to changes in market demand or decisions made by corporate leadership. Through small business development and entrepreneurial education, these communities can strengthen their local economies. Vibrant and financially stable small businesses enhance the quality of life and allow economic development professionals to continue to recruit large employers with economic diversity, making them less dependent on the success of one industry.

Pathway Lending (Pathway) is a nonprofit Community Development Financial Institution (CDFI) with a mission to provide lending solutions and educational services that support the development, growth, and preservation of underserved small businesses, affordable housing, and sustainable communities. Founded in 1999, Pathway deploys loans directly to Tennessee small business owners. As a CDFI, Pathway focuses activities on underserved target markets that include businesses located in qualified investment areas (defined by low-income census tracts, poverty rates, and unemployment statistics) and African-American owned businesses. Access to capital from Pathway has provided the ability for small business owners to start and expand their businesses. However, financing is only one factor needed for businesses to develop, grow, and add jobs. Pathway saw the need for technical training in early stage businesses and more specialized guidance once business owners have reached financial stability. Providing technical assistance and advisory services to loan clients has been a core value since the beginning, leading Pathway to partner with the Small Business Administration (SBA) to launch Pathway Women's Business Center (WBC) in 2015.

Pathway WBC provides in-depth business counseling, classroom training, and mentoring to help entrepreneurs start, expand, and successfully manage their businesses. During its first two years, Pathway WBC worked with businesses individually to provide one-on-one consulting. While this made a difference to the businesses that were able to meet with an advisor, greater impact could be made by offering education in cohort style curriculum. Not only is the cohort model more efficient by reaching up to a dozen entrepreneurs at one time, the model also builds a community of peers, creating accountability. Many small business owners experience similar challenges that they can share to overcome the frustrations of being an entrepreneur. While Pathway WBC does focus on women-owned businesses, the center is open to all, with men making up approximately 20% of the clients served.

Economic development is difficult to define, as the profession encompasses a wide range of activity to accomplish a macro-level concept. To break down the complexity, professionals involved in the practice focus on six key areas: finance, entrepreneurship and small business development, strategic planning, business retention and expansion, marketing and attraction, and organizational management. The Tennessee Economic Development Certification program demonstrated how these areas work together to drive growth of an economy. Applying these principles will allow Pathway to build a foundation to overcome challenges associated with bringing educational programming to small business owners in the rural markets of Tennessee.

Many of the financial incentives available to communities (municipal bonds and tax credits) are developed to recruit corporations that are able to add a large number of jobs to a particular geographic region. These financial incentives are designed to attract investment from diverse industries, which in turn creates a stable economic base and broadens the demand for products and services small business owners provide. However, it is important that economic development organizations are able to direct financial investment to entrepreneurs, in addition to overseeing recruitment efforts. In his book, "Practitioner's Guide to Economic Development Finance," Toby Ritter describes how access to capital

lending is a tool to finance underserved markets and growth industries¹. By using revolving loan funds established by the state of Tennessee and the Small Business Administration, Pathway deploys capital in the form of loans to small business owners who have inherent disadvantages obtaining financing through traditional financial institutions. Pathway continues to search for new opportunities to bring socially responsible capital at affordable costs to support entrepreneurship.

Technological advancements have played a large role in opening access to markets, and small businesses tend to be able to adopt these more quickly than larger corporations that may be slower to adapt to change. This ability corresponds with a finding by the Kaufmann Foundation stating new businesses account for nearly all net new job creation². Technology is also allowing for a raise in solo-entrepreneurism with single-member owned businesses. This emphasizes the need for rural communities to invest in high-speed broadband in order to attract technology dependent companies. Utilizing technology platforms allows entrepreneurs to overcome limitations without support staff available to larger corporations. Pathway looks for ways to utilize technology and deliver programming to rural communities who may be challenged in finding relevant learning opportunities near their business.

Community change from economic development is inevitable and not everyone is going to agree with progress. However, economic development leaders can strategically manage change and give direction as people move into a future that is shaped directly by the needs of the community. With a focus on the desired outcome, organizations can strategically plan action items necessary to achieve the goals set by local stakeholders. Pathway plans to take business education curriculum into rural communities by building relationships with community leaders, assessing the needs of the community, and training facilitators to help deliver the content required.

Efforts around business retention and expansion typically focus on maintaining and growing large employment centers. The loss of an employer would be a major setback for a community

economically dependent on one industry. Economic development organizations may not have the resources to stay engaged with all businesses in their region, and small business owners may be overlooked. Pathway is building structure around customer engagement to connect with small businesses that could benefit from educational programming. As the needs of these businesses change over time; Pathway would remain involved with small businesses and connect them with resources they need to grow.

Marketing and attraction has historically been the function of economic development that gets the most recognition. Being able to tell the story of your state and community remains an essential aspect of the profession. Corporate relocation not only brings new jobs and resources to the region, but enhances the local business environment as a whole. An increase in jobs brings disposable income to disperse into the community and support small business growth. The region's quality of life factors into the decision of site selection for larger employers. Small businesses foster this quality and bring vibrant activity to a community. Therefore, success of small businesses could bring greater impact in attracting a quality workforce and aid in the site selection decision, which in turn will add to the growth of established small businesses. Pathway is strategizing how to deliver education into the rural markets, by using "big wins" to identify communities that have new resources and greater demand for the products and services small businesses provide.

Economic development organizations should be managed to lead a community to take advantage of opportunities as they present themselves. Strategic planning purposely structures the organization to accomplish the mission set by the stakeholders. By taking an outcome-based approach to programming, the mission is not to deliver business education curriculum, but to grow and strengthen the small businesses of Tennessee. Mastering the fundamentals is vital to the long-term success of the organization: define the end goal, develop a strategic action plan, execute the plan, measure the outcome, and modify the plan to create even greater results.

With the desired outcome of seeing economic growth in small businesses operating in Tennessee, Pathway plans to deliver small business education to underserved small business owners and entrepreneurs throughout the state including rural communities. The following actions will be taken in order to achieve this outcome:

1. Identify communities that have successfully attracted or grown an existing business in their region. These new markets are capable of supporting new small business development.
2. Develop a syllabus of programming offered, along with success stories of Pathway clients that have demonstrated economic growth after going through the curriculum.
3. Host introductory sessions for community partners to learn how they can partner with Pathway to bring this programming to their communities.
4. Execute the program through partners and technology to drive economic development through business education curriculum.

Many small business owners may have the passion and technical skills to start and expand a business, but tend to lack the financial planning and business experience to establish long term success. Starting and operating a small business is inherently risky regardless of the market or industry. In a study conducted in 1996, Robert Lussier stated that “Those who assist, train, and advise entrepreneurs should make them aware of the reasons businesses fail and how to avoid failure”³. This is true today, even as technology has removed certain barriers to entrepreneurship. Without guidance, entrepreneurs tend to start businesses under resourced and either fail to reach a sustainable level to ensure continual operation, or do not expand the business to create jobs and economic wealth for the community. This has been even more apparent in the underserved markets that Pathway targets.

Based on data tracked by the United States Department of Labor, 20% of businesses fail in the first year of operations, and nearly 50% won't survive the first five years⁴. A 2015 Global Enterprise Monitor study published by Babson College found that failure is typically attributed to lack of financing, either through profit or investment funding⁵. While lending operations have been able to meet capital requirements, education through CPAs, business consultants, and professional service providers bring technical training to help owners be better managers and grow profits. Therefore, Pathway is uniquely qualified to provide both funding and education and support small business owners who can return to creating jobs in local economies.

Through working with individual businesses and studying trends across the country, four critical factors have been identified that contribute to the success of a small business:

Define the Demand: Many entrepreneurs start businesses without adequate research on the demand for the products or services they offer. They tend to focus on the product instead of filling a true gap in the market. Companies that cannot satisfy consumer demand may suffer such consequences as lower sales, higher inventory, and lower profitability.⁶

Business and Accounting Systems: Many small business owners do not put value on proper record-keeping. They see accounting as necessary only to file an annual tax return. This is a costly mistake and could lead to failure. Having proper business and accounting systems will allow owners to make decisions based on facts instead of emotion.⁷

Sales Growth: Small businesses have a tendency to peak and plateau relatively soon after starting. They rely on a small customer base, but do not expand and grow into new markets. This leaves the business at risk for failure if they lose key customers.⁸ Small business owners may not take advantage of preferred vendor certifications from government and private sector corporations that could accelerate their growth.

Succession planning: Successful entrepreneurs typically start a business without thinking about ending the business. When the owner wants to retire, or move on to another project, he or she needs to plan for the business to carry on without them. He or she may be reluctant to transition customer relationships, or properly train the next generation of leadership.⁹

Pathway's business education programming can increase the rate of success and accelerate the growth of underserved small businesses that engage in the curriculum by addressing these four risk factors. Pathway offers cohort education classes continuously throughout the year that are structured around addressing critical factors necessary to launch, grow, and contribute to the local economy where the business operates.

Pathway began offering structured education curriculum through four cohorts in January of 2017. Based on research of successful peer programs, client feedback, and lessons learned through the Tennessee Economic Development Certification Program, Pathway continues to enhance the curriculum to address the critical factors for success. While currently limited to serving the middle Tennessee region with facilities in Nashville, Pathway can expand through partnerships with community organizations established in the rural markets and technology for distance learning.

Business education curriculum had previously been offered as a one-on-one basis. This individual approach was inefficient due to resource constraints of time and advisors to be assigned directly to clients. Also, many businesses will face similar challenges based on their life stage. A cohort model will be more productive and efficient as a delivery platform leading to economic growth and job creation. This consolidates the training curriculum with the ability to transfer knowledge to several business owners at the same time. By utilizing technology, business owners may participate in training without physically being in the classroom. Training materials may be offered online to view at any time.

Four levels of education to address challenges faced at various business life stages have been developed by outside partners, Pathway staff, and peer organizations, as detailed below:

Membership Level	Critical Factor	Content Development Partner	Education Platform
Discover	Define the Demand	Renaissance Entrepreneurship Center	Lean Canvas
Embark	Business and Accounting Systems	Wisconsin Women's Business Initiative Corp	LivePlan
Navigate	Sales Growth	The Start up Expert	Top 6 Coaching
Guide	Succession Planning	WeVenture	Ignite 360®

In the cohort model, participants will first attend an orientation session called “Blue Sky,” where they meet with Pathway advisors who will assess their business, describe the training available, and ensure they are placed in the most relevant course to address their goals.

“Discover” is the entry level cohort that introduces the concept of entrepreneurship and explains the demands placed on a small business owner. Using the Lean Canvas, business model generation, a business idea will be transformed from a thought to a working model. Students define their customer, identify their value proposition, and choose the required sales channels. Students have an opportunity to test the viability of the business model before investing time and energy in a business that may not be meeting true demand through customer interviews and market research.

The second level cohort, “Embark,” utilizes technology to manage and grow a business. Business owners will be led through a process of setting up a proper accounting system tailored to fit their specific business. They will also utilize planning software (LivePlan) to aid business owners in developing financial projections and forecast future growth to plan for capital requirements.

Built as our third level cohort, “Navigate” will help business owners obtain new customers and market share or hire additional support to reach a certain revenue level. This cohort is for businesses that have a proven concept and a plan for growth, but need to take strategic action to see results. In order for a business to grow, the owners need to focus on sales. Usually entrepreneurs start a business with a technical skill they perform exceptionally well, but often need to train or hire someone who can continue the operations while they work on new customer acquisition.

“Guide” is the highest level of business development Pathway offers. This program includes six months of intense training, geared toward established business owners who wish to build a legacy business that can exist without their direct involvement. Pathway will assist in building a mentor team around one business owner who will drill into the foundation that keeps the business going. This will help the owner locate potential weaknesses, mitigate threats, and strengthen principles to take advantage of financial opportunities.

As business owners have gone through these training sessions, some positive outcomes have already been identified. Business owners especially benefit from interacting with other entrepreneurs in the community, but, there are opportunities for improvement. During the course work for the Tennessee Economic Development Certification, and research done for this project, the following challenges have been identified with the content currently offered:

1. Education curriculum may not be addressing critical factors. For example, some business owners experience personal financial difficulties and struggle with basic budgeting, which limits their ability to obtain adequate capital for their business. These challenges require more direct assistance than Pathway can provide in a classroom setting.
2. Content tailored toward women-owned businesses and specific industries limits ability to attract a diverse demographic. As a certified “Women’s Business Center” Pathway has a

target market to serve women owned businesses; however the education curriculum provided can be updated for application to a diverse group of businesses. Entrepreneurs benefit from sharing experiences and offering guidance that may come from a different perspective.

3. Overlap in content from training courses offered by other providers, may prevent the entrepreneur from participating in the education program. Pathway curriculum is designed to assist small business owners along various stages of business development. While there are other resources to utilize, this programming offers a unique experience to the small businesses operating in Tennessee.
4. Permanent facilities, and instructors located in Nashville has constrained the programming geographically to the middle Tennessee region. Travel expenses, the availability of space, and internet access all limit the ability to reach entrepreneurs in rural markets.

To address these findings, enhance educational programming, and improve results in economic development through small business, the following recommendations are proposed:

1. Interview business owners, assess their growth limitations, and then enroll them in relevant curriculum to overcome their challenges. Utilize volunteer community leaders, established small business owners, and professional service providers as mentors and facilitators of Pathway training. This will expand the number of classes offered and provide more direct attention to participants.
2. Focus on critical factors faced by a broad industry base, and ensure programming is gender-neutral to encourage diversity in participants. With creative branding and strategic marketing efforts, Pathway can attract a broader range of participants with unique business models, and business owners who represent a variety of life experiences.

3. Audit current curriculum and search for programming that does not overlap with existing offerings. If other organizations are delivering similar programming, seek to partner and share experiences to enhance education available to business owners. Through feedback and data tracking, analyze which programs are producing the greatest impact to the communities and make adjustments as needed.
4. Partner with established community groups to overcome geographic obstacles and address challenges that are unique to rural markets. Creating a robust economic development strategy often takes a concerted effort of multiple partners coming together around a common goal¹⁰. This is an opportunity to build stronger relationships with leaders and existing organizations engaged with business owners established in the respective communities.

The challenge of rural economic development is a complex issue. In his book, *An Economic Development Primer*, Dr. David Kolzow stresses that rural areas lack diversity in business support common in larger metro markets. “Rural small businesses would benefit from readily available business assistance programs...including technology transfer, business and technical assistance, and marketing.”¹¹ Dr. Kolzow goes on to explain how sources of capital are typically limited to relatives of the owners or community banks. Pathway is uniquely positioned to facilitate both business assistance programs and capital in the form of loans to help rural entrepreneurs overcome these limitations.

The curriculum and delivery method of education will continue to evolve based on technological advancements, economic shifts, and specific community needs. By using the concepts taught in the Tennessee Economic Development Certification classes and building upon the relationships forged throughout the program, Pathway can continue to invest in small businesses, not only in Middle Tennessee, but in regions across the state. This effort will ensure Tennessee remains the best state in the nation for small business job growth.

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