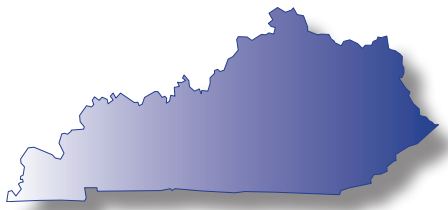


What Every Kentucky Elected Leader Needs to Know about *Entrepreneurship*

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Elected leaders are expected to have opinions about everything under the sun, including issues related to economic growth and opportunity in urban as well as rural areas. This paper explains what elected leaders need to know about the economic future. It also provides information about entrepreneurship and twelve action steps that elected leaders can take to build entrepreneurial-friendly communities.

Where's the Economic Future Heading?

There are various strategies for encouraging economic growth beyond the traditional industrial recruitment model. Entrepreneurship is an engine of economic growth in the nation that is often overlooked by economic development professionals. An estimated 44 percent of new jobs in the U.S. are created by startup companies that often begin with only a few employees and grow into larger successful firms. These firms create about 70 percent of new economic growth in the nation (Small Business Administration, 2004). If current trends continue, 25 percent of the nation's rural workforce will be self-employed by 2015 (Goetz, 2008).

Small entrepreneurial companies have been important drivers of growth in the United States. These companies create two-thirds of all net new jobs, bring about more than two-thirds of the innovation in the economy, and account for two-thirds of the difference in economic growth rates among industrial nations. They have been the change agents in the economy and society, forcing the country to new productivity levels and radically transforming whole industries.

Kentucky small business income increased from \$7.4 billion in 2002 to \$8 billion in 2003. Small businesses employed 50.3 percent of the state's non-farm private workforce. In essence, we are moving into an "entrepreneurial age," as the Small Business Administration noted in 1998. New business creation is crucial to a state's ability to increase gross state product, state personal income and total state employment.

Where Do We Invest Our Economic Resources?

About 99 percent of federal and state economic development resources are invested in industrial recruitment and business retention and expansion. Such strategies have paid off handsomely in various parts of Kentucky, although other municipalities have vacant industrial parks or relatively few jobs or new wealth to show for their investment. Rural areas find it increasingly difficult to recruit outside industries because they are often competing with nations such as India or China as well as other rural areas in North America. For the most part, citizens and leaders are reevaluating their local economic development investments.

Why put our eggs in one basket? some ask. It makes sense to diversify part of the local economic development portfolios into entrepreneurship. Small businesses are the heart of Kentucky's economy. Small businesses create most of the nation's net new jobs, and entrepreneurs bring dynamic ideas, innovative services, and new products to market.

Each community must ask the tough questions: *What kind of businesses and jobs do we want to nourish? Why? What makes the most sense for our values, our way of life and our vision for the future?*

As you question what is happening in your community, consider vacant industrial park buildings as potential incubator locations to assist with small business development in rural communities.

What Exactly Is an Entrepreneur?

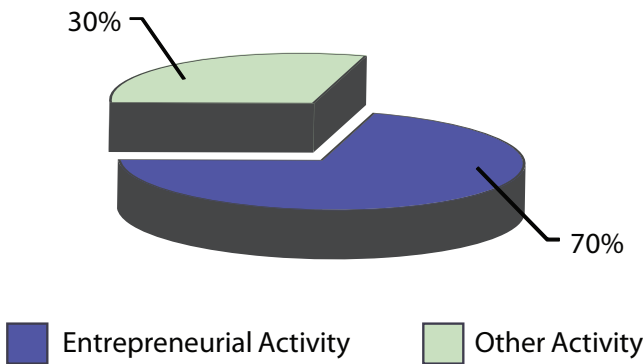
Entrepreneurs transform ideas into something of value that people want or need, whether it is a service, a product, or the creation of a new organization. Entrepreneurs tend to be curious; they question the *status quo*; they listen to their customers and find ways to satisfy them. Entrepreneurs change behavior and thought patterns to create new market opportunities.

Who Is a Typical Entrepreneur?

Entrepreneurs don't fit any particular stereotype. They come in all shapes and sizes. But it might be useful to put them into three major categories:

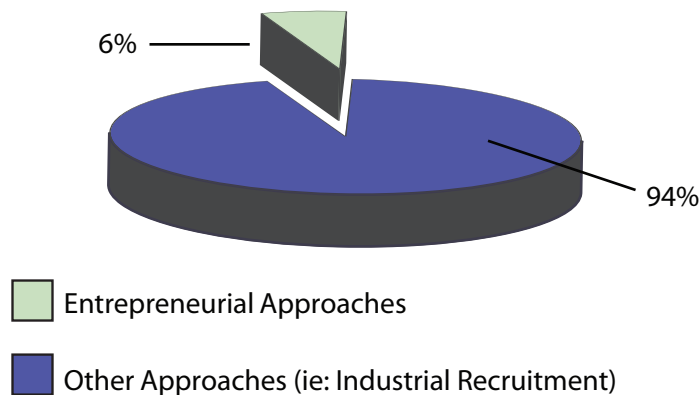
- Aspiring entrepreneurs are those individuals and teams who have made preliminary plans to start a new business. It is estimated that 6 to 9 percent of the U.S. adult population fits this category.
- Lifestyle entrepreneurs tend to fall in the category of "mom and pop" or Main Street businesses. The owners tend to focus on employment for themselves and their families. They are the core of the American economy and contribute to our quality of life.
- Entrepreneurs who are part of new fast-growth companies are called "gazelles" because their businesses grow at an annual rate of 15 to 20 percent. Such firms are responsible for half of all innovations since World War II. This innovation is not necessarily "high tech" but it could be an innovative service, process or marketing approach.

Figure 1. Percentage difference in economic growth explained by entrepreneurial activity.



Source: Global Entrepreneurship Monitor (Reynolds, et al, 2000)

Figure 2. Estimated percentage of Kentucky economic development resources for entrepreneurial development.



Source: Based on estimates from *Accounting for Impact: Economic Development Spending in Kentucky*, Berea, KY: MACED. 2005.

Creating an environment where entrepreneurs feel safe and valued motivates them to grow their ventures, in turn creating new jobs, increasing the tax base and stimulating economic growth in communities.

What is an Entrepreneurial Community?

An entrepreneurial community is open to innovators, supports and embraces entrepreneurs by recognizing their uniqueness with awards and celebrations of their successes. Entrepreneurial communities welcome and incorporate new businesses into their social and political structure.

Communities attract new businesses when they nurture entrepreneurs and provide needed services such as technical assistance, coaching or low cost rents. Creating an environment where entrepreneurs feel safe and valued motivates them to grow their ventures, in turn creating new jobs, increasing the tax base and stimulating economic growth in communities.

Other Reasons for Focusing on Entrepreneurship

Entrepreneurs tend to stay in the same community even if they grow rapidly. Usually, they want to be good neighbors and are interested in strengthening the local quality of life through volunteer service or philanthropy. In contrast, outside firms have fewer local ties and are more prone to locate offshore or distribute their wealth to headquarters or stockholders outside the community.

Entrepreneurs, through their links to global, national and regional markets, generate new wealth for their communities. Their innovative services or products often strengthen the local quality of life. An estimated 95 percent of our nation's wealth has been created in the last 30 years by entrepreneurial thinking, which has fueled economic expansion. In addition, more than three-fourths of all millionaires in the U.S. have accumulated wealth in a single generation of entrepreneurs.

Don't Most Small Businesses Fail?

The prevailing myth is that the majority of businesses fail in the first year. This myth has prevented many potential entrepreneurs from starting businesses and made some government leaders hesitant to invest public monies in helping small businesses. Research suggests that 66 percent of new businesses survive for two years or longer. Businesses that do not survive do not necessarily fail; they may be sold to other firms, change their names or take on a new legal status (i.e. sole proprietorship to corporation). Historically, data gathered about small businesses has been skewed, inflating business failure rates. With detailed information on how to interpret this data, more potential business owners may look favorably at starting new business venture.

What's Essential for Nurturing Entrepreneurship?

When someone from government asks an entrepreneur what they want, the typical response is "leave me alone." But that doesn't paint an accurate picture of what they really need. Entrepreneurs do not live in a vacuum. The political, legal and economic environment impacts directly on their activities, and government has a role to play in removing roadblocks and creating an entrepreneurial-friendly culture.

Entrepreneurs have four major concerns:

- Access to talent
- Access to capital
- Networks
- Community support systems

Access to Talent

As we shift to a knowledge-based economy, entrepreneurs need access to qualified workers and management. This means your region's competitiveness will be linked to your ability to help train, retrain and recruit talented workers. This also means that your community or region must be viewed as a good place to live and raise a family.



Key Facts

- Entrepreneurs create two-thirds of net new jobs.
- Entrepreneurs generate 70 percent of new economic growth.
- Kentucky small business income was \$8 billion in 2003.
- Twenty-five percent of the nation will be self-employed by 2015.

Access to Capital

There are two kinds of capital: debt (loans) and equity (shared ownership). Entrepreneurs need assistance from financial institutions or informal investors. A high percentage of capital for startups comes from friends, family and the entrepreneurial team or individual. There are venture capital and Small Business Investment Company (SBIC) funds available. However, women and minorities tend to have less success securing such funding. Most entrepreneurs report they have difficulty finding capital in the range of \$50,000 to \$2 million. “Angels,” informal investors, are playing a more critical role in providing such financing. Some entrepreneurs have difficulty finding “micro-loans” and some local organizations are providing such services. Fast-growth entrepreneurs may be willing to give up some ownership in exchange for services.

Networks

There is a myth that the lone entrepreneur should be skilled at everything. But the reality is that entrepreneurs can’t do it all. They need teams, partners and alliances to help them with legal work, accounting, marketing, business planning, management, technology and emotional support. Thriving regions and communities foster regional clusters of networks among entrepreneurs, and they also stimulate an open culture of information sharing.

Community Support Systems

Local support is critical for entrepreneurs to succeed. It should not be limited to the Chamber of Commerce but rather should extend into a broader system: local government, schools, nonprofit organizations, health care, places of worship and other parts of the community’s vision and plans. Entrepreneurs also need individuals who can serve as coaches to keep them focused

on questions relating to the marketability of their product or service, the management team, finance and other issues. Many coaches provide emotional support by “just being there.”

The Kentucky Entrepreneurial Coaches Institute (KECI) can provide such support. The Institute is comprised of community leaders who are trained as entrepreneurial coaches and advocates who provide support for their county and region. As coaches they steer the entrepreneur in the direction of the services needed for their particular business. Fifty-five coaches have been trained in Northeastern Kentucky to assist entrepreneurs, and thirty additional coaches are receiving training in South Central Kentucky. Plans are under way to expand this initiative throughout other regions of the state. Names of the current coaches may be obtained by contacting the county Extension offices in these areas.

How Can Leaders Nurture Entrepreneurs at the Local Level?

There are twelve action steps that elected leaders can take:

Ask Entrepreneurs What They Need

Gather a team of people to find out more about the strengths, dreams and potential of aspiring entrepreneurs, lifestyle entrepreneurs and fast-growth entrepreneurs within your community. Pay special attention to women and minority entrepreneurs in your research efforts, because they are an important part of the population and can expand your entrepreneurship levels. Avoid defensiveness or the temptation to provide an immediate solution. Bottom line: listen, listen, and listen! Listening forms the basis for action down the road.

Break Down Barriers

Help entrepreneurs through the regulatory maze by creating a one-stop center that provides much needed information. Identify the stumbling blocks by talking to entrepreneurs and finding out their needs, and work to accommodate them. In communities, resource providers need to be aware of the information entrepreneurs need on the local level, but they also must know where to direct them for state information, including pertinent websites. Entrepreneurs expect community leaders to be informed about support for small businesses.

Be an “Entrepreneurial-Friendly” Community

Recognize entrepreneurs with awards and make team visits to their firms. Ask them what services or support they need from the community to expand further into global, national and regional markets. Find and nurture individuals to serve as coaches who provide the emotional support and keep the entrepreneurs focused on what is essential. Coaches should ask tough and helpful questions but should not provide answers or make judgments about the entrepreneurs.

Rural communities can be home to many businesses that have customers worldwide; communities need to provide infrastructure including access to high speed broadband that attracts and retains businesses that do not require a metropolitan location. Creating an accepting atmosphere, providing resources to anyone seeking advice on

starting a new venture and keeping the lines of communication open are all great ways to attract new business to communities.

Communities that are successful in nurturing entrepreneurs have found ways to actively engage them as advisors of new and emerging entrepreneurs. Entrepreneurs sharing their real life experiences of struggles and victories are invaluable for new business owners. Providing opportunities for businesses to network and share information is important for the success of new businesses and the future growth within a community.

Remember Youth

Many rural youth have a deep-rooted desire to remain close to their homes and families but do not readily see opportunities for them to advance professionally. By providing exposure to entrepreneurship from an early age, youth have a greater awareness of both the needs and assets present within their community. Agriculture, family and consumer sciences, business, technology, the arts, and sciences are areas in which entrepreneurship compliments the curriculum currently being taught in schools. Creating an environment in which youth are empowered to become entrepreneurs can generate a ripple effect that is felt throughout the state. Fostering entrepreneurship allows a community to capture the talents of their best and brightest youth and encourage them to remain in their communities. By advocating entrepreneurship, we are offering youth

additional opportunities necessary to remain a part of their communities.

Encourage the expansion of entrepreneurial curriculum into K-12 grades, summer entrepreneurial camps, after school clubs such as 4-H, Junior Achievement, and the REAL program. Many entrepreneurial programs encourage students to focus on products and services that address serious problems. Encouraging youth to work in groups to develop a business idea and create a business plan is a great way to promote teamwork. They learn to think creatively in team settings. Holding a business plan competition helps youth use the skills they have developed to present their ideas and convince others that their product or service is valuable and needed in their community.

Value Your Local People

Remember that entrepreneurship is about people and communities. Communities that invest in good schools, hospitals, cultural venues and recreation facilities are more likely to attract entrepreneurs from outside the community and retain the ones already in business.

In recent years, Kentucky has become increasingly aware of the impact that corporate closure can make on a rural community. The situation is no different for other rural communities throughout the nation. Newton, a rural town in Iowa, is one such example. This community supported its local entrepreneurial base in the wake of a corporate closure,

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Rural counties, especially isolated ones, cannot foster entrepreneurship alone. They must cooperate with each other to share ideas, build networks and attract resources to stimulate entrepreneurship.

as the Maytag Corporation left the community after nearly a century. The employees of Maytag had a strong desire to remain in their community in spite of the corporate closure, and they began to explore ways they could make the dream of business ownership a reality. Recognizing the value in their skilled labor force, the employees of Maytag opened new businesses that ranged from specialized accounting services to engineering firms. Maytag's closure proved to be the catalyst necessary to encourage Newton's residents to step out on their own and open businesses. In the wake of corporate closure within a rural community in the heartland came an opportunity to transition to a locally based, thriving economy.

Increase Networking Among Entrepreneurs

Entrepreneurs often feel isolated and extremely challenged in starting a new company. They tend to learn best from those most like themselves. Communities can enhance entrepreneurial networks by:

- Creating weekly or monthly forums where they can share their expertise without formally joining an organization or paying significant dues
- Providing opportunities for regional clusters (i.e.: hospitality-related businesses, artists, value-added agriculture) that provide mutual support
- Letting entrepreneurs learn from each other as well as those with expertise in a particular area.

Rural counties, especially isolated ones, cannot foster entrepreneurship alone. They must cooperate with each other to

share ideas, build networks and attract resources to stimulate entrepreneurship. For example, judge-executives and economic development groups in Eastern Kentucky are working together to create an agri-tourism initiative in a seven county region.

In Iowa, the Fairfield Entrepreneur Association (FEA) holds a quarterly "Idea Bounce," where they provide a nurturing environment for entrepreneurs to present an idea or business plan. Members of FEA, many of which are entrepreneurs, provide feedback on new ideas and business plans. Existing business owners may even present a challenge they are facing in their business to gain a new perspective. The Idea Bounce has proven to give many entrepreneurs the feedback they have needed to start a business or gain a new perspective on an existing business.

Build a Brand

What branding does for companies, products and people, it also does for communities. It sets them apart by giving the region, state and even the nation notice of what it is about and what it has to offer. A brand can put a town—even a rural community—on the map. The best way to build a community brand is to have a vision for your town. Fairfield, Iowa, population 10,000, developed a vision for their rural community. Entrepreneurs, even from outside the nation, have been enticed to locate in Fairfield. They have developed an entrepreneurial-friendly community that embraces and nurtures entrepreneurs. Fairfield cultivates and produces entrepreneurs! If your community is located in a rural

region without a strong population base, it is vital to work together and develop a vision that sets you apart from everyone else.

Strengthen the Support System

There are many groups that provide valuable services for entrepreneurs; seek them out and encourage them to collaborate and share information so there is less duplication of services. Opportunities can be created for service providers to meet quarterly, collaborate and streamline information to assist entrepreneurs.

Littleton, Colorado, has formed an "economic gardening" program in which they provide entrepreneurs with tools such as industry trends, new product tracking, competitive intelligence, marketing lists as well as training in advanced management techniques and customer service strategies.

Diversify Resources

If your community invests most of its resources in industrial development recruitment, consider shifting part of the portfolio into entrepreneurship. It doesn't mean your community should give up on industrial recruitment. Rather, it is about creating a more balanced economic development strategy that supports the growth and expansion of local businesses and industries.

Florida identifies entrepreneurs whose economic function is to create new ideas as the creative class which, he argues, is roughly 38 million strong in

the United States alone. This sector of the economy employs over 30 percent of the workforce, which is greater than manufacturing, and accounts for over half of the nation's income.

Make it Easier for Investors to Find Opportunities

"Angels," or informal investors, are critical for entrepreneurs because they provide capital that traditional banks may be reluctant to lend and they often take an active role in the businesses they fund. Find ways to identify them and gather in central locations to hear about investment opportunities. Groups have started or are beginning to get started in the Pikeville, Ashland and Mt. Sterling areas.

Embrace Diversity

Women-owned firms in Kentucky generated \$9.9 billion in revenues in 2003, and minority-owned firms generated \$2.5 billion in revenues, according to the U.S. Small Business Association. In spite of their success, women- and minority-owned firms face trouble accessing funds, especially equity financing. Kentucky data suggests that the potential of women and minority entrepreneurs needs to be unleashed. Your community or region can cooperate with resource providers to make sure women, minorities and immigrants get the training and support they need to become successful.

Women own 28 percent of all businesses in the U.S., and minorities own more than 14 percent of all businesses. Those ages 22 to 44 account for half of entrepreneurial activities; those from the ages 45 to 64 account for more than a third of entrepreneurial activities.

Minorities make up 28 percent of the U.S. population and own 15 percent of all businesses. Though ownership figures seem low at first glance, they represent significant progress. Between 1982 and 1997, for example, the number

of minority-owned firms increased at a rate of 8.5 percent per year, or three times that of U.S. businesses overall, according to the U.S. Census Bureau. Revenues from minority-owned firms increased at an annual rate of 10 percent per year.

Research suggests that our nation's competitive advantage does not lie in our ability to generate new ideas or companies but is found in the ability to attract innovators from across the globe. Nearly 11 percent of the U.S. population is foreign-born; in the 1990s alone, over 11 million people immigrated into the country. As a nation we are thriving because we are embracing this diverse population and identifying innovative ways to develop this entrepreneurial-inclined segment of the population.

Build an Entrepreneurial Vision for Your Region and Community

Vision marks the roadmap to success; it takes into account the destination, the surrounding terrain and the roadblocks and hazards along the way. With vision, you can determine the best way to reach your destination. Vision is as important to a town's success as it is to an individual or a corporation. Florida points out that vision often makes the difference between a ghost town and a booming town.

Rural leaders have heard about the deficits of their communities and what they lack, especially, from outsiders. Recent research says if we concentrate on our assets, we will tend to be more successful. Work with your citizens to assess your physical, economic and cultural strengths and assets and then build an entrepreneurial vision and policies based on those assets. Ideally, the shared vision and policies will complement your community's values, lifestyles and strengths. Your local UK Cooperative Extension Service agents can provide valuable assistance in such efforts.



More Key Facts

Women own 28 percent of all businesses in the U.S., and minorities own more than 14 percent of all businesses. Those ages 22 to 44 account for half of entrepreneurial activities; those from the ages 45 to 64 account for more than a third of entrepreneurial activities.

Traditional industrial recruitment has many merits, but communities must also consider entrepreneurship as part of their economic development strategy.

Summary

This paper provides information for elected leaders about the economic future and the potency of entrepreneurship in the Kentucky and national economy. Communities should consider diversifying their economic development portfolio from an exclusive focus on industrial recruitment into entrepreneurship. It is important to understand what an entrepreneurial community looks like. Local elected leaders can follow the 12 action steps detailed above to nurture entrepreneurs. Traditional industrial recruitment has many merits, but communities must also consider entrepreneurship as part of their economic development strategy. Kentucky's elected and community leaders can play a vital role in creating a climate for entrepreneurs to grow and expand. Our communities need entrepreneurs in order to thrive.

About the authors

The authors are associated with the Kentucky Entrepreneurial Coaches Institute at the University of Kentucky. Ron Hustedde serves as the Institute's director and is a professor of community and leadership development in the College of Agriculture. Melony Furby is the Institute's community economic developer for entrepreneurship, and Katie Ellis is the Institute's program coordinator. For more information contact:

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Resources for Kentucky Elected Leaders and Candidates

Accounting for Impact: Economic Development Spending In Kentucky, Berea: MACED, 2005. This policy report has stimulated debate about how Kentucky invests in economic development activities. Website: www.maced.org/spending-report.htm

Center for Rural Development. The Center for Rural Development is a non-profit organization whose primary mission is improving the quality of life. The Center serves a forty-two county region by providing leadership that stimulates innovative and sustainable economic development solutions. Website: www.centertech.com

Center for Rural Entrepreneurship. "The goal of the Center is to be the focal point for efforts to stimulate support for private and public entrepreneurship development in communities throughout Rural America." Website: www.ruraleship.org

Consortium for Entrepreneurship Education. This consortium is a champion for entrepreneurship education at all levels of education and across all disciplines in the U.S. and on an international level.

Contact the Consortium by phone at 614-486-6538 or by e-mail at cashmore@entre-ed.org. Website: www.entre-ed.org

Economic Gardening See: www.little-tongov.org/bia/economicgardening/default.asp

Entrepreneurship: A Candidates Guide. An initiative of the Ewing Marion Kauffman Foundation.

Washington, DC, National Commission on Entrepreneurship, August 2002. Website: www.entreworks.net/library/reports/4249_NCOE_GUIDE.pdf

Junior Achievement. JA Worldwide is a partnership between the business community, educators and volunteers

all working together to inspire young people to dream big and reach their potential. JA's hands-on, experiential programs teach the key concepts of work readiness, entrepreneurship and financial literacy to young people all over the world. Website: www.ja.org

Kentucky Entrepreneurial Coaches Institute. An innovative coaching and leadership program to strengthen the entrepreneurial culture throughout tobacco-dependent counties across Kentucky. The Institute targets 19 tobacco-dependent counties in Northeastern Kentucky and 22 tobacco-dependent counties in South Central Kentucky. Program leadership expects to expand the program throughout Kentucky. Website: www.uky.edu/Ag/CLD/KECI/

Kentucky Entrepreneurship by the Numbers. This issue of "Kentucky: By the Numbers" is based on a special series created for the Kentucky Entrepreneurial Coaches Institute (KECI). To foster entrepreneurship, KECI was formed to "encourage diversification of the economies in rural Kentucky." For more information on the state of entrepreneurship throughout Kentucky and in your county visit the website at: www.ca.uky.edu/SNARL/

Kentucky Entrepreneur Accelerator Network. KyEAN is an Internet portal providing access to Kentucky's rich wealth of entrepreneurial resources and technical assistance available through the website. This network is a partnership between the Center for Rural Development, Kentucky Highlands Investment Corporation, Southeast Community and Technical College, and the University of Kentucky. Website: www.kyea.org/relaunch/index.php

Kentucky Highlands Investment Corporation. KHIC was formed in 1968 to stimulate growth and create employment opportunities throughout Southeastern Kentucky with sound investments and management. Website: www.khic.org

Kentucky Regional Innovation Center Network. This serves as a local catalyst for new economy growth and development in non-urban regions of the state. They have been involved with the development of informal investor networks in the Ashland, Pikeville and Mt. Sterling areas as well as artisan centers, heritage tourism, cluster marketing, patent development and a wide range of other services. Contact Kristel Smith, Interim Director of ECU's Center for Economic Development, Entrepreneurship and Technology, BTC 147, 521 Lancaster Avenue, Richmond, KY 40475, Phone: 859-622-8571. Website: www.cbt.eku.edu/cedet/newecon/innovationcenterinfo.htm

Kentucky Small Business Development Centers (SBDC). A "statewide partnership between Kentucky's higher education institutions, state government, the U.S. Small Business Administration, and the private sector." They offer business training, individual counseling and other services. Phone: 888-475-SBDC. This website will tell you where to find the SBDC nearest you: www.ksbdc.org/locations/

Markley, Deborah and Brian Dabson, *Creating a System of Support for Entrepreneurs and Small Businesses in Kentucky: Insights and Policy Recommendations*, Berea, KY: MACED, 2008. Website: www.maced.org

Mountain Association for Community and Economic Development (MACED) builds stronger communities in Appalachia through three major strategies: 1) providing financial investments and technical assistance; 2) conducting research for informed policy; and 3) crafting effective development tools to make a difference. Website: www.maced.org

REAL - Rural Entrepreneurship Through Action Learning. Dedicated to helping bring entrepreneurship and small business creation through training programs and curriculum to create new jobs. Website: www.ncreal.org

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