

Bridges to Success: Promising Strategies for Microenterprise Business Growth in the United States

Literature Review

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Foreword

This literature review introduces practitioners and other researchers to the documentation available on business growth. The review follows a set of outcomes research that shows while some microentrepreneurs realize strong gains after participating in microenterprise development programs, many others earn modest sums that provide an income patch to the household. While these results, in many cases, may reflect the business owners' goals, they may also show the limits of current services in supporting those who want to achieve higher levels of success.

Drawing upon research from an array of fields — microenterprise development, entrepreneurship education, business incubation and business management — the document is intended to offer a scan of what these fields address with respect to the factors that support or challenge business growth and the strategies that appear to offer a way forward. It, naturally, also contains a bibliographic resource for deeper research. Given the amount of research on these themes, the review does not attempt to be exhaustive or conclusive. Rather, it aims to suggest areas for consideration by practitioners as they think about how to improve their services to support business growth.

We would like to acknowledge the support of the Charles Stewart Mott Foundation in underwriting this review and, in particular, the interest of program officers Jack Litzenberg and Sue Peters, who have expressed strong interest in finding better ways to help microentrepreneurs grow their businesses to increase household security and contribute to local community revitalization. We would also like to acknowledge the insights and contributions of Carolyn Glackin, Delaware Center for Enterprise Development, Delaware State University; and Jason Friedman, Association for Enterprise Opportunity, who provided many useful suggestions on both the issues and sources of information for this work.

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Executive Summary

The microenterprise development industry in the United States was founded 20 years ago to overcome institutional and personal barriers to business ownership for people and communities most in need of economic self-sufficiency — those with or close to poverty-level incomes for whom entrepreneurship was a path to personal and community economic well-being. More recently, an increasing number of programs have documented outcomes that show, in many instances, that business income may remain modest and a relatively small contributor to household income. While this may align with the goals many entrepreneurs have for their businesses, there are others who prefer to build their businesses into full-time or more profitable endeavors that contribute substantially to family well-being and community economic development.

This document reviews a range of literature examining what is known about the characteristics of small and microbusiness growth, the factors that seem associated with growing businesses, and the strategies designed to support business growth. Some of the concepts and strategies used for less disadvantaged business owners, or for larger businesses, may not have applicability to the microenterprise industry's target markets, but some may. The strategies emerge from a scan of literature from the fields of business development, entrepreneurship education, best practices in microenterprise training and technical assistance, and community economic development literature, including small business incubators and financing. The review also points to further research and bodies of literature that are worth further investigation in thinking about practical application of this material to microenterprise program practice.

Section one of the review defines business growth by reviewing research about the size and patterns of business growth experienced by microenterprise clients in comparison to self-employed small business owners in general. The authors of most of the literature define business growth as “increases in business revenue or sales.” This is particularly true for research from academia: business schools, entrepreneurship education journals and conference proceedings. As researchers get more applied (for policy use) and practical (for practitioners and educators), they use other benchmarks of growth: jobs created, number of businesses, owner's draw/personal income/cash taken out, new starts, business survival, survival with revenue, intent to grow business, ability to pay the bills and market share.

A comparison of statistics from the United States Small Business Administration (SBA), Census Bureau, and other national research on microenterprise development outcomes documented by the Aspen Institute's Fund for Innovation, Effectiveness, Learning and Dissemination (FIELD), reveals that microenterprises achieve similar levels of sales, income and survival rates as other very small businesses. The profile of high-growth microbusinesses that emerges from larger, national studies of small firms is similar to the descriptions of high-growth businesses in the microenterprise industry:

- Owners move from part-time to full-time business operation.

- Business generates revenues of a sufficient size (average of \$100,000/year) to generate a meaningful income for the owner (more than \$25,000/year) that is more than minimum wage and contributes to economic self-sufficiency for the household.
- Business creates employment opportunities for others (less than 5 employees in addition to the owner).

Only a small percentage of microenterprises exhibit these characteristics and, according to the literature, neither do many other small businesses. The business survival rates of the two groups appear similar as well. On the one hand, these findings give cause to celebrate the effectiveness of the field: clients' businesses are doing as well as other business' that may not have the same barriers to business growth. On the other hand, the implications for practitioners are two-fold: 1) incomes may or may not be enough for clients to attain economic self-sufficiency (or even minimum wage) and/or levels of community or individual wealth as mandated by the missions of most microenterprise organizations; and 2) the field may want higher business returns given the levels of resources dedicated to the programs. The challenge is to help more owners achieve higher levels of growth.

Section two examines what is known about the factors influencing business growth

experienced by microentrepreneurs as compared to other small business owners. Similarities are seen again with some important variations. Microenterprise development programs can structure and strengthen services by better identifying and understanding which individual factors most influence the business success of their clients. Some factors may relate to a set of characteristics or life circumstances that constrain growth at given periods of an entrepreneur's life and are not as amenable to program intervention (some aspects of human capital, personal assets and demographics). Other factors may relate to the growth prospects associated with specific industries and sectors (outcomes tracking seems to suggest that some sectors produce returns more easily than others). But there are other factors — such as the entrepreneurs' goals, growth management skills and resources, and entrepreneurial communities — which suggest openings for better practices that can support those interested in business growth. Initial findings identify eight factors that appear to influence business growth. The presentation of these factors constitutes the majority of this section.

Section three describes activities and summarizes evidence from best practices literature

about services that increase business growth for microenterprises in the United States. These services fall into three categories:

1. Services that meet owners' business growth goals and characteristics (entrepreneurship education and key business management tools);
2. Services that build bridges to the business world (one-on-one mentoring and consulting, business incubators, networking, access-to-markets and financing); and
3. Services that improve the external environment for microenterprises (entrepreneurial community building and advocacy priorities).

For practitioners interested in assessing their own efforts to help clients achieve more successful, growing businesses, the strategies offer a set of avenues to pursue. Most simply, the research suggests that practitioners should consider:

- Embedding entrepreneurial education within all curricula to help strengthen the entrepreneurial capacity of all clients;
- Strengthening client assessment processes: helping clients define their business growth intentions and assess capacities;
- Offering additional business management training tracks or modules for those beyond the start-up stage and building that curricula based on the skill sets defined as critical for second stage growth and development;
- Creating mentoring and consulting opportunities that link microentrepreneurs to experienced peers and professionals who can help guide their choices;
- Building networks of entrepreneurs or finding ways to link microentrepreneurs into networks that connect them to others who can expand their marketing opportunities, their connections to industry information and their engagement in the larger community;
- Exploring how additional services may be added to program services or accessed through partnerships (incubators, access to markets, etc.) that promote and support business growth; and
- Participating in creating more resource-rich networks of service providers across business size and type that will facilitate clients' access to services and financing beyond the reach of one program.

The most common characteristic across strategies is that almost all promote microentrepreneurs' alliances with experienced entrepreneurs and business people. Indeed, the business world is the culture and network to which microentrepreneurs belong once they are established. Thus, by engaging in these strategies to start or grow their businesses, microentrepreneurs ease their transition across the bridge to successful business ownership.

Section four briefly touches on key issues and further research related to microenterprise business growth. This literature scan contributes to the effort to deepen and broaden the microenterprise development field's understanding of, and inspiration from, other complementary fields of practice and research regarding business growth. In the future, more conclusive understandings can be reached about business growth factors and strategies by combining deeper, more specific literature reviews with applied study of successful practices. Some promising areas for future research include: the patterns (life cycles) and constraints to microbusiness growth; the role and practice of entrepreneurship education in microenterprise development; the current program practices and outcomes using strategies that build bridges to external business growth resources; useful strategies for microenterprises in the "how to grow your business" literature; and the appropriate levels of program investment (cost) for strategies that most effectively help business owners who want to grow their businesses.

The bridge-to-success has traffic in both directions. Microentrepreneurs can and do lead the small business world in many ways: philanthropic and community giving as well as services and products essential (child care, cleaning, low cost food, etc.) to community well-being. Microenterprise owners teach about local self-reliance, social networks and entrepreneurial communities. Business growth is not so simple: money and profit matter, but it is not everything. These are lessons and resources microentrepreneurs can exchange with partners in the established business world as the keystone is placed in the bridge-to-success.

Introduction

One of the most challenging issues that the microenterprise field faces is how to help low-income microentrepreneurs benefit more from the investments they make in their businesses. Research by the Aspen Institute's Fund for Innovation, Effectiveness, Learning and Dissemination (FIELD) has repeatedly shown that, while some clients show strong gains, many others earn modest sums that provide supplemental income to the household. For example, recent outcomes data collected from Ms. Foundation Collaborative Fund for Women's Economic Development grantees reveal that only 22 percent of the sample took at least the equivalent of a minimum wage from their businesses in 2002. Other outcome reports document dramatic income gains within six months to two years after program completion for those who enter with very low incomes. However, for those same groups, the incomes fail to continue increasing to moderate-income levels or beyond in the years subsequent to provision of intensive services.¹

This is a complicated issue for a number of reasons:

- It is always difficult to obtain an accurate picture of all the contributions that the microenterprise makes to a household. In addition to any owner's draw that a microentrepreneur may take, households can benefit by having some costs covered as business expenses. Household expenses, such as child care and transportation, can also be reduced through home-based and remunerative work.
- Microenterprises are not always operated with growth in mind. They serve to provide one among a variety of income streams into the household and to mitigate the risks associated with dependence on volatile jobs in the low-wage end of the labor market. The size of the business may expand or contract over time depending on the family's opportunities in the labor market.
- Some businesses are started during transitional periods of an individual's life and are used to generate some immediate revenue, gain important work experience and skills development, make connections, and accrue some assets that can ultimately be converted into a better job. This strategy is used by individuals at all income levels when faced with downsizing. In other cases, individuals start businesses and keep a wage job in order to ensure they have a stream of income as they slowly grow their business.

Thus, the value a microenterprise contributes to a household may be more than just the dollar value drawn at a given time.

However, for people struggling at the bottom of our economy, better approaches to generating returns from these businesses are needed. In recognition of this, many microenterprise programs have initiated some form of advanced level services to assist growth-oriented businesses. Others have spoken of the need for better "mezzanine" services for businesses that have succeeded at the start-up stage but really need to transform to achieve stronger success. Micro Mentor, FIELD's Internet-based mentoring service, is one pilot effort to support that transformation through the provision of mentors with industry-based knowledge and experience. Access to

¹ Elaine Edgcomb, et al., *Opening Opportunities, Building Ownership: Fulfilling the Promise of Microenterprise in the United States*. (Washington, D.C.: The Aspen Institute/FIELD, February 2005), chapter 4.

market strategies are another approach and, while much has been learned about these strategies, their challenging nature has meant that successes to date have been limited.

The purpose of this literature review is to summarize what has been learned with respect to the factors that influence business growth (both those that constrain and support it), and to identify and introduce successful strategies for supporting business growth used not only in the microenterprise field but, more importantly, beyond it. The strategies emerge from a scan of literature from the fields of business development, entrepreneurship education, best practices in microenterprise training and technical assistance, and community economic development literature, including small business incubators and financing. The review also points to bodies of literature that are worth further review and investigation in thinking about practical application of this material to microenterprise program practice.

Section one reviews what we know about the size and patterns of business growth experienced by microenterprise clients in comparison to self-employed small business owners in general. This section helps define reasonable expectations for the growth of these very small businesses. What would significant income generation look like?

Section two presents initial findings about factors that influence business growth: behaviors and characteristics of successful microentrepreneurs and entrepreneurs; characteristics of the high-growth or growing firms; and external conditions such as community practices industries, sectors and business types that encourage business growth. Literature describing starting businesses is not reviewed unless it directly contributes to understanding business growth.

Section three describes activities and summarizes evidence from successful practice literature about promising services that increase business growth for microenterprises in the United States. These services fall into three categories: those that meet owners' business growth goals and characteristics (entrepreneurship education and key business management issues); those that build bridges to the business world (one-on-one mentoring, business incubators, networking, access-to-markets and financing); and those that improve the external environment (entrepreneurial community building and advocacy priorities). Discussion of key strategic issues emerges as well: client readiness, intensity of services and cost effectiveness. Not included is the vast body of 'how to grow your business' resources and corporate sector literature about what works for growing large, capital-rich firms. Most of the "how to" strategies offer little (or no) evidence of success. Some growth strategies that large firms use may be useful to the smallest, most capital-poor firms, but would need further adaptation and examination.

Section four includes a discussion of key issues, initial recommendations for future research and practice, and concluding remarks.

The methods used for this literature review are simple and convenient: Internet searches and two phone interviews with advisors. When the possible scope and scale of the topic of business growth was initially outlined, the literature review was quickly reduced to a scan of the substantial bodies of research emerging from fields that intersect with microenterprise training and financing in the United States. The volume of literature in each of these fields leads to others (entrepreneurship ranges from macroeconomic policies to personal psychology, etc.) and is

potentially immense (a library for a graduate business school). The search found literature accessible by the World Wide Web from organizations, associations, research and library databases, and government agencies in the United States. Most often, the scan includes the literature about business success and growth that more closely fits the profile of microenterprises in the United States: small businesses with one to five employees; owners who are youth, minorities, and/or women; family businesses; and businesses in low-income communities (urban and rural).

The major bodies of relevant literature emerge from the fields of entrepreneurship education, microenterprise best practices, and business and community economic development (including government research). These fields are approximately equal thirds of the bibliographic sources:

- *Entrepreneurship Education Literature*: According to Donald Kuratko, in his 2003 overview of the trends and challenges for entrepreneurship education, three major sources of information supply data related to the entrepreneurial process or perspective: publications (both research-based as well as popular), direct observation of practicing entrepreneurs, and speeches and presentations by practicing entrepreneurs.² This scan drew sources from four of the 10 types of publications listed by Kuratko: academic journals (he lists eight, four of which were used here of 16 total journals cited in this document), books about entrepreneurship (just one by Katherine Catlin and Jana Matthews used here, as these books generally are in the “how to grow your business” category and do not contain much evidence supporting their claims) proceedings from conferences (of four examples listed by Kuratko, two were used here), and government publications (used throughout the scan, not in this section specifically).
- *Best Practices in Microenterprise Development and Financing*: The scan includes studies of microenterprise development services primarily by FIELD, one by the Center for Women’s Business Research, and a limited number of outcomes reports by service provider organizations as well as academia and donors. The emphasis of the scan is on literature from “outside” the industry. Research from supporters and practitioners provides evidence and comparisons to make the external findings more relevant.
- *Community Economic Development*: Gregg Lichtenstein’s provocative strategic thinking articulates the historical roots and future opportunities microenterprise development has with the field of community economic development. This article points to a much larger set of knowledge about business development in historically low-income communities. In combination with government sources (Census Bureau, SBA’s Office of Advocacy), this literature evidences the challenges and effective strategies for promoting positive community growth. This scan includes resources from the National Association of Development Organizations and the National Business Incubator Association, but these are just the beginning.

This review is by no means exhaustive or conclusive and intends to begin and guide exploration of these complex issues by those who provide microenterprise development services in the United States.

² Donald Kuratko, *Entrepreneurship Education: Emerging Trends and Challenges for the 21st Century*. Coleman Foundation White Paper Series. U.S. Association of Small Business and Entrepreneurship, 2003; available from <http://www.celcee.edu/abstracts/c20033377.html>; Internet.

Defining Business Growth

Definitions of Business Growth

The authors of most of the literature that follows define business growth as “increases in business revenue or sales.” This is particularly true for research coming from academia: business schools, entrepreneurship education journals and conference proceedings.³ As the researchers get more applied (for policy use) and practical (for practitioners and educators), they use other benchmarks of growth: jobs created, number of businesses, owner’s draw/personal income/cash taken out, new starts, business survival, survival with revenue, intent to grow business and ability to pay the bills.⁴

A comparison of statistics from the United States Small Business Administration (SBA), Census Bureau and other national research to outcomes documented by FIELD reveals that microenterprises achieve similar levels of sales, income and survival rates as other very small businesses. For example, a comparison of women microentrepreneurs’ outcomes documented in various studies by FIELD to findings from a 2004 study by the Center for Women’s Business Research (CWBR) and an SBA study of women operated sole-proprietorships illustrates the similarities:

General Comparison of Business Growth Benchmarks: Women Business Owners⁵

	Microenterprise Industry	National Statistics for
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³ See JoAnn C. Carland and James W. Carland, *A Model of Entrepreneurial Planning and Its Effect on Performance*. Association of Small Business and Entrepreneurship Annual Conference proceedings. (Conway, AR: Small Business Advancement National Center, University of Central Arkansas, AR, 2003); available from <http://www.sbaer.uca.edu/research/asbe/2003/pdfa/hub/01carland&.pdf>; Internet. Alison Morrison and others, “Small Business Growth: Intention, Ability, and Opportunity,” *Journal of Small Business Management*, vol. 41, no. 4 (2003), 417-425; Christian Lendner, *How University Business Incubators Help Start-Ups to Succeed: an International Study* (Deggendorf, Germany: University of Applied Sciences, 2004); available from <http://www.babson.edu/entrep/fer/BABSON2003/VIVI-S2/vi-s2.html>; Internet; Larry W. Cox and S. Michael Camp, *International Survey of Entrepreneurs: 2001 Executive Report*. Kauffman Center for Entrepreneurial Leadership, Kansas City, MO; available from http://www.kauffman.org/pdf/int_survey_2001.pdf; Internet; and Mark Montgomery and others, *Who Succeeds at Starting a Business? Evidence from the Washington Self-Employment Demonstration* (Grinnell College, IA: Department of Economics, 2000).

⁴ See Morrison et al., Montgomery, Carland and Carland, Arnold Cooper and Shailendra Mehta, *Preparation for Entrepreneurship: Does It Matter?* (West Lafayette, IN: Purdue University, 2003); available from <http://www.babson.edu/entrep/fer/BABSON2003/XXV/XXV-P3/xxvp3.htm>; Internet.

⁵ Sources:

Jeremy Black, *Enhancing Economic Opportunity through Entrepreneurship: Overview Report on Lessons learned from the third round of the Ms. Foundation’s Collaborative Fund for Women’s Economic Development*. (Washington, D.C.: The Aspen Institute, August 2004).

Joyce Klein, Ilgar Alisultanov and Amy Kays Blair, *Microenterprise as a Welfare to Work Strategy: Two-Year Findings* (Washington, D.C.: The Aspen Institute, November 2003); available from www.fieldus.org; Internet.

D.C. Candace Nelson, , *FIELD Best Practice Guide: Volume 6 Staying Connected: Building Entrepreneurial Networks* (Washington, D.C.: The Aspen Institute, March 2004); available from www.fieldus.org; Internet.

Center for Women’s Business Research, *Launching Women-Owned Businesses: A Longitudinal Study of Women’s Business Center Clients* (Washington, D.C.: Center for Women’s Business Research, 2004).

U.S. Small Business Administration Office of Advocacy, *Dynamics of Women-Owned Sole Proprietorships, 1990-1998* (Washington, D.C.: U.S. Small Business Administration, 2003).

	Statistics	Small Businesses, Self-Employed
Business Revenue (Sales)	\$11,000 to \$70,000/year (Ms. Foundation Collaborative Fund, Welfare-to-Work)	<\$50,000/year, average of \$26,000 (CWBR), (SBA)
Owner's draw/personal income	\$5,597 to \$11,000/year (Ms. Foundation Collaborative Fund, Welfare-to-Work)	\$6,500 to \$10,000/year (CWBR)

These similarities will be seen again, with some important variation, in the next two sections' more detailed examination of what is known about the size, patterns and factors influencing business growth experienced by microentrepreneurs compared to other small business owners. On the one hand, these findings give cause to celebrate the effectiveness of the field: clients' businesses are doing as well as other businesses that may not have similar barriers to growth. On the other hand, the implications for practitioners are two-fold: 1) incomes may or may not be enough for clients to attain economic self-sufficiency and/or levels of community or individual wealth as mandated by the missions of most microenterprise organizations, and 2) the field may want higher business returns given the level of resources dedicated to the programs.

There is no hard and fast definition of a growth-oriented business: some in the literature attempt to define it in terms of percentage increases in revenues or market share, while others define it more in qualitative terms. For example, in *Leading at the Speed of Growth*, Katherine Catlin and Jana Matthews define high-growth oriented businesses as those that are achieving increases in sales of between 20-50 percent annually.⁶ In Rita Gunther-McGrath and Ian MacMillan's three-year study of successful growth by established (large) companies, they use the following to qualify businesses as exemplars of organic, profitable growth: a two percent change in market share within a year; 10 percent or more annual growth in sales or shipments over at least two years; or annual sales or shipment growth five percent greater than the growth of the overall market.⁷

Qualitatively, other researchers speak of business growth in terms of the evolutionary stages through which a business passes, and the ways in which the owner acts in, and on, business. Growth-oriented firms are those in which the owner/manager is able to move the business from a very limited size with informal decision-making patterns to a new stage where most systems are formalized and the manager is focusing on managing staff and more strategic decisions. A key factor in successful growth is the ability of the entrepreneur to evolve the business with guidance from mentors and develop the leadership and management style that builds expertise and learning throughout the organization; this makes the chief executive officer (CEO) less central, but the holder of the vision and organization during continuous growth stages. Catlin

⁶ Katherine Catlin and Jana Matthews, *Leading at the Speed of Growth*, Kauffman Book Series on Managing Growth (Kansas City, MO: Ewing Marion Kauffman Foundation, 2004), chapter 1, 3-5; available from http://www.entreworld.org/Bookstore/PDFs/Speed_of_Growth_Ch01.pdf; Internet. This is one of the more recent additions to the Kauffman Foundation's book series on managing growth, addresses the growth of larger firms (10-800 employees, \$1 million to \$150 million in revenue).

⁷ Rita Gunther-McGrath and Ian MacMillan, *Market Busting Strategies for Exceptional Business Growth*, Harvard Business Review (March 2005), 83.

and Matthews describe the evolution of the entrepreneur as CEO in their spiral model of entrepreneurial growth (in their graphic, the spiral and evolution moves upward, beginning with start-up at the bottom and ending with continuous growth at the top):⁸

Evolutionary Stage	CEO Role
Continuous Growth (dominate the industry)	Change Catalyst, Organization Builder, Strategic Innovator, Chief of Culture
↑	↑
Rapid Growth (lead the market)	Team Builder (hiring), Coach, Planner, Communicator
↑	↑
Initial Growth (drive sales)	Delegator, Direction Setter
↑	↑
Start-Up (develop product)	Doer/Decision maker (leader)

The business development and entrepreneurship literature is prolific in its creation of models of business growth stages and life cycles (see text box on business growth stages below). Although most often designed for medium or large firms, the academic literature uses these models of growth to map factors that support or challenge business and entrepreneurial growth at different stages. Further research is needed to accurately describe the microenterprise life cycle in order to better understand what factors define and make a difference for supporting the growth of microenterprises at specific stages. This mapping can also help with developing a theory of change specific to microenterprise success.

Models of Business Growth Stages

Evolutionary theory of small firm growth: Freel suggests that we need to emphasize to firms the importance of history, search, adaptability and post-entry learning in influencing firm growth.⁹ Christopher Street and Darren Meister use a “punctuated equilibrium theory” to understand the evolutionary periods (stability), revolutionary periods (rapid change) and deep structures (changed by punctuations) to suggest that the decision to grow a business leads to rapid change and the need to change structures.¹⁰

Entrepreneurial theory of the business growth cycle: Similar to Catlin and Matthew’s spiral model of entrepreneurial growth, the National Consortium for Entrepreneurship Education defines the stages of the entrepreneurial process as non-sequential and often overlapping:

- *Discovery:* generating ideas, opportunity recognition, feasibility analysis;
- *Concept development:* using a business plan to identify resources and strategies (intellectual property protection, target markets, etc.);
- *Resourcing:* identifying and acquiring the financial, human, and capital resources

⁸ Catlin and Matthews, *Leading at the Speed of Growth*, 10.

⁹ Mark S. Freel, “Toward an Evolutionary Theory of Small Firm Growth,” *Journal of Enterprising Culture*, vol. 8, no. 4 (December 2000), 337.

¹⁰ Christopher T. Street and Darren B. Meister, “Small Business Growth and Internal Transparency: The Role of Information Systems,” *MIS Quarterly*, vol. 28, no. 3 (September 2004), 474.

- needed to start; and
- *Actualization*: operating the venture and using resources to achieve goals
- *Harvesting*: deciding on the venture's future (growth, development, demise).¹¹

Entrepreneurs use entrepreneurial, readiness and business function skills to make the process happen.

Linear models of business growth stages: Other authors use variations on Brinlee's thorough nine stages of business growth and demise: seed, research and development, start-up, first stage, expansion, mezzanine, bridge, acquisition/merger, and turnaround.¹² Preston uses four stages in her guidebook to angel investing: seed, start up, first stage and expansion.¹³ Tansky uses four stages of development (startup, expansion, consolidation and diversification) to understand resource allocation for management of human capital (people) as the firm matures.¹⁴

Strategic choice theory of small firm growth: In their literature review and research, Donald Lester and colleagues suggest that top managers assess and act on four internal factors including situation, strategy, decision-making style and structure as they guide a firm through life cycle stages. Strategies recognized in the literature to be innovative or growth directed are predicted for the existence, survival and renewal life cycle stages, while maintenance strategies are predicted for the decline and success stages. For example, during the birth or existence stage the organizational structure is informal, decision-making is centralized and size is limited. During the survival stage competencies develop, formalization of structure is recognizable and rapid growth occurs. During the success stage, established systems are in place for getting things done top managers do not intrude on the environment but consider it analyzable.¹⁵ Strategic venture growth is also explored (albeit for the hightech industry) by Cha and Bae using four growth bases as the foundation for "venture growth or opportunity exploitation in building the business unit with strategic intent. The four growth bases are: technology, market, resource and management."¹⁶

In addition to stages of growth, the literature examines the dynamic processes of growth. Since exploring, understanding and promoting business growth is the purpose of this literature review, it is natural that entrepreneurship is the repeating theme that emerges from literature about strategies that influence success.¹⁷ As summarized by Eugene Sadler-Smith, many scholars delineate differences between owner-managers of small businesses and entrepreneurs and, therefore, between business development and entrepreneurship:¹⁸

¹¹ Consortium for Entrepreneurship Education, *National Content Standards for Entrepreneurship Education*; available from http://www.entre-ed.org/Standards_Toolkit/standards_overview.htm; Internet.

¹² Jason B. Brinlee and others, *Educating Entrepreneurs on Angel and Venture Capital Financing Options* (Association of Small Business and Entrepreneurship Conference paper, 2004), 40.

¹³ Susan L. Preston, *Angel Investment Groups, Networks and Funds: A Guidebook to Developing the Right Angel Organization for Your Community* (Kansas City, MO: Ewing Marion Kauffman Foundation, 2004), 3.

¹⁴ Judith W. Tansky and others, *Managing People in Entrepreneurial Firms: Do the Issues Vary Across Organizational Stages of Growth?* (Columbus, OH: Ohio State University, 2004).

¹⁵ Donald Lester and others, *Top Management Teams' (Small Business Managers') Influence on Organizational Life Cycles* (Association of Small Business and Entrepreneurship Conference paper, 2002), 2-3.

¹⁶ Min-Seok Cha and Zong-Tae Bae, *Toward the Theory of Venture Growth: A Driving Force and Four Growth Bases* (Seoul, Korea: KAIST Graduate School of Management, 2004), abstract.

¹⁷ Fully one third (approximately 30) of the bibliographic sources document some aspect of the effectiveness of entrepreneurship in growing businesses. Another third is from FIELD and microenterprise best practices research, and the remaining third is a combination of community and business development.

¹⁸ Sadler-Smith, 49, from Hodgetts and Kuratko, 5-6.

Small businesses are businesses that are independently-owned and operated, are not dominant in their field, and usually do not engage in many new or innovative practices ... The entrepreneur's principal objectives are profitability and growth ... the business is characterized by innovative strategic practices and continued growth ... [and] may be seen as having a different perspective from small business owners in the actual development of their firm.

Management of the firm includes the following differences: 1) entrepreneurial managerial behaviors promote a culture of creativity and risk-taking, create flat informal structures, and formulate strategy in order to take advantage of identified opportunities; 2) non-entrepreneurial management behaviors emphasize planning, control, monitoring, evaluation and formalized organizational structures.

Sadler-Smith did find some management behaviors that are associated with an entrepreneurial style and firm growth that are documented in the section below about how to manage growth-oriented firms.¹⁹

Experiences of Business Growth by Microentrepreneurs

In the FIELD-facilitated study of microbusinesses served by programs supported by the Ms. Foundation, grantees found that high-growth businesses were those that achieved an average of \$194,784 in sales (median \$127,000) and were able to draw an average of \$23,933 from their businesses for their households (median \$25,000). They created an average of 3.7 full-time jobs (median was 3 jobs), including the owner, and an average of an additional 2.7 part-time jobs (median was 1 job). Other studies, and detail from this study, confirm that these are the higher levels of revenue, draw and job creation after microenterprise development services are provided:

- *Microenterprise Business Revenue:* The 15 high-growth businesses documented as part of the Ms. Foundation's Collaborative Fund for Women's Economic Development (CFWED) entrepreneurship program generated more than \$70,000 in revenues each in 2002.²⁰ In *Staying Connected*, a 2004 FIELD study of microenterprise networks, the annual business income from 140 child-care businesses in the South Bronx increased to \$26,000 a year after participating in the network.²¹ The women-operated businesses in the two-year outcome study of welfare-to-work participants who chose self-employment saw an average of \$12,092 in annual business sales.²²
- *Microenterprise owners' draw/income from business:* In the Ms. Foundation Collaborative study, 54 percent of the participants worked full time at their business to contribute 30

¹⁹ Eugene Sadler-Smith and others, "Managerial Behavior, Entrepreneurial Style, and Small Firm Performance," *Journal of Small Business Management*, vol. 41, no.1 (2003), 50.

²⁰ Black, *Enhancing Economic Opportunity: Overview Report on Lessons Learned*, 6.

²¹ Nelson, 40.

²² Klein, 54.

percent of household income (\$11,000) a year.²³ In the *Microenterprise as a Welfare to Work Strategy: Two-Year Findings* report, the average was \$5,597 in owner's draw.²⁴

- *Employees per business/jobs created:* The 213 businesses in operation during the two-year Ms. Foundation study period created a total of 357 jobs —182 full-time and 175 part-time. The 15 high-growth businesses in the Ms. Foundation Collaborative study generated 55 full-time jobs and 40 part-time jobs (including the owners) — 27 percent of all jobs created by businesses in the outcome sample, even though they were only seven percent of the businesses in the study.²⁵ From this one study, we see indications that a small number of high-growth microenterprises create the majority of the jobs.

Based on the evidence from high-growth microbusinesses, for the purpose of this literature review, business growth for microenterprises can be defined as the following:²⁶

- Moving from part-time to full-time operation;
- Generating revenues of a sufficient size (average of \$100,000/year) to generate a meaningful income for the owner (greater than \$25,000/year) that is more than minimum wage and contributes to economic self-sufficiency for the household; and
- Creating employment opportunities for others (2.7 jobs in addition to the owner).

Only a small percentage of microenterprises exhibit these characteristics and, according to the literature, neither do many other small businesses. In fact, the revenue, income and survival rates of the two groups appear similar.

Microentrepreneurs are not alone in their struggle to make ends meet. The literature scan identifies six national studies that confirm these results for non-clients' small business revenue, owner's draw or income, job creation and business survival rates.

- *Business Revenue for Non-Clients:* Despite impressive rates of small business growth in terms of the number of small businesses starting in recent years, closer examination of outcomes and national data shows persistently low business revenue. Part of the evidence

²³ Black, *Enhancing Economic Opportunity: Overview Report on Lessons Learned*, 5.

²⁴ Klein, 48.

²⁵ Black, *Enhancing Economic Opportunity: Overview Report on Lessons Learned*, 9.

²⁶ This literature review does not use business survival as an indicator of growth. The number of years a business survives may be a better indicator of business viability. The business survival data from microenterprise development programs and other studies show comparable, and sometime stronger, survival rates than is seen in for small businesses in general: Of the 276 clients surveyed in the Ms. Foundation study, 70 percent (189 businesses) were in business at the time of the survey, and had been in business an average of 4.7 years (Black, *Overview Report*, 4). In the Welfare to Work study, the majority of businesses (68 percent) that were operating at intake survived for the two years of the Welfare to Work study (Klein, 48). Two studies, one from the oft-quoted Small Business Administration report on small business closure, and the other, use a sample of 755 unemployed people in Washington State. Both found that 66 percent of small businesses survive at least two years (Headd, 2001; Montgomery, 2000), 9. The Center for Women's Business Research longitudinal study found an 83 percent, two-year survival rate (60 percent are service sector businesses; all owners received at least 10 hours of Women's Business Center services in the year 2001). The four-year survival rate varied between 50 percent (Headd, 2001) and 37 percent (Taylor, 2004), 260, cited a Dun & Bradstreet report). A Dun & Bradstreet report documents nine percent of businesses with fewer than 20 employees have a chance of surviving 10 years. Restaurants have the highest failure rate, with only a 20 percent chance of surviving two years.

comes from census data about non-employer business owners — the majority of microentrepreneurs.²⁷ Non-employer businesses grew much faster than their employer businesses counterparts in the number of establishments, but not in receipts.²⁸ According to the Census Bureau, small business owners' who are employers make 97 percent of the business incomes (\$874.94 billion in sales and receipts), while the non-employer businesses account for nearly three-quarters of all businesses.²⁹

A 1997 study by International Data Corporation, a Framingham, Massachusetts market research firm, estimated that the typical home-based business generates \$36,000 in annual sales.³⁰ In research from the SBA, we see that about three-quarters of woman-owned businesses were sole proprietorships with receipts under \$50,000 in 1997.³¹ Of women-operated sole proprietorships, 86.3 percent had total receipts less than \$50,000 and 41.75 percent had receipts less than \$5,000. Average gross receipts were \$23,170.³² Business revenues are even higher in a longitudinal study of 287 clients of the SBA-supported Women's Business Centers conducted by the Center for Women's Business Research. The highest business returns are seen in early 2002, one year after intake into the study: 75 percent of those interviewed report business sales of \$99,999 or less, and 50 percent with \$25,000 or less. Of these businesses, 59 percent were in the service sector (similar to women-owned firms nationwide), 25 percent were firms where the owner is the sole employee, and 24 percent reported no revenues for the previous year. The firms with the highest revenues (over \$100,000) were located in Chicago and Boston.

Census data from 2000 illustrates the stark disparities between minority and non-minority business owners' revenue. The average non-minority-owned business had receipts of \$410,600. The average Hispanic-owned business had receipts of \$155,200: 40 percent had receipts of \$10,000 or less; two percent had receipts of \$1 million or more. The average African American-owned firm had receipts of \$86,500: 49 percent had receipts of \$10,000 or less; one percent had receipts of \$1 million or more.³³

²⁷ From a FIELD review of outcome studies, it appears that less than 30 percent of microenterprises have employees other than the owner. See the FIELD publication, *Opening Opportunities, Building Ownership: Fulfilling the Promise of Microenterprise in the United States* (2005), Chapter 4.

²⁸ U.S. Census Bureau, *2002 Economic Census: Advance Nonemployer Statistics*; available from <http://www.census.gov/epcd/nonemployer/>; Internet.

²⁹ See U.S. Census Bureau, *Nonemployer Statistics*; More detailed information is available from <http://www.sba.gov/ADVO/research/data.html>; Internet.

³⁰ National Association for the Self-Employed, "There's No Place Like Home," *Washington Post* March 12, 1998, D-1, media sources page; available from www.nase.org; Internet.

³¹ Sources: U.S. Small Business Administration, Office of Advocacy publications, *Women in Business, 2001*; *Dynamics of Women-Operated Sole Proprietorships, 1990-1998*; and *Minorities in Business, 2001*. Note: Veteran self-employment data from a special tabulation of the current population survey. In 1997, women owned 5.4 million businesses that generated \$819 billion in revenues, employed more than 7 million workers, and had nearly \$150 billion in payroll.

³² U.S. Small Business Administration, and Klein.

³³ Business Women's Network, *WOW! 2004 Quick Facts: United States Women's Market*; available from <http://www.ewowfacts.com/>; Internet.

- *Owners' draw/income from business:* The SBA's Office of Advocacy summarizes: "Most non-employer businesses are very small, and many are not the primary source of income for their owners."³⁴ These self-employment business incomes are relentlessly lower for minority and women business owners.³⁵ One purpose of the microenterprise field is to correct these disparities. By gender, the net incomes from businesses are lower still.

According to the SBA studies documented in the FIELD Welfare to Work report, the average net income of women-owned sole proprietorships was \$6,110 in 1998. In that year, 24.22 percent of businesses had a net income of less than \$0, and 80 percent had a net income less than \$10,000. Women heads of households averaged gross receipts of \$20,240 and net incomes of \$6,650.³⁶ The National Association for the Self-Employed poll surveyed 1,000 randomly selected self-employed Americans in 2003. The results document further gender-based disparities. Average income for women surveyed is \$38,640 versus \$54,260 for men. Nearly 45 percent of women respondents report making an income of less than \$25,000, while only 24.6 percent of men are at this level. In contrast, more than one in four (26 percent) men surveyed report making \$75,000 or more, this is twice the number of women who report reaching this income level. More than a third of the women surveyed believe they face barriers to their success based on gender. Ten percent (of men and women) say they are employed by someone else as they pursue their business on the side. Twenty-two percent of women say their businesses are part-time, double the level of men-owned businesses that are designated part-time.³⁷

In his study of young entrepreneurs' incomes using data from the 1979-1998 National Longitudinal Survey of Youth, Robert Fairlie finds disparities between African American, Hispanic and white men and women's self-employment income. Self-employed men earn more than women and white men earn more than everyone else. In addition, earnings are lower for everyone with less education.

Self-Employment and Wage/Salary Earnings, Full-Time Workers by Race and Gender

	Men		Women	
	Self-Employed	Wage/Salary	Self-Employed	Wage Salary
Blacks, n=	410	9,476	178	8,179
Mean	\$31,280	\$24,461	\$20,584	\$20,168
Median	\$22,261	\$21,523	\$14,916	\$18,002
Hispanics, n=	470	7,001	158	5,121
Mean	\$38,678	\$27,697	\$24,702	\$21,660
Median	\$26,344	\$24,801	\$17,899	\$19,693
Whites, n=	2,028	19,141	835	14,898

³⁴ Business Women's Network, chapters 2 and 16.

³⁵ See Fairlie, National Association for the Self-Employed, and Timothy Bates, "Minority Business Assistance Programs are Not Designed to Produce Minority Businesses," *The Emergence of Entrepreneurship Policy: Governance, Start-ups, and Growth in the United States Knowledge Economy* (Cambridge: Cambridge University Press, 2003), 155–172; available from <http://research.kaufmann.org/cwp/appmanager/research/>; Internet.

³⁶ Klein, on page 54, uses U.S. Small Business Administration, Office of Advocacy, *Dynamics of Women-Operated Sole Proprietorships, 1990-1998* (Washington, D.C.: Small Business Administration, 2003).

³⁷ National Association for the Self-Employed, *Poll Reports More Women Turning to Self-Employment in New Decade*, Press Release (2003); available from www.nase.org; Internet.

Mean	\$46,952	\$33,663	\$24,509	\$24,008
Median	\$33,002	\$29,534	\$17,912	\$20,912

Source: Fairlie, 2001, *Earnings Growth among Disadvantaged Business Owners*: p.7, Table 4

Fairlie concludes that the results of his longitudinal analysis “provide evidence that, for at least some disadvantaged young men, business ownership provides a route for economic advancement employment. Evidence is less clear related to the contribution of self-employment to economic mobility for disadvantaged young women.”³⁸

- *Employees per business/jobs created*: The scan found limited documentation on the employee and job creation rate. The Center for Business Women’s Research study shows 34 percent of respondents with one to four employees. The results of the National Association for the Self-Employed poll documents that 50 percent of the survey was women with fewer than 10 employees.

A Working Definition of Business Growth

In summary, the profile of high-growth microbusinesses that emerges from larger, national studies of small firms is similar to the growth criteria in the microenterprise industry:

- Owners move from part-time to full-time business operation;
- Business generates revenues of a sufficient size (average of \$100,000/year) to generate a meaningful income for the owner (more than \$25,000/year) that is more than minimum wage and contributes to economic self-sufficiency for the household; and
- Business creates employment opportunities for others (less than 5 employees in addition to the owner).

If we take this as a description of what business growth can look like for some microenterprises, the question is how to help more owners achieve these levels of growth, if not go beyond them.

³⁸ Robert W. Fairlie, *Earnings Growth among Disadvantaged Business Owners: Final Report to the Office of Advocacy* (Washington, D.C.: U.S. Small Business Administration, 2001); available from <http://www.sba.gov/ADVO/research/rs209tot.pdf> or <http://econ.ucsc.edu/~fairlie/papers/>; Internet.

Factors Influencing Business Growth

Section two presents findings on eight factors that appear to influence business growth. Internal factors include behaviors and characteristics of successful entrepreneurs, while external factors encourage or deter business growth. As the previous section indicates, researchers discuss business growth as much in terms of the characteristics of the owner or entrepreneur as in any quantitative terms.³⁹ In much of the literature, researchers identify a set of factors inherent in business owners (characteristics and behaviors) that appear to influence business success. Academics and practitioners examine factors such as growth goals, human capital (education, work and business experience), and financial capital and demographics (gender, marital status, stage of parenting, ethnicity/race) in the quest to understand how to best support entrepreneurs and correct socio-economic disparities. As the hope of many is to support and even predict business success, entrepreneurial management activities and behavior is a hot topic in many fields: economic theory and applied research, psychology, entrepreneurship education and business management. Some authors, such as Lichtenstein and Erik Pages, also promote strengthening of the entrepreneurial characteristics and behaviors in the broader community to improve the environments and conditions in which microenterprises operate.⁴⁰

Business Growth: the Internal Environment

Growth Factor 1: Entrepreneur’s Business Growth Goals. This initial scan of the literature reveals that the characteristics and behaviors the entrepreneur or owner-manager brings to the business growth process appear to matter and are difficult to separate from the success of the firm. A growing number of researchers and practitioners seem to agree with the Consortium for Entrepreneurship Education that, “entrepreneurs are not born entrepreneurs, they become so

³⁹ Researchers also discuss factors that influence business survival. These do not fit this scan’s working definition of growth, yet need mention as they may also influence business growth. Brian Headd’s research is in this category: Firms having more resources — that are larger, with better financing and having employees — are found to have better chances of survival ... it is worth noting that such inborn factors as race and gender played negligible roles in determining survivability and success at closure. Factors that best explain the likelihood of survival are being an employer firm, having starting capital greater than \$50,000, having a college degree, and starting a business for personal reasons. Three other factors also seem to increase survivability: previously owning another business, having multiple owners and being home-based at start-up. Headd, Brian. “Redefining Business Success: Distinguishing Between Closure and Failure.” *Small Business Economics* 21 (2003), 51-61. Washington, D.C.: U. S. Small Business Administration, Office of Advocacy; available from brian.headd@sba.gov; Internet, 55.

⁴⁰ Literature describing the “who, what, when, where, why, and how” of *starting* businesses is not reviewed unless it directly contributes to understanding the dynamics or conditions of business growth. One such study of nascent entrepreneurs (start-up businesses) is the Kauffman Foundation sponsored report, *The Entrepreneur Next Door: Characteristics of Individuals Starting Companies in America, An Executive Summary of The Panel Study of Entrepreneurial Dynamics*, led by Paul Reynolds of Babson College, and other academics. Results from the first stage of the study describe who starts businesses and where. Later stages of the study will publish results on which business start-up efforts are likely to result in new firms as well as why some businesses efforts successfully create high-growth businesses. Although highly promising with its two samples totaling 64,622 households of nascent entrepreneurs and a comparison group, no published descriptions of business growth outcomes were found during this literature scan.

through the experiences of their lives.”⁴¹ The corollary may be that *successful* entrepreneurs are not born to succeed through personality traits such as “drive” and “risk-taking.” They become successful through various behaviors and strategies that can be learned. Microenterprise development programs can structure and strengthen services by better identifying and understanding which individual factors most influence the business success of their clients.

In their 1997 report referenced in a 2003 report on the effect of entrepreneurial planning on business performance, JoAnn and James Carland define three types of entrepreneurs: microentrepreneurs, entrepreneurs and macroentrepreneurs:

- *Microentrepreneurs*: People who see their business ventures as primary sources for family income or to establish family employment. They view their businesses as important aspects of their lives rather than being consumed by those businesses. Microentrepreneurs pursue self-actualization through their individual freedom. For these people, success is measured by freedom. Operating their own businesses frees them from the pressures and demands of a career in management, while it provides their families with financial support. They often have no real idea about their profitability potential, but measure success by their ability to pay the bills.
- *Entrepreneurs*: Individuals who have a great deal of their self-perception bound up in their business(es). They dream of recognition, advancement, and wealth and admiration, and they want to be extremely successful financially. They enjoy work, but they are not consumed by it, and they tend to avoid risks that might jeopardize an established and successful business.
- *Macroentrepreneurs*: Highly-driven entrepreneurs who see involvement with their business as the primary vehicle for pursuing self-actualization. Because their drive for self-actualization is bound up with their ventures, success is measured in terms of changing the world or creating something which no one else has been able to do. Macroentrepreneurs are innovative and creative and have a tremendous risk-taking propensity. They never cease striving, taking risks, expanding, growing or competing, even when they might be considered by others to be highly successful or tremendously wealthy.⁴²

Similarly, in his documentation of entrepreneurship education, Kuratko groups entrepreneurial firms into three general types based on size: large firms (corporations) in mature industries that have adapted and downsized to become more entrepreneurial and higher growth (more profit); entrepreneurial companies (that are not the corporations); and smaller firms, many founded by women, minorities and immigrants [microenterprises!]. Together, these entrepreneurial enterprises provide renewal of the market economy and social glue that binds together high-tech [and Wall Street] and Main Street activities.⁴³ Most characteristics of business growth have to do with transitioning successfully from one stage of the business life cycle to the next (for example,

⁴¹ Gregg A. Lichtenstein and others, “Building Entrepreneurial Communities: the Appropriate Role of Enterprise Development Activities,” *Journal of the Community Development Society* (2005); and Edward G. Rogoff and others, “Who Done It? Attributions by Entrepreneurs and Experts of the Factors that Cause and Impede Small Business Success,” *Journal of Small Business Management*, vol. 42, no. 4 (2004), 364-376.

⁴² Carland and Carland, 5.

⁴³ Kuratko, 4-6.

start-up to first stage) and being more or less growth-oriented based on the type of firm (microenterprise/small business vs. entrepreneurial enterprise with high growth goals).

These descriptions raise central issues for microenterprise owners and practitioners. If the field starts by assuming that it primarily serves microentrepreneurs, then the goal is to build businesses that help the household attain and maintain a decent standard of living. If, however, higher business returns and/or local economic development are the goals, then the field must provide services that meet the needs of those who Carland and Carland call “entrepreneurs” as well. There is also the need to assist clients who want to transition from being a microentrepreneur to entrepreneur. Does the client want to stay a successful microentrepreneur or do they want to become an entrepreneur? How do programs transition or serve both groups well, therefore encouraging more business growth? The assumption is that macroentrepreneurs will find business growth resources in other sectors.

Growth Factor 2: Human Capital. A set of studies looks at various aspects of human capital to understand how these factors determine a business’s survival and growth. These studies look at the characteristics, experiences and assets of individuals as well as at the attitudes with which they approach their enterprise. Brian Headd’s research found, for example, that the owner’s education level is a critical factor in firm survival (he does not analyze growth), in conjunction with a set of other major factors including an ample supply of capital, the fact that a firm is large enough to have employees and the owner’s reason for starting the firm in the first place, such as additional time for family life or wanting to be one’s own boss.⁴⁴

At its simplest, Mark Montgomery looks at a set of human capital variables related to education and work experience. Reviewing data on a group of individuals engaging in business after being unemployed, he concludes that “higher human capital appears to increase the probability of pursuing self-employment, but not the probability of succeeding at it.” Montgomery uses the following indicators to describe human capital: education, pre-layoff wage, pre-lay off occupation and pre-layoff industry.⁴⁵ He goes on to explain why more education and work experience increase the likelihood of starting a business but reduce the likelihood of succeeding in business:

A plausible explanation is that more educated people have more skills to start a business, but more readily acknowledge when the business is not working (which most start-ups do not). Also, human capital raises the opportunity costs of time spent on the business. That is, more educated and experienced people require higher earnings from self-employment to prevent them from returning to wage employment.⁴⁶

This hypothesis held when statistically analyzed with business revenue outcomes. Montgomery’s study uses a control group of 751 and a treatment group of 755 Washington state unemployment insurance claimants.

⁴⁴ See Headd, 55.

⁴⁵ Montgomery, 12.

⁴⁶ Montgomery, 12.

Andreas Rauch uses an extensive meta-analysis of 93 different studies to examine the statistical association of certain psychological entrepreneurship characteristics with business success. He finds that five personality characteristics relate to success: need for achievement, internal locus of control, self-efficacy, innovativeness and pro-activity. Interestingly, risk-taking is not positively associated with business success.⁴⁷ Jason Friedman suggests, in his interview with the author, that entrepreneurs, particularly low-income entrepreneurs, may be more interested in opportunity assessment and action than risk taking.⁴⁸ Research by Gaylen Chandler and colleagues begins to develop a taxonomy related to the “opportunity/creation/discovery process” and understanding the influence this has on outcomes. Others, like Sadler-Smith suggest that risk-taking is associated with successful entrepreneurship. This is an area that needs further study.

Edward Rogoff and his colleagues study the psychological “self-serving attribution bias” of entrepreneurs to better understand what and how success is influenced by factors entrepreneurs believe impede or support success. The study of 420 small business owners, the majority of whom are male and white (> 70 percent), found that most entrepreneurs blame external factors (access to financing, economic conditions, regulation, etc.) for failure, and attribute success to internal factors (individual characteristics, management issues, marketing activities, etc.).⁴⁹ Women and experts are more likely to attribute failure to internal reasons. The literature review for this paper refers to studies by Gatewood, Shaver and Gartner (1995) that showed “women business owners were more likely to attribute their failure to internal reasons than men, who were more likely to attribute failure to external reasons.”⁵⁰ The researchers also interviewed 16 experts “who predominantly mention entrepreneurs’ internal factors as impeding success.”⁵¹ Entrepreneurs and service providers alike can use this information to correct biases by knowing that business success and failure depend equally on one’s actions as well as external factors defined above.

In summary, the literature does not offer a consistent view of the aspects of human capital most associated with growth. While education appears to have something to contribute in terms of business starts and survivals, its contribution to growth per se has not been demonstrated. The importance of risk-taking as a personal attribute has also been disputed by some. One author suggests that there is a set of other psychological attributes that make the difference, and these relate to a business owner’s sense of personal control, belief in his/her capacity to achieve and willingness to act. It is also clear that men and women view the reasons for their failure differently, and entrepreneurs and service providers alike can use this information to correct biases. This literature scan only begins to explore the substantial bodies of literature that may shed more light on the importance of microentrepreneurs’ risk mitigation, motivations and decision-making strategies in growing their businesses.

Growth Factor 3: Personal Assets. Future literature reviews need to include a more in-depth search for research about the influence of personal wealth (assets) on business growth. In the

⁴⁷ Rauch, summary.

⁴⁸ Jason Friedman, Interview by author, January 5, 2005, phone interview.

⁴⁹ Rogoff and others, 371-374.

⁵⁰ Rogoff and others, 376.

⁵¹ Rogoff and others, 373.

section below on factors that influence firms, there is a more substantial discussion of financial capital as a crucial factor in business growth. Few of the studies in this scan specify how much of this capital comes from personal assets. The initial results of this scan show contradictory findings from three studies about the importance of personal wealth. On the one hand, a 2003 study uses the Panel Study of Income Dynamics census data to conclude that wealth is not a predictor of entry into entrepreneurship:

The relationship between wealth and entry into entrepreneurship is essentially flat over the majority of the wealth distribution... It is only at the top of the wealth distribution — after the 95th percentile — that a positive relationship can be found. Households living in regions where housing prices appreciated strongly were no more likely to start a business than households in other regions... While liquidity constraints may be important to some households, they are not a deterrent to the majority of small business formation in the United States.⁵²

On the other hand, Montgomery and Headd both find that financial capital seems to make it easier to both to start a business and keep it going. Montgomery measured financial capital as “total personal assets, including value of her home, cash resources and all other assets.” These were, on average, \$68,000.⁵³

Growth Factor 4: Demographics. The research literature also points to race/ethnicity, gender, parenting and marital status as factors that make it more or less difficult to start and grow a business in the United States. Presumably, if entrepreneurs and practitioners can identify these factors, then they can better overcome or address them to achieve business growth.

Race/ethnicity: According to Fairlie, minority-owned businesses grow, but it takes up to nine years to see income from self-employment overtake income from wage/salary work for African-American and Hispanic men. And, even then, the self-employment earnings and business equity are considerably less than those of self-employed white men.⁵⁴ The evidence is less clear for the contribution of self-employment to economic mobility for black and Hispanic women, possibly due to small sample sizes. In Fairlie’s SBA-funded analysis of data from the National Longitudinal Survey of Youth research, *Does Business Ownership Provide a Source of Upward Mobility for Blacks and Hispanics?*, African American and Hispanic men “experience faster earnings growth and higher earnings” from their business only after many years of lower earning from both wages and self-employment.

Gender: Several studies also document the gender dimension in achieving business growth. Greg Hundley’s analysis of longitudinal data from two large data sets (Panel Study of Income Dynamics and the National Longitudinal Study of the High School Class of 1972) documents the

⁵² Erik Hurst and Annamaria Lusardi, *Liquidity Constraints, Household Wealth and Entrepreneurship* (Social Science Research Network, 2003); available from http://papers.ssrn.com/sol3/cf_dev/AbsByAuth.cfm?per_id=60408; Internet.

⁵³ Montgomery, 9.

⁵⁴ Robert W. Fairlie, “Does Business Ownership Provide a Source of Upward Mobility for Blacks and Hispanics?” In *Public Policy and the Economics of Entrepreneurship*, eds. Douglas Holtz-Eakin, and Harvey S. Rosen (Boston, MA: MIT Press, 2004), 16; available from [PDF, Book-](#) or <http://econ.ucsc.edu/~fairlie/papers/mingrowth10.pdf>; Internet.

well-known reality that women's household responsibilities condition the trajectory of their businesses. The data shows that "self-employed women's earnings declined with marriage, family size and hours of housework, whereas self-employed men's earnings increased with marriage and family size. Wage earnings exhibited a similar but less pronounced pattern, suggesting that women apparently tended to choose self-employment to facilitate household production, and men to achieve higher earnings."⁵⁵

Elizabeth Chell and Susan Baines found clear evidence of the underperformance of spouse-owned businesses.⁵⁶ Their reasons for underperformances of spouse-owned businesses in the United Kingdom may be true for the United States as well:

Traditional gender roles were assumed to the greatest extent by the spouse business owner category. This meant that the female spouse was, in general, carrying a double burden of responsibility for domestic and child-care activities. Consequently, she put significantly less time into the business. In addition, wives who supported their husbands in business assumed subordinate, lower level responsibilities that were, by and large, clerical and administrative, whereas of the men who supported their wives, the tasks tended to be technical and perceived to be of equivalent status or importance.⁵⁷

Similarly, Montgomery found that having children under six years old reduces business revenue, presumably by restricting the time available to pursue business activity.⁵⁸ His research suggests that while married people are more likely to get a business off the ground, they are not more likely to keep it open.

Although women may earn less, this does not mean their businesses are necessarily less productive than those of men. In a study about the role of gender and business performance in 104 microbusinesses in the United Kingdom, Chell and Baines found no significant difference between the performance of the businesses of sole male and sole female owners (in terms of revenue) and no support for the hypothesis that women have an integrated approach to their businesses and personal lives (in contrast to men). Women-owned businesses were found to be 1.7 times more productive, defined in terms of the revenues generated per employee (even though they have less revenue than male-owned business counterparts).⁵⁹ Chief motivations for being in business for women are more time with, and focus on, family, and greater flexibility in managing their households. Women business owners also say their independence enables them to be more involved in the community.⁶⁰

⁵⁵ Gregg Hundley, *Male/Female Earnings Differences in Self-Employment: The Effects of Marriage, Children, and the Household Division of Labor*. Accepted Paper Series (West Lafayette, IN: Purdue University, Social Science Electronic Library, 2000); abstract available from <http://papers.ssrn.com/sol3/>; Internet.

⁵⁶ Elizabeth Chell and Susan Baines, "Does Gender Affect Business Performance? A Study of Microbusinesses in the Business Services in the United Kingdom," *Entrepreneurship and Regional Development*, vol. 10 (1998), 117.

⁵⁷ Chell and Baines, 132.

⁵⁸ Montgomery, 13.

⁵⁹ Business Women's Network, *WOW! 2004 Quick Facts: Women and Diversity* (Industrial Distribution, 2003), 21; available from <http://www.ewowfacts.com/>; Internet.

⁶⁰ National Association for the Self-Employed. *Poll Reports More Women Turning to Self-Employment In New Decade* (Press Release, 2003); available from www.nase.org; Internet.

Growth Factor 5: Business Growth Management Skills and Resources. The entrepreneur needs to use the tools and resources that, according to the literature, appear to influence the successful growth of businesses. They fall into three main categories: entrepreneurial business development (growth-oriented strategic thinking, planning and action); employee management and, in particular, transitioning from being the sole employee to employer (human resources and communication); and adequate business financing. In general, the entrepreneur learns these skills by accessing new resources (knowledge, financing, etc.) and experience. These skills are distinct from the human capital characteristics an entrepreneur brings to business ownership (such as formal education, personal assets and demographics).

In their study of business incubators, Patti Wilber and Leonard Dixon caution that the lack of managerial expertise may rank high in the reasons for small business failure: "...While the ranking of causes may vary from industry to industry, the contributing factors remain the same (economic causes, finance causes and experience causes). According to Sanjay Ahire (2001), lack of professional managerial expertise accounts for about 90 percent of small business failure. Other factors include insufficient clout with suppliers, limited capital and displaced priorities.⁶¹ More evidence that entrepreneurial management produces results comes from J.B. Arbaugh et al.'s study of cross cultural firms' entrepreneurial behavior using the Kaufmann Foundation's International Entrepreneur of the Year database of 1,045 firms from 17 countries. Testing the relationship between entrepreneurial orientation and firm performance, they found that five components were significant predictors of sales growth and/or profitability: proactiveness and risk-taking were significant predictors of average annual sales growth, while innovation, autonomy and aggressiveness were significant predictors of both net worth and changes in net worth for the firm.⁶² Up-to-date technology needs to support the decision-making for business growth. Christopher Street and Darren Meister suggest that the decision to grow a business leads to rapid change and the need to change management information system structures.⁶³ Section three of this scan, gives a more in-depth description of promising management practices for growth-oriented business owners. There is a set of literature that points to business management capacity as key in enterprise growth. Some of the crucial management areas to master include:⁶⁴

- Planning: the level of planning matters; the more intense or systematic, the more likely the business will grow;
- Human resources: transition owner's role from central decision-maker and/or only employee to an employer who is a team facilitator and visionary leader;

⁶¹ Patti Wilber, and Leonard Dixon. *The Impact of Business Incubators on Small Business Survivability*, Association of Small Business and Entrepreneurship Annual Conference 2003 proceedings; available from <http://www.celcee.edu/abstracts/c20031730.html>; Internet.

Referenced: Sanjay L. Ahire, "Roles of Management Science Techniques in Small Firms," *Production and Inventory Management Journal* (Second Quarter 2001), 14-28.

⁶² J.B. Arbaugh, Larry W. Cox and S. Michael Camp, *Is Entrepreneurial Orientation a Global Construct? A Multi-Country Study of Entrepreneurial Orientation, Firm Strategy, and Performance* (University of Wisconsin: Osh Kosh, WI, 2004); available from www.babson.edu/entrep/fer/BABSON2003/VII/VII-S2/vii-s2.htm; Internet.

⁶³ Street and Meister, 474.

⁶⁴ See below for more on these practices in the section on Promising Business Growth Practices: Business Management Training and Technical Assistance, pages 37-43.

- Communication: conflict resolution, network formation (formal and informal), and team management for planning and business excellence;
- Information technology: up-to-date management information systems; and
- Finances: working capital, credit, payables and receivables, balance sheets, and income statements.

Business Growth: the External Environment

Factors beyond the business and the entrepreneur influence the success of microbusinesses — sector, industry, community, policies, politics, and macro and microeconomics. The context and/or environment in which the entrepreneur grows his or her business can be nurturing or challenging. According to the literature scan, these factors fall into two major categories. The first category contains factors that are static and dependent on a descriptive characteristic of the business (growth sectors or industries). The second category contains the contextual factors that can be changed (or do change), such as communities, policies, and micro and macroeconomics. Further review and analysis is called for in the fields of planning, entrepreneurship, community development, economic development and advocacy related to promoting policies supportive of micro and small businesses.⁶⁵

Growth Factor 6: Growth Sectors and Industries. Three studies, one about women-owned businesses and two specifically about microenterprises, show that the strongest levels of revenues and owner’s draw appear to be by businesses in the service sector:

- In a study of businesses started by clients transitioning from welfare to work, businesses in the services sector (child care, personal services, construction/home and vehicle repair and painting, health services, professional services, and business services) showed stronger levels of revenues and owners’ draw than manufacturing or retail firms (food, apparel and accessories, arts and crafts, beauty, and health care products).⁶⁶
- In a study of women’s businesses supported by a set of microenterprise organizations supported by the Ms. Foundation, certain business sectors appear to offer owners higher returns and owner’s draw. Of those businesses making at least \$5,000 or more a year, half (18) of the 40 are in child/adult care. The lowest sector is art/crafts at \$713 a year.⁶⁷

The FIELD study about welfare to work programs and self-employment outcomes discusses possible reasons for the concentration of microbusinesses in the service sector. There are a few reasons why service businesses may show higher levels of sales and earnings than those that are retail-oriented:

- Services is a rapidly-growing sector of the United States economy, in which there is less competition from the types of large-scale, low-cost firms that exist in the manufacturing and retail sectors.

⁶⁵ See the final strategy in Section III, pages 58-59 below for further discussion of advocacy as a promising service strategy for microenterprise development organizations.

⁶⁶ Klein, 6.

⁶⁷ Black, *Enhancing Economic Opportunity through Entrepreneurship: Overview Report on Lessons Learned*, 8.

- Businesses in several of the services industries — notably the business and professional services — may be able to tap more upscale markets than those focused on the sales of items, particularly if the business is located in a low-income community. Service businesses often involve lower non-labor costs as they do not require the acquisition of significant inventory or materials.
- For women without much access to business credit, it may be easier to grow a service business as the level of financing required is reduced [lower than purchase of inventory or materials].⁶⁸

It is important to note that in the Welfare to Work study sample, the number of businesses within each industry is relatively small.

At least for microentrepreneurs, there appears to be some indication that the choice of enterprise matters. It appears that microentrepreneurs engaged in certain sectors are more likely than others to demonstrate higher sales volumes and higher returns to their households. This is not to say that entrepreneurs in other sectors cannot achieve levels of growth, but that the road may be more challenging for them, and that programs must consider more effective ways to work with entrepreneurs in these sectors to achieve their growth goals.

Growth Factor 7: Business Regulation and Financial Support Systems. Some research identifies regulatory barriers as constraining both business formation and growth. Efforts to make policies more favorable to micro and small businesses, and simplify regulations and compliance may help liberate more businesses from the shadows, and put them on a growth path. In some cases, it may be a matter of changing policies, while in others it may be that a business stays small because the owner cannot or does not know how to navigate the system. Led by Samuel Staley, a research team from the Pioneer Institute in Boston uses case studies of four major metropolitan areas (Boston, Dallas, Atlanta and Los Angeles) to find significant complexities and scale to the regulatory barriers to entrepreneurship of microentrepreneurs and other very small neighborhood-based businesses.⁶⁹ They also “identify programs and other efforts to encourage neighborhood-based development.”⁷⁰ The authors summarize their review of regulatory environments for start-up and entry-level businesses into “five basic observations” and several avenues for reform. The five basic observations about local regulation of start-up and entry-level businesses are:⁷¹

1. Regulations rarely address performance and quality issues.
2. Regulations tend to focus on compliance with rules rather than performance.
3. Regulatory approaches are diverse.
4. Regulations can significantly complicate business ownership.
5. Regulations favor existing businesses.

⁶⁸ Klein, 57.

⁶⁹ Samuel R. Staley, and Howard Husock, David J. Bobb, H. Sterling Burnett, Laura Creasy, and Wade Hudson, *Giving a Leg Up to Bootstrap Entrepreneurship: Expanding Economic Opportunity in America’s Urban Centers*, Policy Study No.277. (Boston, MA: The Pioneer Institute, January 2001); available from http://www.pioneerinstitute.org/pdf/entre_legup.pdf; Internet.

⁷⁰ Staley and others, 1.

⁷¹ Staley and others, 2-3.

Others document small business taxation and business subsidies as impeding or encouraging local spending and business growth (as evidenced by multiple newspaper articles, journals articles, and journals about tax policies and small businesses). This is a promising area for future applied research.

Growth Factor 8: Entrepreneurial Communities and Systems. Finally, there is a growing body of literature that suggests that the lack of comprehensive ‘entrepreneurial systems’ aimed at encouraging and supporting entrepreneurship at all levels constrains growth — this leads to emerging and growing entrepreneurs not having, or knowing how to get, the services they need. It appears that a few researchers fault micro programs for being isolated from efforts to build these systems and that this is required. Documentation and analysis of other external factors address issues of more systemic changes necessary for and resulting in business growth. Lichtenstein and Pages both assert a need for what Lichtenstein labels “entrepreneurial communities” and Pages calls an “entrepreneurial ecosystem.” Ilan Vertinsky and Charles Tolbert document the benefits of building collaboration and social capital for small businesses located near other small businesses. Others document the results of the macroeconomic policies that are barriers to small businesses.⁷² Each of these is an example from whole bodies of research that have very important lessons and suggestions for the microenterprise field.

Lichtenstein and colleagues come from the field of community economic development to address the political, economic and community level factors that influence business success. *Building Entrepreneurial Communities: the Appropriate Role of Enterprise Development Activities* by Lichtenstein, Thomas Lyons and Nailya Kutzhanova, challenges the microenterprise field to become part of an “enterprise development system” that sustains and is driven by “entrepreneurial communities.”⁷³ Much like the health care system, social services system or the education system, the web of related microenterprise development programs, business incubators, entrepreneurship education institutions, community development organizations, financial institutions, asset building programs, etc., need to create a system out of disparate programs in order to achieve performance that is greater than the sum of the parts (the individual organizations/programs). Success in building entrepreneurial communities that support entrepreneurs can produce “jobs, wealth, personal development and an overall improvement in quality of life.”⁷⁴ The critical mass of entrepreneurs who are actively engaged in capturing new market opportunities is sufficient to continually replace any decline in economic activity from existing businesses within the community.⁷⁵ Networks of entrepreneurs are supported by an entrepreneurial community to grow their ventures.

Lichtenstein and colleagues assert the following:

Enterprise development as currently practiced fails to build such communities because it is tool driven, not focused on the particular entrepreneurial needs; fragmented

⁷² See Rogoff, James Daan Adam, *Identifying Factors Influencing Migrant and Local Entrepreneurial Networking* (Association of Small Business and Entrepreneurship Annual Conference 2003 paper); available from <http://www.sbaer.uca.edu/research/asbe/2003/pdfs/conferencepapers.pdf>; Internet.

⁷³ Lichtenstein and others, 14.

⁷⁴ Lichstein and others, 17.

⁷⁵ Lichstein and others, 4.

and categorical so that when an entrepreneur looks for offerings they see a maze with no clear point of entry or exit; lacks knowledge about successful practices and the conditions under which they were successful; lacks focus on the entrepreneur as the driver of the business and economic transformation, instead focusing on short term business development; and needs to create a pipeline of entrepreneurs to reach scale.⁷⁶

They propose five critical strategies for building entrepreneurial communities:

1. Take a systems approach to enterprise and community development.
2. Customize the enterprise development system for each community.
3. Focus on developing entrepreneurs.
4. Develop new roles, skills and tools.
5. Operate as a transformation business.⁷⁷

Erik Pages of EntreWorks Consulting promotes a similar proposal for an entrepreneurial ecosystem created by “increasing the supply of entrepreneurs, building entrepreneurial networks and rewarding entrepreneurial behavior.”⁷⁸ He also debunks “myths about entrepreneurship” that drive misguided policies: the need for technology (most entrepreneurs are low-tech); the need for venture capital (venture capital funds only 2,000 to 3,000 firms per year and 70 percent of funds go to businesses in five states); and the desire to be Silicon Valley (entrepreneurs exist everywhere).⁷⁹ Pages and Lichtenstein are supported by Marilyn Young who, based on her research about firms’ use of services, advocates for a statewide clearinghouse that identifies existing state and federal programs [and local?] to streamline and specialize the response process for businesses at each stage of development: the Small Business Development Centers (SBDCs) provide start-up and expansion assistance, while universities concentrate on marketing research, prototyping and commercialization.⁸⁰

Tolbert and colleagues use census data to find that in some cases (American small towns with populations between 2,500 and 20,000), local capitalism (self-employment, locally-oriented firms) and civic engagement (businesses as gathering places and associations) outcomes were strongly related to civic welfare outcomes such as income levels, poverty rates and non-migration rates.⁸¹ The implication is that civic well-being increases if communities and governments invest more resources in local businesses and opportunities for networking. It should be noted that this could result in a community development quandary: if the local

⁷⁶ Lichtenstein and others, 6-13.

⁷⁷ Lichtenstein and others, 14-17.

⁷⁸ Erik R. Pages, *Building Entrepreneurship in Delaware* (Wilmington, DE: Presentation to the Wilmington Regional Competitiveness Summit, 2003), PowerPoint slide 8; available from http://www.compete.org/docs/pdf/Pages_Entrepreneurship_Presentation.pdf, Internet.

⁷⁹ Pages, slide 7.

⁸⁰ Marilyn Young, *Small Business Information and Assistance: A Comparison of Firm Size and Income* (Association of Small Business and Entrepreneurship Annual Conference 2003 proceedings, 11; available from <http://www.sbaer.uca.edu/research/asbe/2003/pdfs/hub/25Young.pdf>; Internet.

⁸¹ Charles Tolbert, with Michael Irwin, Thomas Lyson, and Alfred Nucci, *Civic Community in Small-Town America: How Civic Welfare is Influenced by Local Capitalism and Civic Engagement* (Washington, D.C.: Center for Economic Studies, United States Bureau of the Census, 2001), discussion paper CES 01-19.

incomes are too low to support local businesses, then it is more difficult to sustain the gains. Vertinsky's research about the high-tech industry gives some insight as to the importance of collaboration and location to the firm. According to Vertinsky, external collaboration is a factor in speeding up growth for smaller firms: "Placing greater emphasis on product/process innovation and on in-house research and development helped small firms pursue radical projects, but it delayed commercialization, while greater emphasis on external collaborations speeded it up."⁸² This paper also finds that new firm start-up rates are positively related to the share of adults with college degrees, and also positively related to higher levels of existing establishments in the same industry and area sector.

The finding that higher concentrations of existing establishments in the same industry segment were strongly associated with higher start-up rates suggests that spillover of relevant knowledge from other local business owners/managers and researchers within each industry contributes to greater innovation and growth in the area. This is an approach that the Appalachian Center for Economic Networks (ACEnet) pursues. In the FIELD case study on ACEnet, the authors write:

ACEnet's current strategy is a "market-niche approach" to microenterprise development. This strategy attempts to assist small manufacturing firms form industry-specific informal networks (clusters of businesses operating in the same industry) that will facilitate access to high-value markets. ACEnet estimates that this strategy resulted in its 40 or 50 most active clients experiencing at least \$2.6 million in increased sales between 1997 and the end of 1998.⁸³

Rogoff and colleagues review research about the macroeconomic determinants of business failure. The other literature lists external factors for the corporate sector: sales tax rates, infrastructure expenditures, university research and expenditure amounts and corporate debt.⁸⁴ Others list credit market conditions. One set of researchers estimated that the macroeconomic factors explain between 30 and 50 percent of business failures.⁸⁵

The preceding sections suggest that there are a range of factors that influence business growth. Some factors may relate to a set of characteristics or life circumstances that possibly constrain growth at given periods of an entrepreneur's life and are not as amenable to program intervention. Other factors may relate to the growth prospects associated with specific industries and sectors (outcomes tracking seems to suggest that some sectors produce returns more easily than others). But there are other factors that suggest openings for better practices that can support those interested in business growth. Some are simpler than others:

- Greater training in financial analysis and management.
- Greater training in general business management (with an emphasis on human resources).

⁸² Ilan Vertinsky, *How Can Small Firms Compete Successfully? Relative Position, the Choice of Innovation Strategies and Innovation Performance* (University of British Columbia, 2003); available from <http://www.babson.edu/entrep/fer/BABSON2003/XV/XV-P1/xv-p1.htm>; Internet.

⁸³ Mary McVay and Madi Hirshland, *Making the Connection: Appalachian Center for Economic Networks (ACEnet). Access to Markets Case Study No. 1.* (Washington, D.C.: The Aspen Institute, September 2000), 2.

⁸⁴ See Chen and Williams in Rogoff.

⁸⁵ See Everett and Watson in Rogoff.

- Entrepreneurship education (thinking and acting entrepreneurially).
- Help with deeper strategic planning.
- Advice on access to, and integration of, technology.
- Greater assistance with accessing financial capital (savings and credit).
- Building entrepreneurial communities (from small to large).

The central question is: How does the entrepreneur, firm and external factors change, or need to change, to support business growth? Promising answers to this question are discussed in the next section of this review.

Promising Business Growth Practices

Section three summarizes promising practices and key issues for services that appear to increase business growth rates and incomes for microenterprises in the United States. These strategies emerge from a preliminary scan of literature in the fields of entrepreneurship education, best practices in microenterprise training and technical assistance, and community economic development, including small business incubators and financing. Special emphasis is given to practices with evidence of success. A description and the evidence of success are given for each type of service highlighted.

The services that may best serve growth-oriented microbusiness owners fall into three areas on a continuum that ranges from the individual business owner to the business world to the larger community. Each of the areas of service overlaps with, and may prove to be necessary for the success of, the others:

High Growth Business Services Meet Owners' Business Growth Goals and Life Cycle Stage by:

- Increasing entrepreneurial education in the training curricula of programs; and
- Providing more intensive focus on key management issues that affect growth (or survival) — during core training and after core training — and in program design.

High Growth Business Services Build Bridges to the Business World by:

- Connecting individuals to mentors, experienced business consultants and coaches;
- Incubating businesses with supportive and productive facilities and services;
- Building networks of entrepreneurs (this has been defined in different ways: programs often create networks of graduates, but there may be other more value-added ways to do this — sector- or industry-based networking, and networking across sectors but beyond the small network of the program);
- Providing access to markets for fledgling entrepreneurs that, in turn, build networks and connections; and
- Improving personal and business financial readiness and fund availability for entrepreneurial clients.

High Growth Business Services Advocate to Improve the Enabling Environment by:

- Moving more to the level of the entrepreneurial community — building and/or participating in building a more explicit and comprehensive community crossing all business sizes, linking a variety of providers and services to a variety of business sizes; and
- Improving the enabling environment by looking at a whole range of regulatory as well as access to services and capital issues.

The literature also briefly reviews key strategic issues for implementing these services: definition and readiness of who is served, as well as the appropriate intensity of services.

High Growth Business Services Meet Owners' Business Goals and Life Cycle Stage

ENTREPRENEURSHIP EDUCATION

While there is some important evidence that the type of basic business training offered by many microenterprise programs has real value in assisting people to start business and stay in business, there is some question as to whether it is sufficient to foster the type of growth defined here. Entrepreneurship education focuses on continual economic improvement for individuals, firms and communities, with business growth as a central result. It is a well-developed (large scale) and well-connected field (intersects with many fields: from elementary through advanced degree education to the medical sciences). The literature suggests there is real potential to learn from entrepreneurship education about how to teach the skills and characteristics that are more associated with a growth-oriented business.

Entrepreneurial education and entrepreneurship promotion rest on a foundation of giving individuals the tools and inspiration they need to realize business growth opportunities. The Consortium of Entrepreneurship Education (Consortium) defines entrepreneurship education as:

...a lifelong learning process, starting as early as elementary school and progressing through all levels of education, including adult education...Students will have: progressively more challenging educational activities; experiences that will enable them to develop the insight needed to discover and create entrepreneurial opportunities; and the expertise to successfully start and manage their own businesses to take advantage of these opportunities.⁸⁶

The emphasis is on the training and education of entrepreneurs, mostly in the existing educational systems, including institutions connected to universities or colleges. According to the Consortium, the lifelong learning process progresses through five stages:

- Stage 1: Basics. Gain prerequisite skills, identify career options, understand economics and enterprise.
- Stage 2: Competency Awareness. Discover entrepreneurship competencies, understand problems of employers.
- Stage 3: Creative Application. Learn entrepreneurship competencies, apply specific training, learn how (by practice) to create a new business (may result in a business plan). This often takes place in advanced high school career and technical programs, two-year colleges, and some colleges and universities.



Job Experience/Job Training and Education



- Stage 4: Start-Up. Become self-employed; develop policies and procedures for new or existing business. This stage occurs after job experience and/or further education. Community education programs focusing on business start-up assistance are available at career and technical programs, community-based

⁸⁶ Consortium for Entrepreneurship Education. *National Content Standards for Entrepreneurship Education* (Copyright 2004); available from http://www.entre-ed.org/Standards_Toolkit/importance.htm, Internet.

assistance programs, community colleges, four-year colleges and universities. The SBA sponsors many these training programs.

Stage 5: Growth. Solve business problems effectively, expand existing businesses. Often, business owners do not seek help until it is almost too late. A series of continuing seminars or support groups can assist the entrepreneur in recognizing and solving potential programs. Many community colleges and continuing education programs offer these for their business community.⁸⁷

The Consortium defines 15 major standards that describe, in more detail, key components of successful entrepreneurship education. These are grouped into three categories:

Entrepreneurial skills are the process and traits/behaviors associated with entrepreneurial success.

1. Entrepreneurial processes: understands concepts and processes associated with successful entrepreneurial performance — discovery, concept development, resourcing, actualization, harvesting.
2. Entrepreneurial traits/behaviors: understands the personal traits/behaviors associated with successful entrepreneurial performance — leadership, personal management, personal assessment.

Ready skills are the basic business knowledge and skills that are prerequisite for becoming a successful entrepreneur.

3. Business foundations: understands fundamental business concepts that affect business decision-making — business concepts, business activities.
4. Communications and interpersonal skills: understands concepts, strategies and systems needed to interact effectively with others — fundamentals of communication, staff communication, ethics in communication, group working relationships, dealing with conflict.
5. Digital skills: understands concepts and procedures needed for basic computer operations — computer basics, computer applications.
6. Economics: understands the economic principles and concepts fundamental to entrepreneurship and small business ownership — basic concepts, cost/profit relationships, economic indicators/trends, economic systems, international concepts.
7. Financial literacy: understands personal money management concepts, procedures and strategies — money basics, financial services.
8. Professional development: understands concepts and strategies needed for career exploration, development and growth — career planning, job-seeking skills.

Business functions are the activities performed by entrepreneurs in managing the business.

9. Financial management: understands the financial concepts and tools used in making business decisions — accounting, finance, money management.
10. Human resource management: understands the concepts, systems and strategies needed to acquire, motivate, develop and terminate staff — organizing, staffing, training/development, morale/motivation, assessment.

⁸⁷ See Consortium for Entrepreneurship Education.

11. Information management: understands the concepts, systems and tools needed to access, process, maintain, evaluate and disseminate information for business decision-making — record keeping, technology, information acquisition.
12. Marketing management: understands the concepts, processes and systems needed to determine and satisfy customer needs/wants/expectations, meet business goals/objectives, and create new product/service ideas — product/service creation, marketing information management, promotion, pricing, selling.
13. Operations management: understands the processes and systems implemented to facilitate daily business operations — business systems, channel management, purchasing/procurement, daily operations.
14. Risk management: understands the concepts, strategies and systems that businesses implement and enforce to minimize loss — business risks, legal considerations.
15. Strategic management: understands the processes, strategies and systems needed to guide the overall business organization — planning, controlling.⁸⁸

Kuratko summarizes some of the successful practices (methods and tools) in entrepreneurship education:

- Showing students “how” to behave entrepreneurially and introducing them to people who might be able to facilitate their success,⁸⁹
- Interdisciplinary program teams;
- Instructional methodology for teaching those who manage and support entrepreneurs (corporate leadership, lawyers, accountants, etc.);
- Emphasis on individual activities that are relatively unstructured and present problems that require a “novel solution under conditions of ambiguity and risk,”⁹⁰
- Greater use and competence in using academic technologies;⁹¹ and
- Entrepreneurship educators who have the same innovative drive that is expected from students.⁹²

In their research, Wilburn Clouse and Terry Goodin find an “example of a new approach to entrepreneurial education that emphasizes creativity over conformity by using an interdisciplinary style for courses to present students with case studies that force them to confront new or different real life issues. The goal is for students to come up with business ideas or products that will serve or resolve the problems.”⁹³ This is similar to the famous Harvard Business School case study teaching method.

On first scan, there is little evidence of the outcomes or impact of specific entrepreneurship education programs. Alberta Charney found, in a survey of alumni from University of Arizona,

⁸⁸ Consortium for Entrepreneurship Education, *Summary List of Standards*.

⁸⁹ See Ronstadt in Kuratko, 14.

⁹⁰ See Block and Stumpf, Sexton and Upton, Ronstadt, in Kuratko, 15.

⁹¹ Kuratko, 15.

⁹² Kuratko, 22.

⁹³ Wilburn R. Clouse, and Terry Goodin, *Developing the Entrepreneurial Spirit* (Entrepreneurial Education Forum: Vanderbilt University, 2005); available from <http://entrepreneurship.vanderbilt.edu>; Internet.

that entrepreneurship education increases job satisfaction, income and the size of firms started by alumni. The survey also reveals that entrepreneurship education promotes technological advancement. The other major evidence is the scale and rate of growth of entrepreneurship education itself in recent years. In his 2003 paper Kuratko describes the scale of the entrepreneurship education field. He also documents the extensive research that has occurred over the past 20 years that supports many of the standards adopted by the Consortium of Entrepreneurship Education (see page 15 of his paper for over 20 citations to academic research mentioning or supporting the standards such as skill building, career options, sources of venture capital and idea protection). The phenomenal scale and rate of growth for entrepreneurship education is one indicator of success. Again, from Kuratko's research:⁹⁴

Today entrepreneurship education in America has exploded to more than 2,200 courses at over 1,600 schools, 277 endowed positions, 44 referred academic journals, mainstream management journals devoting more issues (some special issues) to entrepreneurship, and over 100 established and funded centers. The discipline's accumulated wealth has grown to exceed \$440 million, with over 75 percent of the funds accruing since 1987...⁹⁵

Pedagogy is changing based on a broadening market interest in entrepreneurial education. New interdisciplinary programs use faculty teams to develop programs for the non-business student, and there is a growing trend in courses specifically designed for art, engineering and science students. In addition to courses preparing the future entrepreneur, instructional methodologies are being developed for those who manage entrepreneurs in organizations; potential resource people (accountants, lawyers, consultants) used by entrepreneurs and top managers who provide vision and leadership for corporations which must innovate in order to survive.⁹⁶

BUSINESS MANAGEMENT TRAINING AND TECHNICAL ASSISTANCE

There is some evidence from research about microenterprise program outcomes that completing training is related to higher rates of business start-up and possibly survival, but that it is insufficient for growth (expansion and profitability). FIELD research in *Improving Microenterprise Training and Technical Assistance: Findings for Program Managers*, finds a relationship between completing core training (completing a business plan and other assignments) and having a business within a year to 18 months after training.⁹⁷ Montgomery's study confirms the microenterprise training results. He finds that those who complete training are almost 30 percent more likely to have surviving businesses.⁹⁸ Evidence that basic business training does not appear sufficient to promote business growth, however, appears in the longitudinal research by the Center for Women's Business Research (CWBR). The CWBR study, using a sample of 98 clients, compares business growth outcomes to the various services delivered by a group of Women's Business Centers. Specifically, the CWBR study shows that

⁹⁴ Kuratko, 14.

⁹⁵ Katz in Kuratko, 14.

⁹⁶ Block and Stumpf in Kuratko, 14.

⁹⁷ Elaine Edgcomb and others, *Improving Microenterprise Training and Technical Assistance: Findings for Program Managers* (Washington, D.C.: The Aspen Institute/FIELD, February 2002).

⁹⁸ Montgomery, 9.

basic business skill attainment is not related to business growth.⁹⁹ Observable, but not statistically significant, gains are seen when skills such as clear business vision and the ability to describe average customer and competition are present. Interestingly, those clients receiving mentoring services were more likely to experience business growth. This idea is supported by Sadler-Smith's suggestion that "business management educators need to identify the skills an aspiring entrepreneur needs to have at his or her disposal" as an alternative to the trait-based perspective. The research suggests that we work toward a complement of managerial and entrepreneurial competencies."¹⁰⁰

The fact that basic business training alone doesn't support business growth should not be surprising. Many core courses focus on the most introductory concepts: testing business feasibility, developing a business plan to help a business launch, securing financing or taking the next steps toward stabilization and growth. The majority of programs are not designed to address the growth issues or growth skills identified by this literature review. It is important for practitioners to be realistic about what their programs can achieve and to realize that they may need to change if they want to support more growth-oriented businesses. The change can be of any variety. They can incorporate entrepreneurial education concepts and skills from the start in the basic business course. They can create and offer advanced training for those who are ready to move on to learn specific management/operational/strategic planning skills, and provide more experiential, case-based problem solving learning at the same time. Advanced training and one-on-one technical assistance can also focus on the financial skills, management skills, managing information and strategic planning addressed in the next section on tools for managing business growth.

Many programs currently have curricula that train business management on a broad range of clients: from the self-employed to the small business owner who wants to make a dependable living to the entrepreneur. George Solomon and Mark Weaver suggest that, at the very least, trainers need to rethink their assumptions and perhaps recognize that two models are required — "an entrepreneurial model in which the focus is on wealth and job creation," and a second "small business model in which the focus is income substitution and a desire for familial practice."¹⁰¹ This dichotomy has interesting implications for program decision-making regarding which management tools and resources are the most effective for a continuum of entrepreneurs: from "the sky's the limit" entrepreneurs, to those learning to be self-employed as a complement to or transition between jobs, to the small business owners who want to 'make a decent living' with businesses that are here to stay. The literature scan finds business management skills that appear

⁹⁹ Center for Women's Business Research, *Launching Women-Owned Businesses*, 14. This study measures business growth in three ways. Clients rate the growth of their business in a given period on a 1-4 scale, with "1" being business growth decline and "4" fast-paced growth. The second method compares hours worked per week, number of paid employees and annual sales from each of the 4 surveys. The study also tracks changes in business status. What is most noteworthy about the overall findings is the lack of business growth: 83 percent did not change business status; no significant changes in jobs, hours, or revenue were recorded; and only a small increase is recorded for the business growth reported by clients of the Women's Business Centers on the 1-4 scale.

¹⁰⁰ Sadler-Smith, 62.

¹⁰¹ Mark K. Weaver and George Solomon, *Teaching Entrepreneurship to Small Business and Small Business to Entrepreneurs?* Small Business Advancement National Center; University of Central Arkansas, College of Business Administration, Conway: AR., 2003. International Council for Small Business (ICSB) conference proceedings, 2003; available from http://www.sbaer.uca.edu/research/icsb/2003/papers/20_doc, Internet, abstract.

to support business growth in four general categories: growth management, pragmatic planning, human resources and financial management. This is an initial list of management tools and is not intend to be definitive or complete.

Research from FIELD confirms this collection of crucial growth-oriented business management tools. According to Elaine Edgcomb and Erika Malm in their best practices guide about one-on-one services for microentrepreneurs, microenterprise clients demand the consulting topics that align with many of the features of a successfully growing firm and successful strategies (documented below). Key needs of clients include:

- Market research and marketing: guidance on accessing markets, packaging and promotion;
- Financial management: preparing cash flow projections and financial record-keeping;
- Business plan development and loan packaging;
- Employee hiring and management issues; and
- Industry expertise.¹⁰²

Growth Management: Work by Larry Short and Paul Dunn, based on research with a convenience sample of Small Business Development Centers/SBA directors, college professors and entrepreneurs in a 2003 pilot study, identifies the most critical activities associated with each stage of business development. They identify 25 activities critical to the management and growth phase including:

- General business issues: shifting mind from start-up to management mode, concentrating on the big picture;
- Financial issues: acquiring additional funds to support growth, evaluating sources for additional funding, securing funding, developing a capital budget plan, working out cash-flow problems, deciding on the need for a certified public accountant, finding the right banker, working with bank on financial issues;
- Marketing issues: surveying changing markets and economy, determining the target customer, marketing to product or service, identifying new markets, building and maintaining customer relations, increasing sales at the right pace;
- Production/operations issues: redefining production facilities, developing monitoring and control systems, building supplier relations; and
- Human/organizational issues: building accountability into the system, committing to measurement and performance evaluation, selecting managerial personnel for expansion programs, recruiting and selecting appropriate employees, working through managers rather than doing it yourself, awareness and understanding of regulatory issues (OSHA, EPA, etc.).¹⁰³

¹⁰² Elaine Edgcomb, and Erika Malm, *FIELD Best Practice Guide: Volume 4, Keeping It Personalized: Consulting, Coaching and Mentoring for Microentrepreneurs* (Washington, D.C.: The Aspen Institute/FIELD, February 2002), 16.

¹⁰³ Larry E. Short, and Paul Dunn, *A Pilot Study to Identify the Critical Activities Performed by Entrepreneurs* (2003); available from <http://www.sbaer.uca.edu/research/asbe/2003/pdfs/hub/18Short&.pdf>; Internet.

In order to evolve as a Chief Executive Officer, Catlin and Matthews suggest that the entrepreneur needs to:

- Learn how to plan, including balancing short-term and long-term goals of all constituencies;
- Communicate to produce alignment;
- Build an entrepreneurial team and facilitate their working as a team;
- Resolve conflicts — understand that people and culture are your key assets; and
- Learn from every success and failure you have and from mentors and other successful entrepreneurs.¹⁰⁴

Their list of the characteristics of growth-oriented firms describes management in a “learning organization”. The growth-oriented firm’s management results in the following features (paraphrased):

- Market leadership due to an ability to capitalize on new markets;
- High-quality leadership and talented workforce with shared vision and core values;
- A plan everyone uses as a roadmap for priority setting, decisions and action;
- Culture that rewards people for ideas and contributions and fosters team work at all levels; people dedicated to learning;
- Processes streamlined to assure maximum efficiency in operation;
- Continual improvement and innovation; and
- Maintenance of a competitive edge by anticipating change and redefinition of every part of the business.¹⁰⁵

Sound good? Sadler-Smith and colleagues get more concrete by testing if entrepreneurial management practices lead to high-growth firms. Their research compares managerial behaviors and entrepreneurial styles (top managers inclined to take risks, favor change and innovation, and proactively compete aggressively) to conclude that entrepreneurial styles were positively associated with high-growth firms, while managerial behavior alone was not. They found that there is a significant relationship between entrepreneurial style and two aspects of managerial behavior:

1. *Managing the culture of the firm* by providing guidance on ways in which business values are to be expressed; promoting and protecting planned work and the employees who carry it out; encouraging diversity in working styles; and identifying and setting up collaborative and consultative working arrangements.
2. *Managing the vision* in terms of identifying customer needs and spotting opportunities; identifying problems and opportunities in products and services; identifying and evaluating competitors and collaborators; developing systems to review the external environment; creating a shared vision and mission to give purpose to the organization; and formulating appropriate objectives and strategies to guide the organization.¹⁰⁶

¹⁰⁴ Catlin and Matthews, *Leading at the Speed of Growth*, 7.

¹⁰⁵ Catlin and Matthews, *Leading at the Speed of Growth*, 3.

¹⁰⁶ Sadler-Smith, 60.

They also found that a non-entrepreneurial style is associated with a traditional performance management style.

More evidence that entrepreneurial management produces results comes from a study by Arbaugh and colleagues of cross cultural firms' entrepreneurial behavior using the Kaufmann Foundation's International Entrepreneur of the Year database of 1,045 firms from 17 countries. They test the relationship between entrepreneurial orientation and firm performance. They found that five components were significant predictors of sales growth and/or profitability. Pro-activeness and risk-taking were significant predictors of average annual sales growth, while innovation, autonomy and aggressiveness were significant predictors of both net worth and changes in net worth for the firm.¹⁰⁷

Pragmatic planning appears to influence later business success. Carland and Carland's research study of 456 small business owners (the majority with less than 10 employees) confirms that the "greater the level of planning intensity, the greater the financial performance." They use financial measures to define business growth: sales volume and number of employees. In this definition, they note that sales are often used as a measure for all firms, and sales growth is often cited as an objective of entrepreneurial firms.¹⁰⁸ The findings show that formal and informal planners outperform non-planners with respect to sales volume; formal planners outperformed informal planners with respect to growth in the number of employees.¹⁰⁹ Carland and Carland differentiate planning behavior by three types of entrepreneurs (microentrepreneurs, entrepreneurs and macroentrepreneurs) to explain varying levels of entrepreneurial planning and performance. For microentrepreneurs generally, they believe:

planning is less central, as their focus is on lives outside the business and on the freedom the business bestows, we cannot expect them to devote much time to planning... These are individuals who have displayed a tendency not to plan, in the Robinson and Pearce (1984) perspective, as a result of preoccupation with daily operational decisions. In the early stages... there may be some attention to informal vision, but this pales as the attention shifts outside the business.¹¹⁰

With regard to performance, microentrepreneurs will generally be found near the low point from the financial perspective. As soon as the venture produces a level of family income that the individual finds acceptable, he or she is likely to be content to operate the firm in that fashion until retirement.¹¹¹

From this study, we can infer that most microentrepreneurs will tend to be non- or low-level planners and low financial performers. Microentrepreneurs need a higher degree of planning as part of their management practices if they want financial results more similar to the

¹⁰⁷ Arbaugh, Cox and Camp, abstract.

¹⁰⁸ Carland and Carland, 8.

¹⁰⁹ Carland and Carland, 10.

¹¹⁰ Carland and Carland, 5.

¹¹¹ Carland and Carland, 6.

entrepreneurs.¹¹² Alison Morrison and colleagues also found a positive relationship between use of business plans and growth that exceeds industry norms in their analysis of 20 case studies of pro-growth small businesses in Australia.¹¹³

Research by Arnold Cooper and Shailendra Mehta supports the idea of pragmatic planning: “Those who got their ideas from previous jobs and those who left their prior jobs only because of new business plans were able to withdraw more cash in the third year.” The authors suggest, “it may be that a focus on keeping the previous job until plans are well along reflects systematic preparation and a less impetuous move toward entrepreneurship.”¹¹⁴ The implications of this research are that programs that focus on assisting pre-start-up and start-up businesses should perhaps promote the idea of “keep your day job” until the business is really ready, and that the “day job” should be related to the business idea.

Human Resource Management: In order to grow the business, entrepreneurs most likely will transition from being a sole proprietorship to an employer. Tansky and colleagues assert that “little is known about the various issues of integrating people into start-up firms . . . this is an important area for study.”¹¹⁵ From their results, “it is clear that organizations need to consider the developmental stage of the firm when allocating resources. For example, although a search for talent may continue to be a central issue for the firm, what this means in terms of importance may vary from recruiting to fit the management team in a start-up to new skills during diversification.” Nancy Upton and others suggest that “human resource activities do have a positive impact on performance” in a study of high-performing family firms and human resource activities drawn from a 1998 Survey of Innovative Practices administered by the Kauffman Center for Entrepreneurial Leadership. Findings indicate that emphasis on training and development, recruitment and selection, maintaining morale, use of performance appraisals, and competitive compensation are important for high performing firms. They also find that high-performing firms use more incentive compensation of all types at every level in the organization.¹¹⁶

Interpersonal communication: Many of the key activities of entrepreneurial management rely on strong human resource management and excellent communication. Catlin and Matthews point out that a growth-oriented entrepreneur needs to include all constituents in planning, “communicate to produce alignment, build [an] entrepreneurial team and facilitate their working

¹¹² Carland and Carland suggest that those who are willing to engage in this level of planning are entrepreneurs, rather than microentrepreneurs. They expect that an entrepreneur who has not yet reached a personally satisfying level of financial success to be actively involved in strategic planning. This will result in moderate financial growth (Carland and Carland, 6-7). Finally, it is the macroentrepreneurs who engage in deep, serious, intensive and continuous strategic planning. A Carland and Carland 2000 study showed that macroentrepreneurs had established formal planning processes and did pursue strategic planning with high level of intensity. This results in high rates of financial growth for the very few firms who are macroenterprises.

¹¹³ Morrison, 420. Note: The case studies did not include microbusinesses with less than five employees “because growth patterns are more erratic, more dependent on government programs” or businesses with more than 50 employees.

¹¹⁴ Cooper and Mehta, 5.

¹¹⁵ Tansky, Heneman, and Cohen, summary.

¹¹⁶ Nancy B Upton., Dawn Carlson, Samuel L. Seaman, Elizabeth J. Teal, *High Performing Family Firms: Do Human Resource Practices Matter?* (Waco, TX: Baylor University, 2004); available from <http://www.babson.edu/entrep/fer/BABSON2003/XII/XII-S6/xii-s6.htm>; Internet. .

as a team, resolve conflicts, understand that people and culture are your key assets, and learn from every success and failure you have and from mentors and other successful entrepreneurs.”¹¹⁷ These are people and communication skills supported by adequate infrastructure, including management information systems. Constantine Andriopoulos explores the role of social networks within successful, growing, creative ventures. These are known as “intrafirm networks” and relate to the processes of creating conditions for the exchange of information and resources necessary to manage the growth. Case studies based on interviews with 80 managers and staff in four firms in the United Kingdom and United States suggest that “managers of growing ventures need to realize the formal, as well as hidden, processes that result in working teams and/or cliques. The research highlights formal and informal processes that link people together (bonding) within work settings.”¹¹⁸

Financial Management: The ability to manage working capital, trade credit and credit prevents organizational failure, but does it encourage growth? In their study of 131 small businesses Don Bradley and Michael Rubach found there is a relationship between poor working capital management and organizational failure. “Small and growing businesses subjected to the liability of smallness, are generally less liquid, exhibit more volatile cash flows and profits, and rely on short-term debt funding. Given these liabilities, efficient credit management of working capital and good credit management practices have been identified as necessary to the financial health and survival of the business.”¹¹⁹ They go on to make suggestions on how to best manage working capital: receivables and payables. Women-owned businesses with \$1 million are more likely than smaller women-owned firms to produce balance sheets (95 percent vs. 68 percent), income statements (93 percent vs. 74 percent), and cash flow statements (74 percent vs. 51 percent).¹²⁰

In summary, having adequate start-up capital is crucial, and some literature suggests that those with more than \$50,000 do better — very few of which are microbusinesses. Secondly, knowing how to manage working capital and debt is also important and, when not present, the firm is less likely to survive, much less grow. Third, most of the smallest businesses do not use financial tools that will help them better manage the capital they have. In fact, some research has found that the larger the business, the more likely it is to use tools such as financial statements. Programs may need to focus more on teaching how to use financial statements as a source of information to manage the business and less on teaching the definition of a financial statement. This distinction can be critically important to clients sustaining the use of the management skills and tools that are more likely to support business growth.

High Growth Business Services Build Bridges to the Business World

¹¹⁷ Catlin and Matthew, *Leading at the Speed of Growth*, 7.

¹¹⁸ Constantine Andriopoulos, *Studying Intrafirm Networks Within Growing Ventures: Cases from the UK and the USA* (Centre for Entrepreneurship, (Aberdeen, Scotland: University of Aberdeen, 2004); available from <http://www.babson.edu/entrep/fer/BABSON2003/VIII/VIII-S1/viii-s1.htm>; Internet.

¹¹⁹ Don B. Bradley III and Michael J. Rubach, *Trade Credit and Small Businesses: A Cause of Business Failures?* Association of Small Business and Entrepreneurship Conference paper. (2002), 1-2; available from <http://www.sbaer.uca.edu/research/asbe/2002/papers/02asbe055.pdf>; Internet

¹²⁰ See Business Women’s Network.

ONE-ON-ONE MENTORING, CONSULTING AND COACHING

Individualized technical assistance includes a range of one-on-one services including business consulting, expert and peer mentoring, and coaching. The defining characteristic of these services is that the content of the services, as well as the time and tempo (often), are customized to the needs of the particular entrepreneur. These services often result in a client's transition from an internal program focus to professional business services, many of which serve the more mainstream business world as well (mentoring with experienced entrepreneurs, consulting with accountants, suppliers, marketing specialists, etc.).

FIELD's own research identifies a set of these services, as offered by microenterprise organizations, and suggests some principles associated with better practice in these areas. The Center of Women's Business Research supports the importance of mentors in assisting women business owners, in particular, to achieve business growth, as do assertions by Catlin and Matthew, and Stuart Read, who explore the role of expert entrepreneurs in assisting novice entrepreneurs. The Sirolli Institute, as reported on their Web site and through the National Association of Development Organizations, claims that its technical assistance, mentoring and networking model has achieved strong business survival rates.

One-on-one mentoring, consulting and coaching services customize and support the transition of the performance-oriented microentrepreneur to the business world. "Guided choice" consulting and "enterprise facilitation" are two models that combine mentoring and technical business assistance with network building and access to financing. In FIELD research about best practices, the guided choice model emerges as a better structure for providing post-training technical assistance services. It is one that combines client initiative and choice with a regular connection to and reminder of available services. Compared to supply-driven models, where technical assistance was pushed to clients who agreed to participate in a special program, and to laissez-faire models, where services are made available in a fully open way, the business consultant-centered model provides enough structure to keep clients engaged while, at the same time, keeping them in the drivers' seat. One example comes from northern California where West Company developed a Commerce Café for owners of existing businesses.¹²¹ The program quality is established by:

- Ground rules of engagement for clients and consultants (mission, range of services and hours, goals, responsibilities);
- Consultant team meetings to review progress and share resources;
- Investment in ongoing professional development plans for consultants: technical content, local knowledge, economic trends, adult education and communication training;
- Hiring and supporting consultants with a diversity of skills and characteristics: content experience, organizational skills, strong listening and facilitation skills, flexibility and responsiveness, coaching skills, a strong Rolodex of resources and connections, and culturally appropriate communication skills.¹²²

The microenterprise research also found that guided choice mentoring services had better results if the businesses were ready to fully utilize the resources. These businesses needed to have:

¹²¹ Edgcomb and Malm, 20.

¹²² Edgcomb and Malm, 23-30.

- Enough time for mentoring (less likely for start up business, more likely for established business);
- A clear set of issues or questions for mentor;
- A level of self-confidence that enables a one-to-one professional relationship; and
- Demonstrated capacity to achieve business goals and implement recommendations.¹²³

Other successful models from the microenterprise development field include:

- Peer mentoring — matching businesses in similar growth stages or personal circumstances.
- Business advisory boards — drawing upon the experience of several established business owners willing to provide advice and counsel to an entrepreneur focused on achieving substantial development of his/her business.
- Micro Mentor, an Internet-based mentoring service that is too new to evaluate, but shows promise in its flexibility and accessibility.¹²⁴

Other mixed-method models that include one-on-one services come from the economic development field. Erik Page’s “entrepreneurial ecosystem” and Lichtenstein’s “entrepreneurial communities” both emphasize peer learning and mentoring. A well-established, mixed-methods model is “enterprise facilitation.” As described by the founder and executive director of the Sirolli Institute, Ernesto Sirolli, enterprise facilitation builds the entrepreneur’s management strengths using local resource people by combining technical assistance, mentoring and networking with community building. He further states:

For a business to succeed, three elements need to be managed passionately: product development, marketing, and financial management, which I call the trinity of management. . . 80 percent of businesses with less than \$1 million in revenues fail because they do not adequately address the trinity.

When the Institute is invited into a community or region, it first requires the creation of a board of management comprised of 25-35 community leaders to oversee the implementation of the program and serve as an advisory team. The members include business leaders, accountants, bankers, government officials, etc.. The board hires an enterprise facilitator to coordinate 40-50 entrepreneurs (introduced through the board) in accessing the services they need from the board to strengthen the weak trinity management parts. The Institute’s contract with a community is for 30 months.¹²⁵

A study by Stuart Read, et al., explores the role of expertise and experience in an entrepreneurial setting in terms of the differences between novice and expert entrepreneurs’ contributions to management discussions, problem solving and firm growth. This abstract suggests that there is a

¹²³ Edgcomb and Malm, 44.

¹²⁴ Edgcomb and Malm, 47-52.

¹²⁵ William Amt, “Facilitating Entrepreneurial Success,” *Economic Development Digest* (July 2002), vol: 13, no.9; available from <http://www.nado.org/> or <http://www.sirolli.com/>; Internet..

category of literature about expert entrepreneurs and their relationship to novice entrepreneurs.¹²⁶ Arnold Cooper and Shailendra Mehta consider whether certain aspects of preparation for new business formation are related to later performance. They find that, “surprisingly, those who tapped professional information sources did not demonstrate higher performance.” Four different professions were given as options: accountants, other business owners, bankers and lawyers.¹²⁷ This might suggest that professional relationships alone are not as effective as the combination of mentoring, consulting and coaching.

Some unsubstantiated evidence comes from the Sirolli Institute and entrepreneurship “how to” literature. In their contribution to the popular ‘how to grow your business’ literature, Catlin and Matthews suggest in the first chapter of their *Leading at the Speed of Growth*, that entrepreneurs learn from every success and failure they have and from mentors and other successful entrepreneurs. As documented by William Amt in the Economic Development Digest, a publication of the National Association of Development Organizations Research Foundation, the Sirolli model has assisted over 30,000 businesses with an average cost per job created of \$2,500 since 1985. The Sirolli Institute claims that 80 percent of businesses assisted using the Sirolli model survive for five years.¹²⁸

The literature scan also finds three studies that document positive business growth results after entrepreneurs participate in one-on-one services. The Center for Women’s Business Research’s *Launching Women-Owned Businesses* report found that mentoring appears to contribute to business success: women business owners who had mentors were more likely to report that their businesses experienced growth than were those who did not have mentors.¹²⁹ Marilyn Young found that small business owners tend to prefer personal and private sources of information as they indicated difficulty obtaining information immediately useful to them.¹³⁰ Although the sample sizes are small, FIELD and participating microenterprise organizations documented increases in business growth outcomes for participants in the following guided choice one-on-one services:

- WREN (Women’s Rural Enterprise Network, NH): During 2001, their first year of participation, clients experienced an average increase of 45.6 percent in revenues and a median increase of 20.3 percent in gross sales (n=19). During 2002, their second year,

¹²⁶ Stuart Read, Robert Wiltbank, and Saras Saravsvathy, *What do Entrepreneurs Really Learn from Experience? The Difference Between Expert and Novice Entrepreneurs* (University of Washington Business School, 2003); available from www.babson.edu/entrep/fer/BABSON2003/VII/VII-P4/vii-p4.htm; Internet.

¹²⁷ Cooper and Mehta. Note on method: They defined performance as business survival for three years, money taken out in the third year (salary, dividends, personal draw and prerequisites), and employment growth (p.3). Months of preparation was defined as the number of months between the entrepreneur’s first business expenditure of \$500 or more and the first cash receipts. Control variables focused on measures of financial and human capital: initial capital, business structure, prior business experience similarity to business, age of business, business location outside the home (excluded home-based businesses), industry, gender, and race. It is interesting to note that the performance measure of “cash taken out” seemed to be the primary measure associated with significant relationships (more discussion of the measure is on page 5.). The sample was 737 firms that all had been in business for eighteen months or less and were members of the National Federation of Independent Business.

¹²⁸ Antonia Swinson, “The Midwife of Small Business,” *Regeneration and Renewal* (November 12, 2004); available from <http://www.sirolli.com/news/feature.html>; Internet.

¹²⁹ Center for Women’s Business Research, *Launching Women-Owned Businesses*, 24.

¹³⁰ Young, 3.

clients experienced an average increase of 133.6 percent in revenues and a median increase of 60.8 percent over their 1999 gross sales (n=14).

- West Company (Ukiah, CA): After one year, clients experienced an average increase of 88 percent in revenues (n=13; median = 39.5 percent), and an average increase in profits of 155.6 percent (n=13, median = 66 percent). Of 21 “Commerce Café” members, 66 percent of the group reported reaching stability or profitability. Eighty-seven percent remain in business after 2 years of participation.¹³¹
- Women Economic Ventures (Santa Barbara, CA): Coaching clients report that they are able to pay bills and feel highly successful in their business, although they were less likely than non-coaching clients to have increased their personal income.¹³²

Other business growth strategies rely heavily on one-on-one services as part of mezzanines of services: networking, business incubators, revolving loan funds and access to market strategies.

BUSINESS INCUBATORS

Business incubators go one step further than the customized assistance of one-on-one by providing, in most instances, a physical space which both allows emerging entrepreneurs to benefit from shared offices, equipment and services, as well as draw upon an array of technical services, and peer support. Business incubators provide a combination of services under one roof, as well as an infrastructure for networking and the real-life running of a business (not start-up preparation in a classroom), providing a much-needed bridge to the business world. The long and positive track record of business incubators makes this practice a compelling strategy for microenterprise programs to consider building into, or connecting to, their services.

From this review of the literature, it is probable that services that incubate or accelerate microenterprises are under-represented in the 1,000 incubators nationwide, even though business incubators potentially have much in common with microenterprise development programs. Nonprofit, empowerment, and urban and/or rural business incubators are more likely to serve microenterprises. In future research, it may be important to understand the degree to which microenterprise development programs currently “graduate” clients or include business incubator services.

One of the primary functions of business incubators is to produce viable businesses and to accelerate growth. Wilber and Dixon describe business incubators in their study of incubated businesses’ outcomes:

...services provided through business incubators range from providing leased facilities at subsidized rates to office equipment at little or no cost. Incubator staff also provide a host of support services, including administrative, which reduces operation costs and allows participants to operate with fewer support staff. Some of the support services include: telephone services, answering service, computers, copiers, fax machines, scanners, conference and training rooms, mail and shipping services, audiovisual equipment,

¹³¹ Edgcomb and Malm, 20.

¹³² Edgcomb and Malm, 39. Note: This last point is similar to other outcomes seen by microenterprise practitioners — perhaps those with more technical assistance are busy starting their businesses and not getting a job that increases their personal income.

business plan development and review, marketing plan development and analysis, and clerical support.

Assistance delivery methods include various means specific to the individual needs of incubator participants. Delivery methods include: individual sessions with incubator staff (on-site management consultants), group sessions, training and development workshops, private consultants, and community partners. Participants in incubator programs have varying levels of experience and knowledge. Therefore, different delivery methods are required to ensure that knowledge is presented at a level commensurate with the participants' level of comprehension.¹³³

According to Wilber and Dixon, the first business incubator was established in 1959 (45 years ago) and the National Business Incubator Association (NBIA) reports that there are over 1,000 business incubators in North America, up from only 12 in 1980. There are about 4,000 business incubators worldwide.¹³⁴ The NBIA estimates that 90 percent are nonprofit and 10 percent are for profit, usually set up to obtain returns on shareholders' investments. Business incubators are classified as one of three types: technology, empowerment and mixed-use.¹³⁵ Technology incubators, which are primarily associated with major universities and have a primary objective of commercializing technology, foster the growth of businesses involved in emerging technology. Empowerment incubators, which usually support companies whose founders had to overcome economic, literacy, and/or educational challenges and foster the growth of businesses located in areas characterized by high unemployment, deteriorating neighborhoods, or both. Mixed-use incubators foster the growth of all types of businesses: light manufacturing, heavy manufacturing, construction firms, wholesale, mail order and professional services.¹³⁶

The NBIA estimates that 37 percent of incubators are technology focused, 47 percent are mixed use, and the remainder focus on service, light industry, and niche markets or targeted populations.¹³⁷ Seven percent serve manufacturing, six percent focus on service businesses, three percent concentrate on community-revitalization projects or serve niche markets. Forty-four percent of business incubators draw their clients from urban areas, 31 percent from rural areas and 16 percent from suburban areas. Nearly one tenth (nine percent) of all incubator programs draw clients from outside their region or from outside of the United States. There are various institutional structures for incubators:

- 25 percent of North American business incubators are sponsored by academic institutions;
- 16 percent are sponsored by government entities;
- 15 percent by economic development organizations;
- 10 percent sponsored by other types of organizations;
- 5 percent are hybrids with more than one sponsor; and

¹³³ Wilber and Dixon, 4-5.

¹³⁴ National Business Incubator Association, *Business Incubator FAQ and Principles and Best Practices of Successful Business Incubation* (2004); available from www.nbia.org/index.php; Internet.

¹³⁵ Wilber, 6.

¹³⁶ Wilber, 6.

¹³⁷ All facts in this paragraph are from the National Business Incubator Association; available from http://www.nbia.org/resource_center/bus_inc_facts/index.php; Internet.

- 19 have no sponsor or host organization.

In terms of best practices, in their 2003 overview of business incubators in the United States, Joel Wiggins and David Gibson conclude that, “business incubators must accomplish five tasks well in order to succeed: establish clear metrics for success; provide entrepreneurial leadership; develop and deliver value-added services to member companies; develop a rational, new-company selection process; and ensure that member companies gain access to necessary human and financial resources.”¹³⁸ Two principles characterize effective business incubation:

- The incubator aspires to have a positive impact on its community’s economic health by maximizing the success of emerging companies.
- The incubator itself is a dynamic model of a sustainable, efficient business operation.¹³⁹

For Wilber and Dixon, evidence of incubator success comes from two studies: one in 1998 by (NBIA) in collaboration with others (sponsored by the Department of Commerce’s Economic Development Administration) and another done in 1997 by the Department of Commerce. They conclude:

- Incubator participation extended the lifespan of businesses by three years (from six to nine years).
- Eighty-seven percent of all firms that graduated from incubators are still in business after six years compared to 40 percent of businesses that did not participate in the incubation process (from comparison of NBIA and SBA studies).
- Start-up firms served by NBIA member incubators annually increased sales by \$240,000 each and added an average of 3.7 full-and part-time jobs per firm (2.7 full-time, 1.0 part-time). Of the 126 firms in the sample, 49 percent were with mixed-use incubators, 40 percent with technology incubators, and 11 percent with empowerment incubators.
- Incubators build networks: Nearly 25 percent of the firms participating in the NBIA study report that they had a subcontract or co-provider arrangement with another incubator client, and one out of every six firms report that they had collaborated with another incubator client.¹⁴⁰

Additional evidence comes from the NBIA Website, which shows slightly different results:

- Business incubators reduce the risk of small business failures.
- North American incubator client and graduate companies have created about one half million jobs since 1980. Every 50 jobs created by an incubator client generate approximately 25 more jobs in the same community.
- In 2001 alone, North American incubators assisted more than 35,000 start-up companies that provided full-time employment for nearly 82,000 workers and generated annual earnings of \$7 billion.

¹³⁸ Joel Wiggins, and David V. Gibson, “Overview of U.S. Incubators and the case of the Austin Technology Incubator,” *International Journal of Entrepreneurship and Innovation Management*, vol.3, nos. 1-2). (2003).

¹³⁹ See National Business Incubator Association.

¹⁴⁰ Wilber and Dixon, 7, 8, 11.

- Research has shown that for every dollar of estimated public investment provided to the incubator, clients and graduates of NBIA member incubators generate approximately \$30 in local tax revenue alone.
- NBIA members have reported that 84 percent of incubator graduates stay in their communities and continue to provide a return to investors.
- Publicly-supported incubators create jobs at a cost of about \$1,100 each, whereas other publicly-supported job creation mechanisms cost more than \$10,000 per job created.¹⁴¹

A study by Christian Lendner of 314 university business incubators worldwide shows that the technology and industry focus of an incubator has significant influence on success variables (sales growth rate), as does the strength of the incubator network. The amount of organizational and professional services has no influence on the sales growth rate.

There is more to learn about the characteristics of firms that are launched in incubators and how they might be similar or different than those served by micro programs. It should be noted that some microenterprise development programs have created their own incubator programs precisely for the value that these intense services provide: some of these have been across sectors, while others focus specifically on a particular industry (in particular, kitchen incubators focused on the foods industry). For other programs interested in this work, there is a body of literature to refer to and an association that can introduce them to a world of best practice. Programs may also be able to connect their clients with pre-existing incubators. One of the main challenges to explore in future reviews of the literature and practice is the sustainable long-term coverage of operating costs. Incubator services individualize and personalize in ways that training and group services may not. Which is more cost effective for the outcomes?

FINANCING FOR BUSINESS GROWTH

Microfinance services largely provide small-scale loans for working capital and small equipment purchases to start and sustain businesses. Many microentrepreneurs see the lack of business financing as constraining to their growth. Two practices appear to be promising for supporting microenterprise growth: integrating savings and credit services, as well as adapting angel investment to microentrepreneurs' needs.

One approach that has been less utilized is an investment-oriented approach, designed to get equity into a business rather than debt. There are some examples in the industry along this line:

- Trickle Up, for example, provides \$700 grants to microentrepreneurs at the very beginning of business development.
- The Individual Development Accounts (IDA) movement was, in part, designed to help microentrepreneurs access additional equity by providing matching capital to the savings of the entrepreneur. Some initiatives based on integrating IDAs with microlending are seen as building a base that will make entrepreneurs more credit-worthy to mainstream banks and can thereby unlock the higher amounts of financing that growth requires.

¹⁴¹ See National Business Incubator Association.

- Experiences in providing higher amounts of equity to businesses at a more mature stage have been more limited. Coastal Enterprises, using a grant from FIELD, tested an equity product specifically designed for microentrepreneurs. Several other institutions have also developed equity products for some of their clients, for example, ACEnet and Lightstone.

The literature suggests the importance of this strategy to growing small businesses.

In a 2003 study, *Building Assets by Linking Savings and Credit for U.S. Microentrepreneurs: Increasing Human and Financial Capital*, Caroline Glackin and Eliza Mahoney document 16 programs nationwide that have expanded the capital access options for low-income entrepreneurs from a focus on small loans alone to include savings as an equally effective method. The goal is to increase the assets of low-income entrepreneurs. Study findings suggest that “making explicit connections between savings and credit programs and instruments through credit enhancements for savers and an integrated program design may provide increased opportunities for the poor to build assets.”¹⁴² Glackin and Mahoney propose that a combination of business development and financial management training results in more savings that increase the participants’ credit worthiness or reinvestment in their business. This, in turn, eventually makes it possible for them to approach traditional lending institutions. They point out that this is a strategy “mainstream financial institutions have provided for years to middle- and upper-income customers.”¹⁴³ This extension of a greater variety of financial and non-financial services to low-income customers has many benefits, including:

- Institutions decrease risk exposure and increase loan volume with minimal underwriting costs.
- Customers increase credit-worthiness, decrease transaction costs and have healthier capital structures for enterprises.¹⁴⁴

Glackin and Mahoney assert that more research is needed.

According to the literature, “angel financing” may be a good fit for microenterprises in all but size and growth rates of the businesses. According to a team of researchers led by Brinlee, “entrepreneurs often lack knowledge and resources” needed to “obtain [adequate] equity financing for their ventures.”¹⁴⁵ The investors also lack awareness of the number and types of entrepreneurs seeking capital. They suggest that “improving entrepreneurs’ understanding of the investment process will enable them to target the right investors and, in turn, will enable investors to fuel the economy by finding ‘winning’ ventures.”¹⁴⁶ Investors evaluate the enterprise’s stage of development, product and market demand, expansion strategy, management team, and future growth potential.¹⁴⁷

¹⁴² Caroline Glackin, with Eliza Mahoney, *Building Assets by Linking Savings and Credit for U.S. Microentrepreneurs: Increasing Human and Financial Capital* (Wilmington, DE: First State Community Loan Fund, and Washington, D.C.: Corporation for Enterprise Development, 2004); available from <http://www.desu.edu/som/staffglackin.php>; Internet.

¹⁴³ Glackin and Mahoney, 32.

¹⁴⁴ Glackin and Mahoney, 32.

¹⁴⁵ See Franklin, Bell and Bullock in Brinlee, abstract.

¹⁴⁶ See Franklin, Bell and Bullock in Brinlee, abstract.

¹⁴⁷ See Franklin, Bell and Bullock in Brinlee abstract.

Nationwide, angel investors provide much of the money that early stage businesses need in order to grow. They play a critical role in early-stage financing by providing 80 percent of the seed and start-up capital for small businesses.¹⁴⁸ Business angels fund 30 to 40 times more [start-up] ventures each year than venture capitalists.¹⁴⁹ Some have defined angel investors as “those that save struggling firms with both finance and know-how when no one else will.”¹⁵⁰

The term “angel” refers to high net-worth individuals who are accredited investors — individuals who, with their spouses, report net worth exceeding \$200,000 or \$300,000 in consecutive years.¹⁵¹ Each year in the United States, 400,000 angels invest between \$30 billion and \$40 billion in approximately 50,000 ventures.¹⁵² An August 2004 Kauffman Foundation publication, “*Angel Investment Groups, Networks and Funds: A Guidebook to Developing the Right Angel Organization for Your Community*,” confirms these numbers: “The Center for Venture Research at the Whitmore School for Business and Economics at the University of New Hampshire estimates that angel investments for 2003 were approximately \$18.1 billion in 42,000 deals. Other sources report \$12.4 billion to an estimated 27,500 entrepreneurial businesses in the first half of 2004.” This is comparable to venture capital funds which had only two percent of those dollars in seed or early-stage investments.¹⁵³ Angel investments range in size from \$11,000 to \$4 million.¹⁵⁴ William Payne, in his article for the Kauffman Foundation, explains that angel investors provide 90 percent of the seed and start-up capital in this country — usually in amounts of \$250,000 to \$2 million per investment.¹⁵⁵ According to the Kauffman Foundation-supported Angel Capital Association, between 1995 and 2004 the number of angel organizations in North America grew from less than 10 to nearly 200.¹⁵⁶

In order to be attractive to angel investors, a business is usually:

- Not a low-growth business that Timmons (1999) defines as a “lifestyle, hobby, family or small business with little risk and [that] makes enough profit to suffice the owner’s desired living standard (five year revenue projections under \$10 million);
- A middle-market firm with a modest growth strategy of 20 percent a year, along with a goal to achieve \$10 to \$50 million in revenues within five years;
- “Diamonds in the rough” high-growth firms that foresee a growth rate of 50 percent each year, with a revenue forecast of more than \$50 million within five years;
- A fast-growing firm with potential to provide a good return, eventually: angels are in the venture to make money. Because investment is made at an early stage, return will not be expected for several years;

¹⁴⁸ Wessner in Brinlee, 353.

¹⁴⁹ Van Osnabrugge and Robinson in Brinlee, 5.

¹⁵⁰ Van Osnabrugge and Robinson in Brinlee, 275.

¹⁵¹ Preston, 2.

¹⁵² Sohl in Brinlee, 275.

¹⁵³ Preston, 2.

¹⁵⁴ EMME Consulting, LLC, in Brinlee, 276.

¹⁵⁵ William H. Payne, *Angels Shine Brightly for Start-up Entrepreneurs* (Kansas City, MO: Ewing Marion Kauffman Foundation), 2004; available from <http://www.kauffman.org/items.cfm/467>; Internet.

¹⁵⁶ See Payne.

- One that needs value added by the angel investor: networks, previous experience and advice on strategic management issues;
- Local to the investor(s): With few exceptions, angels invest on a regional basis, being interested in personal relationships with companies and employees, as well as giving back to their communities; and
- One with the capacity to provide due diligence information to investors (angels want much less than venture capitalists).¹⁵⁷

The angel investors fill the financing gap that comes between the initial business growth stages (seed and research and development stages) where family, friends and personal savings provide initial capital and when the enterprise may become attractive to venture capitalists or banks (during the expansion, mezzanine, bridge, acquisition/merger and turnaround stages).¹⁵⁸ The start-up and first stage businesses are attractive to angel investors. The 2004 Kauffman Foundation Guidebook for Angel Investment Groups identified similar stages of business development financing: seed financing (smallest amount of money to prove a concept), start-up financing, early- or first-stage financing (go to scale after start-up) and expansion (for market expansion, initial public offering or acquisition preparation).¹⁵⁹

These characteristics suggest that few microbusinesses would interest most angel investors, but some might. A larger question for the industry is how to interest these individuals in a more micro form of angel investing that might provide some immediate social returns as well as some longer-term financial rewards. A possible strategy to explore is to ‘bundle’ a group of high-growth microenterprises in need of financing to be an enticing package for angel investors.

NETWORKING

Effective networking appears to be crucial to growing a business for the entrepreneur, the firm and the service provider. Researchers and business development experts alike promote networks and networking as both a method and a strategy for helping entrepreneurship thrive. In his promotion of regional entrepreneurship, Pages advocates for “entrepreneurial ecosystems” that include networks of entrepreneurs as well as service providers (a start-up cluster?). Other key features of the entrepreneurial ecosystem are a “business culture that embraces start-ups (higher risk tolerance and entrepreneurs vs. large firms),” and the creation of a “virtuous cycle of civic/philanthropic leaders and mentors/angels. The entrepreneurial networks are the hub of the entrepreneurial ecosystem, use peer learning as central role and have four key activities: training, mentoring, investment screening and matching, and networking.¹⁶⁰ Pages states that the “new economy demands a culture of collaboration as old community anchors collapse and opportunities emerge for new leaders.” This new entrepreneurship policy is “focused on individuals (not companies) and operates through business networks, where training and education are key policy levers.”¹⁶¹

¹⁵⁷ Brinlee, 277-283.

¹⁵⁸ See Bradley, Benjamin, and Margulis in Brinlee.

¹⁵⁹ Preston, 3.

¹⁶⁰ Pages, 5.

¹⁶¹ Pages, 4.

Strong networks are the foundation of Lichtenstein's entrepreneurial communities. In an entrepreneurial community, entrepreneurs constitute a sub-community based on a network of relationships through which support, resources, know-how and business passes, provides its peers with the conditions necessary to grow their firms.¹⁶² Jacques Baronet describes how entrepreneurs blend tacit knowledge from experience with knowledge gathered from their personal and formal networks to "fine tune their opportunity perceptions."¹⁶³ Lichtenstein highlights Feldman's argument that an entire "innovative infrastructure" must be in place for entrepreneurs to succeed.¹⁶⁴ This includes how the services are delivered. Lichtenstein gives Sirolli as an example of promoting the importance of personal relationships in encouraging entrepreneurial activities by using enterprise facilitators to connect entrepreneurs to advisors and other community resources.¹⁶⁵ Lichtenstein also advocates for integration of services to repair the fragmentation of the business development offerings in a given community.¹⁶⁶ This would entail a critical mass of activity in one or more industrial sectors, adequate business support services and a culture of encouraging entrepreneurship.

Microentrepreneurs' experience of networks and networking strategies and training services is extensively documented in *Staying Connected* by FIELD. This best practices guide defines and describes microenterprise networks as:

... formal or informal groups of individual business owners sharing common concerns. Worker-owned businesses are not considered networks for the purposes of this guide, nor are barter networks where members exchange services with each other. Five networks were described that met the needs of microentrepreneurs: peer lending networks, alternative chambers of commerce, alumni networks, sector-based networks and community networks. The main purpose is business growth: move from start-up to more visibility, legitimacy, access to markets, etc. Entrepreneurs use networking for different purposes at different stages in the life cycle of their businesses. New entrepreneurs, struggling to overcome the challenges of inexperience, need access to peers for information, advice and support. As the business matures, owners have less time for learning and a greater need for strategic alliances.¹⁶⁷

Other purposes of networks support Lichtenstein and Pages' system-building: foster the culture change necessary for communities in economic transition, promote industry and attract new start-ups or investors.

¹⁶² Lichtenstein, 4.

¹⁶³ Jacques Baronet, *Creativity, Tacit Knowledge, and Networking as Aggregated Sources of Opportunity Perception by Entrepreneurs* (Universite de Sherbrooke: Sherbrooke, Canada, 2004); available from <http://www.babson.edu/entrep/fer/BABSON2003/XVI/XVI-S5/XVI-S5.htm>; Internet.

¹⁶⁴ Lichtenstein, *Building Entrepreneurial Communities*, cites: Feldman, M.P., The university and economic development: The case of John Hopkins University and Baltimore. *Economic Development Quarterly*, vol. 8, nos.1: 67-76, 1994.

¹⁶⁵ Lichtenstein, 5.

¹⁶⁶ Lichtenstein, 8.

¹⁶⁷ Nelson, 9.

Lichtenstein acknowledges that U.S. microenterprise programs provide excellent support for clients in the start-up phase.¹⁶⁸ He suggests that programs need to provide linkages to the broader economy so that low-income entrepreneurs will no longer be isolated and achieve only limited success. Similarly, sectoral strategies have benefits (economies of scale, collective content expertise, etc.), but become negative when the firms operate exclusively within their silos, unwilling to interact with other segments of the economic community. Such exclusivity reduces the opportunity to capture business opportunities that exist between sectors as well as across different markets.¹⁶⁹

A number of studies support and recommend integrating or networking services as well as entrepreneurs. A study by Sims, Breen and Ali from Australia supports Lichtenstein's proposals of integrated and personalized services with their critique of existing services: "A common theme emerging from the interviews (of high-growth business owners) was owners' perceptions of the ever-changing landscape of business support and support organizations and the difficulty of finding out about and accessing support services, without investing a disproportionate amount of time surfing Web sites or scouring endless published promotional material for doubtful return."¹⁷⁰

Marilyn Young, in her 2003 *Small Business Information and Assistance: A Comparison of Firm Size and Income*, examines the resources used by 687 small businesses with varying firm sizes and incomes. She concludes that "providers should enhance their efforts to develop and coordinate these outreach programs for businesses of different sizes and income levels. It is vital to have specialized information for start ups as well as those businesses in a survival, growth or expansion transition."¹⁷¹ She further suggests the need for a:

statewide clearinghouse that identifies existing state and federal programs [why not local as well?], and the creation of a single point of contact for small businesses at the university level, which can help direct the business to the appropriate provider. Assistance programs should improve the quality of communications and clarify the availability of the services, their purposes, criteria for qualifying and the benefits that business firms may derive from using the services.¹⁷²

Gibb expressed similar sentiments when he concluded that "publications and guides were of limited use unless part of a process of personal discussion and dialogue."¹⁷³ On the level of institutional networks, symbiotic relationships between university research and the world of industrial innovation have always existed for larger industries (small, high-technology firms for example).¹⁷⁴ This needs to be explored for relevance to smaller firms with less capital.

¹⁶⁸ Lichtenstein, 10.

¹⁶⁹ Lichtenstein, 11.

¹⁷⁰ Rob Sims, John Breen, and Shameem Ali, "Small Business Support: Dealing with the Impediments to Growth," *Journal of Enterprising Culture* (December 2002), vol.10, no.4: 241-256.

¹⁷¹ Young, 11.

¹⁷² Young, 11.

¹⁷³ Gibb, in Sims and others, 255.

¹⁷⁴ Nathan Rosenberg, "America's Entrepreneurial Universities," In *The Emergence of Entrepreneurship Policy: Governance, Start-ups, and Growth in the U.S. Knowledge Economy* (Cambridge: Cambridge University Press, 2003); available from <http://uk.cambridge.org/>; Internet.

In the examination of Australian small business owners' access to services that help them grow their businesses, Rob Sims and colleagues review literature about the importance of networking to small business growth: "A range of studies (Shaw and Conway, 2000; Chaston, Badger and Sadler-Smith, 1998; Gibb, 1997; Alizadeh, 2000) have shown involvement in formal and informal business networks has been a common characteristic of growth firms, and a key source of organizational learning. Forty percent of respondents reported that they had been assisted by their industry association...and 25 percent were assisted by business networks."¹⁷⁵

Recommendations emerging from FIELD research include building the foundation of collaborative relationships among entrepreneurs and institutions through the following prescriptions:

- Do not get bogged down in organization building.
- Get things moving, make things happen first; foster a continual stream of collaborations, joint projects, experiments; watch people combine and recombine.
- Build increasingly sophisticated collaborative relationships based on small gains.
- To support successful food entrepreneurs, programs must look at the ecology of local food systems, understand the connections between their different components and foster them. In doing so, they have found a plethora of related arenas in which to intervene, including building networks of both individual producers and institutional supporters.¹⁷⁶

Networking may take time to pay off is what Pers-Anders Havnes and Knut Senneseth from Norway find in their tests of the "assumption that small and medium enterprises grow through accessing and utilizing external resources in their network. What is found is that networking is associated with high growth in the geographic extension of markets, which suggests that networking sustains long-term objectives of the firms while there was no evidence of associated short term benefits such as growth in employment or total sales resulting from the networking activity."¹⁷⁷ The findings from study of the high-tech industry need to be tested for small and microenterprises as well: higher concentrations of existing establishments in the same industry segment were strongly associated with higher start-up rates, suggesting that spillover of relevant knowledge from other local business owners/managers and researchers within each industry contributes to greater innovation and growth in the area.¹⁷⁸

ACCESS TO MARKETS SERVICES

Access to markets (ATM) strategies are examples of specific microenterprise services that address barriers to and provide support for microbusinesses' entry into larger or more profitable markets. On the assumption that business growth will occur as businesses are able to grow their markets, programs employ a number of strategies, from helping businesses improve their

¹⁷⁵ Sims, 253-254.

¹⁷⁶ Nelson, 46-48.

¹⁷⁷ Pers Anders Havnes, and Knut Senneseth, "A Panel Study of Firm Growth Among SMEs in Networks," *Small Business Economics: an International Journal*, vol. 16, no. 4 (June 2001), 293-302; available from <http://ideas.repec.org/a/kap/sbusec/v16y2001i4p293-302.html>; Internet.

¹⁷⁸ Zoltan J. Acs, and Catherine Armington, *The Geographic Concentration of New Firm Formation and Human Capital: Evidence from the Cities* (Washington, D.C.: U.S. Census Bureau, Office of the Chief Economist, Center for Economic Studies, 2003), CES-WP-03-05; available from <http://148.129.75.149/paper.php?=101671>; Internet.

products and services to be more attractive to mainstream markets, to actually enlarging the market itself either directly, through taking on sales and marketing roles, or indirectly through building consumer awareness. Many of the ATM strategies engage institutional and individual partners in the business world: sector experts in marketing, production, distribution; community business partnerships when developing retail or service incubators or opportunities; media and Chamber of Commerce for “Buy Local” and other campaigns.¹⁷⁹

ATM Program Strategies Continuum		
Demand-Side	← →	Supply-Side
<i>Creating Transactions</i>	<i>Creating Venues</i>	<i>Creating Capacity</i>
*Social Business Operator *Sales Representative	*Market Channel Developer *Consumer Educator	*Resource Provider *Product Developer *Trainer *Advocate

Source: Grossman and others, 13.

FIELD’s research into these strategies resulted in a set of lessons and some very specific recommendations for programs interested in developing services of this type to help businesses grow. Most importantly, these recommendations recognize that market development is challenging for both programs and clients, and that programs interested in building these services must build their own deep institutional capacity as well. Among the lessons are these:

- Market readiness is an enormous hurdle for microbusinesses. Access to Markets projects should include a strong product/service development component, as well as mechanisms for facilitating entrepreneurs’ connections to potential consumers in order to facilitate market readiness.
- Use multiple strategies that represent a broker or “door opener” for microbusinesses in order to connect them to new markets. Intentional strategies for connecting microbusinesses to potential buyers, either by serving as a broker or a door opener.
- Start by choosing to assist businesses within the same or similar industry sectors, rather than attempting to assist businesses that are operating in a range of industry sectors.
- Individualized one-on-one technical assistance is an essential component of an effective project.
- Access to Markets projects need to be anchored by strong support of the entire agency because staff turnover represents a formidable barrier to the success of ATM strategies.¹⁸⁰

Research by Chandler and others confirms FIELD/ATM findings: In-depth interviews reveal that opportunity identification is often a two-stage process: product/service identification and

¹⁷⁹ Karen Doyle Grossman, with Amy Kays Blair and Tamra Thetford, *Connectors and Conduits: Reaching Competitive Markets from the Ground Up. The Access to Markets Final Report.* (Washington, D.C.: The Aspen Institute/FIELD, July 2002), 28; available from www.fieldus.org/publications/ATMFinalReport.pdf; Internet.

¹⁸⁰ Grossman, 42.

market identification. The two processes often seem to operate independently but are crucial to entrepreneurial success.¹⁸¹

High Growth Business Services Improve the Enabling Environment

There are countless possible levels and issues that can be addressed to create a more growth-nurturing policy environment for low-income entrepreneurs. As is true with most policy issues, there are many stakeholders who have a role in these changes: the entrepreneurs, the practitioner organizations, regional and national associations, supporters (donors), governments, etc. A promising area for future research might be the successful policy advocacy practices for:

- Creating entrepreneurial ecosystems and communities;¹⁸²
- Correcting disparities between the self-employment earning potential of minority and women business owners to that of white men;¹⁸³
- Changing regulations and tax policies that have disproportional negative outcomes for immigrant, minority or low-income entrepreneurs as they start and try to grow their businesses;¹⁸⁴
- Providing basic human needs so that the entrepreneur can focus on business development: food, housing, health care, education, child care, transportation, political voice, etc.; and
- Ensuring that adequate business financing is available when needed.

The National Association for the Self-Employed offers comprehensive support structures to members that fall into four basic areas: “how to” resources; value-added benefits (member discounts for legal services, retirement and investment planning, payroll services, and business services such as office supplies, telephone, etc.); legislative advocacy ; and scholarship programs that promote entrepreneurship among children and dependents of members.¹⁸⁵ In one possible example of an advocacy strategy to support microentrepreneurs, Fairlie discusses how the disparities experienced by minority-owned firms might be addressed:

These disparities are important in light of the controversy surrounding set-aside programs that target government contracts for disadvantaged and minority-owned firms. Many of these programs, which were created in the late 1970s to mid 1980s, have been both judicially and legislatively challenged and dismantled in the past decade. In particular, the landmark 1989 *City of Richmond v Croson Co.* Supreme Court decision invalidated the use of local and state

¹⁸¹ Gaylen N. Chandler, Dawn DeTienne, and Douglas W. Lyon, *Outcome Implications of Opportunity Creation/Discovery Process* (Wellesley, MA: Babson College, 2003), 2; available from www.babson.edu/entrep/fer/BABSON2003/XVI/XVI-P1/xvi-p1.html; Internet.

¹⁸² See Pages and Lichtenstein.

¹⁸³ See Fairlie, Robert W. “Does Business Ownership Provide a Source of Upward Mobility for Blacks and Hispanics?” In *Public Policy and the Economics of Entrepreneurship*, eds. Douglas Holtz-Eakin, and Harvey S. Rosen. Boston, MA: MIT Press, 2004 available from [PDF, Book](#)- or June 2001 version from <http://econ.ucsc.edu/~fairlie/papers/mingrowth10.pdf>; Internet.

¹⁸⁴ See Staley and others; George L. Priest, “Small Business, Economic Growth, and the Huffman Conjecture,” *The Journal of Small and Emerging Business Law*, vol. 7, no. 1 (Spring 2003); available from <http://www.celee.edu/abstracts/c20031466.html> or <http://www.lclark.edu/org/jsebl>, Internet.

¹⁸⁵ National Association for the Self-Employed. *Frequently Asked Questions*, 2; available from www.nase.org/nase_about/FAQ.asp; Internet.

programs unless they were used as narrowly-tailored remedies for identified discrimination. More recently, the 1995 *Adarand Constructors, Inc. v Pena* Supreme Court decision and state referendums passed in California (Proposition 109 in 1996) and Washington (1998) further jeopardize the future of government set-asides. The elimination of these programs may further exacerbate racial inequalities in small business outcomes as well as in rates of business ownership.¹⁸⁶

The Pioneer Institute policy study, *Giving a Leg Up to Bootstrap Entrepreneurship: Expanding Economic Opportunity in America's Urban Centers*, documents the regulatory barriers to start-up and entry-level businesses in case studies of four major metropolitan cities: Boston, Dallas, Atlanta and Los Angeles. The authors also identify programs and other efforts to encourage neighborhood-based development, and summarize their review of regulatory environments for start-up and entry-level businesses into several avenues for reform which are:¹⁸⁷

1. Regulatory policies should focus on performance rather than rules.
2. Cities should work to reduce the complexity of the regulatory and business start-up process.
3. Cities should avoid extending existing regulatory rules to new occupations and businesses.
4. Cities and state governments should shift the burden of proof onto regulators to demonstrate the effectiveness and usefulness of rules and licensing requirements.
5. City and state governments should continue their efforts to streamline business permitting.

These reforms may be supported by evidence in George Priest's research in which he asserts that "liability and regulations that hurt small businesses more than large businesses directly decrease social and economic welfare."¹⁸⁸

The scan identifies a set of strategies that show potential for assisting more microenterprises in achieving business growth. Some microenterprise programs already apply these strategies; other strategies suggest new paths to consider. Some of the research discusses the content of these strategies — what appears to work; others discuss the delivery methods of these strategies — what makes a difference in how the services are offered.

¹⁸⁶ Fairlie, "Does Business Ownership Provide a Source of Upward Mobility for Blacks and Hispanics?" Boston, MA: MIT Press, 2004), 17; available from [PDF](#), [Book](#) or <http://econ.ucsc.edu/~fairlie/papers/mingrowth10.pdf>; Internet.

¹⁸⁷ Staley and others, 2-3

¹⁸⁸ See Priest, abstract.

Microenterprise Business Growth: Key Issues, Further Research and Conclusions

As stated many times throughout, this literature scan is the beginning of deepening and broadening the microenterprise development field's understanding of, and inspiration, from other complementary fields of practice and research regarding business growth. The implications range from the simple to the complex. Many strategic issues remain to be named, researched and made useful to the field.

Two issues that emerge from the scan give inconclusive insights about who is served, as well as the intensity of services for most effective business outcomes. Another crucial issue is the level of program investment (cost, time, balance of social and business services) that is most effective for helping business owners who want to grow their businesses. The continuation of research into, and from, other fields may lead to promising solutions of these issues as well as directions and strategies for promoting business growth that meets the needs of the entrepreneur, the program mission and the community.

Key Issues for Business Growth

CLIENT READINESS

There are several approaches to determining the ideal level of client and business readiness for services. Morrison, based on a study of small businesses in Australia, suggests "targeting businesses that show evidence of growth." Jeremy Black, in MicroTest findings about microentrepreneurs' outcomes, suggests that, "high- growth business outcomes... indicate that the strategy of focusing intensive support to more experienced, women-owned businesses has the potential to facilitate important employment and household economic security outcomes."¹⁸⁹

Timothy Bates advocates for programs that serve minority business enterprises by providing generous loans to experienced, well-educated applicants wishing to pursue high-growth lines of business in order to counteract the history of discrimination that has relegated minority firms to overcrowded, low-growth lines of business. The entrepreneurs must be well prepared to pursue an entrepreneurial path to upward mobility. He cites the failure of the Economic Opportunity Loan Program, discontinued in 1984 as an example of a program that continued discriminatory policies and practices.¹⁹⁰

On the other hand, Lichtenstein suggests that, "a focus on high growth ventures, "gazelles," means picking the winners to get the services and does a disservice to businesses less able to secure funding and technical assistance from traditional sources."¹⁹¹ Lichtenstein advocates for programs that do not exclude potential clients who require more effort or time to produce results and avoid a program focus on "reaping rather than sowing or quick returns rather than patient

¹⁸⁹ Black, *Enhancing Opportunities for Entrepreneurship: 2003 Findings*, 5.

¹⁹⁰ Timothy Bates, "Minority Business Assistance Programs are Not Designed to Produce Minority Businesses," In *The Emergence of Entrepreneurship Policy: Governance, Start-ups, and Growth in the U.S. Knowledge Economy* (Cambridge: Cambridge University Press, 2003), 155-172; abstract available from <http://research.kauffman.org/cwp/appmanager/research/>; Internet.

¹⁹¹ Lichtenstein, 9.

capital.” He concludes that a dynamic economy needs different market segments, not just the “stars” (he calls them “quarterbacks”). The implication of this discussion for micro programs is not to abandon their work with start-ups, where they do very well, nor to stop working with those who have more barriers than most. The issue is deciding who needs what and tracking them to the right services, rather than a one-size-fits-all approach. Each program also needs to decide what growth-oriented services the program can afford to offer, and which ones might clients access through better referral networking.

INTENSITY OF SERVICES

No conclusive evidence or direction is found in the literature scan for how intensive services should be (time spent, timing, topics and products). The Center for Women’s Business Research study indicates that intensive services appear more valuable than length of time. This suggests that it may be most valuable for women to utilize Women’s Business Center (WBC) services intensively, regardless of the length of their relationship with the WBC.¹⁹² The study of the Ms. Foundation Collaborative program outcomes supports the strategy of focusing intensive support to more experienced, women-owned businesses has the potential to facilitate important employment and household economic security outcomes. On average, clients received 23 hours of classroom-based training and 16 hours of one-on-one technical assistance. A mission regulated mix of access to market services, networking, and training and technical assistance seems most promising. Lichtenstein confirms these findings when he asserts that a deeper, longer-term relationship with the entrepreneur is required to accomplish transforming individual business talent into community economies with higher levels of performance.¹⁹³ Both of these findings suggest a paradigm shift for some programs: adjusting the focus from the program or services driving business growth (supply-driven), to the business growth driving the program or services (demand-driven services).

Future Research

More research about microentrepreneurs’ business growth is needed in any number of areas of literature and practice. Some of the most obvious emerge from the exploration of the factors and strategies that support business growth. Perhaps more conclusive understandings can be reached of the strategic issues by combining deeper literature reviews and applied study of successful practices. The collection of literature and practices emerge from within the microenterprise development industry and from fields that are most relevant in theory and practice: entrepreneurship education, community development/planning, and business development psychology, management, and external factors.

FACTORS THAT INFLUENCE BUSINESS GROWTH

What do we know about the business growth cycles of microenterprises? What are the characteristics of the businesses that grow? What is the rate and frequency of growth into small or bigger businesses? There is little or no modeling of microenterprise growth and development to understand what the stages might be and which factors influence growth and success. Some of the models reviewed might be better than others for providing a framework and resources for such analyses.

¹⁹² Center for Women’s Business Research, *Launching Women-Owned Businesses*, 6.

¹⁹³ Lichtenstein, 11.

Another issue that future research may want to address is the reason for closure of microenterprises, and which of these are more amenable to intervention than others. The Welfare to Work Two-Year Findings report documents 46 businesses — 32 percent of the total — closed during the year between year two and year three outcome survey interviews. Of these, 50 percent were on hold and hoped to re-open in the future. Ninety-one percent stated a business circumstance, with the most common including lack of funds or poor cash flow, poor location, inadequate space, inadequate income, problems with transportation, and issues associated with regulation or costs such as taxes, zoning, insurances, etc. Sixty-one percent of this group cited personal circumstances: child care, illness of the entrepreneur or a family member, moving, divorce and death in the family.¹⁹⁴ For many, it would seem that a combination of personal and business factors constrain business development.

Solomon and Weaver explore, “new assumptions that include an entrepreneurial model in which the focus is on wealth and job creation, and a small business model in which the focus is income substitution and a desire for familial practice.”¹⁹⁵ This suggests a more defined tracking of clients into services based on their business goals. What would such an approach look like in practice and what would be the outcomes?

PROMISING STRATEGIES

As we look to the future of microenterprise business growth, future research related to promising strategies will need to:

- Document and analyze the degree to which the microenterprise field espouses and practices entrepreneurship education, using the work of the Consortium of Entrepreneurship Education as a guide. Does a more explicit incorporation of this form of education lead to increased growth orientation among microentrepreneurs and more business growth?
- Continue the review of business growth literature coming out of business schools or entrepreneurship education programs that have similar demographics to those served by the microenterprise field. Adapt and learn what might be useful (examples to start with included Clouse, Charney and Kuratko.)
- Review “how to grow your business” literature for useful and adaptable strategies for microenterprises.
- Review and document successful practices for nurturing business growth on the clients’ and/or small business owners’ terms.
- Identify appropriate levels of program investment (cost) for various strategies that most effectively help business owners who want to grow their businesses.
- Examine promising adaptable business financing strategies, such as that embodied in angel investing. Explore whether bundling microbusinesses (10 businesses at the \$25,000 level?) might make the scale more attractive...a community peer group-to-angel investing model?
- Follow the results of the Corporation for Enterprise Development’s investment in linked savings and credit products, and whether they both support business growth and indeed serve as the bridge to investors and banks.

¹⁹⁴ Klein, 48.

¹⁹⁵ See Weaver and Solomon, abstract.

- Explore the longer-term implications and underlying assumptions of entrepreneurship policy advocacy and practice. One of the trends in entrepreneurship education is to believe that entrepreneurship is exploding in popularity and importance. As stated by Kuratko, “the entrepreneurial spirit is universal, judging by the enormous growth of interest in entrepreneurship around the world in the past few years (Peng, 2001; and McDougall, P.P., & Oviatt, B.M., 2003).”¹⁹⁶ What is the theory of change underlying program missions? Does it make a difference in terms of success?

Conclusion

The microenterprise development industry in the United States was founded 20 years ago to overcome institutional and personal barriers to business ownership for people and communities most in need of economic self-sufficiency — those with or close to poverty-level incomes for whom entrepreneurship was a path to personal and community economic well-being. As an increasing number of programs document outcomes, we begin to see that, in many instances, business income may remain modest, and a relatively small contributor to household income. While this may align with the goals that many entrepreneurs have for their businesses, there are others who would prefer to build their businesses into full-time endeavors, contributing more substantially to family well-being and community economic development.

This document has reviewed a range of literature examining what is known about the characteristics of small and microbusinesses and their relative sizes, the characteristics that seem associated with growing businesses, and the strategies that are designed to support growth. Some of the concepts and strategies used for less disadvantaged business owners, or for larger businesses, may not have applicability to the microenterprise industry’s target markets, but some may.

For practitioners interested in assessing their own efforts to help clients achieve more successful, growing businesses, the document offers a set of avenues to pursue. Most simply, the research suggests that practitioners should consider:

- Strengthening client assessment processes: helping clients define their growth goals and assess capacities;
- Offering additional training tracks or modules for those beyond the start-up stage, building that curricula on the skill sets defined as critical for second stage growth and development;
- Embedding entrepreneurial education within all curricula to help strengthen the entrepreneurial capacity of all clients;
- Creating mentoring opportunities;
- Building networks of entrepreneurs or finding ways to link microentrepreneurs into networks that connect them to others who can expand their marketing opportunities, their connections to industry information and their engagement in the larger community;
- Exploring how additional services may be added to program services or accessed through partnerships (incubators, access to markets, etc.) that promote and support business growth; and

¹⁹⁶ Kuratko, 9.

- Participate in creating more resource-rich networks of service providers across business size and type that will facilitate clients' access to services beyond the reach of one program.

The most promising strategies promote microentrepreneurs' leadership and alliances with experienced entrepreneurs and business people: access to markets, performance-based consulting and mentoring, and networking. Indeed, this is the culture and networks to which the microentrepreneurs belong once they are successful. Thus, by engaging in these strategies to start or grow their businesses, the microentrepreneurs ease their transitions as they cross the bridge to successful business ownership.

The bridge-to-success has traffic in both directions. Microentrepreneurs can and do lead the small business world in many ways: philanthropic and community giving as well as services and products essential (child care, cleaning, low cost food, etc.) to community well-being. The triple bottom line of profit, social, and environmental responsibility is now a cutting-edge strategic goal for some corporate and medium-sized firms. These triple bottom lines are a given for many microenterprises. Microenterprise owners can teach about local self-reliance, social networks and entrepreneurial communities. Business growth is not so simple: money and profit matter, but it is not everything. These are lessons and resources microentrepreneurs can exchange with partners in the established business world as the keystone is placed in the bridge-to-success.

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