



Appalachian Regional Commission

**The Entrepreneurial League System[®]:
Transforming Your Community's Economy
Through Enterprise Development**

prepared for
**The Appalachian Regional
Commission**

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Overview

This briefing paper explores the role of enterprise development in creating highly successful local and regional economies, identifies the current challenges to success in enterprise development, and introduces a system designed to overcome those challenges. The observations and ideas expressed in this paper were developed over the past fifteen years and are based on the work of Dr. Gregg A. Lichtenstein and Dr. Thomas S. Lyons, with hundreds of entrepreneurs and dozens of enterprise development assistance providers in the United States and around the world.¹

Studies beginning in the 1970s, and revisited in the 1980s and 1990s, have continued to show that the overwhelming majority of new jobs created in the United States are generated by small businesses. Enterprise development is increasingly recognized as a relatively low-cost, “bottom up” strategy for economic development that is particularly well suited for low-income rural and urban communities. Yet, despite its emerging popularity as an economic development strategy, and the best of intentions of those states and local communities that employ it, enterprise development has a long way to go before it approaches its full potential. For this reason, we are suggesting that communities and economic regions across the United States that want to transform their economies through enterprise development need to adopt a system.

The Entrepreneurial League System (ELS) is based on two major assumptions: first, that successful entrepreneurship hinges upon the possession of a set of skills, and second, that no two entrepreneurs come to entrepreneurship at precisely the same level of skill. With these assumptions in mind, the ELS is patterned after the professional baseball league system, which is also a system for developing skills. This configuration makes it possible to provide assistance to an entrepreneur that is appropriate in type and level of intensity. This structure also makes it possible to think about enterprise development service providers in a different way.

Adoption of the ELS affords clear, measurable benefits to participating entrepreneurs, service provider organizations, and communities or regions. But the chief benefit of the ELS to the community or region lies in the system’s ability to foster entrepreneurship at a scale that can truly transform its economy, as opposed to the micro-level, incremental changes of which the current approach is capable.

This white paper was prepared with support from the Appalachian Regional Commission’s Entrepreneurship Initiative, which seeks to create homegrown businesses by fostering a culture of entrepreneurship and by building the infrastructure that underpins an entrepreneurial economy. Since 1997, ARC’s multi-faceted Entrepreneurship Initiative has supported more than 230 projects – helping to create a projected 1,200 new businesses and creating or retaining over 4,000 jobs in the Appalachian Region. For more information on ARC’s Entrepreneurship Initiative, order “Tools for Entrepreneurship,” 2001, published by the Appalachian Regional Commission and the Ford Foundation. To order, call 202/884-7770, email: crea@arc.gov, or visit: www.arc.gov/programs/reginit/entrep.htm

¹Many of the ideas expressed in this paper were first documented in G.A. Lichtenstein and T.S. Lyons. 2001. *The entrepreneurial development system: Transforming business talent and community economies. Economic Development Quarterly*, 15(1): 3-20.

What Is Enterprise Development?

It is useful to begin with a brief discussion of what is meant by the term “enterprise development” and why it is important to local and regional economic development. Enterprise development refers to the activities of the substantial collection of programs whose mission is to assist entrepreneurs to form and grow successful new enterprises. These programs include business incubators, microenterprise programs, small business development centers (SBDCs), entrepreneurship forums, venture capital forums, revolving loan funds, technology transfer programs, and export assistance programs, to name a few.

Enterprise development, still a relatively new strategy for most state and local economic development organizations, has been enjoying increasing popularity in recent years for several reasons. First, studies beginning in the 1970s, and revisited in the 1980s and 1990s, have continued to show that the overwhelming majority of new jobs created in the United States are generated by small businesses. Recent figures put that proportion at well over 90%. Second, enterprise development is increasingly recognized as a relatively low-cost, “bottom up” strategy for economic development that is particularly well suited for low-income rural and urban communities. Finally, enterprise development is economically

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sustainable because it is small scale, tends to draw upon local resources, is oriented to human capital rather than physical capital, and fosters businesses that have personal ties to the community and are likely to remain.

Despite its emerging popularity as an economic development strategy, and the best of intentions of those states and local communities that employ it, enterprise development has a long way to go before it approaches its full potential. To be sure, there are sporadic stories of success by individual enterprise development assistance providers, but the overall outcomes of such activity are modest at best. The reasons for this relatively low level of performance are several, and they reflect the fact that community- or region-based enterprise development is neither strategic nor systemic.

Why Are Achievements in Today’s Enterprise Development Systems So Limited?

Enterprise development service providers tend to focus on the business rather than the individual entrepreneur. Yet, it is the entrepreneur who is the crucial component of any enterprise. Enterprise development should be about human capital development; however, too often, it is more about providing services to small businesses through arms-length transactions. As a result, most assistance providers operate under the assumption that in order to achieve success, they must provide more, and better, services. This approach fails to account for the quality of the entrepreneurs operating in the community or the entrepreneur’s ability to effectively use the services being provided.

Taking this a step further, many enterprise development programs make the mistake of focusing on how they will deliver a service before knowing what their client entrepreneurs actually need. They tend

to take a “cookie-cutter” approach, in which they adopt a predetermined package of services (e.g., business plan development assistance, gap financing, technical training, etc.) and then hang out their shingle, expecting entrepreneurs to flock to their door. In fact, what these support programs are offer-

“Many service providers sincerely believe that they are in competition with other service providers in their community for the same set of client entrepreneurs.”

ing may have little to do with what local entrepreneurs actually need. This tends to frustrate the entrepreneurs and confuse them about where to go for help.

To make matters more confusing to the entrepreneur, enterprise development service delivery is often highly fragmented and programs operate in isolation. Each type of service provider (e.g., business incubator, microenterprise program, SBDC, etc.) has its own culture, with a separate professional organization, distinct jargon, and unique approach to assisting entrepreneurs. Many service providers sincerely believe that they are in competition with other service providers in their community for the same set of client entrepreneurs.

This situation limits interaction among service providers; causes them to believe that they must be “all things” to their clients; and precludes them from understanding their role in the larger enterprise development activities of the community. In turn, it causes the community’s entrepreneurship assistance assets to be perceived as a maze by local entrepreneurs. Entrepreneurs are left to figure out for themselves what help they actually need, which service provider can best help them, and how to most efficiently and effectively avail themselves of the help that is offered.

Only a few entrepreneurs find their way through this maze. The rest are lost along the way. Some experts on entrepreneurship have suggested that this attrition is natural because successful entrepreneurs possess innate traits that set them apart. One has to wonder, however, whether or not this is merely a self-fulfilling prophecy or a misperception of cause and effect. If one creates a “system” of assistance that behaves like a maze, does it not stand to reason that only the most determined and resourceful entrepreneurs will survive? Is it our role in enterprise development to create tests of endurance for our entrepreneurs or to help the most people possible to succeed at entrepreneurship? Why not replace the maze with a ladder to success?

What Can Be Done to Make Enterprise Development More Powerful?

A successful local or regional enterprise development effort should be judged based on the following criteria:

- **How effective it is in creating new businesses and helping them to survive to maturity, and in facilitating the development of entrepreneurs;**
- **How well it uses resources to achieve its objectives;**
- **How open it is to working with a diversity of entrepreneurs, including those with a range of skill levels;**
- **How well it sustains its ability to produce high-quality entrepreneurs and businesses over time; and**
- **Its ability to achieve a scale of impact large enough to transform a local or regional economy.**

The current approach to community-wide or region-wide enterprise development does not fare well using this evaluation of its outcomes. Only a true enterprise development *system* can maintain the consistency and intensity of assistance that is necessary to develop entrepreneurs. Furthermore, only a *system* can link the service providers together in a way that is transparent to the entrepreneur—replacing the maze with a ladder to individual and business growth and development. Finally, only a *system* can facilitate entrepreneurship at the scale necessary to transform an economy and to do this continuously over time.

For this reason, we are suggesting that communities and economic regions across the United States that want to transform their economies through enterprise development need to adopt a system. We have developed one that we call the Entrepreneurial League System (ELS).

What Is the Entrepreneurial League System[®] ?

The ELS is based on two major assumptions: first, that successful entrepreneurship hinges upon the possession of a set of skills, and second, that no two entrepreneurs come to entrepreneurship at precisely the same level of skill. The types of skills that entrepreneurs possess can include: the skills necessary to be successful in one's line of business (technical skills); the skills needed to organize the work on a day-to-day basis (managerial skills); the skills needed to develop innovative products and services and to generate solutions to emerging needs in the marketplace (entrepreneurial skills); and the skills needed to attain self-awareness, emotional maturity, ability and willingness to accept responsibility, and creativity (personal maturity skills).² This assumption about skills is in direct opposition to assertions by some that successful entrepreneurs possess certain innate traits. Thus, for us,

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enterprise development is actually about skill building for entrepreneurs—a form of human capital development. These two assumptions about entrepreneurial skills make it possible to both assess skills and identify a hierarchy of skill classifications.

With these assumptions in mind, the ELS is patterned after the professional baseball league system, which is also a system for developing skills. Entrepreneurs can be placed in the Rookie League if they lack necessary skills or rank very low on these skills. Those with stronger skills are placed at the Single A level. Entrepreneurs with more experience and training would be classified as Double A players, while the skills of Triple A entrepreneurs would be stronger still. The most highly skilled entrepreneurs are considered Major Leaguers. In this way, a very clear ladder to success is created.

This configuration makes it possible to provide assistance to an entrepreneur that is appropriate in type and level of intensity. It eliminates the one-size-fits-all approach that characterizes most enterprise development assistance today. As the entrepreneur masters the necessary skills, he or she can advance to the next league level.

²See M.E. Gerber. 1995. *The e-myth revisited: Why most small businesses don't work and what to do about it*. New York: HarperCollins and G.A. Lichtenstein and T.S. Lyons. 1996. *Incubating new enterprises: A guide to successful practice*. Washington, DC: The Aspen Institute.

This structure also makes it possible to think about enterprise development service providers in a different way. Just as entrepreneurs operate at different levels of skill, so do service providers. Based upon its mission, the resources available to it, and the level of expertise of its staff, each assistance provider is best suited to working with entrepreneurs at particular skill levels. So, there exists a widely unrecognized hierarchy of assistance provision. This hierarchy is not based upon the quality of the services

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provided, but on the level at which entrepreneurial skill building takes place.

An example of this might be the hierarchy of financial capital provision. At the Rookie level are micro-lending programs, which give nascent entrepreneurs a chance to prove that they

can learn how to manage debt capital. As rookie entrepreneurs transition to the Single A level of skill, they may be able to obtain gap financing, through a public or quasi-public revolving loan fund, that provides them with a further opportunity to build their debt management skills. At this point they become attractive as prospects for private lending institutions. By now, these entrepreneurs are high-level Double A or low-level Triple A players and are ready for equity capital. At this point they have developed a skill set that makes them attractive to angel capitalists. When they have proven that they can manage angel capital, they become attractive to venture capitalists, who operate at the high Triple A and Major League levels. While there may be some tacit recognition of this upward flow of financial assistance among service providers in the current approach to enterprise development, it is largely invisible to entrepreneurs. They routinely try to enter the system at the inappropriate point, are rebuffed, and do not really understand why.

By recognizing this hierarchy of service provision, the ELS overcomes the fragmentation of existing community enterprise development efforts, discussed previously. Service providers can assume their appropriate role in the community—or region-wide enterprise development system. Gaps or unproductive overlap in assistance can be determined and addressed, or, to put it another way, missing rungs in the development ladder can be inserted. Entrepreneurs can be tracked through the system so that they receive the appropriate help at the right time in their development. Perhaps most important of all, the path to success can now be made clear to entrepreneurs.

How Does the ELS Actually Work?

The focal point of the ELS is a single point of entry to the system. This might be a newly created organization or one that already exists in the community and is uniquely qualified to play the role. Within this gatekeeper organization exist six very specialized functions: a scout, a diagnostician, a performance coach, a success team manager, an alliance broker, and a general manager. It should be emphasized that these are *functions*, and that one individual may play more than one role.

The scout goes out into the community or region and identifies and recruits entrepreneurs for the system. The diagnostician conducts assessments of the needs and the skill levels of the entrepreneurs entering the system and assigns them to the appropriate league level. The diagnostician also helps the

individual entrepreneur develop a game plan for his or her own development and progress through the system and monitors that progress. It is the diagnostician who makes sure that the entrepreneur utilizes the services of the appropriate assistance provider at the appropriate point in the entrepreneur's development.

The performance coach works with entrepreneurs to develop their individual mental and emotional skills—the kinds of qualitative skills that are necessary for transformation and are seldom provided by traditional service delivery transactions. The job of the success team manager is to bring together small groups of entrepreneurs who are at similar skill levels, and in similar industries or markets, to share ideas, pool resources, and offer moral support. As the name implies, the alliance broker works to create business alliances among entrepreneurs in the system, including joint ventures, formal or informal partnerships, cooperatives, and so forth. Finally, the general manager integrates these activities and those of the participating service provider organizations into a cohesive system.

With regard to participating service providers, it should be emphasized that the ELS is intended to help systematize their activities, not eliminate them or interfere with their internal operations (unless they request assistance). They become members of a community- or region-wide team for enterprise development. It is true, however, that a service provider's performance as a member of the ELS team would be assessed regularly. As things stand now, service providers either self-assess or are assessed by sponsors, individually, which only worsens the fragmentation of current approaches to enterprise development.

What Are the Benefits of the ELS?

Adoption of the ELS affords clear, measurable benefits to participating entrepreneurs, service provider organizations, and communities or regions.

BENEFITS TO ENTREPRENEURS

The ELS provides a clear and supportive structure to entrepreneurs for developing their businesses, while maintaining individual choice and responsibility for results. Entrepreneurs can understand where they are on the skill-building hierarchy and what it will take to advance. The ELS also provides an unbiased single point of contact to the local enterprise development system. Entrepreneurs are served no matter who they are or what their skill level and no longer have to guess where they should enter the system.

The ELS provides assistance that is tailored to the tangible and intangible needs and the skill level of the entrepreneur. Entrepreneurs no longer have to accept one-size-fits-all solutions, nor must they engage in arms-length transactions only. They can develop a game plan that allows them to climb a skill-building ladder to success—they can be transformed.

The fact that the ELS provides entrepreneurs with the opportunity to develop skills, obtain appropriate resources, and receive emotional and peer support affords important follow-on benefits as well.

The cost of starting and maintaining a business is reduced. The likelihood of business success is enhanced, and the time expended for achieving that success is lessened.

BENEFITS TO SERVICE PROVIDERS

The ELS is helpful to enterprise development service providers in several ways. First, it pre-screens entrepreneurs for their appropriateness to working with a given assistance provider. This saves the providers from having to do the screening themselves and from having to work with entrepreneurs who are not suitable for their services.

Second, by classifying both the service providers and entrepreneurs into skill level-based leagues, the ELS is able to send a provider a cohort of clients who share similar needs. This is much more cost effective than the current way of doing things. Third, most service providers find themselves in the position of having to react to client problems, often after it is too late to effectively change things. The ELS puts the service provider in a position to be pro-active by sending clients to them before problems have reached a point of no return.

Fourth, the ELS actually increases demand for the services offered by providers by diagnosing entrepreneurs' needs, prescribing particular types of assistance for meeting those needs, and encouraging entrepreneurs to pursue this assistance. Finally, the ELS creates synergies that enhance client entrepreneurs' performance and, in doing so, enhance service providers' performance as well.

BENEFITS TO THE COMMUNITY OR REGION

The chief benefit of the ELS to the community or region lies in the system's ability to foster entrepreneurship at a scale that can truly transform its economy, as opposed to the micro-level, incremental changes of which the current approach is capable. Furthermore, the ELS permits the community or region to manage its enterprise development resources in an efficient, effective, and equitable manner. In the process of accomplishing this, the ELS provides a framework for thinking about enterprise development activities as a whole. This, in turn, permits continuous assessment of the system and, subsequently, continuous improvement.

Conclusion

Enterprise development is emerging as an important strategy for local and regional economic development. Before companies can be attracted from one community to another or induced to stay where they are, they must first be created and nurtured to maturity. It is entrepreneurship that originally built the economy of our country. If that economy is to remain strong, then successful entrepreneurship must remain a high priority of state and local economic development efforts.

Yet, enterprise development at a regional, or even a local, level is a complex undertaking. Simple, small-scale solutions, pursued incrementally, will never have the capacity to achieve what we all desire for our communities—economic transformation. Such transformations are only accomplished by systems that link disparate elements into a macro-scale, synergistic engine for continuous development. The ELS is such a system.

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