MEMPHIS, Tenn.—Many state policymakers talk about why it’s important to encourage entrepreneurs for a simple reason: Startups are just about the only places creating new jobs.

“In most years, existing firms destroyed more jobs than they created,” Jason Wiens, lead policy engagement manager for the Ewing Marion Kauffman Foundation, told a group of Tennessee policymakers and business leaders at a CSG Entrepreneurship Day. “But in every year since 1977, which is the first year for which we have data, startups have created an average of 3 million jobs a year. And the startup creation rates have remained fairly stable for the last 30 years, even during periods when we had a recession.”

Wiens was one of the featured speakers during the daylong event, which is part of CSG’s State Pathways to Prosperity Initiative, spearheaded by CSG’s 2014 leaders, Tennessee Senate Majority Leader Mark Norris and West Virginia Gov. Earl Ray Tomblin. Memphis was the last of a series of four meetings held across the country that brought together state leaders and experts to discuss what is and isn’t working in their states to help develop more entrepreneurs.

“We know that small businesses, particularly new ones, contribute significantly to our economic growth,” Norris said. “As state leaders, it’s important to understand how our policies are impacting entrepreneurs and make sure we have the most accurate, up-to-date information available on what’s working and what’s not. We also need to consistently evaluate our policies and programs to ensure they’re as effective as they can be.”

Wiens said Tennessee has a lot of small businesses; almost half of all the state’s businesses employ between one and four people. Wiens said it’s important to differentiate between new businesses and small businesses. While most new businesses start out small, some of them don’t stay that way for long.

“When you think about a new business, I think you can say generally there’s one of three things the company will do,” he said. “It will die, it might survive and employ a modest amount of people or it can grow quickly and employ a lot of people. It’s those third type of companies that are really important for the economy, for job creation and economic growth.

“The difficult thing is no one’s been able to pick out who these winners are going to be beforehand. It’s important that we have a wide pool of new firms created every year so that it’s more likely we get more of those fast-growing companies over time.”

States typically encourage more entrepreneurship, Wiens said, through infrastructure and investments. While those policies may be helpful, research is beginning to show those are not the
most efficient ways to encourage a state’s entrepreneurs to experiment with new businesses.

“With these approaches, government tries to reach entrepreneurs through things like business incubators or establishing a public venture fund,” Wiens said. “The policymakers were removed from the entrepreneurs; not much effort was made to connect entrepreneurs to each other. ... Our research as a foundation suggests that there may be a different path for policymakers to pursue, one that puts entrepreneurs in the center and emphasizes connections among entrepreneurs.

“Entrepreneurs, we’ve found, learn by interacting with other entrepreneurs. We believe policymakers should focus their thinking on how we support entrepreneurs. They should think, ‘How do we, our programs and our support, make sure entrepreneurs are connected to one another?’ These connections provide an opportunity for mentorship and entrepreneurial growth.”

But, Wiens noted, there can be a place for business incubators and public venture funds. The Kauffman Foundation, he said, favors business incubators that are large, open spaces that encourage entrepreneurs to work with and learn from each other.

“For venture funds,” he said, “instead of awarding one large prize, consider awarding several smaller prizes so you have a cohort of entrepreneurs that can continue the entrepreneurial journey together.”

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