

The Pulver Approach: New Business Formation

There is a continuing need for new businesses to meet changing needs resulting from population growth or evolving goods and services (e.g. tax preparation, outpatient care, fast foods). A new business can mean new income and employment as well as expanded trade with local businesses. It can mean the capture of sales which otherwise go to other communities.

We are talking the promotion of small business through entrepreneurship. But care must be taken when using the term entrepreneurship because it is widely over- and miss used. Scholars of entrepreneurship have suggested several different ways to classify or think about business startups. Most people equate entrepreneurship with Joseph Schumpeter's notion of creative destruction in mind. These are people who introduce new products, technology or ways of working that radically change an industry. Very few new businesses fall into this category. Most new businesses are what Pierre-André Julien refers to as "mundane entrepreneurs". These are people who open a coffee

shop or a landscaping service who have no intentions of growing to more than a handful of employees. The third category are reactionary entrepreneurs. These are people who cannot find employment, may not be able to relocated, and are compelled into starting their own business. Most of these business owners will close the business once gainful employment is found. Each of these different types of new businesses are in need of different community services.

I. Investment of private funds locally can be encouraged through the formation of capital groups. Beginning entrepreneurs normally rely on their own financial resources and that of their family and friends to get started. In a very short time they need more capital. Banks and similar financial institutions are usually supportive in providing debt capital to familiar businesses when loans can be adequately collateralized. The bigger problem is with unfamiliar types of businesses or those which would otherwise be judged high risk. The availability of a local capital pool for debt or equity investment may provide the critical ingredient for success of a new business in the community. This can be done informally or more formally with something like a community development corporation. In either case, it is important that potential entrepreneurs be well aware of its existence.

Prior to the 1980s community economic development strategies were a hodgepodge collection of disconnected policies. Communities often took a "shot-gun" approach trying a random collection of ideas, some of which worked, some failed. Unfortunately there were little conceptual or theoretical frameworks to think about the policies and evaluate why some worked and others did not. In attempt to provide structure to this scattered approach Glen Pulver (1979) itemized five strategies that, in layman's terms, outline how a community can change the economic conditions of the community.

They are:

- Attract new basic employers.
- Improve efficiency of existing firms.
- Improve ability to capture dollars.
- Encourage new business formation.
- Increase aids/transfers received from broader governmental levels or units.

2. The community can organize to provide individual counsel and intensive education for those interested in forming a new business. First time entrepreneurs seldom have much knowledge of business management, marketing or business plans. They are usually unaware of the government regulations which apply to their concern. A local support structure can be very helpful and encouraging to business start-ups.
3. Form business networking forums for people who may be interested in starting a new business along with those who have recently started a new business. These networking forums can almost act like a “support group” where new business owners can share their experiences, frustrations, ideas and solutions.
4. Work with the local network of banking loan officers to ensure that they are aware of the goals of the community and how local banks can be more encouraging of new business start-ups. This is particularly true of national banks that have branch offices within the community. Make sure that local bankers are aware of and actively encouraging businesses to take advantage of state and national small business development programs. These can include loan guarantee programs offered by the US Department of Commerce’s Small Business Administration.
5. Community studies of the market potential for new retail, wholesale, service and industrial input providing businesses may identify opportunities for new local establishments. General insights can be acquired through analysis techniques such as input-output, location quotients, population/employment ratios, and trade area capture. More detailed analysis will be required to identify real opportunity in those sectors which look promising.
6. Entrepreneurship is often stimulated by adversity. Plant closings or lay-offs generate a great deal of interest in people going into business for themselves (reactionary entrepreneurs). Local leaders should be sensitive to this and encourage and support entrepreneurship at these critical times.
7. The general attitude of the community towards entrepreneurship is important. Business failure after a short period of time is quite common among startups. Highly successful small business operators have often failed once or twice before finally achieving their goals. The acceptance of this pattern and the constant encouragement to try again is helpful. Some research suggests it take five tries before a business owner achieves success. A positive community attitude toward experimentation with new business ideas is essential.
8. Once again it is important to provide the same services and incentive to businesses in formation as to businesses already in existence or those being sought from outside.
9. Explore the use of business incubators where new businesses can find a supportive environment. Successful business incubators is more than the community providing a low rent facility. They provide free or reduced cost accounting services, financial advising, marketing resources and a range of other business support services.

One may notice that many of these strategies apply equally well existing businesses that are seeking to expand. While the needs of someone thinking about starting a business and someone seeking to expand may appear different, there is more overlap than one might expect.

Julien, Pierre-André (2007) *A Theory of Local Entrepreneurship in the Knowledge Economy*, Edward Elgar Publ., Northampton, Mass.

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