

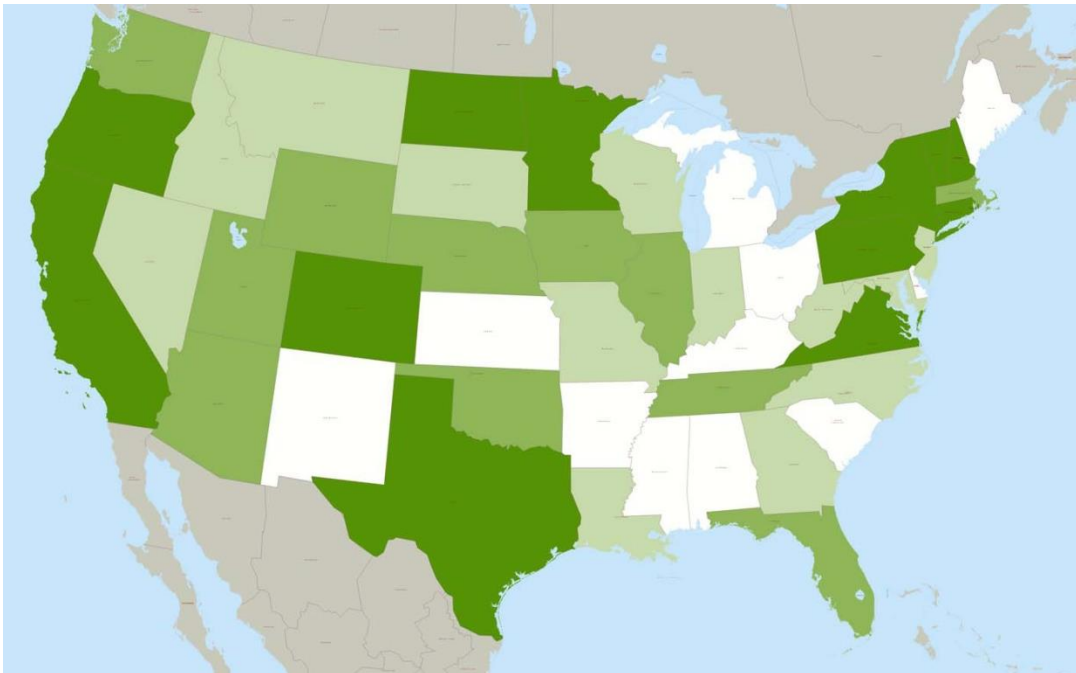
ENTREPRENEURSHIP AND WEALTH

Researchers at the University of Nebraska have developed a methodology to track entrepreneurship by state. For each state, they have created an *entrepreneurship index value* based on five variables:

- Percent growth in employer establishments
- Percent growth in employer establishments per person
- Business formation rate
- Patents per thousand persons
- Average income per non-farm proprietors

The map below provides a visual representation of this index where the darker the green, the higher the state ranks in terms of entrepreneurship. For example, North Dakota ranks at the top. North Dakota's high ranking may be explained by its rapid growth in employer establishments and high business formation rate associated with the energy boom. Where does your state rank?

State Entrepreneurship Index 2012



Source: Thompson, E. and Walstad, W., "State Entrepreneurship Index," *Business in Nebraska*, Volume 68, No. 707, http://www.bbr.unl.edu/documents/BIN_December2013.pdf.

What is the relationship between entrepreneurship and wealth?

According to the *Survey of Consumer Finances* report released in 2010, those who are self-employed or in a partnership (often used proxy for entrepreneurship) tend to have higher average wealth holdings than those working for someone else (see figure below.) In fact, the difference between these groups is over \$1.4 million. Average wealth for this group has been consistently higher than the other categories since the *Survey of Consumer Finances* first started tracking this variable.

Average Net Worth by Work Status in 2010 (National)



Source: U.S. Board of Governors of the Federal Reserve Systems, *Survey of Consumer Finances*, 2010

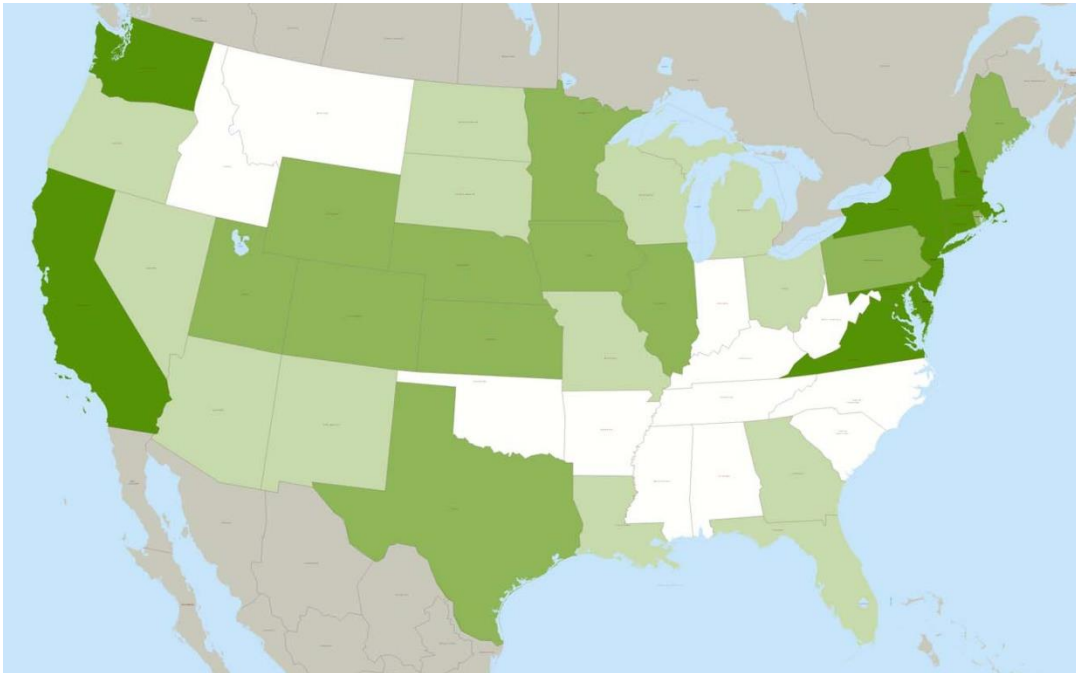
<http://www.federalreserve.gov/pubs/bulletin/2012/pdf/scf12.pdf>.

So, are states ranking high on the Entrepreneurship Index wealthier?

One way to gain insight into this question is to look at the concentration of millionaires by state, relying on a recent publication, *Ranking of U.S. States By Millionaires Per Capita*, released by Global Wealth Monitor. The map below depicts this research where the darker the green, the higher the concentration of millionaire households in a state. Several states in the northeast and California have large concentrations of millionaires. These places also rank high on the Entrepreneurship Index, suggesting a positive association between the two.

In contrast, North Dakota ranks 29th in millionaire households per capita even though it ranked 1st on the entrepreneurship index. According to Global Wealth Monitor's research, North Dakota moved up 14 places since 2012, suggesting that the energy boom in the state is generating wealth for at least some of its population at a rapid rate.

Millionaire Households Per Capita, by State in 2013



Source: Global Wealth Monitor, Ranking of U.S. States By Millionaires Per Capita in 2013, <http://w3.phoenixmi.com/wp-content/uploads/2014/01/Phoenix-GWM-U.S.-Ranking-States-By-Millioinaires-Per-Capita-2006-13.pdf>.

So what can you make of these data?

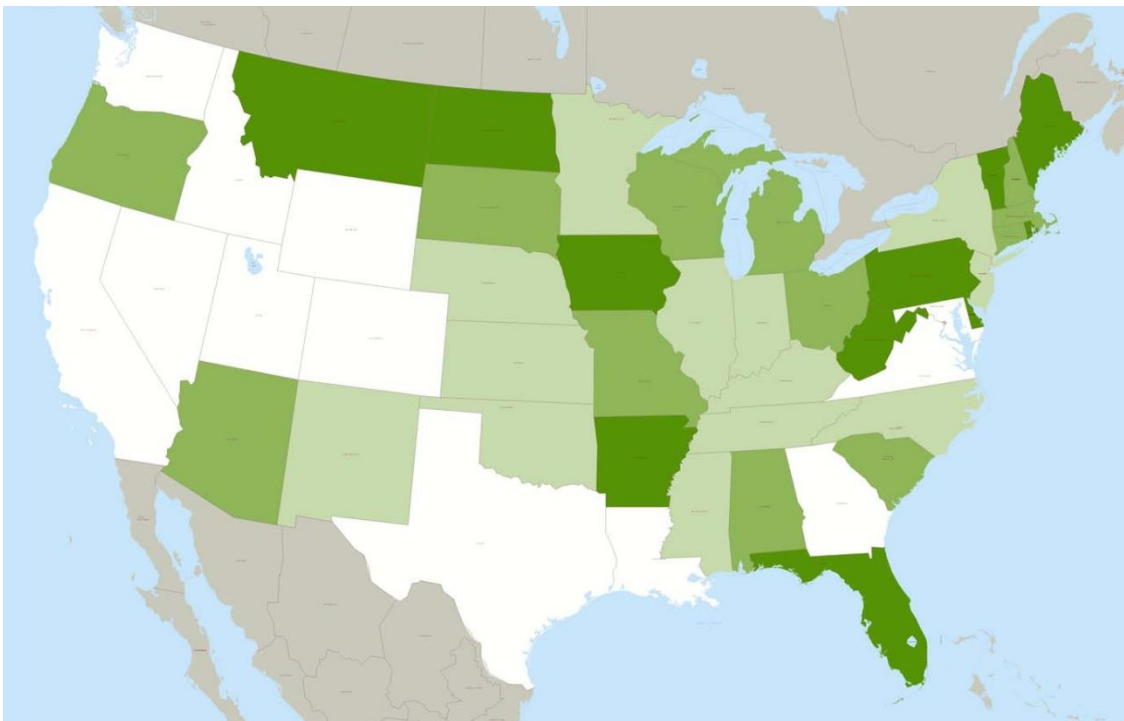
Taken together, these data suggest a number of important questions you might consider about your own community:

- How entrepreneurial is your community? Are new businesses starting in your community? Are they growing?
- Are the entrepreneurs in your community successful and building wealth? If not, what are you doing to help your entrepreneurs become even more successful?
- Are successful entrepreneurs in your community giving back, of their time, talent and treasure? How can you help cultivate a stronger giveback culture?

Encouraging and supporting entrepreneurs is clearly an economic development strategy in many places. These data suggest it is also a potentially important wealth building strategy. When entrepreneurs are successful in growing their businesses it often translates into personal wealth. If these same entrepreneurs have been supported and encouraged by their community, they may be more likely to give back so that others may enjoy this same type of support.

There are twice as many successful entrepreneurs over the age of 50 as there are under 25 with 55-64 being the age group with the highest rate of entrepreneurship. In fact entrepreneurs over the age of 55 are twice as likely to be successful as companies founded by 20-34 year olds¹. Through the Center's Transfer of Wealth research, we know that a significant intergenerational transfer of wealth will occur as the baby boom generation, including its entrepreneurs, passes its assets on to the next generation. Some states and communities are already experiencing this trend because of a relatively older population (see figure below).

Share of population 65 years and older



Source: U.S. Department of Commerce, Census Bureau, 2012 ACS 5-Year Estimate

Recognizing this trend, some community foundation leaders, notably in Nebraska and South Dakota, have been intentional about capturing some of this wealth and putting it to work supporting community economic development activities. Community development philanthropy is a promising way to support a community's economic development efforts, such as a robust entrepreneurship development system, with local philanthropic dollars. The data shared here show that supporting entrepreneurs and then cultivating a giveback culture just might launch a cycle of wealth building that can drive a community along a pathway to prosperity. Perhaps it is time to start a conversation about entrepreneurship and wealth in your community.

¹ Harvard Business Review. (2013, June 23). Entrepreneurs Get Better with Age [Blog post]. Retrieved from <http://blogs.hbr.org/2013/06/entrepreneurs-get-better-with/>

Questions & More Information

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The Center for Rural Entrepreneurship's mission is to help communities build a prosperous future by supporting and empowering business, social and civic entrepreneurs.

Development requires financial resources. Most traditional sources of funding are challenged as governments, businesses and foundations struggle to meet rising community needs. A core program area for the Center is Community Development Philanthropy, where our team helps your community, region or state build a community wealth road map. Our Transfer of Wealth (TOW) research offers insight into possibly the greatest opportunity to tap new, significant and sustainable funding streams in support of growing better and stronger communities. For many communities and regions, TOW research can help jump start important conversations leading to greater community giveback.

The Center has conducted TOW studies for clients around the nation for more than 10 years, and has published a book titled, *Transfer of Wealth in Rural America: Understanding the Potential, Realizing the Opportunity, Creating Wealth for the Future*. More product offerings are planned under our Community Development Philanthropy area.

To learn more about the Center's history and program areas, go to www.energizingentrepreneurs.org.