



Commonwealth of

Massachusetts

EXECUTIVE SUMMARY

BABSON ENTREPRENEURSHIP MONITOR

Massachusetts 2008 Report



BRIEFING

**2008 BABSON ENTREPRENEURSHIP MONITOR
FOR THE COMMONWEALTH OF MASSACHUSETTS**

Fueling Economic Development through Entrepreneurship

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Sponsored by: The Massachusetts Workforce Investment Board, The Office of Small Business and Entrepreneurship,
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The Commonwealth of Massachusetts has a tradition of innovation and entrepreneurship. However, the recent economic downturn creates a need to better understand the foundations for entrepreneurial activity. Entrepreneurship fosters job growth, innovation and economic development. It is a key driver of the Massachusetts economy. In turbulent times such as these it is critical that Massachusetts leverage this strength and focus on two key areas: 1) accelerating this high level of entrepreneurial activity through tailored policies and programs targeted toward entrepreneurs in specific regions and industries, and 2) removing the barriers to entrepreneurial growth and sustainability.

For the first time, the 2008 Babson Entrepreneurship Monitor compares similarities and differences in entrepreneurial activity by stage of business development, region, and founder demographics across the Commonwealth. While this study was completed the summer prior to the recent financial crisis of September 2008, the optimism, persistence and resilience of entrepreneurs reflected in this study suggests that early stage founders may offer a solution to the current economic recession. Results show that new businesses are being created more rapidly in Massachusetts than in the U.S. overall, that established businesses are growing, and that entrepreneurs are opportunity driven and optimistic about their success. But, Massachusetts entrepreneurs are not a homogeneous group. In fact, there are vast differences among our entrepreneurs in terms of education, age and gender. Even though the Commonwealth is a small geographic area, there are wide variations across the state in terms of business goals, perceived competition, innovation and use of technology.

This study followed the well-established survey instrument of the Global Entrepreneurship Monitor project (see the Appendix for details). The GEM methodology takes a broad view of entrepreneurship and focuses on the role played by individuals in the entrepreneurial process.

Unlike most entrepreneurship surveys that measure registered businesses in order to identify newer and smaller firms, this survey measures the behavior of individuals with respect to starting and managing a business.

Therefore, the methodology frames entrepreneurship as a process and investigates people in entrepreneurial activity in different phases of business development: from the very early phase when the business is in gestation to the established phase and possibly discontinuation of the business. Differences between individuals and businesses in the early stages of business activity versus the established businesses are examined.

The data were gathered in July 2008 using a random digit dial telephone survey of 1000 Massachusetts residents. Respondents were asked questions relating to planned business start-ups in the next 3 months, existing business start-ups (businesses < 42 months old) and established businesses (businesses > 42 months old) as well as demographic information, motivations and financing of businesses. Supplementing the telephone survey were interviews

of 31 experts (professionals, entrepreneurs, government officials) who provided additional information on the business environment, government policies and programs, training, research and development, as well as commercial and market infrastructure, cultural and social norms. Overall, these interviews provided an indication of the level of promotion and support for entrepreneurship in the Commonwealth.

The key findings from the research and related recommendations follow. The complete report will be available on December 11, 2008, at www.babson.edu/bem.

KEY FINDINGS

Overall

1. The Commonwealth of Massachusetts has a higher rate of both early stage and established businesses than the U.S. average. Specifically, the combined rate of early and late state entrepreneurial activity in Massachusetts is 23% compared to 14.1% for the U.S. Average.

Demographics

2. Early stage entrepreneurs are more likely to be male, non-white, of immigrant status and from a lower level of household income than established business owners.
3. Massachusetts entrepreneurs average 50 years of age. Compared to the national average of 47, early stage entrepreneurs in Massachusetts tend to be older, have a lower fear of business failure, and are more optimistic.
4. Early stage entrepreneurs are at the high and low ends of the educational spectrum, being either high school educated or having more than a college degree. The majority of established entrepreneurs are high school educated.

5. New businesses tend to be started by individuals who are already working full-time.
6. Most businesses are started by a single founder rather than a team.
7. Most entrepreneurs are motivated by opportunities, but certain geographic and demographic groups are more likely motivated out of necessity.

Outlook and Challenges

8. More than 90% use technology (computers, Internet, etc.) in their businesses.
9. Half of the businesses reported equal focus on profit and social goals.
10. Early-stage businesses tend to be more innovative in terms of the products and services they bring to market and the technologies they use within the business.
11. Major challenges for early-stage businesses are establishing necessary infrastructure, licensing, permits, and the cost of utilities.
12. Few businesses have more than 10% international customers.
13. Significant opportunities for technology transfer continue to exist.

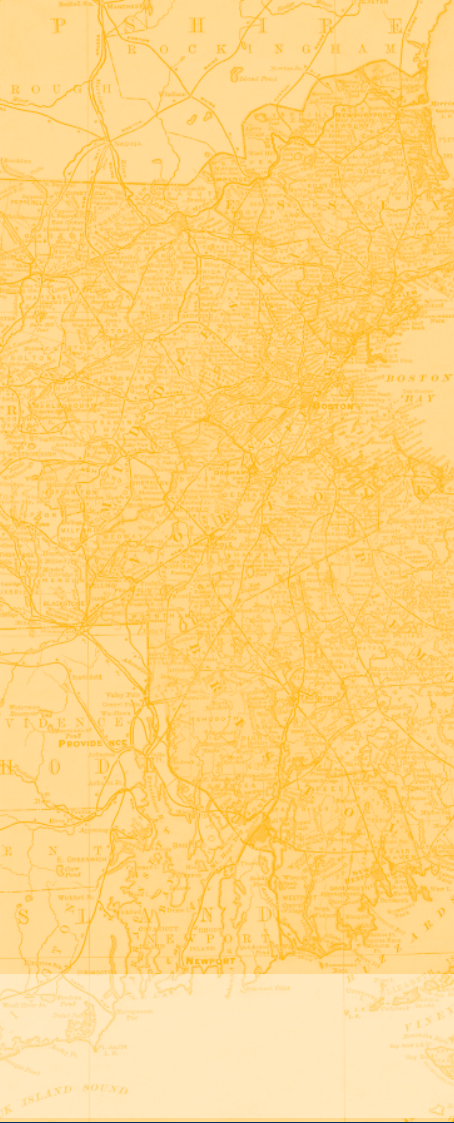
PUBLIC POLICY RECOMMENDATIONS

Accelerate Entrepreneurial Activity

Enhance opportunity for success with more focused training and resources for women, minorities, immigrants, rural populations, and other demographics identified as particular to Massachusetts.

1. Target entrepreneurial training/education and resources to women, minorities, and immigrants, who have greater challenges in accessing funding, major accounts, and government contracts.





- a. Businesses initiated and run by women and minorities currently tend to follow a more modest format in terms of both size and technology.
 - b. Developing programs specifically targeted to the growth of sustainable minority-owned and women owned businesses operating in growth industries can serve as a powerful new infrastructure, which in turn can contribute significantly to the overall economic growth of the Commonwealth.
 - c. Specialized programming efforts could be made to address groups with special needs, like the non-English speaking immigrant entrepreneurs who would benefit from culture-specific support groups or tailored training and support services.
2. Offer training programs to meet the needs of different motivations and goals for entrepreneurship.
 - a. Entrepreneurs motivated by necessity and opportunity require different types of counseling and assistance. Necessity motivated entrepreneurs may need more assistance with financial planning, debt management, while opportunity motivate entrepreneurs may need more counseling on market and technology assessment.
 - b. Identify ways to support entrepreneurs who have primarily social or economic goals or both.
 3. Ensure that rural areas have greater access to education/training and resources through extension services or on-line resources.
 - a. Experts recommend the addition of industry specific support groups or programs tailored for particular industries would better meet the needs of lower profile and micro-businesses.
 - b. Many 'mature' industries provide wealth and jobs, especially outside the high tech areas of the state. Support for entrepreneurs running businesses should be tailored to the growth stage and technology base of the industry and geographic area.
4. Focus on the particular demographics of Massachusetts entrepreneurs.
 - a. Age: Given that the average age of Massachusetts entrepreneurs is over 50, providing access to health care and life insurance is important. Opportunities may exist for retirement and/ or support organizations to mentor and advise in this process.
 - b. Employment status: Because many entrepreneurs are still working full time when they start a business, entrepreneurship education and training may need to take place in the evenings, on weekends, or be delivered online to accommodate schedules.
 - c. Education level: Owners of established ventures are more likely to be high school educated, whereas those launching new ventures are at the high and low ends of the educational spectrum; they are either high school educated or have more than a college degree. This implies that the appropriate type, level and delivery of entrepreneurial assistance and training might be different depending on the entrepreneur's educational foundation.
 - d. Solo entrepreneurship: The high incidence of solo entrepreneurs suggests that a topic for training may be to assist in team building; in particular, how to identify, screen, evaluate and develop team members. Businesses that create jobs and are sustainable over time tend to be founded by a core team of motivated individuals with complementary skills.
 - e. Stage of development: Most existing entrepreneurship programs focus on business start-up, therefore a need may be met by initiating educational programs focusing on growth options and associated strategies for obtaining resources, assessing and dealing with competition, capital and financial management, training and developing qualified employees and succession.

5. Focus on workforce education and training.
 - a. Overall planned growth by early-stage and established businesses suggests it is important to have a prepared workforce to meet this significant demand.
 - b. The rise in immigrant and minority owners suggests that language and cross-cultural understanding are important. The workforce may require training in different languages, if their first language is other than English or if they need a language other than English on the job. Those providing assistance should have cultural understanding of this diversity.
 - c. The prevalence of computer use in a wide range of job descriptions suggests a need to train workers in basic computer literacy, technology and internet skills.
 - d. Identifying community colleges that would be able partners in developing and implementing these programs should be an essential component of the overall workforce training strategy.

Remove Obstacles to Entrepreneurial Activity

Expert opinion directed many of the suggestions below.

Simplify government regulation, provide better access to services and contracting, and better leverage existing investments and resources.

1. Streamline business.
 - a. Curtail the cost of doing business by streamlining the costs of services, licensing and permitting.
2. Provide better visibility to information and services.
 - a. While there are an adequate number of government programs available to new and growing firms, entrepreneurs report difficulty finding services. Digital technologies can be utilized to communicate

and facilitate information and services. A web-based portal for technical assistance, a directory of public and private services, and forms required for licenses, DBA certificates, permitting, would be more effective and efficient.

3. Increase access to government contracts.
 - a. Ensure access of entrepreneurial businesses to government contracts/purchasing by streamlining and simplifying the bidding process, and ensuring that small business subcontracts are considered.
4. Support access to global markets.
 - a. Leverage state and federal resources to support planned exporting and globalization of entrepreneurial ventures. Evaluation of current programs and policies is suggested. Further, there is an opportunity to educate businesses on the benefits, challenges, and processes involved in tapping international markets.
5. Leverage state and federal investment in research through a more effective technology transfer process.
 - a. Massachusetts research universities and laboratories represent a distinct competitive advantage which should be aggressively leveraged.
 - b. Policies to promote investment in new technologies should be encouraged.
 - c. Aggressive commercialization/incubation of new technologies using public- private partnerships between research institutes and universities and entrepreneurial companies promote economic growth and jobs and should be explored. High tech scientists and executives should be strongly encouraged to populate high potential teams for economic opportunity.

This has been a summary of the key findings from the research and related recommendations follow. The complete report will be available on December 11, 2008, at www.babson.edu/bem.



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