

Entrepreneurial Cities Index

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The Entrepreneurial Cities Index is an annual research study that examines the factors—at the community level—that influence entrepreneurship, economic development, and job growth. The focus is on entrepreneurship because of its importance to expansion and diversification of regional economies and small businesses' impact on job creation. Nationally in 2005, small or entrepreneurial firms added 12.3 million payroll jobs while large firms had job losses of 6.1 million.¹

Background

Across the country, regionalism is promoted as a means of coordinating planning activities such as economic development, transportation systems, and infrastructure improvements. However, in Michigan and other places, the reality does not measure up to the planning theory ideals. While there are broader organizations that engage in promoting economic development in Michigan, similar activities are also undertaken individually by many of the State's 1,775 townships, cities, and villages.² Given this, the Entrepreneurial Cities Index uses the community as the unit of measurement and not a county or metropolitan statistical area (MSA) as other studies have used.

Publications such as *Entrepreneur Magazine*³ have rankings that use only two factors to identify the best places to start and grow a company. That publication, whose research was done by the National Policy Research Council, and other research, such as the Milken Institute study of "Best Places for Business,"⁴ use MSA-level data. MSAs, by definition, include an urbanized core of at least 50,000 people and an adjacent area that is socially and economically integrated with the urban core.⁵ They include dozens of cities and can encompass several counties, thus providing no insight as to local effect and strategies.

Data Sources

A six-factor, 25-item index is the key research instrument that measures entrepreneurial activity. The factors consist of Clustering, Incentives, Growth, Policies, Community, and Education. All of the quantitative data comes from publicly available records. Such records include the US Census, local building department databases, city and county assessing rolls, the Southeast Michigan Council of Government databases, and state crime reports. The quantitative findings were validated with personal interviews with city managers, township supervisors, mayors, and others involved with economic development at the local level. The index compares the items and weights the factors to identify top-performing communities. The items were selected based on knowledge of what information local governments track and what data is relevant to business as they select locations to open and operate.

Student researchers visit city or township departments and ask for data. Many of the data points come directly from standard reports and forms that communities have previously completed for

state or county reporting. Other data points are can be obtained by running reports on the various databases in city halls. The remaining data points are captured from census queries or existing reports put out by other agencies.

In the Clustering factor, concentrations of industrial property, commercial property, and personal property are used. This data is taken from city or county tax rolls. With data obtained from city tax departments, the Incentives factor examines property tax rates for businesses and the number of and value of tax abatements given by municipalities. Growth is measured by commercial to residential building activity, including the proportional number and value of permits issued by the city in the previous year. Also included in this factor are the changes to the number of personal property parcels and their value during the past year. City building and assessing departments can provide these details. The Policies factor examines what structural programs local governments are using, such as establishing local economic development organizations and assisting businesses with bonding or job training. Depending on the size and organization, these questions are asked of the planning or finance departments or the city manager's office. The Community and Education factors relate to the demographics of the communities with percentage of residents who report self-employment income, crime rates, and percentages of residents who have high school and college degrees. Most of these figures come from online sources like the census or state police annual report.

Students and research assistants interview city leaders. The interviews can last from 15 minutes to more than an hour. Officials are asked basic questions about what the local government does to attract and maintain entrepreneurial growth, the policies or internal procedures that are critical to the process, the role of partnerships, the success stories, and how they market themselves to prospective firms.

Pilot Program and Communities

A pilot study, performed in early 2006, examined 14 municipalities which were perceived to be communities a potential entrepreneur might consider as they located in metro Detroit. Following the methods described above, data was gathered and the results were shown to internal audiences at the University of Michigan's School of Management and local authorities on economic and entrepreneurial growth.

Following the pilot program, minor changes were made to the Index to remove items that are not consistently tracked by local government, such as average commercial rents and vacancy rates. The pilot study also helped identify items to add to the study that better match small business impact, such as personal property figures.

The refined Index was applied to the top four communities from the pilot program and ten new communities for 2007. This is a representative sample of 14 communities of interest in southeast Michigan. Sizes of communities ranged from populations of fewer than 10,000 to more than 100,000 residents and included cities and townships from Wayne, Oakland, Macomb, and Washtenaw counties.

Analysis

The 2007 study identified the cities of Ann Arbor, Auburn Hills, Troy, and Wixom as top performers at attracting and retaining entrepreneurial firms. Each community uses strategies that match their overall goals and community culture. While no single solution is right for all cities, common themes and trends emerge.

The top cities all identified partners in the process. County economic development agencies, local chambers of commerce, and state agencies all play roles in bringing firms to a community. In addition, leaders mentioned non-profit groups, local universities, and county infrastructure divisions as important partners when planning for and attracting entrepreneurial development and economic growth.

Communities that did well in the study are proactive in determining the needs of business and carry out relationship marketing akin to private sector firms. They have professional staffs that make regular visits to existing businesses to understand the changing needs of these firms and what the city can do aid in the changing environment. The staffs also work closely with prospective firms to assist in the review and approval process of development projects. Officials acknowledge that business and government move at two different speeds, with government being much slower. Furthermore, government is by nature democratic, but business is about meeting the needs of specific customer bases. Top-performing communities have found ways to reduce bureaucratic encumbrances and shorten the time between the application and the approval and permitting while still benefiting the residential constituency of the community.

The leading communities also balance the use of incentives. Most boast low tax rates; however, leaders highlight the efficient use of taxes to provide quality services. Additionally, each of the top four cities offers tax abatements, but the abatements typically are targeted with respect to industry and impact. City leaders explained that they do not use abatements to lure firms from nearby cities, only to attract a business that is new to the area. Abatements are more likely to be offered for high-tech industries that will bring skilled jobs.

Creative uses of zoning and substantial planning efforts are part of the success stories of these communities. They utilize consultants to dramatically update zoning plans and undertake studies to understand what will help the community be attractive to business and residents in the future. Form-based zoning, flexible zoning, and new urbanism allow communities to adapt to the changing needs of businesses. These governments also look for ways to mitigate zoning constraints that hinder high-tech firms from expanding or locating in the community.

Combining these ideas is part of the strategy of creating a place where creative people want to live; with them will come the entrepreneurial firms and high-quality jobs. Providing places for residents, visitors, and employees to eat, walk, shop, and be entertained includes the balance of tax revenues and service provisions with the availability of spaces for small firms to have access to talented workers. Zoning to give places to work and live appeals to the creative class individuals who have become coveted by municipalities because of their perceived impact on business growth.⁶

Conclusion

The findings from the Entrepreneurial Cities Index provide the best practices of local communities. Continuation and expansion of the Index will create a body of knowledge that can assist local communities with the tools and skills to assist in attracting entrepreneurial firms to Michigan. With those firms comes economic development and job growth that will allow the state to recover from its current economic condition.

¹ Bureau of Labor Statistics data. Small firms are identified as those with fewer than 100 employees and large firms are those with 100 or more employees.

² “Circulating City/Township Nominating and Qualifying Petition Forms,” Michigan Department of State, Bureau of Elections, May 2003, http://www.michigan.gov/documents/SOS_ED106_City_Twp_Pet_Form_77021_7.pdf identifies 272 cities, 1,242 townships, and 261 villages in Michigan.

³ *Entrepreneur Magazine*, “Hot Cities for 2006,” <http://www.entrepreneur.com/bestcities>, methods described at: <http://www.entrepreneur.com/magazine/entrepreneur/2006/september/165714-4.html#nprc>.

⁴ Milken Institute, “Best Performing Cities: Where America’s Jobs are Created and Sustained,” by Ross DeVol and Lorna Wallace, November 2004, http://www.milkeninstitute.org/pdf/best_performing_cities_2004.pdf.

⁵ OMB Bulletin No. 07-01, “Updates to Statistical Area Definitions and Guidance on Their Uses,” December 18, 2006, page 2, <http://www.whitehouse.gov/omb/bulletins/fy2007/b07-01.pdf>.

⁶ Richard Florida, in his book *Rise of the Creative Class*, hypothesizes that a concentration of creative professionals will create a knowledge workforce that will attract firms with high-wages and strong tax bases.