

BUILDING AN INCLUSIVE
ENTREPRENEURIAL AND SMALL BUSINESS
ECOSYSTEM TO SUPPORT NORTH
CAROLINA'S NEWFOUND PROSPERITY



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TABLE OF CONTENTS

Building an Inclusive Entrepreneurial and Small Business Ecosystem to Support North Carolina's Newfound Prosperity

Abstract	1
Introduction	1
The Need	2
The Challenges	2
The Opportunity	5
Conclusion	8

Building an Inclusive Entrepreneurial and Small Business Ecosystem to Support North Carolina's Newfound Prosperity

Abstract

As a magnet for both population and employment growth, North Carolina has a propitious opportunity to create an inclusive and equitable entrepreneurial and small business ecosystem to support the state's newfound prosperity. Leveraging qualitative insights from key informant interviews with government officials, community leaders, and minority entrepreneurs in one of the state's hot spots for growth, we outline the major parameters of a place-based approach to creating an inclusive entrepreneurship and small business ecosystem that generates shared prosperity, eliminating in the process longstanding inequities in community economic development in the state.

Introduction

North Carolina has emerged as one the nation's premier destinations for both population growth and business development.¹ The gains are impressive both in terms of the influx of talent and business recruitment.

During the first 15 months of the pandemic, according to post-2020 Census population estimates, North Carolina was the nation's fourth most attractive migration destination. An estimated 253 net newcomers arrived in the state daily between April 1, 2020 and July 1, 2021. Notably, this was a sharp increase over the 190 net newcomers who arrived in the state each day between 2010 and 2020.² People of color – African American, Asian, Hispanic and mixed-race individuals – constituted three fourth of the state's net growth during this period, creating a diverse pool of talents to propel the state's economy forward in the years ahead.

At the same time, North Carolina has earned the reputation as the best place in the country to do business—underscored by recent business recruitment successes across multiple economic sectors. Six major firms--Apple, Boom Sonic, Google, Toyota, VinFast, and Wolfspeed--have agreed to build new facilities in the state bringing in the process an estimated 18,000 new jobs to the state by 2030.³

1 James H. Johnson, Jr., Jeanne Milliken Bonds, & Allan M. Parnell, 2022, COVID-19 and North Carolina's Shifting Demography, Kenan Institute White Paper, available at <https://kenaninstitute.unc.edu/publication/covid-19-and-north-carolinas-shifting-demography/>; CNBC, 2022, "America's Top State for Business in 2022: The Full Rankings," July 13, available at <https://www.cnbc.com/2022/07/13/americas-top-states-for-business-2022-the-full-rankings.html>

2 James H. Johnson, Jr., Jeanne Milliken Bonds, & Allan Parnell, 2022, Demographically Targeted Approaches to Community Economic Development in North Carolina, Kenan Insight, September 1, available at <https://kenaninstitute.unc.edu/kenan-insight/demographically-targeted-approaches-to-community-economic-development-in-north-carolina/>

3 Lars Dolder and Brian Gordon, 2022, "What are the 6 Biggest Companies, Factories Bringing New Jobs to North Carolina?," News and Observer, September 9, available at <https://www.newsobserver.com/news/business/article259891705.html>

The Need

The state's attractiveness as destination for both business and diverse talent has created huge demand for new residential and commercial spaces that align with the consumer tastes and preferences of recent transplants as well as infrastructure investments that accommodate the needs of the companies building new facilities in the state. To meet the supply chain demands undergirding plans for expanded residential, commercial, retail, and industrial development, there is an urgent need to reassess the capabilities of local entrepreneurial and small business ecosystems to ensure that the state's diverse population of aspiring entrepreneurs and small business owners have equitable access to business opportunities undergirding the state's newfound prosperity.

For one of the counties that will host several of North Carolina's newly recruited businesses, we recently completed a minority entrepreneur and small business needs assessment. We interviewed elected officials, County and municipal government staff, entrepreneurial support organization leaders, as well as small business owners and nonprofit leaders in the African American and Hispanic communities.

Commenting on the opportunities for minority entrepreneurs and small business owners in the County's large-scale economic development projects, one local economic development professional enthusiastically stated,

There's going to be opportunity that we don't even know about... It's going to create a whole new economy, basically, and...we need to take some time [and figure out] how do we reach [minority entrepreneurs and small business owners] and... position them for success. They're going to be small businesspeople that are gonna come [into the county] from...all over and be real successful as a result of [these development projects]. I would like to figure out how we can help some of the people that are already here and position them to also be successful in that...same realm.

However, we identified several major hurdles or barriers that, if left unaddressed, will prevent aspiring minority entrepreneurs and small business owners from being able to take advantage of contracting and procurement opportunities in the supply chains of not only the large scale business developments but also the anticipated residential and commercial development projects that will be launched to support and serve the needs of employees that will fill the newly created jobs in the County.

The Challenges

Opposition to growth and costly policies and procedures put into place to manage/regulate growth in this County are major barriers to minority entrepreneurship. As one local government official stated,

There's a battle against everything. If it's a residential development, the residents who moved in will shut the door. If it's business trying to move into a particular area that's residential, it's even more heightened that people who have moved in do not want to see a business close to them...They're fine if it's somewhere else and they can take advantage of the services, but they don't want it [the actual business] anywhere close to them. It's just the changing expectations of the residents moving into the county, and there are a bunch of them.

And this individual added,

...if you're trying to open a small business, we're going to process it as if you were trying to open up an asphalt plant or a three hundred thousand dollars shipping terminal or something. It's the same process. And if you don't have the resources and if you're a small business—a one-person operation—trying to start a business, it's going to be impossible.

This individual elaborated on the process by stating,

...from a regulatory standpoint, if you've got money, it works, you can make it work, but if you don't have money. Good luck. It's not going to be set up to help you as a small businessperson to get up and running. And I'm being quite frank about that.

And the individual concluded with the following observation.

I'm not sure we have the resources to help small businesses really navigate the [regulatory] processes and complete the necessary applications and to get them submitted in the format for approval by the planning board or the Board of County Commissioners.

Distrust of governmental entities and entrepreneurial support organizations was another major barrier we identified. One key informant in our study was quick to assert that one of the main obstacles or barriers to minority entrepreneurship and small business development “would have to be racial history, or tensions, and misconceptions, or fear.” Echoing a similar sentiment, another individual we interviewed stated,

It's...a challenge for minority businesses here given the racial tensions that the County has in its history and just seeing that many individuals who grew up [in] I guess the dark eras in America, [like] Jim Crow and segregation...they're still here and their children are here so that notion still sticks with a lot of individuals today.

This person continued by stating,

I feel like an individual who grew during the [Jim Crow] period they'll probably ...raise their children to be more cautious around other [types] of groups...it's just the notion of being more cautious and really taking care of their...children, and passing that experience forward. I don't think it is them wanting to shut the doors but...more like them being more cautious. They...don't seek those resources when they're available [out of] a fear of how things would turn out, if they join the majority white institutions in [the] County.

Most likely reflecting the distrust that exists, a local government official we interviewed said,

We rarely hear from minorities who want to start a business in the county...most of the people that we are interacting with who are starting businesses are going to be white just...honestly to be frank with you about that...from a small business standpoint it is...rare that we ever encounter minorities who are reaching out to the County for starting businesses.

Following the entrepreneurial playbook was yet another challenge for minority entrepreneurs in our study.⁴ An African American community leader asserted,

I think African American businesses suffer the most by not having the expertise, especially in the early years of development, and even after they've started a business—things like business plans, some type of marketing plan, and having accountants—people who can work with them to manage the money and keep the books for them. They just really don't have that and so many of them kind of shoot themselves in the foot right up front because they either are under-capitalized or they don't have the technical resources to help them in the areas that they need assistance.

4 Tom Eisenmann, 2021, “Why Startups Fail,” Harvard Business Review, May-June, available at <https://hbr.org/2021/05/why-start-ups-fail>

And while resources existed to assist minority entrepreneurs, our needs assessment revealed that difficulty accessing existing resources, gaps in the resource network, and distrust of governmental officials and entrepreneurial support organizations were major hurdles. Several key informants said the County's entrepreneurial ecosystem was underdeveloped and difficult to navigate, especially if you are a minority entrepreneur or small business owner. One County government official specifically stated,

Our regulatory framework...is an impediment...we don't have an organized process for engaging with...minority businesses... walking in the door is going to be completely confusing and I think that is a disincentive for home businesses trying to navigate how to start. We really need to do a better job of trying to figure how to set up a process for somebody [to] navigate how to become successful. And that's what, really, we need.

If minorities aspiring to start or expand a business consulted the County's website, the official stated emphatically,

...they'd be overwhelmed...We need...to reformat everything. We have a ton of information but we don't...have it set up to navigate...nothing's connected—planning department, building inspections, fire marshal, central permitting, water department... our websites are not interconnected...there's no one stop where they can go to the website and [find what you need to do] to start a business.

This individual elaborated by stating,

You might find something that says how to start a business but it's only going to get you to a certain point...trying to navigate how to actually go through that process, it's not going to help you... It's almost like it would be better if we had [dedicated] staff that would be the one go to [for small business assistance].

Finally, while enormous entrepreneurial opportunities exist in this County, lack of knowledge of the opportunities was a major concern, as expressed by one minority community leader we interviewed—a long term advocate for minority businesses—who said,

What worries me is that our folks [may not] be prepared and ready for [those opportunities] ... If they're not, what will happen is folks from surrounding communities ... will get those jobs. will get those sub-contracts, will get the opportunity because our folks aren't prepared for it.

This minority community leader continued by stating,

I don't even think they [minority entrepreneurs and small business owners] understand the magnitude of [an ongoing project]. I don't think they understand the magnitude [or] are even thinking about [another] plant [that is] coming...what contractors and subcontractors are they going to need? I don't think they are aware of the subcontracting needs. They're not doing ...proposals because they don't know what the needs are...

Another minority community leader we interviewed agreed stating,

I think...they're not savvy...they don't know what they don't know and so they miss opportunities that are right there that they just aren't aware of...I think there is an opportunity for somebody to [create] a list of what the opportunities [are] and who can meet the needs... I have to believe that people aren't getting work because they don't know the opportunity is there.

Our key takeaway from our interviews is that this County desperately needs an inclusive and equitable entrepreneurial and small business ecosystem. Given the historical legacy and contemporary manifestations of a stark racial divide within the County, we recommend that local officials embrace a place-based approach to creating such an ecosystem.

The Opportunity

A place-based approach strives to develop supports for not only all types of businesses, including historically underutilized or marginalized enterprises in various stages of development, but also communities suffering from a history of neglect and disinvestment.⁵ To paraphrase the National League of Cities, the place-based approach creates accessible spaces (i.e., makers' spaces, incubators, accelerators, coworking spaces, etc.) with open doors for historically marginalized groups and communities who need connections to knowledge and intellectual capital assets as well as financial capital to launch, grow, and sustain successful business enterprises.⁶ In jurisdictions with a historical legacy of hyper-segregation, these and other types of entrepreneurial supports, as defined in Figure 1, are strategically dispersed in historically disenfranchised communities to ensure equitable access to needed resources.

Figure 1



Source: Adapted from Mazzarol (2014).

To commit to a place-based approach to developing an inclusive entrepreneurship and small business ecosystem, the County, according to best practices research, must:

- Conduct a comprehensive audit of existing government policies and regulations to identify any barriers to entrepreneurship and small business development generally and any inequities in the ways policies and regulations are enacted and implemented that specifically disadvantage historically under-represented entrepreneurs and small business owners in the local community.
- Develop an inventory of existing entrepreneurial support organizations and use its influence and resources to break down any silos and build connections among existing entrepreneurial support organizations as well as fill revealed resource gaps in the local entrepreneurial and small business ecosystem. To achieve this goal, invest in a dedicated website—a one-stop digital entrepreneurial hub—that provides local entrepreneurs, small business owners, and local community leaders with ready electronic access to the network of entrepreneurial support organizations and other resources, including diverse sources of capital, needed to create, grow, maintain, and sustain thriving businesses and communities (see Figure 1). The goal in having such a website is to enable local entrepreneurs and small business owners to “access support and resources without having to be fully dependent on municipal efforts.”⁷

5 See The Community Foundation for Greater New Haven, n.d., Creating Opportunity Through An Inclusive Entrepreneurial Ecosystem, available at <https://www.cfnh.org/articles/creating-opportunity-through-an-inclusive-entrepreneurial-ecosystem>

6 National League of Cities, 2022, How Support Inclusive Entrepreneurship Helps Cities Build Inclusive Economies, available at <https://www.nlc.org/article/2022/02/03/how-supporting-inclusive-entrepreneurship-helps-cities-build-inclusive-economies/>

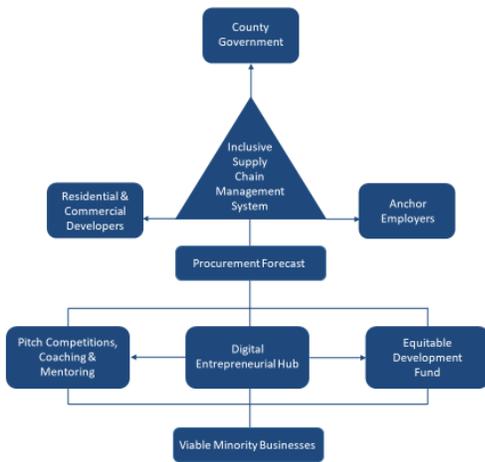
7 Ewing Marion Kauffman Foundation, CO+Hoots and the Mesa CARES Small Business Technical Assistance Program, Linking and Leveraging Assets in Entrepreneurial Ecosystems to Address Challenges and Crises, available at <https://www.kauffman.org/entrepreneurship/communities/ecosystems-in-action/linking-leveraging-assets-next-street-cohoots/#cohoots>

- Adopt a mission-driven innovation approach to minority entrepreneurship and small business development (see Figure 2).⁸ Rather than relying solely on minority entrepreneurs to come up with their own venture ideas, the mission-oriented approach proactively stimulates and facilitates market-driven innovation by directing aspiring entrepreneurs and small business owners to specific opportunities and challenges that require small business solutions.

- Capitalize on this approach by: (1) using contracting and procurement forecasts to provide minority entrepreneurs with keen insights into where propitious entrepreneurial and business development opportunities exist in the County. Lead by leveraging the County’s government procurement and contracting opportunities to grow minority businesses and encouraging existing anchor employers as well as newly recruited businesses to leverage their supply chains to facilitate homegrown minority business development. Sponsor start-up pitch competitions, reverse pitch competitions, and/or innovations challenges in historically marginalized communities to market and generate minority interest in forecasted contracting and procurement opportunities.⁹ Invest in an inclusive supply chain management system, that is, a best-in-class e-procurement platform, to connect minority entrepreneurs and small business owners with education, training, and networking as well as access to government and private sector contracting and procurement opportunities (Table 1). Populate the platform with resources that will enable informal businesses to transition to formal businesses, thus allowing them to access resources that will further enhance the growth and development of their enterprises.

Figure 2

A Mission-Driven Innovation Model of Minority Business Development



Source: compiled by authors.

8 Tamami Iomatsu Cipriani, et al., 2020, "Business Models & Social Innovation: Mission-Driven Versus Profit =-Driven Organizations," International Review of Applied Economics, Vol 34, available at <https://www.tandfonline.com/doi/abs/10.1080/02692171.2020.1781066>. Observatory of Public Sector Innovation, n.d., What is Mission-Oriented Innovation?, available at <https://www.tandfonline.com/doi/abs/10.1080/02692171.2020.1781066>. Marana Mazzucato, 2018, "Mission-Oriented Innovation Policies: Challenges and Opportunities," Industrial and Corporate Change, Vol 27, available at <https://academic.oup.com/icc/article/27/5/803/5127692>

9 For a description of the value of this approach, see George A. Willis, 2022, "Kentucky City's Incubator Seeks to Produce More Black-Owned Businesses," Newsweek, June 16, available at <https://www.newsweek.com/kentucky-citys-incubator-seeks-produce-more-black-owned-businesses-1716647>

Table 1:
Supplier Diversity Management E-procurement Platforms

E-Procurement Platform	Website
ConnXus	www.connXus.com
Supplier Gateway	https://www.suppliergateway.com/
Tealbook	https://www.tealbook.com/
Supplier.io	https://www.supplier.io/
AdaptOne	https://www.adaptone.com/
IQuantum diversity	https://www.iquantum.ai/
Arkesto	https://arkesto.com/
Bentley Systems	http://www.ebidsystems.com
graphiteConnect	http://graphiteconnect.com
PowerAdvocate	https://www.poweradvocate.com

Source: Spend Matters Almanac available at <https://spendmatters.com/almanac/category/supplier-management-vendor-management/supplier-diversity-management/>.

- Consider supporting this mission-driven innovation approach by launching an Equitable Development Venture Fund—an investment vehicle that would provide start-up and growth capital to support minority-owned, mission-driven entrepreneurial ventures and small business enterprises. As Table 2 shows, several U.S. jurisdictions pursuing placed-based equitable development have created such funds, including two larger scale rural funds developed by intermediaries for broader regions. Invite banks and other financial institutions as well as foundations to match County investments in the Equitable Development Venture Fund.

Table 2:
Impact Investment Innovations

Name of Fund	
Invest STL	http://investl.org/
Reinvestment Baltimore Democratizing Development	https://www.reinvestment.com/about/
NFG Chicago Community Loan Fund	https://ccfchicago.org/
Invest Atlanta	https://www.investatlanta.com/
Invest Detroit	https://investdetroit.com/
Propeller Fund—New Orleans	http://gopropeller.org/
Inclusive Innovations Incubator, Washington, DC	https://www.in3dc.com/
Bay Area Investing	http://baaii.org/
Southern Impact Investing Alliance	https://www.thesiia.org/
Cornerstone Capital (Rural)	https://www.cornerstonecapinc.com/wp-content/uploads/Investing-to-Revitalize-Rural-America_April-2019.pdf
LISC Impact Notes (Rural)	https://www.lisc.org/our-model/impact-notes

Source: compiled by authors.

- Partner with trusted-messenger organizations in the African American and Hispanic communities and develop a multi-channel communications strategy and plan to ensure that information flow regarding available entrepreneurial supports and resources as well as business opportunities is disseminated via a trusted messenger/trusted messaging system.¹⁰ Such a system will go a long way toward eliminating longstanding distrust of existing institutions and facilitating the formalization of entrepreneurs in the informal economy.¹¹
- Invest in impact investment training for County government staff and invite staff from other local entrepreneurial support organizations to participate so that moving forward all of the stakeholders in the County entrepreneurial ecosystem have a keen understanding of the diverse pools of capital and the equity tools that can be leveraged to promote and facilitate minority business development – and inclusive and equitable, placed based community economic development more generally.¹²

Conclusion

Adopting and successfully implementing these recommendations should create equitable opportunities for African Americans, Hispanics, and other historically marginalized groups to leverage their entrepreneurial desires and acumen in the County's booming marketplace—thus making the County a more inclusive place to live, work, play, and do business. To succeed, however, the County

must devise an implementation logic model and exploit its convening powers with other key stakeholders in the community and beyond to forge the mutually beneficial strategic alliances required to create and sustain an inclusive and equitable entrepreneur and small business ecosystem.¹³

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10 Samantha Wright, Annie Neimand, and Max Steinman, 2021, "Find the Right Messenger for your Message," Stanford Innovation Review, available at https://ssir.org/articles/entry/finding_the_right_messenger_for_your_message

11 Colin Williams and Sara J. Nadin, 2014, "Facilitating the Formalisation of Entrepreneurs in the Informal Economy: Towards a Variegated Policy Approach", Journal of Entrepreneurship and Public Policy, Vol 3, available at https://www.researchgate.net/publication/263762422_Facilitating_the_formalisation_of_entrepreneurs_in_the_informal_economy_Towards_a_variegated_policy_approach

12 For an example of how impact investing can be leveraged, see Jeanne Milliken Bonds, Anne A. Burnett and Emqma Sissman, 2018, "Community Finance in East Baltimore: A Study of Phase One Redevelopment and Financing," Community Practice Papers, September, Federal Reserve Bank of Richmond, available at https://www.richmondfed.org/publications/community_development/practice_papers

13 For a concrete example of an implementation logic model, see James H. Johnson, Jr., Mark S. McDaniel, & Allan M. Parnell, 2019, Built2Last: A RoadMap for Inclusive and Equitable Development in Durham, p. 12. Commissioned by the City of Durham's Office of Economic and Workforce Development. Urban Investment Strategies Center, Kenan Institute of Private Enterprise, Kenan-Flagler Business School, UNC-Chapel Hill, available at https://www.durhamnc.gov/DocumentCenter/View/27855/Built2Last_06142019_Final

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