

### Free Enterprise

“Let’s Get Peachy on Entrepreneurship”

by Prof. Luke Pittaway

**Biography:** Luke Pittaway is the William A. Freeman Distinguished Chair in Free Enterprise in Georgia Southern University’s College of Business Administration. He teaches entrepreneurship classes in the Department of Management, Marketing, & Logistics. Dr. Pittaway’s research focuses on entrepreneurship education, behavior, and learning and has been published extensively. He may be reached by email at [lukepittaway@georgiasouthern.edu](mailto:lukepittaway@georgiasouthern.edu).



Georgia is the most entrepreneurial state in the nation according to the Kauffman Index of Entrepreneurial Activity published in April 2009. The index reviews new business creation in the US and seeks to capture new business owners in their first month of significant business activity. The April report reviewed entrepreneurial activity over a thirteen year period from 1996 to 2008. While the overall activity rate for the nation stayed the same there were shifts in the demographic and geographic composition of new entrepreneurs across the country. Georgia in 2008 became the state with the highest entrepreneurial activity rate in the country with 590 per 100,000 adults (followed closely by New Mexico). Over the decade Georgia also experienced the fastest increase in entrepreneurial activity with an increase of 0.17 percentage points. So should we celebrate Georgia’s success?

Statistics as we know are not always reliable so before we celebrate let us look behind the data. Entrepreneurial activity in the study is defined by two types ‘necessity based’ and ‘opportunity based’. Necessity based entrepreneurship is where individuals engage in entrepreneurial businesses because they have few alternatives whereas opportunity based entrepreneurship is driven more by the opening up of an opportunity that individuals pursue regardless of their personal circumstances. The study certainly shows a recent trend (2007-2008) towards an increase in necessity based entrepreneurship with increases in lower-income and middle-income businesses and actually a decrease in higher income businesses. So the surge in entrepreneurial activity in Georgia might simply be caused by the recession, with possibly the rural areas of Georgia driving a growth in necessity based entrepreneurship. Not an outcome that could be considered positive.

There is, however, another picture that emerges from the data. Georgia over the period has continued an upward trend in its entrepreneurial activity (well before 2007-2008) and this trend has continued. When we look at the data for the fifteen largest metropolitan areas in the United States we discover a different scenario. Atlanta has the highest entrepreneurial activity rate in the nation at 740 per 100,000 adults (its nearest competitor Phoenix is at 550). This paints a picture of a state with a high level of opportunity based entrepreneurship driven by an

engine of growth, which is metropolitan Atlanta. Certainly this should be a cause for celebration. Georgia in this scenario, which seems the right one to me, is becoming more entrepreneurial and it has a significant city driving its entrepreneurial growth. Of course there might be some concern for those interested in economic development in Coastal Georgia and in particular Savannah because the scenario also implies that the rate of entrepreneurial activity in other parts of Georgia are likely to be closer to the national average and that the state's data have been skewed by the performance of metropolitan Atlanta.

Entrepreneurial activity as measured by this study could also be misleading, it is effectively only measuring business start-up rates and not the success of the businesses started, nor the environment in which they start. We know that many other contextual factors in a location impact on the performance of businesses once started and we perhaps need to consider these. In another study the 2008 State New Economy Index also published by the Kauffman Foundation there are wider measures of economic performance and there is a different outcome for Georgia. This study looks at a number of metrics to see how well placed states are to take advantage of the 'New Economy'. In 2008 Georgia was ranked 21<sup>st</sup> and over the last few years we have been consistently around 20<sup>th</sup> (Massachusetts has been consistently ranked 1<sup>st</sup>). But once again we need to look at the detail. On the one hand, Georgia gets hit on factors like: the number of knowledge professionals in the workforce including immigrant and migrant workers; the number of jobs created in fast growing companies; the number of IPOs; the number of patents filed; the amount of technology training in schools and universities; and, amount of research and development investment. On the other hand, Georgia does well on: high wage services; foreign direct investment; employment churn; having the fastest growing companies; its general entrepreneurial activity; and, availability of venture capital. So what can we really conclude from all this research?

My conclusion from all of this is that Georgia is an entrepreneurial place. This is supported by my experience since moving here where virtually every student in classes has had a father or mother running a business. This raw entrepreneurship is demonstrated by a high business start-up rate and evidence of successful entrepreneurship (e.g. highly successful female entrepreneurs and fast growing companies). Likewise the environment is supported by a good quality private infrastructure, for example, through venture capital and business angel syndicates. Based on the data in these reports what seems to be lacking in comparison to other states is the research and development infrastructure (R&D investment; patents; workforce readiness; and, technology training). We have the raw entrepreneurial talent but are perhaps under-investing in other key resources like human capital and technology and this is perhaps limiting our ability to generate new technology-based and high growth businesses.