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Moving Cleveland Above the Trend: Entrepreneurship Policy

Iryna V. Lendel
Cleveland State University, i.lendel@csuohio.edu

Merissa Piazza
Cleveland State University, m.c.piazza83@csuohio.edu

Molly Schnoke
Cleveland State University, m.s.schnoke@csuohio.edu

Shneur Kushner

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MOVING CLEVELAND ABOVE THE TREND: ENTREPRENEURSHIP POLICY

A recent report conducted by the Center for Economic Development discussed the structural and policy factors of economic growth in mid-sized U.S. economies and included an analysis of similar regions. The Center used factor analysis as a data-reduction technique and identified five factors influencing mid-sized regional economies: 1) Innovation and Talent, 2) Entrepreneurship in High-Cost Areas, 3) New Residential Centers, 4) Retirement Destinations, and 5) Polarization. An analysis determined the relationship between these factors and the changes in regional employment, gross regional product (output), and per capita income. This brief outlines the initial analysis primary takeaways as it relates to entrepreneurship and explores how Northeast Ohio and the Cleveland region can incorporate successful policies and programs in other regions to propel it forward.

The second most influential factor of regional growth after **innovation and talent**¹ in mid-sized metro areas is *Entrepreneurship in High-Cost Areas*. The five variables that make up this factor account for 16% of a metro areas' success and growth (Table 1). Our research shows that places associated with a high cost of housing, a high percentage of foreign-born, and a large number of small businesses have a strong association with employment and output growth. Metros that have this “secret sauce” are mainly on the coasts of the U.S., with 13 of the top 15 MSAs located in California. Table 2 shows that overall, Northeast Ohio (NEO) ranks relatively low in *Entrepreneurship in High-Cost Areas*. Two of the variables in this factor are related to the cost of living – Housing Unaffordability and Cost of Doing Business; we know that NEO has a fairly low cost of living, which is an asset for the region. Our brief focuses on the entrepreneurship metrics associated with this factor: foreign-born, employment in small firms, and self-employment.

NEO has different assets than the coasts; therefore, we ask, what can the region learn from the other in-land success stories to encourage and facilitate entrepre-

neurship growth? Looking at how similar regions to NEO have tackled entrepreneurship helps identify potential policies, remembering that no one city has solved all of these problems. This research brief explores three attainable regions and two aspirational regions.² Table 3 shows their performance in *Entrepreneurship in High-Cost Areas*.

ATTAINABLE REGIONS

The first attainable region is Minneapolis-St. Paul, which the NEO region has long looked to in serving as a benchmark. The Minneapolis-St. Paul region is home to 16 Fortune 500 companies, the highest number per capita in the country.³ These Fortune 500 companies play a role in attracting new talent to the region by offering high-paying jobs. A large talent pool is shown to be a nexus of entrepreneurial connections allowing individuals to generate ideas, start their own firms, or transition to working for a startup. Large companies know that new products and services are the key to their survival and have created entrepreneurial programs to accelerate small-business growth. Target corporation's Techstars Retail Accelerator is an example of using local resources and accrued industry expertise to bring about growth from the bottom-up.⁴ The city is also involved in facilitating startup growth through its business assistance program that provides coaching and group training to foster business development.

The second attainable region is Milwaukee, home to 24 colleges, technical schools, and universities, with a combined yearly enrollment of nearly 100,000 students.⁵ It has a diverse labor pool that provides entry-level jobs, which is also attractive for startups to stay in order to use this newly available talent. The relatively low cost of

**TABLE 1: ENTREPRENEURSHIP IN HIGH-COST AREAS
FACTOR VARIABLES**

Ranking	Entrepreneurship in High-Cost Areas
	Variable
1	Housing Unaffordability
2	Foreign-born
3	Employment in Small Firms
4	Cost of doing business
5	Self-employment

¹ Lendel, I. V. Piazza, M., Schnoke, M., and Walsh, N. (2021). [Moving Cleveland above the trend: innovation & talent](#).

² For more information on how we define “attainable” and “aspirational” see Lendel, I. Piazza, M., Schnoke, M., Yun, J., & Walsh, N. (2020). [Moving Cleveland above the trend: benchmarking regional performance](#) (Report). Urban Publications.

³ Positively Minnesota (2010). [Economic overview and industry strengths of Minneapolis/St. Paul](#).

⁴ Canal, E. (2018). [Minneapolis: where people are nice, craft beer is plentiful, and the startup scene is hot](#).

⁵ Reynebeau, R. (2018). [Why Milwaukee's great for startups](#).

TABLE 2: NORTHEAST OHIO METROS (OVERALL RANK OUT OF 135 MID-SIZED MSAs)

Metro Area	Factor	Housing Unaffordability	Foreign-born	Employment in Small Firms	Cost of doing business	Self-employment
Youngstown, OH-PA	92	118	134	37	114	108
Cleveland-Elyria, OH	96	76	93	87	47	110
Canton-Massillon, OH	100	98	133	57	106	120
Akron, OH	105	102	110	74	72	109

living and proximity to large companies willing to invest in entrepreneurial endeavors contribute to Milwaukee’s startup networks’ growth.

Milwaukee is home to a healthy and robust startup ecosystem for small businesses in all development stages. From angel investors (e.g. Fund Milwaukee) to incubators (e.g. The Commons, gener8tor) and universities, the region has a complete entrepreneurial ecosystem for support and growth.⁶ Milwaukee also has a competitive edge over many other regions due to its proximity to Madison, Wisconsin, an already well-established bio-tech startup hub.⁷

Lastly, St. Louis, the third attainable region, built up its entrepreneurial strength in the 1990s when political and business leaders studied how other older industrial cities turned around. They found that St. Louis had what it takes – universities, medical schools, hospitals, and the research-focused agricultural industry.⁸ Taking all of these regional assets, they sought to build a regional entrepreneurial ecosystem and infrastructure through new investment funds, incubators, and workforce programs. In all, the downtown area has nearly 200 organizations supporting entrepreneurship, including the T-Rex business incubator, coworking spaces, venture firms, mentorship programs, the Arch Grants’ Global Startup Competition, and other accelerators.⁹ St. Louis is now called

‘startup heaven’¹⁰ and a place that attracts millennials.

Many regions across the country, including NEO, have small business and entrepreneurship support through the Small Business Development Centers (SBDCs), SCORE, business incubators, and banks. Some may ask, NEO has these assets as well; why don’t we see better results? Entrepreneurship as an economic development mechanism can take decades to foster. The NEO area has made strides toward becoming a more supportive region to small businesses and the development of new firms. Twenty years ago, the philanthropic community recognized this gap and created various entrepreneurial service organizations to encourage and help entrepreneurs. The Council of Smaller Enterprises, JumpStart, Akron’s Bounce Innovation Hub, and the Youngstown Business Incubator now help entrepreneurs and small businesses. However, many of the attainable cities identified the problem earlier and/or have more robust regional assets to support these efforts. One of the Twin Cities is a state capital (St. Paul) and it has government funding and a large need for professional services, an important distinction for the non-capital region of NEO. At the same time, St. Louis started its entrepreneurial journey in the 1990s.

TABLE 3: ATTAINABLE AND ASPIRATIONAL METROS (OVERALL RANK OUT OF 135 MID-SIZED MSAs)

Metro Area	Factor	Housing Unaffordability	Foreign-born	Employment in Small Firms	Cost of doing business	Self-employment
Eugene, OR	23	16	91	9	113	13
Colorado Springs, CO	26	72	78	7	44	37
Minneapolis-St. Paul, MN-WI	61	99	44	114	33	31
Milwaukee, WI	90	74	75	116	32	118
St. Louis, MO-IL	93	97	112	108	76	105

⁶ Pilkey, Q. (2019, January 4). [Entrepreneurial ecosystem spotlight: Milwaukee, WI.](#)
⁷ Medal, A. (2017, February 6). [Forget Silicon Valley. Move your startup to any of these 3 places.](#)
⁸ Stangler, D. & Tomkins-Bergh, C. (2016, June 10). [How did St. Louis become an entrepreneurial boomtown?](#)
⁹ Entrepreneur Quarterly. (n.d.). [Innovation districts in St. Louis.](#)
¹⁰ Kiel, M. (2019). [Commentary: why entrepreneurs are setting up shop in St. Louis.](#)

ASPIRATIONAL REGIONS

The aspirational regions scored higher in the entrepreneurship factor and are very different from NEO. With this in mind, we look at what works in these areas but understand that there is not a one-to-one comparison. The two aspirational cities are Eugene, OR, and Colorado Springs, CO. Both of these areas are spillover metros from their nearby population hubs of Portland and Denver, respectively. The “lower-cost” of housing makes these communities attractive to new residents and businesses; it is essential to note that their “lower-cost” is still a much higher market price than NEO. Colorado Springs is within one hour of the University of Denver and two hours of the University of Colorado, increasing its talent pool to draw technical and scientific graduates and entrepreneurs.

Similarly, Eugene is a college town, home to the University of Oregon, and has embraced the idea of fostering entrepreneurship in an organic, community way by committing to inclusive values of “give before you get,” “all who are interested are welcome,” and “embrace weirdness.”¹¹ Beyond this, Eugene and Colorado Springs have a large percentage of small businesses in their overall business population and a large percentage of self-employed individuals. These metrics combined show that individuals in these areas have a higher incidence of entrepreneurship, contributing to regional economic vibrancy.

RACIAL EQUITY & ENTREPRENEURSHIP

Many of the Northeast Ohio cities analyzed have a majority-minority population, and equity is paramount to their success. Accumulating wealth is a critical component of fostering equity for these communities, spurring homeownership, creating greater purchasing power, and building generational wealth. Entrepreneurship is a pivotal component to fostering greater equity in NEO since it provides financial and job opportunities. Many programs started in NEO to combat the gap in entrepreneurship, including programs of the Greater Cleveland Urban League, JumpStart’s Core City program, and the Greater Cleveland Partnership’s Business Growth Collaborative. Some achievable and aspirational regions, namely St. Louis, Milwaukee, and Minneapolis, can serve as models for what NEO should do next to create racial equity in entrepreneurship.

St. Louis is a region that has pioneered equity entre-

preneurship thanks to philanthropic funding of the Kauffman Foundation – a national thought leader in entrepreneurship. St. Louis Equity, an entrepreneurship collective, was created in 2016 from Kauffman funding to regionalize and collaborate on equity considerations for gender and race. St. Louis Equity Collective created action teams to concentrate on eight pilot solutions: training, data sharing, toolkits, wayfinding, capital, investors, culture of practice, and facilities.¹²

Both Minneapolis and Milwaukee were rocked in 2020 with protests after two different incidences of the murder of black residents involving white police officers. These protests highlight the inequity in these areas; although they may be marked as attainable, the question of “attainable for whom” is essential to ask. In the wake of these protests, initiatives were launched in these cities to overcome racial disparities. In all, Milwaukee learned that company management across the area was sorely lacking in diversity and pledged to increase African American and Hispanic employment by 15%, and management by 25%, by 2025.¹³ Minneapolis created an equitable engagement dashboard to drive change. However, all of this is not a new conversation; the Minneapolis Federal Reserve published an article in 2006 about the numerous challenges African American entrepreneurs face in the region.¹⁴

Suppose NEO is to increase its share of minority residents willing to start new businesses. In that case, it has to be willing to create and support programs and initiatives that address specific challenges that minorities face, not just in starting businesses but in increasing diversity in all aspects of the community.

COVID-19 CHALLENGES

The COVID-19 pandemic has brought two main business issues to the forefront – knowledge gaps and digital business transformations. The knowledge and capacity gap between small and large businesses existed long before the pandemic, but COVID-19 made the gap more glaring than ever. Many small businesses could not apply for paycheck protection program (PPP) loans because they did not have a bank relationship or found the bureaucratic procedures cumbersome. Second, the stay-at-home orders moved many businesses to solely online, which caused havoc for both employers and workers. The pandemic also thrust most businesses into the world of online sales, distribution, and e-commerce.¹⁵ Small businesses that could not quickly pivot

¹¹ Arenson, J. (2015, October 1). [Can Eugene, Oregon become a haven for startups?](#)

¹² St. Louis Equity in Entrepreneurship Collective. (2017). [Summit report](#).

¹³ Hauer, S. (2021, January 5). [Milwaukee needs around 150 more managers who are African American to meet MMAC goals](#).

¹⁴ Kokodoko, M. (2006, November 1). [African American enterprises on the rise in Minnesota](#).

¹⁵ LaFleur, K. (2020, December 14). [The pandemic forced businesses to move online - it's time for fundraising to also go digital](#).

their operation and sales online lost the ability to stay open, many of whom were service sector businesses. Moreover, workers struggled in this remote work environment. Lastly, COVID-19 unveiled existing disparities for both workers and businesses to support this new reality of an entirely remote workforce. Digital literacy

and broadband access have been a longstanding issue in NEO, but now it has caught national attention. Organizations such as DigitalC, Cleveland State University, Case Western Reserve University, and the Midtown Tech Hive aim to make Cleveland's digital future more equitable.

KEY TAKEAWAYS

- There isn't one single entity to institute a level of programming or change that will adequately drive growth in entrepreneurship. Multiple organizations and actors working at different levels and scales in different ways will bring about meaningful change. Continued focus on building longevity, consistency, and scale in investments is needed for further build-out.
- We know that there are significant gaps that still exist in the NEO ecosystem as it relates to racial equity and small business knowledge and capacity. COVID-19 has only made this chasm wider and more evident. These gaps will need to be addressed with specific and targeted funding if NEO is to realize its entrepreneurial potential more fully.
- Having a large pool of talent is a common theme across attainable and aspirational cities. This talent can help fuel new startups through entrepreneurship and self-employment. NEO should increase activities to attract new talent while retaining young graduates.

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Your comments and questions are valued and encouraged;
Please share them with Dr. Iryna V. Lendel at i.lendel@csuohio.edu

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