

ENTREPRENEURIAL REJUVENATION FOR UNEMPLOYED WORKERS
PROGRAM

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Executive Summary

This report provides a conceptual, structural, and analytical foundation for the creation of a joint public/private economic rejuvenation and jobs program for the State of Michigan entitled the “Entrepreneurial Rejuvenation for Unemployed Workers Program (ERUWP).” Some of the key findings are as follows:

- From February 2000 to February 2009, the State of Michigan lost 707,000 jobs with 220,469 of those jobs lost within the last two years.
- Michigan’s rate of entrepreneurship is less than that of the United States overall with 87 new small businesses started each year per 10,000 workers versus 96 new small businesses started per 10,000 workers throughout the United States.
- Five factors, talent, capital, know how, technology, and culture are deemed important and require support by a community for entrepreneurship to be successful. The State of Michigan may lag in new small business start-ups when compared to the United States overall due to lack of support for several of the key factors. ERUWP alone would improve three (talent, know how, and culture) of the five factors in Michigan and therefore create a more conducive environment for small business start-ups in Michigan.
- The majority of Michigan’s unemployed workers come from the manufacturing sectors. The lack of new manufacturing start-ups makes it difficult for those unemployed workers to re-assimilate back into the economy. Furthermore, unemployed manufacturing workers in Michigan lack the skills to start small businesses in growing sectors of the economy such as healthcare

- Based on trends in Michigan's industry sectors and the characteristics necessary to foster successful entrepreneurship in Michigan, ERUWP alone has the potential to create more than 3,500 new small businesses per year and more than 16,000 new jobs per year.
- ERUWP would enhance the current Michigan Works! program by establishing assessments for entrepreneurial aptitude in unemployed workers along with integrating local county economic development small business start-up/local market niche expertise and thus generate greater small business start ups and jobs in Michigan.
- ERUWP would reestablish unemployed workers as job providers versus victims of the economy.

Introduction

The Western Wayne Oakland County Association of REALTORS (WWOCAR) commissioned a study in the summer of 2008 that established two contexts:

1. An assessment of Michigan's economic and housing market conditions including industry trends, employment trends, occupation trends, and housing market trends.
2. A message of "Entrepreneurship for Economic Rejuvenation" whereby, the State Legislature and Executive branch in Michigan focus economic policy on creating a new entrepreneurial environment for businesses desiring to conduct business within the State.

The results of the economic and housing market conditions assessment of Michigan were alarming and as a result, WWOCAR immediately began discussions with Dr. Petras and several State Legislators on what specifically the State of Michigan could implement as a new and innovative economic policy that would create jobs and further create housing opportunities in the future.

This document lays the structural foundation of an economic policy plan that would assess unemployed workers for their entrepreneurial potential. By entrepreneurial potential we mean (1) possesses an entrepreneurial skill in some area that is beneficial and suited to Michigan's product and service economy, (2) has the desire to start a small business, (3) has completed a small business workshop session(s) on starting and operating a small business, and (4) is a good credit risk for financing a small business venture in Michigan.

Thousands of Michigan residents are unemployed and facing the harsh reality of not returning to their last job due to obsolete market technology and lack of competitiveness by Michigan business. The purpose of this proposed economic program

is to create new jobs in Michigan and as a result, new housing opportunities for Michigan workers. Michigan is a repository of great workers and work ethic. The Entrepreneurial Rejuvenation for Unemployed Workers Program (ERUWP) is a first step in reassessing the Michigan workforce and tapping entrepreneurial capabilities of the State's great workforce and assimilating the entrepreneurial skills of those workers into small business and new employment opportunities within the State of Michigan.

The Entrepreneurial Rejuvenation for Unemployed Workers Program (ERUWP) Concept

The Entrepreneurial Rejuvenation for Unemployed Workers Program holds some assumptions:

1. The State of Michigan is a repository of workers who have lost their jobs to issues such as antiquated technologies in the market place and/or decreasing competitiveness by industry sectors throughout the State. However, these unemployed workers desire the opportunity to work versus not work, wish to utilize their skills and enrich their sense of accomplishment and value, and desire to remain in Michigan and see the State as a place where they can raise a family and/or establish an enriching career.
2. The State of Michigan is in need of bold and innovative economic programs that will allow unemployed workers to implement their craft and/or technical skills in several areas of opportunity including small business start-up.
3. Entrepreneurship is a mainstay in our American free-market system and has catapulted the United States economy since the birth of the Nation. Whether working for a business or working as a sole proprietor or partner, entrepreneurship is the thrust behind our U.S. free-market system.
4. Unemployment programs require modification to adapt to changes in industry markets. Today's unemployed worker in Michigan faces the threat of slow modifications to industry technology, lack of higher education training to reestablish job skills in advanced-skilled markets, and are afforded basically two tracks of support through the unemployment system: (1) obtaining unemployment payments and (2) re-marketing themselves through resume filing services or assimilation into similar jobs in areas still negatively affected by antiquated technology and/or lack of competitiveness in industry areas.
5. If given the opportunity, unemployed workers who possess entrepreneurial capabilities as defined in this outline will accept the opportunity to start a small business and become not only productive workers in the State's economy but to reverse their status from unemployed worker to employment provider.

Entrepreneurial Rejuvenation for Unemployed Workers Program (ERUWP) as a Joint Public/Private Policy

The Entrepreneurial Rejuvenation for Unemployed Workers Program will best be facilitated through a joint public/private partnership whereby both business and government play an integral role in establishing entrepreneurial opportunities for unemployed workers. Both have a key stake in the success of this program. For example, the private sector needs a new infusion of innovative entrepreneurial opportunities for product and service assimilation into the new economy and competitive advantage in the global market. Therefore, stimulating the State's economy through new entrepreneurial opportunities and thus projecting to the world a new beginning for Michigan's economic climate, will reestablish the State as a leader in innovative economic policy.

The State of Michigan benefits from the program because it creates a joint partnership in addressing the economic issues plaguing the stability and future of the State and its residents. The ERUWP integrates current State unemployment program procedures with free-market opportunities. By working together, Michigan and private business can more effectively alleviate the economic issues which currently are sustaining the economic crisis.

Basics of ERUWP: How the Program Would Work

The ERUWP is built on a foundation of joint public/private partnerships to tap entrepreneurial capabilities in unemployed workers throughout the State of Michigan. The State of Michigan desires higher levels of employment to create a stronger economic base while private business desires the most efficient and timely access to materials and services used in the production of their goods and services. As a result, both the State of Michigan and private sectors have a mutual context from which both can work together

utilizing current State administrative processes and free-market principles. The basics of the ERUWP activities are as follows:

1. Unemployed worker is identified through their filing of unemployment claim.
2. A dual tracking of the unemployed worker is created by processing (1) their unemployment claim for benefits with (2) an entrepreneurial interest assessment form completed by the unemployed worker. The interest form merely assesses the interest the individual has in entrepreneurial development. Furthermore, the interest form will identify any specialized skills the individual possesses to develop into entrepreneurial possibilities such as starting a small business.
3. Individuals determined to possess market-ready specialized skills conducive to evolving into a small business would receive a follow-up contact by the State for referral to the individual's nearest economic development venue operated at the county (local level of government). Local economic development venues would schedule pre-entrepreneurial assessment interviews to determine the viability of the individual pursuing a small business opportunity through workshop training.
4. The local economic development venue would determine from the pre-entrepreneurial assessment interview whether or not the individual is deemed ready to participate in an entrepreneurial assessment workshop which provides a forum for the individual to prepare a small business plan and establish the financial capabilities and opportunities of the individual. The assessment outcomes will determine which individuals the local economic development venue will assist in generating small business financing and small business plan development.

It should be noted that local economic development venues will serve as a facilitator for the State in determining which individuals are prepared in both skill level and as a financial risk in pursuing a small business project with local banks or investment firms.

Current federal, state, and local laws would govern.

ERUWP as an Enhancement to the Michigan Works! Program

Currently, the Michigan Works! program provides unemployed workers with two primary functions: (1) access to unemployment compensation benefits and (2) resume preparation and resume distribution with additional assistance in skill development for new and/or similar positions held by the individual prior to experiencing unemployment.

What Michigan Works! doesn't provide is an assessment of individual entrepreneurial aptitude and capability as a form of employment opportunity which is important for a free-market economy to thrive and expand. Individual entrepreneurial desire and aptitude is the backbone to our free-market system. The Entrepreneurial Rejuvenation for Unemployed Workers Program (ERUWP) enhances the mission of Michigan Works! by providing individual assessments of each unemployed candidate to determine their entrepreneurial aptitude and desire to create and operate a small business in Michigan and thus create another form of employment opportunity for an individual.

The ERUWP creates a new avenue for unemployed workers to pursue in their quest to become fully employed in the Michigan economy. While conventional Michigan Works benefits functions would continue, the ERUWP enhances employment opportunities for Michigan workers by generating interest in their entrepreneurial aptitude and capability and potentially developing that entrepreneurial aptitude and capability into a small business opportunity.

Finding The Fit Between Entrepreneurial Prospects and Market Niches

Does Michigan's economy have market niches for every entrepreneurial prospect? The answer is no. However, the information gathered by assessing unemployed workers would be ripe for creating an Entrepreneurial Assessment database. Michigan Works! in cooperation with local economic development organizations would possess an inventory of individual entrepreneurial aptitudes, skills, and capabilities and through those local economic development organizations, provide prospective entrepreneurial candidates with services and ready them for integration into the State's new and evolving economy. The role of local economic development organizations in serving as "grassroots"

facilitators for determining entrepreneurial aptitudes and capabilities and identifying potential market demand is significant. Once a candidate for entrepreneurial development is identified by Michigan Works, that individual would be referred to their local county economic development organization for further consultation and assessment.

Local economic development organizations know two things well: (1) their local and prospective markets, as well as (2) small business plan development and small business credit risk assessment with local banks and investors. By maintaining an integrated entrepreneurial data base statewide with concomitant product and service demand niches identified by local economic development organizations, the ERUWP would (1) identify qualified small business start-up candidates and (2) identify prospective market niche opportunities throughout the State for those start-up candidates.

Assessing Michigan Unemployment and Industry Sectors for ERUWP Implementation

Over the last 9 years (February 2000 to February 2009) Michigan has lost 707,000 jobs (BLS 2009). Worse yet, this job loss has resulted in a net migration of young knowledge workers out of the State, many of whom would have the potential to become the future Michigan business leaders (MDL 2009). It is important for new businesses to start and grow to reverse these job losses and keep young workers in Michigan. In order to generate new businesses, entrepreneurial activity needs to be fostered.

Many factors need to be supported by a community to facilitate entrepreneurial successes. An influential report for the city of Louisville (enterprisecorp 2005) identifies five important factors: talent, capital, know how, technology, and culture. The Entrepreneurial Rejuvenation for Unemployed Workers Program (ERUWP) effectively screens unemployed workers for “talent” and then helps provide the “know how” to help an unemployed worker

become an entrepreneur. In addition, high profile government action can improve the overall entrepreneurial “culture” in a state which could lead to even more entrepreneurial output.

Therefore, ERUWP helps Michigan improve 3 of the 5 primary factors required for entrepreneurial success.

ERUWP’S Potential To Create Jobs In Michigan

The true measure of ERUWP will be if it can generate jobs in Michigan. Knowledge of historical patterns in entrepreneurship can be used to forecast the potential number of new establishments started in a given year. To estimate this, four major pieces of information are needed for Michigan:

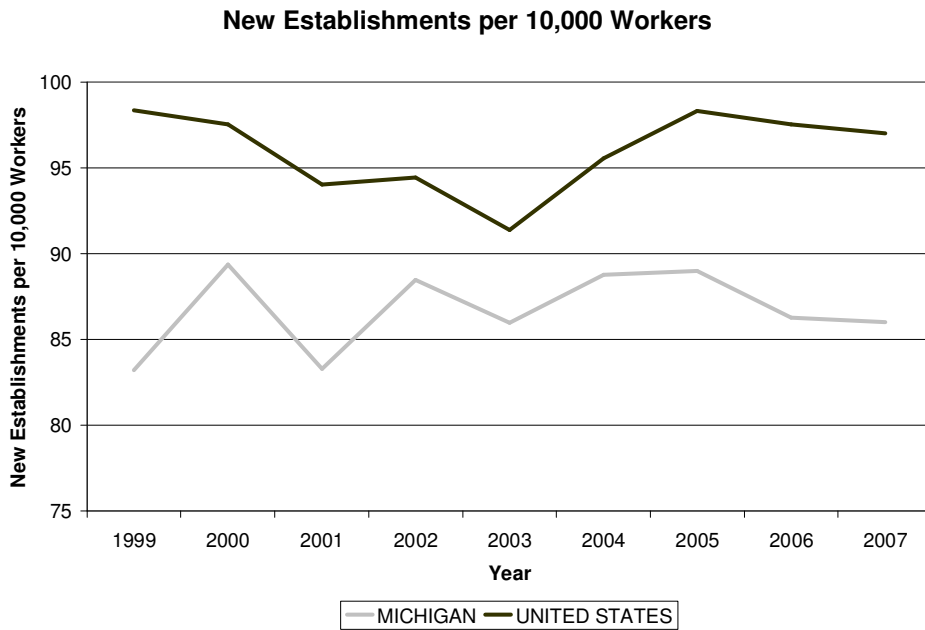
1. The historical rate of entrepreneurship in Michigan.
2. The number of unemployed people.
3. The educational level of the average population vs. the unemployed population.
4. The age distribution of the average population vs. the unemployed population.

Historical Rate of Entrepreneurship

Although some new establishments are extensions of current businesses, most new establishments require some level of entrepreneurial activity, therefore we will use this as a proxy in this analysis. Michigan workers have historically generated fewer new establishments per year than the rest of the United States according to numbers seen in BLS (2009b). For example, over the last 10 years in Michigan, an average of 87 new establishments per 10,000 workers has started each year. However, over that same time frame, the average for the entire United States is 96. This gap has been increasingly worse over the last few years (See Figure 1). This suggests that in Michigan, individuals either did not want to start a business because they

already had a good job, or they were being hindered by the weaknesses in the 5 factors for entrepreneurial success outlined in the Louisville study. ERUWP's potential can be estimated by using these historical averages.

FIGURE 1



Number of Unemployed

Michigan has been hit hard by years of industrial reorganization. This has been compounded by the recent recession in the United States. The combined result is a pool of unemployed workers that had reached an estimated 584,207 by February of 2009 (BLS 2009). Since the start of the current recession in December 2007 the number of unemployed has increased by 220,469 people, and this number has accelerated in recent months with the public troubles of the U.S. automakers (Figure 2).

FIGURE 2



Education Level

The Louisville study states that most entrepreneurs have at least some college education. Using the labor force profile for Michigan in 2004 (BLS 2004), the last year available, we get estimates for the percent of the labor force and pool of unemployed that has at least some schooling past high school. In the labor force as a whole, 61% of the workforce in Michigan has at least some college or an associate degree. However, this number drops to just over 43% for the pool of unemployed workers. This will influence the effectiveness of the unemployed to become entrepreneurs.

Age

The Louisville study also states that most entrepreneurs are between 25 and 40. Younger workers are more willing to take on the risks associated with being an entrepreneur. Approximately 51% of the working age population is between 25 and 45 according to the

American Community Survey (Census 2009). This is the group that will be most likely to generate new businesses.

The Possible Effect on New Business

Starting with the population most likely to start new businesses, a person with some higher education and between 25 and 45, the rate of new business creation per worker can be found. By inferring that almost all new businesses are started by this group, then a rate of new business creation can be found for workers that fit these characteristics. In Michigan there are 87 new establishments per 10,000, 51% of the working age population is 25 to 45, and 61% of the workforce has some higher education, so approximately 3,111 of every 10,000 workers are within the education and age targets. The result is a new business creation rate of 287.7 per 10,000 workers that are between 25 and 40 with some higher education (number is calculated using non-rounded percentages of the workforce characteristics). The same result for the nation as a whole is 312 per 10,000 workers.

ERUWP is focused on the currently unemployed. In Michigan there are 584,207 unemployed workers and of those, 21% are in the age and education range that would be likely to generate new businesses at a rate of 287.7 per 10,000. The resulting expectation based on historical averages is that this group would create around 3,571 new establishments over a year (number is calculated using non-rounded percentages of the workforce characteristics). Since the average new establishment in the U.S. employs 4.54 employees (BLS 2009b), these establishments result in an estimated 16,230 jobs. ERUWP would help facilitate the process and make sure the potential can be reached.

In addition, ERUWP is improving 3 of the 5 factors needed for entrepreneurial success as noted in the Louisville study. Therefore, the rate of new business creation should also increase.

It is not unreasonable to assume that Michigan workers could achieve the national rate of business creation with the aid of programs like ERUWP. If the national rate is achieved, an estimated 454 new businesses employing 2,065 workers would be created above the previous estimate.

Possible Sectors for New Businesses

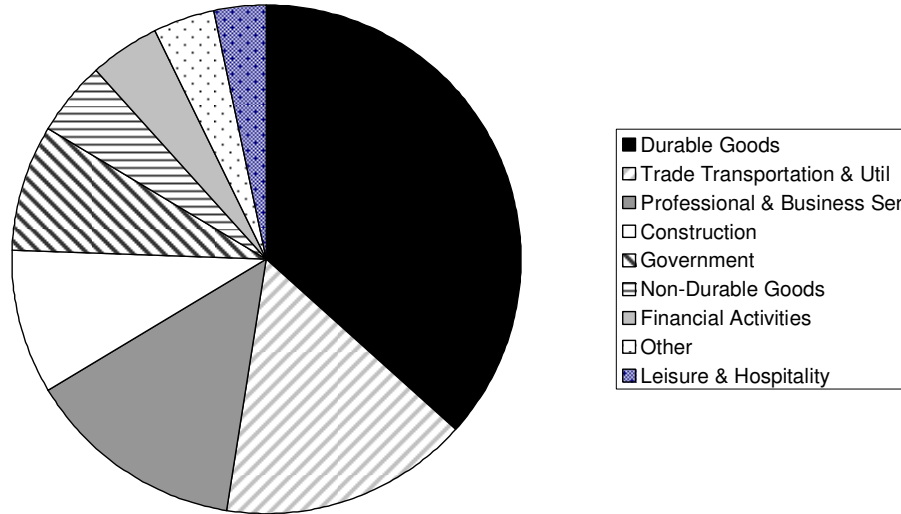
There are three sources of data to help understand where entrepreneurial activity might occur in Michigan. First, employment decreases in a particular industry would suggest a pool of skilled workers that could start new businesses. Second, changes in the number of small businesses in a particular sector can be used to show where current entrepreneurial activity is already occurring in Michigan. Finally, the national trend in new establishments can show where growth is happening across the country that Michigan workers could tap into. It is important to note that the current recession could change business structure and make specific comparisons less useful, but the major lessons are expected to hold even after the recession.

Industry Employment Changes

Using the change in employment levels in individual industries over the last 5 years (BLS 2009), an estimate of which industries are represented in the pool of unemployed workers can be found. Using Figure 3, it is easy to see that the manufacturing of durable goods is the most likely location that an unemployed worker had developed their skills originally. Therefore, there is a pool of people looking for work that understand all levels of the manufacturing process. This is why new business activity in Michigan is looking for things to manufacture in growing industries such as green energy components or medical equipment.

FIGURE 3

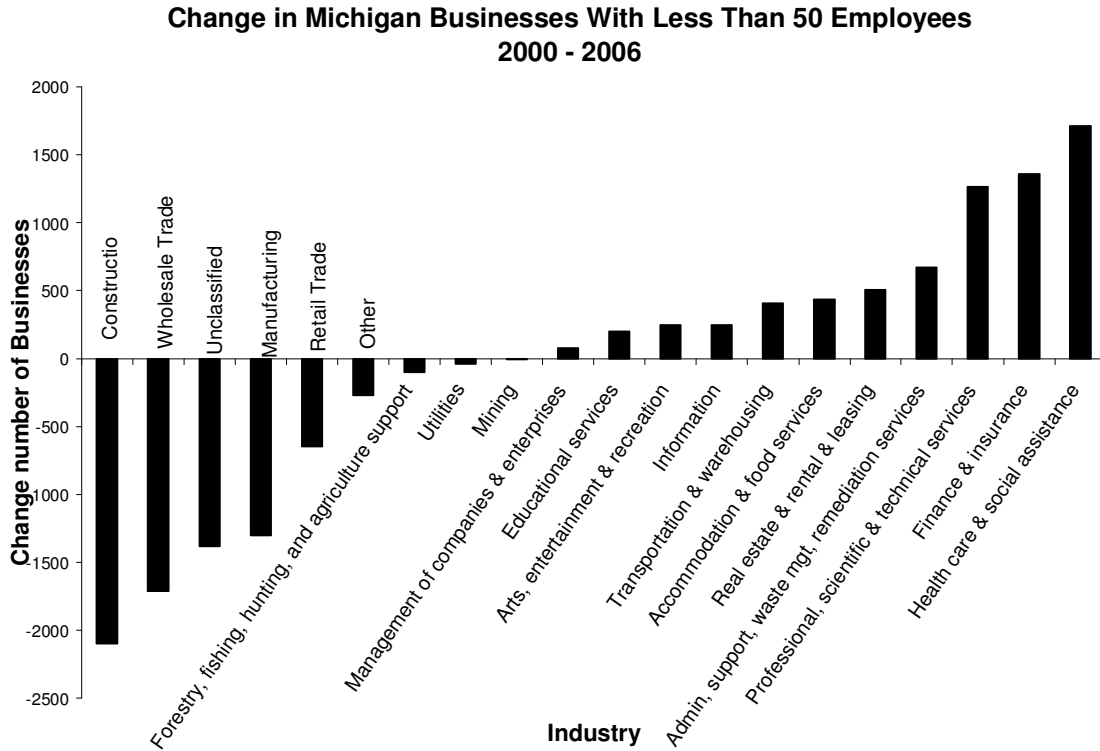
Projected Share of Lost Jobs By Industry



Change in Small Business

Small business creation is a hallmark of entrepreneurial activity. Looking at the change in the number of small business in Michigan between 2000 and 2006 is an indicator of entrepreneurial activity prior to the current recession (Census 2009). The loss of manufacturing and construction businesses matches the loss of employment in those sectors. However, small business growth in “professional, scientific and technical services”, “transportation and warehousing”, and “management of companies and enterprise” are all areas that have been taking advantage of the skilled labor pool resulting from the contraction in manufacturing (see Figure 4). The change in small businesses related to healthcare are important, but do not match the skill set of the majority of unemployed in Michigan. Therefore, health care does not have good potential of entrepreneurial activity as a result of those unemployed workers.

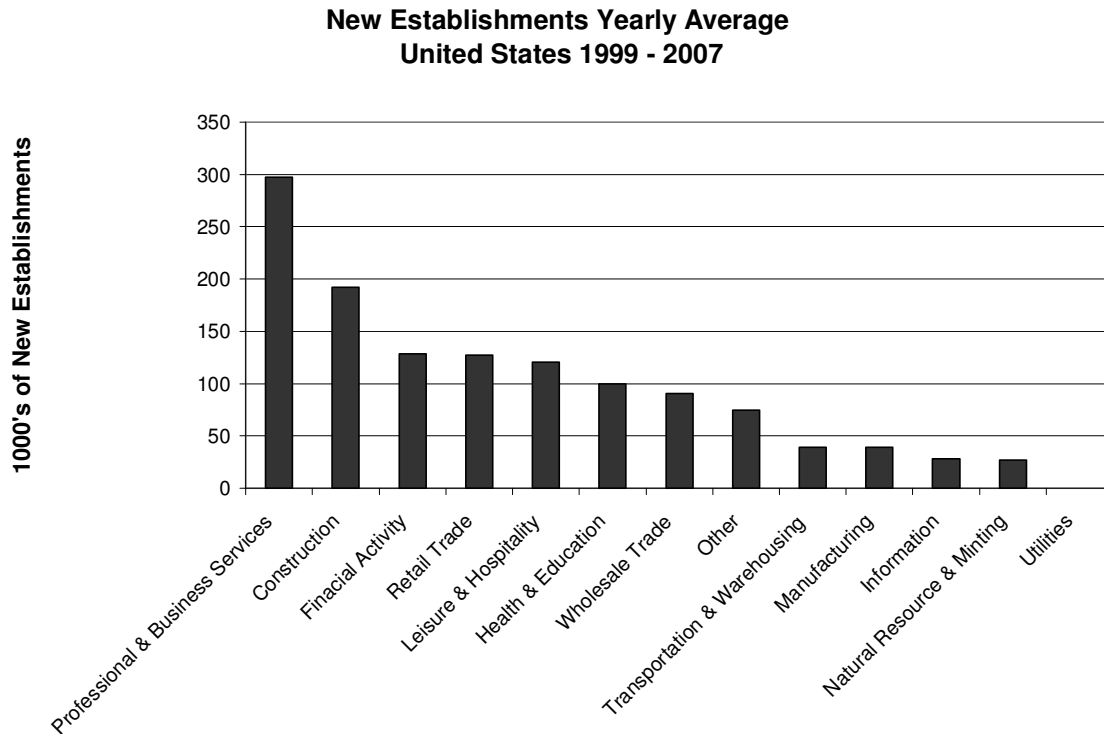
FIGURE 4



Generation of establishments

The generation of new establishments across the United States is a good indicator of where others in the United States are finding entrepreneurial potential (BLS 2009b). Prior to the current recession, professional and business services were clearly showing more new openings than other sectors. In addition, there is a clear movement towards service oriented businesses (see Figure 5). The only goods producing sector showing strong growth in new establishments was construction, and this sector has been hit particularly hard by the current recession and is not expected to recover anytime soon.

Figure 5



Industry expectations overall

All three sources of data show clear trends prior to the current recession. The movement towards services industries is clearly the biggest change. One sector that has strengths in all three indicators is healthcare, but this does not match the average unemployed worker skills. Beyond this sector, professional and business services had shown strength prior to 2008 in new business creation for both Michigan and the U.S. Therefore, it is probable this sector will again show strength as the recession ends.

ERUWP As a New Approach To Rejuvenating Michigan's Economy

New business creation is important for Michigan because of the persistent high unemployment in the state. Michigan's pool of unemployed workers has a lower education level and a higher incidence of manufacturing skills on average than the overall economy which must be taken into account when assessing entrepreneurial possibilities. Taking this into account, ERUWP has the potential to assist an estimated 3,571 unemployed workers generate new businesses. ERUWP also has the potential to help move Michigan toward the national average for new business creation, which would add up to 454 additional new businesses. Using historical trends prior to the current recession, the largest sector of new establishment growth as the U.S. exits the recession is likely to be professional and business services. Although some of these businesses will fail, some will also grow adding even more jobs in the future.

The joint public/private nature of the ERUWP offers the State of Michigan a new opportunity for rejuvenating and "jump-starting" the State's economy. Michigan Works and local economic development organizations would work together with unemployed workers under the ERUWP to assess and develop the entrepreneurial aptitudes and capabilities of unemployed workers throughout Michigan.

The ERUWP does not require a change in local economic development organization small business plan development programs or in small business finance laws. The ERUWP through Michigan Works and local economic development organizations is merely providing an assessment and referral function to facilitate unemployed workers in their efforts to reestablish themselves in Michigan's economy as job providers and not as victims of the economy. Furthermore, the ERUWP creates a joint public/private opportunity for business and government to work together in facilitating the economic

rejuvenation of Michigan's economy.

The Western Wayne Oakland County Association of REALTORS (WWOCAR) has committed itself to promoting a theme of "entrepreneurship for economic rejuvenation."

The Entrepreneurial Rejuvenation of Unemployed Workers Program (ERUWP) is a catalyst to creating new jobs in Michigan. Bi-partisan support is encouraged for the program along with building joint public/private cooperation in the development of entrepreneurial prospects for the workers of Michigan. A new beginning for rejuvenating the State's economy is before us.

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