



HEARTLAND CHALLENGE EXECUTIVE SUMMARY

The states of Missouri, Iowa, Nebraska, and Kansas (the “Heartland” region) have similar economies, and also share challenges and opportunities in their growing entrepreneurship ecosystems. According to the 2018 Kauffman Indicators of Entrepreneurship, Heartland entrepreneurial activity has areas of strength, but generally lags behind national indicators of entrepreneurial activity:

Diag. A – 2018 Kauffman Indicators of Entrepreneurship

| | Rate of New Entrepreneurs | Opportunity Share of New Entrepreneurs | Startup Early Job Creation | Startup Early Survival Rate |
|------------|---------------------------|--|----------------------------|-----------------------------|
| USA | 0.32% | 86.16% | 5.20 | 79.43% |
| MO | 0.32% | 83.96% | 5.73 | 70.94% |
| IA | 0.28% | 93.62% | 3.82 | 80.31% |
| NE | 0.30% | 92.49% | 4.92 | 77.35% |
| KS | 0.27% | 84.52% | 4.05 | 76.49% |

Rate of New Entrepreneurs: Percentage of population that starts a new business

Opportunity Share of New Entrepreneurs: Percent of new entrepreneurs who created a business out of choice instead of necessity

Startup Early Job Creation: Average number of jobs created by startups in their first year (normalized by population)

Startup Early Survival Rate: Percent of startups that are still active after one year

Generally, the higher the number, the higher the indicator entrepreneurship strength

Ewing Marion Kauffman Foundation’s work with entrepreneurship support organizations (ESOs) in the Heartland is focused on removing barriers to entrepreneurship regionally, with an end goal of creating a more vibrant economic future for the region.

At the end of 2019, members of the Kauffman Entrepreneurship Support Organization team took a close look at the entrepreneurial realities of the Heartland. We traveled the four states, interviewing 112 people directly impacting how new businesses are starting and growing in our backyards. We reviewed the best data we have about what communities are seeing business growth, what sectors need support, and where to concentrate resources moving forward.

From what we learned, maximizing entrepreneurial success in the Heartland will only come building on existing strengths and opportunities, including:

- 1. Diversifying Entrepreneurship Population.** The four states are less racially diverse than the national average – their populations are between 76% and 87% white, compared with the national average of 61%.¹ However, the diversity of the

¹ United States Census

region is increasing² – so quickly, in fact, that population growth in the region is being driven entirely by communities of color³. The rate of growth in the number of businesses owned by people of color in the region is much higher than the general growth rate of business creation⁴. However, the impact of gender and racial bias in systems through which resources (like capital) are distributed is persistent⁵. The prominence of gatekeepers⁶ in the region may increase the likelihood that the distribution of resources to entrepreneurs is impacted by the implicit bias of individuals. This makes it more difficult for entrepreneurs impacted by bias to grow their businesses.

2. **Rural Business Transfer Opportunity.** *Nearly 30% of the Heartland population lives in a rural area, and across those communities, Baby Boomers own an estimated 106,000 businesses.*⁷ As rural areas lose population, age, and struggle for resources, these trends are hitting areas with already weak socioeconomic foundations the hardest⁸. Aging business owners can struggle to find buyers for small businesses that play important roles in local communities, but are too small to attract traditional solutions such as private equity. As a result, the need for business transition support is a common refrain in rural communities⁹. When done well, business transition can revitalize a community, build local wealth, and foster new generations of entrepreneurs.
3. **Activating University Research Strengths.** While the Heartland is home to research strengths in agriculture, animal science, healthcare, and others, the region receives few patents and grants to engage small businesses in the process of refining these technologies (SBIR/STTR). Increasing the tools and programs available to help translate existing research into new company creation and small business growth can accelerate the rate of business starts and regional business growth.

OPPORTUNITY

The 2020 Heartland Challenge helps entrepreneur support organizations in the states of Missouri, Iowa, Nebraska, and Kansas solve specific Challenges faced by entrepreneurs in the region through two complementary strategies:

1. **An opportunity to apply for funding through a request for proposals.** Up to 15, 1-year grants will be made to fund pilot or existing project solutions to one of three Challenges (outlined below). All awarded RFP grantees will be required to participate in the associated community of practice as a condition of their award.

² United States Census

³ United States Census

⁴ United States Census

⁵ Access to Capital for Entrepreneurs: Removing Barriers, p. 11

⁶ https://www.kauffman.org/-/media/kauffman_org/entrepreneurship-landing-page/capital-access/capital_access_lab_exec_summary_final.pdf

⁷ U.S. Census Bureau, Survey of Business Owners, 2012.

⁸ <https://eig.org/heartland-visa>

⁹ <https://conservancy.umn.edu/handle/11299/197992>

- 2. An opportunity to apply to participate in a year-long, peer-learning, challenge-specific community of practice.** Understanding that we cannot fund all organizations who work to address these three Challenges, we are piloting three 12-month Communities of Practice that will convene individuals who support entrepreneurs in a facilitated, peer-learning process to share learnings related to each of the three challenges. Participation in these communities of practice will be competitive, with the final size of each determined based on available budget and number of interested applicants. Individuals and organizations not interested in being considered for a grant should [apply to the Community of Practice directly](#).

CHALLENGES

Organizations are invited to apply for a Request for Proposal or participation in a Community of Practice in one of the following three Challenges areas facing Heartland entrepreneurs:

Challenge 1: Co-creating objective, milestone-based entrepreneurship training programs to mitigate the impact of implicit bias faced by entrepreneurs from communities systemically left behind.

Summary

As the demographics of the Heartland states continue to diversify, the risk of subjective judgments of gatekeepers (like investors, lenders, mentors) widening business outcomes between entrepreneurs from communities systemically left behind increases. This creates additional barriers to entrepreneurial growth that could slow the economic growth of the region.

To address this, the Foundation is interested in models to narrow the gap that can exist between what entrepreneur support organizations think entrepreneurs need to know and what gatekeepers expect them to have done to make them viable for support or investment. Specifically, we are looking to support entrepreneur training curricula that move entrepreneurs through objective, milestone-based markers of success that are co-created with gatekeepers. These models contain two components: gatekeepers articulate the skills or outcomes they want entrepreneurs to demonstrate, and entrepreneur support organizations intentionally tailor curriculum to ensure entrepreneurs in their program can meet those milestones. This transparency around expectations mitigates the likelihood that bias will impact decision-making on the part of gatekeepers.

Examples of this could include:

- An education program focused on teaching entrepreneurs from communities systemically left behind how to start a business could require entrepreneurs to demonstrate their skill by completing a lean business canvas for review by advisory mentors, then updating it based on given feedback.

- A city could apply for funds to create a new entrepreneurship program aimed at getting founders ready for bank loans. Funds could be used to convene local banks, document their standards for making a small business loans, and pilot new entrepreneur support curriculum aimed at teaching entrepreneurs how to meet those standards.
- An entrepreneur support organization could work with a local angel group to evaluate their requirements for pitching, and co-create a training program to prepare entrepreneurs from communities systemically left behind to meet those requirements.
- An entrepreneur support organization could offer anti-bias training to their staff members, entrepreneurs and gatekeepers, then collectively update entrepreneurship support training curriculum to include milestone-based outcomes that are both meaningful and account for systemic barriers faced by entrepreneurs.

Challenge 2: Addressing rural business transfer opportunities by providing education on models of shared business ownership, including business cooperatives.

Summary

Population aging, rural depopulation and lack of concentrated capital, are driving a critical mass of conversations around business transition in rural areas. Successfully completing a transition not only ensures economic vitality in a community, it may create more opportunities for business expansion¹. Cooperative ownership models are emerging as promising alternative modes of business transition in rural areas that build broad community wealth, keep businesses (and jobs) alive, and foster new generations of rural entrepreneurs, without ownership moving outside of local communities.

To address this, the Foundation is interested in piloting or developing education programs focused on cooperative ownership models to facilitate business transfer and build community wealth in the Heartland.

Examples of this could include:

- An education program focused on teaching existing or prospective entrepreneurs on how to start a business that utilizes a cooperative business model.
- An entrepreneurship education program focused on educating existing business owners on the viability of cooperative business structures for transferring the business to new ownership in order to retain the asset in the community.
- An ongoing education program to support entrepreneurs operating cooperative businesses as they grow the business.

Challenge 3: Building cross-university programs that increase knowledge related to securing research and development funding, and commercializing available technology in order to start new businesses.

Summary

While the Heartland is home to research strengths in agriculture, animal science, healthcare, and others, the region receives few patents and grants to engage small businesses in the process of refining these technologies (SBIR/STTR). This is driven in part by the Heartland's lack of infrastructure to support growth in these areas.

Basic improvements to the regional support structure like creating educational programs to help prepare potential SBIR applicants, pursuing iCorps programs and node status, and Phase 1 matching funds could have immediate and drastic impacts on the ability of the region to convert research and technologies to businesses.

To address this, the Foundation is interesting supporting cross-university collaborative planning efforts that will increase knowledge and skills in securing federal research and development funding.

To learn more and apply for the Request for Proposals, [please follow instructions here.](#)

To learn more and apply for the Community of Practice, please follow instructions [here.](#)