

Changing the Entrepreneurial Climate in Metro Cleveland

By James M. Trutko

For at least the past 20 years, most economic development plans in metropolitan Cleveland have included the idea of stimulating entrepreneurial development of small firms, especially high technology firms. Tens of millions of non-profit and public dollars have been invested in attempting to spark local small business growth by organizations like Team NEO, the Greater Cleveland Partnership and COSE, the Fund for Economic Future, JumpStart, BioEnterprise, Magnet, Cleveland Foundation, Burton T. Morgan Foundation and others.

These organizations have provided direct services to entrepreneurs and encouraged an additional network of other organizations set up to counsel entrepreneurs, provide referrals and offer educational programs. The network includes the State of Ohio's Small Business Development Centers (SBDC's), SCORE, privately funded Business Advisers of Cleveland (BAC), Launchhouse, EDCI and others. BAC's Cleveland Business Advice Calendar (clevelandbusinessadvice.com) shows these organizations are offering over 40 educational programs targeted at entrepreneurs most months and this doesn't include programs offered by CSU, CCC and other educational institutions.

Nobody faults local organizations for encouraging entrepreneurship: it embodies the concept of economic opportunity for average person and is the holy grail of economic development. But what's the result of two decades of sustained effort by community leaders and non-profit organizations to stimulate entrepreneurship? If one looks at the data, this massive community effort aimed at stimulating entrepreneurship in the metropolitan Cleveland has largely been unsuccessful. Back in 2001, the Bureau of Labor Statistics said the five-county metropolitan Cleveland had about 56,000 private businesses. By 2010, the number of private businesses dropped below 54,000 and there's been virtually no growth in the number of business establishments during the national economic rebound.

The entrepreneurial weakness is confirmed in the Kauffman Indicators of Entrepreneurship data which has traditionally been recognized as the gold standard for evaluating metropolitan economic climates. Out of the nation's top 40 metropolitan areas, metropolitan Cleveland 39th in the percentage of employer firms less than one year old, 38th in the percentage of adult business owners, 33rd in the percentage of adults becoming entrepreneurs each month and 35th in the percentage of employment growth in startups after five years.

It's time for community non-profit and business leaders to reexamine and revise their strategies to fix metropolitan Cleveland's poor entrepreneurial climate. The unfortunate reality is that entrepreneurial businesses are just hard to start and it's doubly hard to succeed and grow if environment is not very supportive.

Metropolitan Cleveland lacks some advantages that favor rapid growth in entrepreneurial businesses, such as a strong base in several current technologies or rapid the population growth that comes from favorable weather or the good fortune of being a state capital and a university center. At the same time, Metro Cleveland has positive attributes like a large, diversified economy and desirable recreational and cultural assets that make the area affordable and livable city. Why are other areas with similar attributes doing better in creating entrepreneurial businesses.

The major problem afflicting metropolitan Cleveland's entrepreneurial climate is expensive but poor governance in its core county and central city. The Greater Cleveland Partnership recently documented the fact that Cuyahoga County's tax burden is over 10% higher than other comparable regional cities. The premium tax burden might be more tolerable if the area had superior public services but the area suffers from poor quality public services and infrastructure, schools that fail to produce a good labor force and visible deterioration in the core city.

Furthermore, large areas of the county and the City of Cleveland are essentially off-limits for entrepreneurial initiatives because of crime. Cuyahoga County has about one-eighth of all crime in the state of Ohio. The city of Cleveland has a crime rate over two times the state rate.

Unfortunately, community leaders have not had effective strategies to overcome core governance problems that handicap entrepreneurial activity. Community non-profit and business leaders have been content to work with amiable political mediocrities and not decisively worked to support capable political leadership or prevent the reestablishment of cronyism and corruption. Community leaders are timid because they see little benefit in offending certain winners of noncompetitive elections or in calling out incompetence of long-tenured bureaucrats.

It's really very simple: there's no improvement in government performance because there's no turnover in government officials who can't do the job. Poor government services result in a poor entrepreneurial environment which limits job creation and economic opportunities in metro Cleveland.

Community leaders need to focus on reforms that bring in competent new leadership in Cuyahoga County and the City of Cleveland, apply performance and financial metrics to government services to monitor improvement and control costs, focus on safety to increase areas of economic opportunity and build on areas entrepreneurial success that depend on private, local investment.

An agenda for the area must start with supporting additional county government reforms such as nonpartisan primaries and county office term limits to establish competitive elections and bring in new leadership. It's important to identify new leaders with real management skills who can improve government performance and efficiency.

To monitor whether local government is improving and operating efficiently, community leaders should create an independent watchdog organization to analyze government operations and publicize results. The area's newspapers and other media have limited capacity for the detailed research needed to monitor government performance and limited readership reach to publicize the results.

Cuyahoga County and the City of Cleveland have failed miserably in managing the county jail and in maintaining public safety. Community leaders should support a comprehensive community "safety" plan to reform courts and safety forces with the goal of making metro Cleveland one of safest areas in county. Improved public safety will increase the number of geographical areas available for entrepreneurial investment and distribute benefits more widely throughout the community.

Finally, community leaders should complement existing support for technologically-oriented business with stronger strategies to build on local success and investment in the food, leisure and recreational sectors. Typically, these sectors offer more immediate opportunities for minority/female entrepreneurs and for low-skilled labor. These sectors have been successful locally without much government support or intervention and probably could grow faster with improved community safety services and integration with convention and attraction strategies.

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