PREPARED BY:

SMALL BUSINESS FOUNDATION OF MICHIGAN

ENTREPRENEURSHIP SCORE CARD

MICHIGAN

2012:13

TOWARD AN ENTREPRENEURIAL ECONOMY

SMALL BUSINESS FOUNDATION OF MICHIGAN

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2012-2013

TOWARD AN ENTREPRENEURIAL ECONOMY

Small Business Foundation of Michigan

GrowthEconomics, Inc.

The Michigan Entrepreneurship Score Card is a project of the Small Business Foundation of Michigan. Dr. Graham Toft (GrowthEconomics, Inc.) and Mark H. Clevey, MPA are the primary technical consultants for the project.

The 2004-05 inaugural edition was created and produced by the Small Business Foundation of Michigan (SBFM). Numerous financial and promotion sponsors have joined with SBFM to help underwrite the production and distribution of the subsequent annual Score Cards as well as follow-up projects aimed at researching the nexus between entrepreneurship and other economic drivers.

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EXECUTIVE SUMMARY

Improvements in metrics reflect strengthening of entrepreneurship trends

Now in its ninth year, the annual Michigan Entrepreneurship Score Card finds that Michigan continues to be in a period of rapid community and economic change and improvement. While economic challenges continue in many parts of the state, the Score Card finds that entrepreneurship is alive, well and more prevalent across all sectors of the economy. At the state level, new leadership has not only embraced but embodied entrepreneurship. In our old-line industrial sectors, innovation is rapidly becoming an important differentiator as more and more companies embrace innovative responses to the challenges of competing in the global economy. Finally, Michigan's institutions of higher education are working hard to position our state as leaders in entrepreneurship. These factors lead the Score Card authors to the conclusion that a "virtuous cycle" is occurring across Michigan that will continue to fuel combined community/economic development into the foreseeable future. The results of this work to date will, we believe, open the door to a range of further fruitful investigations and initiatives. The Score Card strongly suggests that Michigan capitalize on this momentum by fully aligning policies in support of accelerated entrepreneurship.

This Score Card reports very promising progress for both small businesses and the Michigan entrepreneurial economy at large. Vigor in the Michigan entrepreneurial economy parallels Michigan's remarkable economic turnaround since 2009. Between 2009 and 2010 the number of business establishments grew 18.1 percent, and a decade-long annual decline in Second Stage business employment slowed noticeably.

2012/2013 Entrepreneurship Score Card

Last year's report noted that Michigan was hurt more by the Great Recession of 2007-09 than originally believed, depressing Score Card results in those years. Nonetheless, we observed data signs of entrepreneurial energy during these years. And we reported a multitude of local and regional innovation and entrepreneurship initiatives statewide. Now, improvements to programs and public policy changes are showing results.

Entrepreneurial Change, the average growth over the past three years, showed marked improvement from rank 46 in data year 2010 to rank 31 in data year 2011. Notably, Michigan's five-year business survival rate, which had been underperforming since 2003, is now at the U.S. state midpoint. And, private lending to small business continued to rank in the top five states. Other measurements show less dramatic change but rather slow continued improvement. Entrepreneurial Vitality, a measure of the general level of small business and entrepreneurial activity relative to all other states, continued steady at approximately 10 ranks below midpoint, indicating Michigan still has a way to go to move the needle on overall entrepreneurial strength and presence. Michigan's Entrepreneurial Climate scored above midpoint for the second year, indicating overall strength in business conditions supporting entrepreneurial initiatives. With the Snyder administration's welcome focus on economic gardening and small business dynamism (and the May 25 , 2011 enactment of business tax reform resulting in a dramatic Tax Foundation upgrade of Michigan's Business Tax Structure from rank 49 in 2011 to 7 in 2012), prospects look good for accelerated progress in the future.

But much work remains to be done if Michigan is going to become one of the nation's top five places in which to do business. Michigan has shown improvements in many business dynamism, finance and investment metrics. However, the state slipped in the percent of businesses gaining jobs, university spinout rate and high school graduation rate, to highlight a few.

This Year's Score Card Findings

The Score Card uses three primary 'drivers' to describe the condition and direction of the entrepreneurial economy in the state – the Entrepreneurial Change (recent three-year averages on five metrics), Entrepreneurial Vitality (the overall level and growth of entrepreneurial activity using 10 metrics) and Entrepreneurial Climate (with three sub-drivers: Research &Innovation, Financial & Institutional Capital and General Business Growth). Findings for this report are as follows:

National Performance *(1=best out of 50)*	**National Rankings**	**Current Rating**	**2011 Rating**	**2010 Rating**
Entrepreneurial Change	31	**	*	*
Entrepreneurial Vitality	36	**	*	*
Entrepreneurial Climate	16	***	**	*

*Note: **Rankings** indicate Michigan's rank order among all 50 states (where 50 is last). **Star ratings** offer another way of understanding the data. Once underlying metric scores are calculated, the data is aggregated to produce state Index scores arrayed from high to low to determine the total range of scores. Each 20 percent of that range represents a star group – from five-star to one-star. For example, a five-star state is one that falls into the top 20 percent of the range of scores.*

Four years ago Score Card researchers discovered they needed a better way to detect the magnitude and direction of very recent changes in entrepreneurial activity (happenings during the previous full calendar year).This resulted in the creation and refinement of the State Entrepreneurship Sensitivity Index (SESI). The methodology for this Index has improved every year as more recent data releases have become available.

National Performance *(1=best out of 50)*	**Current Score**	**2012/13 Score Card *Rating***	**2010-11 Score Card *Rating***	**2008-09 Score Card *Rating***
State Entrepreneurial Sensitivity Index	42	***	***	***

Using data just released in February 2013, SESI scores from previous years have been revised considerably. The Sensitivity Index showed marked improvement in revised 2010 data, resulting in a 4–star rating and rank 7. For the 2011 data year the Sensitivity Index fell back to 3-star rating and rank 42. Because this Index measures one-year change, wide variation can occur from year to year. Over five years however, Michigan's SESI has rated consistently 3- or 4-star, pointing to an encouraging story for its entrepreneurial economy relative to other states. While no major 'breakout' is apparent, SESI ratings along with improvements in Entrepreneurial Change (3-yr avg.) and Entrepreneurial Climate show steady positive signs.

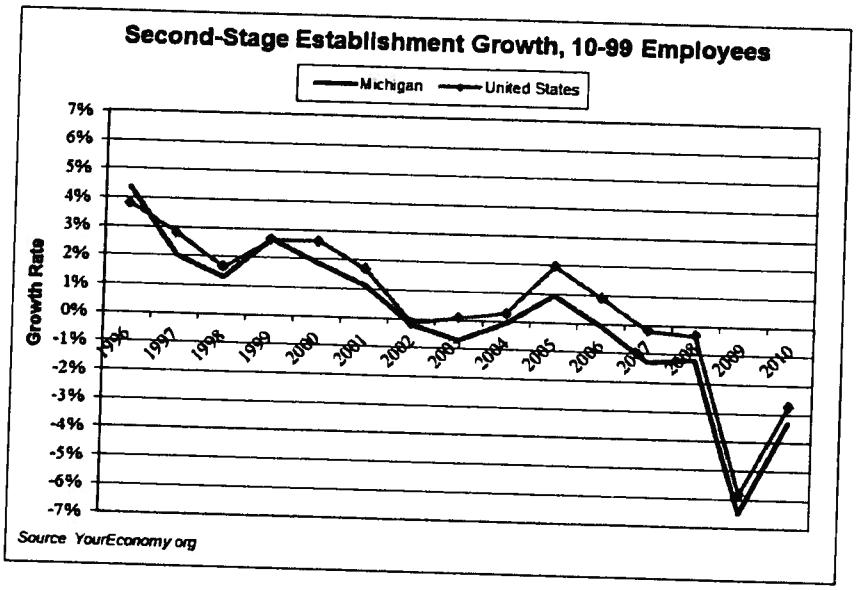
The table below lists those metrics indicating noticeable four-year gains and losses. All metrics are scored such that rank 1= best performer.

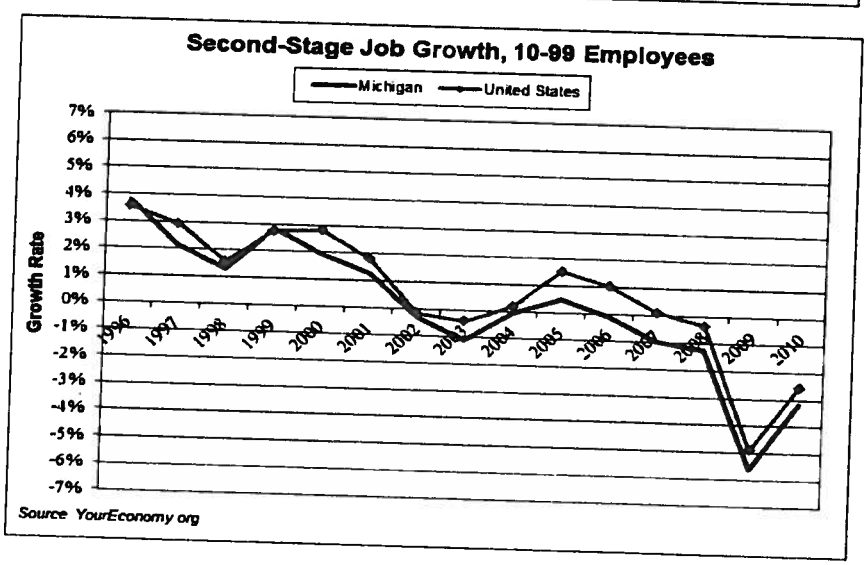
METRICS IN DATA YEARS ARSCS IN WITH TOP COMPETITIVE GAINS & LOSSES OVER RECENT FOUR YEARS (>= 10 RANKS)

LOSS	**GAIN**
Growth In Establishments Gaining Jobs	Growth In Number Of Small Businesses
Self-employment Growth Differential	Small Business Payroll Growth
University Spinout Businesses	Increase In High Performance Firms
Bank Commercial And Industrial Lending	Growth in Proprietor Income Per Proprietor
Gross Operating Surplus Growth	IPO Awards
High School Graduation Rate	5-Year Establishment Survival Rate
Two-Year College Tuition Growth	Federal Funded Research & Develop
	University Research & Development
Energy Costs	IPO Financing
Local Phone Competition	Business Incubators
Internet Speed	Gross Domestic Product Growth
Next Generation Internet	Manufacturing Capital Investment Growth
Voter Turnout	Export Intensity Growth
Leisure Industry Employment	Building Permits Growth
	Workers' Compensation Premiums
	Business Tax Burden
	State Business Tax Structure
	Charitable Giving
	Urban Cost Of Living

Second-Stage Establishments

The national and Michigan trends in second-stage business formation and job growth over nearly two decades (shown in the charts below) shows that, for the first time in over a decade, there is a clear uptick in second stage , both in the U.S and in Michigan. This is especially important given the global economic crisis and its impacts on Michigan.





Where Do We Go From Here?

Our economic assets continue to include postsecondary education, a highly skilled workforce, science, engineering and graduate output; and technology competitiveness. Overall Financial and Institutional Capital is also strong, especially IPO Financing and Private Lending to Small Business. Overall Quality of Life shows gradual improvement, especially in areas of Civic Energy and Harmony such as Rural-Urban Disparity, Charitable Giving and Racial/Ethnic Equity. But Michigan needs to further accelerate entrepreneurial growth if we are to reach our goal of being counted among the top five friendliest states in the nation for small business and entrepreneurship.

In this most recent edition of the Score Card, the authors suggest that the time is now ripe for Michigan to build upon the foundation of entrepreneurship and to initiate a period of sustained accelerated entrepreneurship (i.e., the robust acceleration of the formation and growth of entrepreneurial ventures). SBAM will continue using the Score Card for its original purpose – to better understand Michigan's entrepreneurial economy. Further, we will use it to measure

progress as the state implements economic gardening programs. In addition, we now realize the decade-long dataset we have helped assemble offers opportunity to better determine what causes economic growth and consequently what other knobs the state might turn to foster/accelerate entrepreneurial growth. Depending on funding and partnership opportunities we hope to begin this causal work in 2013.

Compared with all 49 other states Michigan ranks above mid-point on the following metrics:

METRICS FROM DATA YEARS 2010/11 WHERE MICHIGAN RANKS ABOVE MIDPOINT OF 25 (BY ORDER IN REPORT)			
Change in Net Expansion Jobs	5	Associate Degree Attainment	23
Increase in High-performance firms	16	Physical Sciences and Engineering Workers	2
Self-employment	25	Technologists and Technician Workers	16
SBIR Awards	17	Other Innovation Workers	25
STTR Awards	17	High-tech Manufacturing Employment	4
University R & D	8	High-tech Services Employment	15
Patents	9	Adult Education	19
University License/Options to Small Businesses	18	Skilled Immigrants	16
NSF Proposal Funding Rate	21	Worker's Compensation Premiums	19
University Royalty / License Income	15	Worker's Compensation Costs	9
Entrepreneurial Programs and Curricula	14	Business Tax Burden	13
Industry R & D	6	State Business Tax Structure	7
Federal Funded R & D	18	Metro Office Rents	10
Seed/Early Stage Venture Capital	21	Health Mandates	3
IPO Financing	1	Business Liability	23
SBIR Financing	21	Water Systems	13
STTR Financing	17	Rural – Urban Disparity	3
Private Lending to Small businesses	2	Charitable giving	9
Business Incubators	21	Voter turnout	18
Gross State Product Growth	14	Racial / Ethnic Equity	12
Capital Investment in Mfg. Growth	8	Parkland	10
Export Growth	15	Golf Courses	11
Export-Related Jobs	10	Historical Preservation	22
Building Permits Growth	17	Urban Cost of Living	12
Fortune 500 Headquarters	9	Urban Housing Affordability	24
SAT	13	Homeownership Rates	6
Physical Sciences and Engineering Degrees	8	Lack of Health Insurance	16
Technologists and Technician Degrees	22	Crime Index	24
Other Innovation Degrees	11	Healthcare Access	24
U.S. News Undergraduate Reputation	24		
U.S. News Top-Ranked Graduate Programs	4		

Note: All the above data is for 2010/2011 except for Business Tax Structure, which is 2012. According to the Tax Foundation: "Michigan made a sizable leap by replacing their cumbersome and distortionary gross receipts tax (the Michigan Business Tax) with a flat six percent corporate income tax that is largely free of special tax preferences. This improved their overall rank from 18th to 12th best, and their corporate ranking from 49th to 7th best."

FULL METRIC RESULTS *(Rank 1 is best)*

METRICS	RANK	III. SECONDARY DRIVERS			
I. STATE ENTREPRENEURIAL SENSITIVITY INDEX (SESI)	**42**	**Education**	**27**	**Physical Infrastructure**	**43**
Change in Establishments Gaining Jobs	30	**K – 12 Education**	**35**	Highway Quality	40
Self-employment Growth Differential	49	AP Overall	28	Bridge Quality	28
Change in Net Expansion Jobs	5	High School Graduation Rate	36	Railway Productivity	34
Change in Establishment Formation Rate	27	SAT	13	Major Market Access	29
New Business Owners	31	ACT	43	Airport Performance	31
Change in 1-year Establishment Survival Rate	44	NAEP Mathematics	36	Water Systems	13
II. ENTREPRENEURIAL DYNAMISM		NAEP Reading	33	Energy Reliability	44
Entrepreneurial Change [3-year average]	**31**	**Post-Secondary Education**	**9**	**Digital Connectivity**	**47**
Growth in # of Small Businesses	33	Physical Sciences and Engineering Degrees	8	Broadband Connections	33
Small Business Payroll Growth	38	Technologists and Technician Degrees	22	Broadband Coverage	30
Increase in High-performance firms	16	Other Innovation Degrees	11	Internet Speed	30
Net Establishments Entrants Increase	27	College Migration	42	Next Generation Internet	48
Proprietor income growth	37	U.S. News Undergraduate Reputation	24	Rural Internet Access	26
Entrepreneurial Vitality	**36**	U.S. News Top-Ranked Graduate Programs	4	**Quality of Life**	**26**
Net Establishments Entrants	31	Two-Year College Tuition	38	**Civic Energy & Harmony**	**15**
Establishment Turnover	30	Four-Year College Costs	29	Rural – Urban Disparity	3
Self-employment	25	**Workforce Preparedness**	**11**	Number of nonprofits	33
University Spin-offs	36	High School Only Diploma Attainment	25	Charitable giving	9
High-performance Firms	30	Associate Degree Attainment	23	Voter turnout	18
IPO Awards	26	Bachelor's Degree Attainment	27	Gender Equity	41
SBIR Awards	17	Physical Sciences and Engineering Workers	2	Racial / Ethnic Equity	12
STTR Awards	17	Technologists and Technician Workers	16	Hate crimes	39
SBIC Awards	38	Other Innovation Workers	25	Generational Creative Class	37
5-year Establishment Survival Rate	29	High-tech Manufacturing Employment	4	**Lifestyle & Play**	**36**
Entrepreneurial Climate	**16**	High-tech Services Employment	15	Time to Work	28

Research & Innovation	19	Adult Education	19	Transit Use	29
University R & D	8	Skilled Immigrants	16	Leisure Industry Employment	39
Patents	9	**Business Costs**	**34**	Parkland	10
Patent Productivity	35	Unit Labor Costs	40	Golf Courses	11
University License/Options to Small Businesses	18	Energy Costs	34	Trails	29
NSF Proposal Funding Rate	21	Worker's Compensation Premiums	19	Cultural Institutions	42
SBIR Funding Rate	27	Worker's Compensation Costs	9	Historical Preservation	22
University Royalty / License Income	15	Unemployment Insurance Costs	49	**Pocketbook Indicators**	**23**
Entrepreneurial Programs and Curricula	14	Unemployment Insurance Tax Index	44	Urban Cost of Living	12
Industry R & D	6	Business Tax Burden	13	Urban Housing Affordability	24
Federal Funded R & D	18	State Business Tax Structure	7	Homeownership Rates	6
Financial & Institutional Capital	11	Metro Office Rents	10	Unemployment Rate	43
Seed/Early Stage Venture Capital	21	Small Business Health Care Premiums	22	Per Capita Disposable Personal Income	36
Expansion/Later Stage Venture Capital	35	**Productivity and Labor Supply**	**47**	State & Local Tax Burden	33
IPO Financing	1	Net Migration Rate	46	**Health & Safety**	**36**
SBIC Financing	30	Prime Working Age Residents	43	Lack of Health Insurance	16
SBIR Financing	21	Gross State Product per Job	32	Crime Index	24
STTR Financing	17	Service Industry Gross State Product per Job	27	Law enforcement employees	47
Bank Commercial & Industrial Lending	35	Value Added in Manufacturing per Hour	30	Healthcare Access	24
Private Lending to Small businesses	2	Labor Force Participation Rate	44	Clean Air	40
Business Incubators	21	**Regulatory Environment**	**26**	Per Capita Public Healthcare Spending	32
General Business Growth	**38**	Malpractice Costs	42		
Gross State Product Growth	14	Health Mandates	3		
Capital Investment in Mfg Growth	8	Local Phone Competition	33		
Foreign Direct Investment Growth	47	**Legal Environment**	**31**		
Export Intensity Growth	15	Business Liability	23		
Export-Related Jobs	10	Liability Systems	27		
Large Business Payroll Growth	48	Tort System Efficiency	43		
Building Permits Growth	17				
Fortune 500 Headquarters	9				
Growth in Gross Operating Surplus	48				
Renewable Energy	39				
Green Industries	36				