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Entrepreneurship In Nebraska

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ENTREPRENEURSHIP IN NEBRASKA

By Van Tran, Dr. Eric Thompson, and Dr. William Walstad

Recent trends in economic indicators such as unemployment rates and job growth clearly favor Nebraska. However, these trends may differ from the state's performance in core measures of economic strength such as entrepreneurship, net migration and capital formation. Given this, the University of Nebraska - Lincoln Bureau of Business Research seeks to track these core economic measures in Nebraska and in all U.S. states.

The state entrepreneurship index is one effort to track these core trends. Specifically, the index is used to track entrepreneurship in Nebraska and compare with the other forty-nine states.

The index was developed by Eric C. Thompson and William B. Walstad in *Entrepreneurship in Nebraska: Conditions, Attitudes, and Actions* (Gallup Press, 2008). In this report, we use the same methodology to calculate a 2010 index and compare it to the 2008 index.

Like the 2008 index, the 2010 index is modified from the original index constructed by Thompson and Walstad¹. The new index is believed to better reflect the entrepreneurship environment because it avoids an upward bias of income in high cost-of-living states while

maintaining as a good measure of growth in business formation and technological innovation.

The five components are:

- Percent growth in employer establishments
- Percent growth in employer establishments per capita
- Business formation rate (*i.e.*, *firm births per capita*)
- Patents per thousand residents
- Gross receipts of sole proprietorships and partnerships per capita.

An index for each component consists of calculating how much each state's performance deviates from the median state. The state at the median gets a value of 1.0. A state one standard deviation above the median gets a value of 2.0, while a state one standard deviation below the median gets a value of 0.0. The overall entrepreneurship index is calculated by taking a simple average of the five index values for each state. Table 1 illustrates Nebraska's detailed component value and rank in 2008 and 2010, while Table 2 and Table 3 compare the 2008 entrepreneurship index to the 2010 index of for Nebraska's neighbors and nationwide.

¹ The more detailed explanation for the revision can be found the 2008 BBR report "Entrepreneurship in Nebraska", March 2010.

NEBRASKA

In 2010, Nebraska was ranked 21st, moving up three spots from the 2008 ranking. The aggregate index value was 1.17, maintaining an above-median performance of entrepreneurial activity among states.

Table 1: Nebraska's component value and rank 2008 and 2010

		2008	2010
Percent growth in establishments	Value	1.11	1.12
	Rank	20	20
Percent growth in establishments per capita	Value	1.09	1.01
	Rank	19	25
Business formation rate	Value	0.68	1.10
	Rank	34	23
Patents per thousand residents	Value	0.57	0.48
	Rank	36	40
Gross receipts of sole proprietorships and partnerships per capita	Value	2.19	2.16
	Rank	9	8
Average	Index	1.13	1.17
	Rank	24	21

Table 1 shows that Nebraska improved its position in terms of business formation rate and gross receipts per capita compared to 2008. Being an above-median state, Nebraska did exceptionally well in gross receipts per capita with the index value of more than 2.0, staying among the top ten states for this measure. However, the key factor behind the rise of the state's rankings this year was the number of firm births per capita, whose index was up by eleven spots. Moreover, this component's value went from under-median to above-median within two years.

Although the state's employer establishments had a negative growth in 2010, its index ranking was unchanged because this troubled condition occurred nationwide. However, when the population was taken into consideration, the situation was different: the rank of growth in establishments per capita dropped six spots from 19th in 2008 to 25th in 2010.

The component index where Nebraska performed the worst is patents per capita. For many years, Nebraska has lagged the nation by this measure. In 2005 it was an under-median value of 0.12. Growing investments in research activities and technology transfer in Nebraska signal a potential improvement from 2005 (0.57 in 2008 and 0.48 in 2010), but the more recent values are still below the median.

NEBRASKA'S NEIGHBORS

Compared to its neighboring states, Nebraska ranked second to Wyoming, which claimed the 16th position in 2010. The other four, Colorado, Iowa, Missouri and South Dakota, trailed Nebraska even though three among them also had a jump in rankings. Iowa moved up eight spots, Missouri twelve and South Dakota nine, due largely to the strong increase in growth in establishments and establishments per capita. Colorado unexpectedly dropped fifteen spots, lagging behind Nebraska this year. Wyoming still ranked first in the group but the drop of ten spots drove it out of the top ten of the country. The biggest impact on the drop of Wyoming came from the slower growth in establishments and in establishments per capita. Most index components declined in Colorado, especially gross receipts per capita.

Table 2: Nebraska's Neighbors, 2008 and 2010

State	2008 Rank	Index Value	2010 Rank	Index Value
Colorado	18	1.23	33	0.913
Iowa	46	0.57	38	0.752
Missouri	40	0.73	28	1.059
Nebraska	24	1.13	21	1.173
South Dakota	36	0.8	27	1.087
Wyoming	6	1.64	16	1.329

THE REST OF THE UNITED STATES

New York continued to hold the top rank thanks to its strong performance in gross receipts per capita and substantial improvement in other two components, growth in employer establishments and establishments per capita. Some other states whose entrepreneurship indexes are little changed are Washington, Mississippi, Ohio, Kansas, Virginia, New Mexico and Alabama.

However, the other states have experienced a tremendous change in their rankings over the last two years as might be expected during a period of substantial economic dislocation. For example, Oregon made a steep jump from 45th in ranking to 5th while Delaware moved up by twenty-eight spots to stand at 14th position in 2010. These drastic changes were largely caused by growth in establishments and in establishments per capita. Kentucky, Texas and Rhode Island also had an impressive improvement by thirty, twenty five and twenty spots, respectively.

On the other hand, the poor performance in some of the indicators has led to the deep drop in rankings of several states such as Nevada, Arkansas, Tennessee and Utah. Nevada was dragged down by forty spots, ending up at 47th position after two years, due to a sharp decline in the growth of establishments and establishments per capita (Table 3).

CONCLUSION

The first two component indexes – the growth of establishments and establishments per capita- are the main causes of most changes in state rank this year, either negative or positive. Nebraska was among those negatively affected, although only modestly. Significant growth in new business starts not only offset those negative effects but also improved Nebraska’s rankings in 2010. While Nebraska remains near the median in terms of entrepreneurship, this upward movement is a positive signal of an improving entrepreneurship environment in Nebraska.

Table 3: Entrepreneurship Index, 2008 and 2010

State	2008 Rank	Index Value	2010 Rank	Index Value
Alabama	44	0.58	46	0.41
Alaska	31	0.98	37	0.77
Arizona	35	0.8	49	0.11
Arkansas	10	1.46	36	0.82
California	4	1.81	13	1.44
Colorado	18	1.23	33	0.91
Connecticut	13	1.38	17	1.32
Delaware	42	0.61	14	1.43
Florida	5	1.7	19	1.21
Georgia	22	1.15	35	0.83
Hawaii	37	0.79	34	0.88
Idaho	2	1.93	15	1.34
Illinois	11	1.42	7	1.57
Indiana	39	0.73	44	0.58
Iowa	46	0.57	38	0.75
Kansas	17	1.27	18	1.23
Kentucky	50	-0.51	24	1.15
Louisiana	16	1.29	6	1.61
Maine	30	1.03	45	0.55
Maryland	41	0.66	31	0.93
Massachusetts	9	1.54	3	2.04
Michigan	33	0.93	39	0.72
Minnesota	23	1.14	25	1.14
Mississippi	47	0.56	48	0.32
Missouri	40	0.73	28	1.06
Montana	19	1.23	30	0.94
Nebraska	24	1.13	21	1.17
Nevada	7	1.63	47	0.33
New Hampshire	14	1.32	10	1.49
New Jersey	12	1.4	4	1.93
New Mexico	32	0.95	29	0.99
New York	1	2.04	1	2.34
North Carolina	29	1.03	41	0.68
North Dakota	21	1.18	11	1.48
Ohio	27	1.06	26	1.11
Oklahoma	15	1.3	8	1.55
Oregon	45	0.57	5	1.93
Pennsylvania	28	1.06	20	1.20
Rhode Island	48	0.56	23	1.16
South Carolina	43	0.6	50	0.07
South Dakota	36	0.8	27	1.09
Tennessee	20	1.19	42	0.67
Texas	34	0.82	9	1.54
Utah	26	1.07	43	0.61
Vermont	8	1.58	12	1.44
Virginia	25	1.11	22	1.16
Washington	3	1.88	2	2.17
West Virginia	49	0.07	40	0.72
Wisconsin	38	0.73	32	0.93
Wyoming	6	1.64	16	1.33

Sources: Bureau of Labor Statistics, IRS Statistics of Income Bulletin, U.S. Census Bureau, U.S. Statistical Abstract, and Authors’ calculations

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