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Entrepreneurial cities: What makes them work

Four local cities identified as "top performers" in UM-Dearborn study of entrepreneurial cities

DEARBORN / March 19, 2007—The cities of Ann Arbor, Auburn Hills, Troy and Wixom were identified "as top performers at attracting and retaining entrepreneurial firms," in a study recently completed by faculty and students at the University of Michigan-Dearborn [School of Management](#).

Representatives of the four cities will be honored at a ceremony at the UM-Dearborn campus on March 22.

"The [Entrepreneurial Cities Index](#) is a research study that examines the factors—at the community level—that influence entrepreneurship, economic development and job growth," according to Prof. Kim Schatzel, director of iLabs, or the Center for Innovation Research at the UM-Dearborn School of Management. Schatzel led the study with Tim Davis, senior research manager in iLabs. Other students who worked on the study are Jeffrey Dancho, Timothy Lin, Keith Minetee and James Zagar.

"The focus is on entrepreneurship because of its importance to expansion and diversification of regional economies and small businesses' impact on job creation," Schatzel said. "Nationally in 2005, small or entrepreneurial firms added 12.3 million payroll jobs while large firms had job losses of 6.1 million."

The UM-Dearborn study used public records to assemble a six-factor, 25-item index to measure entrepreneurial activity, looking at such factors as "clustering," incentives, growth, community and education.

The researchers examined a representative sample of 14 communities in four different counties in southeast Michigan, ranging from populations of fewer than 5,000 to more than 100,000 residents.

What are the factors that distinguished the top-performing cities? "Each community uses strategies that match their overall goals and community culture," Schatzel said.

Successful communities work to determine the needs of business and carry out relationship marketing akin to private sector firms, the UM-Dearborn study found. "They have professional staffs that make regular visits to existing businesses to understand the changing needs of these firms and what the city can do to aid in the changing environment, and the staffs work closely with prospective firms to assist in the review and approval process of development projects," Schatzel said.

The “clustering” factor measured concentrations of industrial property, commercial property and personal property. The researchers also examined property tax rates for businesses and the number of and value of tax abatements given by municipalities. They measured growth by commercial to residential building activity, including changes to the number of personal property parcels and their value during the past year.

The leading communities also balance the use of incentives, and each of the top four cities offers tax abatements, typically targeted with respect to industry and impact. “City leaders explained that they do not use abatements to lure firms from nearby cities, only to attract a business that is new to the area,” according to the UM-Dearborn report. Abatements are more likely to be offered for high-tech industries that will bring skilled jobs.

Creative uses of zoning and substantial planning efforts also are part of the success of these communities, and their governments also look for ways to mitigate zoning constraints that hinder high-tech firms from expanding or locating in the community.

“The quantitative findings were validated with personal interviews with city managers, township supervisors, mayors and others involved with economic development at the local level,” Schatzel said. Officials were asked about what the local government does to attract and maintain entrepreneurial growth, the policies or internal procedures that are critical to the process, the role of partnerships, the success stories, and how they market themselves to prospective firms.

“Combining these ideas is part of the strategy of creating a place where creative people want to live,” Schatzel said. “With them will come the entrepreneurial firms and high-quality jobs.”

iLabs is part of the UM-Dearborn School of Management’s commitment to advancing the understanding of corporate, entrepreneurial innovation. Among other projects, iLabs recently completed [a study of the economic impact](#) of Detroit Wayne County Metropolitan Airport, and helped Ford Motor Company [develop the employee buyout plan](#) last summer.

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