

EXECUTIVE SUMMARY

This Score Card marks the fourth consecutive year that the Small Business Foundation of Michigan (SBFM) has provided sound and objective methodology and outcome measurements to highlight trends, correlations, relationships and opportunities as a guide to how the Michigan entrepreneurial economy stacks up relative to other states. Each year we have made improvements based on input received. Each year we have added new data, found more examples of efforts that foster entrepreneurship around the state, and found new audiences interested in the prospects of entrepreneurial growth. Most importantly, each year the core logic behind the Score Card and related SBFM messages becomes more relevant across the state – that the small business and entrepreneurial economy offers Michigan one of the best chances for economic turnaround.

Increasingly, we find government, business, education and civic leaders looking for help to uncover the best practices that will spur local economies and help relieve the economic stress in which Michigan finds itself. Michigan is the quintessential Midwest industrial economy “crossing to the new economy,” as Michigan Future describes it. These past two years have not provided much good news. The recently released Census Bureau population estimates show that the state was the slowest growing in the U.S and lost population between July 2006 and June 2007. This 2007-08 Score Card ranks the state 50th in general growth, as does the recently released “Rich States, Poor States” Laffer State Economic Competitiveness Index report of the American Legislative Exchange Council. It makes little sense to sugarcoat the numbers. Rather, this Score Card seeks to find out realistically where we stand on the measurements that make a difference, to note who is winning and why, to identify assets and to detect positive movement, then capitalize on the positive.

“As Michigan faces unprecedented economic challenges related to the steep decline in traditional manufacturing sector employment, it is critical that we rapidly reposition the state to capture new economic opportunities that are characteristic of the diverse, global market. Entrepreneurial enterprises – characterized by high growth, innovation in 21st century technologies, and operating across all economic sectors – hold great promise for moving Michigan forward. Such enterprises are the foundation of economic success - the entire net job growth in the United States during 1980-2001 was contributed by firms under five years old.” -- Karen A. Bantel, Ph.D, MBA, Executive Director, The Michigan Entrepreneurship Education Network (MEEN)

Where Do We Stand?

Regarding overall performance, the findings of this year’s Score Card differ little from those of the last two years. In fact, this year the Score Card indicates continued slippage in Entrepreneurial Dynamism and General Business Growth. But, there are several encouraging signs this year:

The performance of the entrepreneurial sector did better than that of the business sector as a whole. While general business growth ranked 50, entrepreneurial change (growth in three prior one-three years) ranked 38.

Entrepreneurial change improved in rank by ten positions between this year’s and last year’s report.

Numerous communities and organizations have initiatives underway that aim to foster increased entrepreneurship in the state.

Public policy has begun to reflect the importance of entrepreneurship.

These, along with a host of other factors, are early signs that the state economy is beginning a much needed long-term transformation.

How Do We Improve in the Future?

Towards this end, Michigan has several key assets on which it can draw. For example, Michigan scores very high in both Education and Workforce Preparedness and above average on Digital Connectivity. The state has an outstanding post secondary education system and, overall, its workforce is well educated and prepared for the agility required by changing economic conditions. It is also a state with attractive places to live, work, raise a family and make money, as long as we provide additional public policies that support a pro-growth/pro-investment business climate. Michigan communities also provide a sound foundation for entrepreneurial formation and growth.

Each year this Score Card adds examples and case studies of how local initiative is transforming the entrepreneurial economies of cities and regions. A transforming entrepreneurial economy happens from the bottom up. This report has many examples of various kinds of university/business, public/private, foundation/government partnerships that are making a difference across the state and are all very exciting to observe. Entrepreneurial offerings in colleges and universities have expanded rapidly, angel and venture capital networks are growing and becoming more sophisticated, and new regional initiatives for growth are on the move. The success of these and initiatives and similar ones in the future are expected to result in a significant change in Michigan’s relative rankings on the benchmarking metrics provided in this Score Card.

INTRODUCTION

WHY SBFM PUBLISHES THE SCORE CARD

The National Governors Association, Center for Best Practices, has noted that entrepreneurs are the “engines of growth and innovation to a greater extent than other types of firms and hold greater potential to enhance local and regional economies.” The following findings from the U.S. Small Business Administration, aptly illustrate this point: Small business entrepreneurs create 65 percent or more of America’s net new jobs, are 97 percent of America’s exporters and produce 26 percent of all export value. These firms also create more than 50 percent of the American nonfarm gross domestic product (GDP). Finally, small patenting entrepreneurs produce 13 to 14 times more patents per employee than large patenting firms and produce research results at a lower cost rate.

Given their obvious importance to the U.S. economy, the following quote from U.S. Small Business Administration, Office of Advocacy is particularly important for Michigan: “State efforts to promote small business formation will be more fruitful in terms of generating economic growth than virtually any other policy option.”²

Within this context, SBFM publishes the annual Michigan Entrepreneurship Score Card that is grounded in the belief that entrepreneurship is the most important of all the major factors affecting economic growth. The report is further guided by the belief that, in order to be effective, public policy should be firmly grounded on sound methodology (data, analysis, correlation), fact-based causation (benchmarking) and outcome measurements. SBFM recognizes that, unlike physical scientists, economists and policy makers cannot run controlled experiments and thus are always looking backward in an effort to develop effective public policies for the future. Accordingly, the Score Card takes great care to objectively and comprehensively benchmark Michigan against all other states.

The goal and purpose of the annual Michigan Entrepreneurship Score Card, then, is to:

Facilitate and Improve Understanding - Focus attention on entrepreneurship and promote a common ground for discussion and action among policymakers, economic development practitioners, businesses and the public with regard to entrepreneurship as a preferred economic development strategy in Michigan;

Encourage Objective Benchmarking - Use sound and objective methodology, fact-based causation and outcome measurements to highlight trends, correlations, relationships and opportunities as a guide to public policy reform and formation; and,

Encourage Use of the Score Card Data by Public Policy and Economic Development Professionals - The Entrepreneurship Score Card metrics are standard and objective metrics supplied by sound, objective and recognized sources. The Score Card also does not currently weight any of the individual Entrepreneurial Dynamism metrics. Accordingly, while our bias is towards entrepreneurship as a preferred and primary economic driver, we invite and strongly encourage others – particularly those in the economic development arena - to use this objective and comprehensive benchmarking data to challenge our bias and preferences and to share these results widely.

SBFM’s research consistently finds that despite the central role that small business entrepreneurs play in the economy, Michigan disturbingly continues to rank in the bottom 10 percent of all states with regard to Entrepreneurial Dynamism (a composite measure of entrepreneurial change, vitality and culture). This ranking is due in large part to global economic forces and slow economic restructuring, coupled with public policies, that serve as barriers to the robust formation and growth of steady/high growth entrepreneurial small businesses in the state.

The Score Card strongly suggests that Michigan’s hope for a bright and prosperous future depends on its success in fostering ever greater levels of entrepreneurship with renewed gusto and, above all else, pride. It also suggests that such a movement towards a more entrepreneurial economy can be catalyzed, dramatically accelerated and greatly improved through the use of sound and objective methodology, fact-based causation and outcome measurements to identify best practices and foster related sound public policy reform and formation.

Efforts such as those outlined above will continue to synergize, leading Michigan to effectively address the formidable task of rapidly restructuring and reengineering our old-line economy into a dynamic entrepreneurial economy: i.e., a highly competitive knowledge-based economic market leader. Specialists in entrepreneurship pose that such an economy can be achieved through public policies that foster a “balanced economic growth strategy.” Such a balanced strategy would combine robust entrepreneurial growth from within (“Economic Gardening” – creation, retention and expansion of entrepreneurs in high economic multiplier industries) with a modified version of the more traditional recruitment and attraction³ (“Economic Hunting”) of businesses in high economic multiplier industries.⁴

**“It is Michigan’s small businesses that will be the job creators and the key to Michigan’s economic turn-around”
- Phil Musser, Executive Director, Keweenaw Economic Development Alliance**

THE SCOPE OF THE 2007-08 MICHIGAN ENTREPRENEURSHIP SCORE CARD

The 2007-08 Michigan Entrepreneurship Score Card releases and updates data available for all 50 states annually, 2000 through 2006. It has several important and unique features among state economic development benchmarking reports.

First and foremost, the Score Card's focus on entrepreneurship sets it apart from other benchmark studies of state economic conditions. The overall measure – "Entrepreneurial Dynamism" – provides policymakers and the public a way to more easily understand Michigan's competitive position relative to all other states in hard, carefully-assembled numbers (especially those with which it competes most directly). And its three Primary Drivers (Entrepreneurial Change, Vitality and Climate) help bring focus to different aspects of what makes for a dynamic entrepreneurial economy. These three categories were arrived at after extensive review of what really matters to understanding entrepreneurial economies in both U.S and overseas literature.

Second, the report provides reliable benchmark data that can be used to evaluate and measure public policies with regard to their positive or negative impacts on entrepreneurial dynamism. It is important to note that the Michigan Entrepreneurship Score Card does not derive its measures from its own original research. The Score Card uses the most up-to-date sources of information available, taken directly from standard, highly respected and authoritative secondary databases as well as highly respected methodologies for our analysis. All data in the 2007-08 edition is the most current available as of December 21, 2007.

**"It's part of our mission at the Michigan Economic Development Corporation to find ways to enhance the entrepreneurial economy, and as such, you can never get too much data about the small business community. If we properly use the findings of this Score Card tool, and take the results to heart, Michigan government will be able to continually improve its services to the small businesses that are so vital to the future of our state."
-- Chris Holman, Small Business Advocate at the Michigan Economic Development Corporation**

The Score Card report is highly regarded among qualified professionals and policymakers in the areas of economic development, public policy, finance, education and entrepreneurship. Indeed, as an indication of the quality of the Score Card findings, the authors find the Score Card generally congruent with related studies (where practicable, direct comparisons with the most recent of these reports are provided in the Appendix). For example:

2007:08 Entrepreneurship Score Card Rankings Compared to Rankings of Other Recent National Studies*

ENTREPRENEURSHIP SCORE CARD, 2007:08		OTHER RECENT NATIONAL STUDIES, 2006:07	
	Rank		Rank
		Development Report Card of the States (2007) <i>Corporation for Enterprise Development¹</i>	
K-12	28	Human Resources	20
Physical Infrastructure	26	Infrastructure Resources	26
		State Competitive Report (2006) <i>Beacon Hill Institute²</i>	
Physical Infrastructure	26	Infrastructure	29
		The 2007 State New Economy Index (2007) <i>Information Technology and Innovation Foundation³</i>	
Entrepreneurial Vitality	37	Economic Dynamism	33
Workforce Preparedness	12	Knowledge Jobs	17
Digital Connectivity	28	The Digital Economy	26
		ALEC-Laffer State Economic Competitiveness Index (2007) <i>American Legislative Exchange Council⁴</i>	
General Business Growth	50	Economic Performance	50
Pocket Book Indicators	37		
		Cost-of-Doing-Business Index (2007) <i>Milken Institute⁵</i>	
Business Costs	38	Overall Rank	20

* Rankings - From 1 (strongest) to 50 (weakest)

PRIMARY AND SECONDARY DRIVERS

To simplify analysis and benchmarking of entrepreneurs and the economic drivers that impact them, the Score Card is organized into eight groupings or “drivers.” Three of the “primary” drivers are combined into a single composite measure: “Entrepreneurial Dynamism” (described below):

ENTREPRENEURIAL DYNAMISM	
Primary Drivers	Measure
Entrepreneurial Change	The amount of recent entrepreneurial growth or decline in an economy (i.e., factors that effect business startup (stage one) and growth).
Entrepreneurial Vitality	The absolute level of entrepreneurial activity (i.e., factors that effect the pace and robustness of entrepreneurial activity)
Entrepreneurial Climate	The capability of an economy to foster entrepreneurship (i.e., factors that foster or discourage entrepreneurial change and vitality)

A positive relationship between Entrepreneurial Dynamism and overall economic performance remains evident in 2006. Of the top ten states in overall economic competitiveness as reported by other recognized studies, five are also in the top ten in Entrepreneurial Dynamism as reported by the Entrepreneurship Score Card. The remaining metrics are clustered into five secondary drivers, measuring, Education and Workforce Preparedness, Business Costs and Productivity/Labor Supply, Government Efficiency and Regulatory Environment, Infrastructure and Digital Connectivity, and Quality of Life.

STAR RATINGS (*****)

This report presents Michigan’s competitive positions as Ratings and Rankings (see Appendix for additional explanations). Both are important for interpretation and are helpful to compare between states. This report is about how Michigan stacks up competitively and comparatively.

Once the metric scores have been calculated for each metric making up a Subdriver, the modified median scores are averaged to produce a subdriver score. The Subdriver page displays the state scores in the form of star performances associated with those average scores. For example, five stars mean the state performed in the top 20 percent of the range of averaged scores. A jump in rating over a two year period is always worthy of note. For example, between 2004 and 2006 Michigan improved its Digital Connectivity from three stars to four. Workforce Preparedness improved from three stars to four between 2002 and 2006. The core message from this year’s Score Card is that while overall Entrepreneurial Dynamism has not moved from its one star rating, we are encouraged by some positive signs of movement.

See Appendix for a detailed discussion of the Score Card methodology.

KEY FINDINGS

Michigan gets a one star rating for Entrepreneurial Dynamism, with Rank 43, slipping from 37 in 2002. Michigan ranks at the bottom of the Midwest states (again, ratings are relative and Michigan made progress on some important metrics – see item #3 below.)

So far, through this decade, a select number of states have been consistently performing well in Entrepreneurial Dynamism: Massachusetts, California and Utah. Several others have made substantial improvements, to be counted now in the top 10, e.g. Texas, Idaho and Washington. As with all benchmarking, those that are trailing would do well to examine why the leaders are doing so well, particularly those gaining in competitive position.

Michigan shows no improvement in any of the three drivers of Entrepreneurial Dynamism in terms of star ratings. Michigan did improve its ranking on several important metrics, however:

NATIONAL RANKING		
Item	2004:05	2006:07
Self-Employment	31	21
Small Business Investment		
Corporation Awards	27	18
Workforce Preparedness	14	12
Digital Connectivity	29	28

Only two out of four Midwest competitors are more competitive with respect to Entrepreneurial Change; Michigan has shown a notable improvement in performance since 2004.

Despite some improvement to a two star rating in 2004, Michigan is back at a one star rating in Entrepreneurial Vitality, like the rest of the Midwest, with the exception of Illinois. Improvements in some metrics (e.g. STTR and SBIC awards) were offset by slippage in other metrics.

There has been drop to one star from Michigan's two star rating in Entrepreneurial Climate performance in 2004. Three Midwest competitors are now outperforming Michigan.

Michigan shows mid-level but uneven performance in Ideas and Innovation, back to a two star rating in 2006 from three stars in 2004; below average but improving performance in the Capital sub-driver; and very low and dropping performance in General Business Growth.

This Score Card does not report on overall performance of the Michigan economy. But positive relationship between Entrepreneurial Dynamism and overall economic performance remains evident in 2006. Of the top ten states in overall economic competitiveness as reported by other recognized studies, five are also in the top ten states in Entrepreneurial Dynamism as reported by the Entrepreneurship Score Card.

PRIMARY AND SECONDARY DRIVER RANKINGS

Michigan's primary and secondary driver rankings – among all states – are summarized below:

ENTREPRENEURIAL DYNAMISM: PRIMARY AND SECONDARY DRIVERS ⁶	
Primary Drivers	Michigan's Rank Among 50 States
Entrepreneurial Dynamism	43
Entrepreneurial Change - The amount of recent entrepreneurial growth or decline in an economy.	38
Entrepreneurial Vitality - The level of entrepreneurial activity (i.e., factors that effect the pace and robustness of entrepreneurial activity.	37
Entrepreneurial Climate - The capability of an economy to foster entrepreneurship.	38
Secondary Drivers	
Education	13
Workforce Preparedness	12
Business Costs	38
Productivity and Labor Supply	38
Government Efficiency and Regulatory Environment	23
Physical Infrastructure	26
Digital Connectivity	28
Quality of Life	41

Finally, Michigan's overall Entrepreneurial Dynamism rank among its Mid-West and Great Lakes Competitors is listed below. Pennsylvania shows the best improvement:

MICHIGAN'S RANK AMONG MID-WEST/GREAT LAKES STATES			
State	2006	2004	2002
Pennsylvania	13	30	21
Wisconsin	19	24	16
Minnesota	22	14	12
Iowa	30	20	33
Ohio	32	18	31
Illinois	34	32	35
Michigan	43	38	37
Indiana	46	37	46

The 2007-08 Michigan Entrepreneurship Score Card shows that Michigan continues to make progress in some areas critical to robust entrepreneurship.⁷ For example, Michigan has improved in ranking among the 50 states in the following important areas:

NATIONAL RANK ⁸		
Item	2004	2006
Self-Employment	31	21
Small Business Investment		
Corporation Awards	27	18
Workforce Preparedness	14	12
Digital Connectivity	29	28

ENTREPRENEURIAL DYNAMISM

Business stages and associated risks are greatly affected by the overall entrepreneurial dynamism of a given economy (i.e., entrepreneurial change, vitality and climate). These impacts are discussed in greater detail below.

Entrepreneurial Change - The amount of entrepreneurial growth or decline in an economy (i.e., factors that affect business startup (stage one) and growth)

First-stage companies, also known as micro-enterprises, are generally considered to be early-stage companies with 1-9 employees. Their growth and performance are important indicators of the entrepreneurial dynamism of an economy. Because first-stage companies fail at a relatively high rate, underperformance in this segment can be a substantial competitive disadvantage for an economy - as it is now for Michigan. Since the late 1990s, Michigan has continually fallen short, sometimes significantly, in four important measures of stage one businesses when compared with U.S. performance overall:

- Growth in firms with fewer than 10 employees
- Numbers of non-employer establishments (sole proprietorships/self employment)
- Net firm growth – business starts less terminations
- Growth in payroll

The following chart details Michigan 2006 rank, among all states, with regard to Entrepreneurial Change:

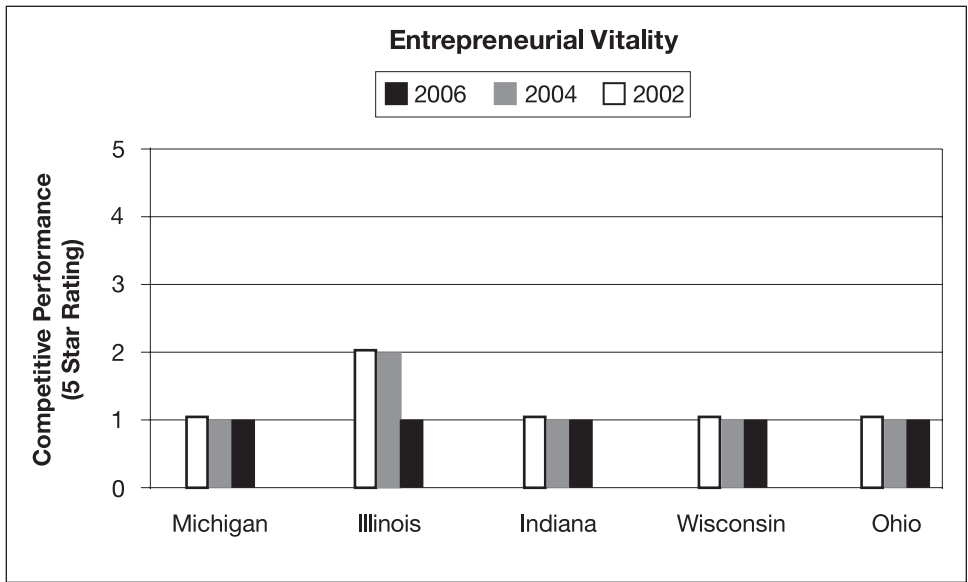
ENTREPRENEURIAL DYNAMISM	
	Michigan's Rank Among 50 States
Entrepreneurial Change	38
Growth in Number of Small Firms	47
Small Business Payroll Growth	50
Increase in High Performance Firms	10
Proprietor Income per Proprietor	43
Net Firm Entrants Increase (2005)	5

Growth and change in all stages of businesses measured by this driver are necessary factors for economic prosperity. The good news is that the Entrepreneurial Change ranking has improved from 46 in last year's report to 38 in this report. A rating for Entrepreneurial Change at two stars has not yet changed but the ranking has. This could be a first sign of a turnaround in Michigan's entrepreneurial conditions as a result of many efforts made over the past five years. This Entrepreneurial Change Driver is specifically designed to detect movement over a prior one-three year period.

Entrepreneurial Vitality - The absolute level of entrepreneurial activity (i.e., factors that effect the pace and robustness of entrepreneurial activity.) The following chart details Michigan's 2006 rank, among the 50 states, with regard to entrepreneurial vitality as measured in this report:

ENTREPRENEURIAL DYNAMISM	
	Michigan's Rank Among 50 States
Entrepreneurial Vitality	37
Net Firm Entrants (2006)	12
Establishment Formation Rate (2005)	30
Establishment Termination Rate (2005)	30
Establishment Turnover Rate (2005)	29
Entrepreneurial Activity Index (2006)	50
Self-Employment (2006)	21
University Spinout Businesses (2005)	30
High-Performance Firms (2006)	28
IPO Awards (2006)	32
SBIR Awards (2005)	18
STTR Awards (2005)	36
SBIC Awards (2006)	30

The chart below illustrates the stagnant trend associated with Entrepreneurial Vitality both in Michigan and its neighboring states. Entrepreneurial Vitality is a particularly difficult challenge for a Midwest turnaround in that it requires a dedicated Second-Stage public-policy business strategy to succeed:



Entrepreneurial Climate - The capability of an economy to foster entrepreneurship (i.e., factors that foster or discourage entrepreneurial change and vitality)

Entrepreneurs cannot flourish in an economy that does not highly value entrepreneurship. As noted by the Max-Planck Institute,

“...while the entrepreneur undertakes a definitive action, starting a new business, his/her action cannot be viewed in a vacuum devoid of context. Rather, the determinants of entrepreneurship are shaped by a number of forces and factors, including legal and institutional and also social factors.”⁹

While notable improvements have been made, Michigan entrepreneurs continue to face tough legal, institutional and social barriers to their growth. For example, Michigan’s tax, regulatory and social systems were designed around an old-line industrial economy that, for the most part, was a late adopter of technology, conservative in its business approaches and decidedly risk adverse.

Moreover, while Michigan universities and colleges received substantial research grants from the federal government, very little of the successful research results have made their way into products manufactured in the state. Indeed, despite the fact that close to \$1 billion in federal grants are awarded to Michigan universities and colleges each year a small percentage of their annual budgets come from the sale of technologies that resulted from this taxpayer funded research.¹⁰

Michigan's large durable goods manufacturing economy mindset also drove public policy development in a number of key areas. First, in the public mind, entrepreneurs are not emerging economic powerhouses but are small businesses seeking to generate income instead of growth. This mindset clouded the risk assessment methodologies of lending institutions, drove economic development perceptions and priorities and saturated K-16 education curriculums and teaching practices.

Michigan's large institutions also drove health care policies and related costs to the point where rising health care costs are a major barrier to entrepreneurship. Indeed, the phenomena of "job lock", where individuals stay at a job because of the health care benefits rather than seek better employment or entrepreneurial business opportunities, is a current phenomenon affecting mature economies.

These and other factors associated with mature economies have resulted in the entire Midwest suffering from a poor entrepreneurial climate. The following chart details Michigan 2006 performance relative to the rest of the nation on Entrepreneurial Climate:

ENTREPRENEURIAL DYNAMISM	
	Michigan's Rank Among 50 States
Entrepreneurial Climate	38
Ideas and Innovations	20
University R&D	19
Patents per Innovation Worker	8
Patents per R&D Dollar	37
University Licenses/to Small Businesses	17
NSF Proposal Funding Rate	19
SBIR Funding Rate	44
University Royalty/License Income	12
Entrepreneurial Programs/Curricula	22
Industry R&D	1
Federal R&D	40
Financial and Institutional Capital	28
Venture Capital Financing	27
IPO Financing	24
SBIC Financing	30
SBIR Financing	20
STTR	39
Bank C&I Lending	10
Private Lending to Small Businesses	3
Business Incubators	39
General Business Growth	50
Gross State Product Growth	50
Manufacturing Capital Investment	28
Foreign Direct Investment Growth	14
Export Intensity Growth	34
Large Business Payroll Growth	50
Building Permits Growth	48
Fortune 500 Headquarters	8
Gross Operating Surplus Growth	50

ENTREPRENEURIAL DYNAMISM
ALL STATES 2006,2004,2002 RANKINGS

State	2006	2004	2002
Massachusetts	1	1	1
California	2	2	2
Utah	3	6	3
Maryland	4	4	4
Texas	5	15	26
New York	6	8	9
Colorado	7	5	5
Idaho	8	3	22
Washington	9	29	13
Montana	10	9	18
Virginia	11	7	7
Wyoming	12	12	15
Pennsylvania	13	30	21
Nevada	14	22	39
Oregon	15	31	32
New Mexico	16	11	24
North Carolina	17	21	8
Connecticut	18	26	10
Georgia	19	16	36
South Dakota	20	27	14
New Hampshire	21	19	6
Minnesota	22	14	12
Oklahoma	23	25	34
Rhode Island	24	10	11
New Jersey	25	46	25
Delaware	26	17	41
Alabama	27	13	23
Hawaii	28	35	29
Wisconsin	29	24	16
Iowa	30	20	33
Tennessee	31	36	40
Ohio	32	18	31
Arkansas	33	40	38
Illinois	34	32	35
Florida	35	28	20
Vermont	36	34	28
Alaska	37	48	27
Louisiana	38	41	45
North Dakota	39	44	17
Kansas	40	50	50
Missouri	41	42	43
Maine	42	33	30
Michigan	43	38	37
Mississippi	44	39	44
Arizona	45	23	19
Indiana	46	37	46
West Virginia	47	49	47
Nebraska	48	43	42
Kentucky	49	45	49
South Carolina	50	47	48

ENTREPRENEURIAL DYNAMISM
RANKS AND RATINGS

	2006		2004		2002	
	Rank	Rating	Rank	Rating	Rank	Rating
Entrepreneurial Dynamism (Index)	43	*		*		*
Entrepreneurial Change	38	**		**		**
Entrepreneurial Vitality	37	*		**		*
Entrepreneurial Climate	38	*		**		**
Ideas and Innovations	20	**		***		**
Financial and Institutional Capital	28	**		**		*
General Business Growth	50	*		**		**
Education	13	****		****		****
K-12 Education	28	****		****		****
Post Secondary Education	9	****		*****		*****
Workforce Preparedness	12	****		****		***
Business Costs	38	**		****		****
Productivity and Labor Supply	38	*		**		***
Gov. Efficiency and Regulatory Environment	23	***		***		***
Government Efficiency	32	**		***		***
Regulatory Environment	21	***		****		***
Physical Infrastructure	26	***		***		***
Digital Connectivity	28	****		***		***
Quality of Life	41	*		*		**
Civic Energy and Harmony	47	*		**		**
Lifestyle and Play	23	**		**		**
Pocket Book Indicators	37	****		****		****
Health and Safety	26	***		***		***
Green Matters	21	**		**		*

KEY FINDINGS - SECONDARY DRIVERS

EDUCATION AND WORKFORCE PREPAREDNESS

	2006		2004		2002	
	Rank	Rating	Rank	Rating	Rank	Rating
Education	13	****		****		****
K-12 Education	28	****		****		****
Post Secondary Education	9	****		*****		*****
Workforce Preparedness	12	****		****		***

Education and Workforce remain strong assets in Michigan. Post-secondary education is a notable asset, but some slippage has occurred since 2002. Workforce Preparedness has continually improved its rating and ranking since 2002.

BUSINESS COSTS AND PRODUCTIVITY

	2006		2004		2002	
	Rank	Rating	Rank	Rating	Rank	Rating
Business Costs	38	**		****		****
Productivity and Labor Supply	38	*		**		***

Michigan's Business Costs and Productivity driver scores below the majority of states and the Productivity and Labor sub-driver shows continued slippage.

GOVERNMENT EFFICIENCY AND REGULATORY ENVIRONMENT

	2006		2004		2002	
	Rank	Rating	Rank	Rating	Rank	Rating
Gov. Efficiency and Regulatory Environment	23	***		***		***
Government Efficiency	32	**		***		***
Regulatory Environment	21	***		****		***

The Government Efficiency and Regulatory Climate driver shows mid-range and unchanging performance with some slippage in the Government sub-driver.

INFRASTRUCTURE
AND CONNECTIVITY

	2006		2004		2002	
	Rank	Rating	Rank	Rating	Rank	Rating
Physical Infrastructure	26	***		***		***
Digital Connectivity	28	****		***		***

Infrastructure has held steady and in the mid-range. Connectivity shows good improvement. Of particular note is Michigan's performance in broadband coverage.

QUALITY OF LIFE

	2006		2004		2002	
	Rank	Rating	Rank	Rating	Rank	Rating
Quality of Life	41	*		*		**
Civic Energy and Harmony	47	*		**		**
Lifestyle and Play	23	**		**		**
Pocket Book Indicators	37	****		****		****
Health and Safety	26	***		***		***
Green Matters	21	**		**		*

Quality of Life rates Michigan significantly below average at a rank of 41, with signs of slippage since 2002. The Civic Energy and Harmony sub-driver has been slipping. The Pocket Book Indicators sub-driver scores low but receives a four star rating due to the substantially worse performance of high cost of living states such as New York and California. Health & Safety continues to be in the mid-range. The Green Sub-driver is comprised of only two metrics so far and should be viewed as experimental at this stage. It is important to note that Quality of Life attributes vary considerably from region to region and between communities. Since the linkage between quality places to live and entrepreneurship cannot be overlooked, additional ways to display this Driver will be explored in future Score Cards.

INCREASE IN HIGH PERFORMANCE FIRMS

Rank	State	Score	Growth Rate	Change 2003 - 2006 (Absolute)
	50-State Average		0.2	0.3
1	California	250.0	18.0	19.5
2	Pennsylvania	197.5	7.5	9.5
3	Texas	191.2	7.0	7.5
4	New Jersey	153.5	4.0	10.5
5	Oregon	134.6	2.5	4.0
6	Illinois	122.0	1.5	3.0
7	Alabama	115.7	1.0	-1.0
7	North Carolina	115.7	1.0	1.0
7	West Virginia	115.7	1.0	0.5
10	Kansas	109.4	0.5	1.0
10	Michigan	109.4	0.5	1.0
10	New Hampshire	109.4	0.5	-1.0
10	North Dakota	109.4	0.5	0.0
10	Vermont	109.4	0.5	0.5
15	Arkansas	103.1	0.0	0.5
15	Connecticut	103.1	0.0	1.5
15	Hawaii	103.1	0.0	-0.5
15	Iowa	103.1	0.0	1.0
15	Kentucky	103.1	0.0	-4.0
15	Mississippi	103.1	0.0	0.0
15	Nebraska	103.1	0.0	0.5
15	South Dakota	103.1	0.0	0.0
15	Washington	103.1	0.0	-2.5
15	Wisconsin	103.1	0.0	2.5
15	Wyoming	103.1	0.0	0.5
26	Alaska	96.9	-0.5	-0.5
26	Delaware	96.9	-0.5	0.0
26	Louisiana	96.9	-0.5	0.5
26	Montana	96.9	-0.5	-1.0
26	New Mexico	96.9	-0.5	0.0
26	Rhode Island	96.9	-0.5	0.5
32	Arizona	90.6	-1.0	-5.0
32	Colorado	90.6	-1.0	-2.5
32	Maine	90.6	-1.0	-0.5
32	Maryland	90.6	-1.0	6.0
32	Massachusetts	90.6	-1.0	-5.5
32	Nevada	90.6	-1.0	-0.5
32	Tennessee	90.6	-1.0	-3.0
39	Indiana	84.3	-1.5	-0.5
39	Minnesota	84.3	-1.5	-3.0
39	Missouri	84.3	-1.5	0.0
42	Florida	78.0	-2.0	-1.0
42	Idaho	78.0	-2.0	-2.0
42	Oklahoma	78.0	-2.0	-3.5
42	Utah	78.0	-2.0	-4.5
42	Virginia	78.0	-2.0	-6.0
47	Georgia	71.7	-2.5	-3.5
47	New York	71.7	-2.5	0.0
49	South Carolina	65.4	-3.0	-2.5
50	Ohio	52.8	-4.0	-4.0

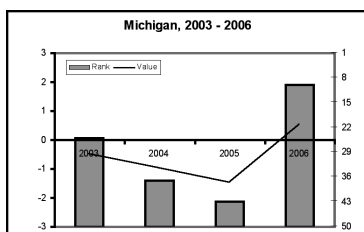
Change in number of firms with significant revenue/sales growth, 2006

High-performance and especially technology-oriented companies tend to be more impervious to fluctuations in the overall economy and have a strong multiplier effect on the rest of the economy. The above table shows the absolute increase or decrease for the average number of privately held companies listed with the fastest-growing firms from Inc.com, and fastest-growing high-technology companies from Deloitte & Touche's Fast 500.

MIDWEST

PERFORMANCE, 2005

State	Increase	Rank
Illinois	1.5	6
Michigan	0.5	10
Kentucky	0.0	15
Wisconsin	0.0	15
Indiana	-1.5	39
Ohio	-4.0	50



PROPRIETOR INCOME PER PROPRIETOR GROWTH

Rank	State	Score	Growth Rate	Change 2003 - 2006 (%)
	50-State Average		2.4	-270
1	Oklahoma	175.9	9.0	96
2	Texas	158.6	7.4	-5595
3	Arizona	148.8	6.5	-3468
4	California	133.6	5.1	293
5	Wyoming	132.7	5.0	18
6	Utah	123.7	4.2	5
7	Montana	123.7	4.2	-20
8	Kansas	120.7	3.9	-14
9	Alabama	115.5	3.5	-38
10	Idaho	114.6	3.4	-20
11	Alaska	114.0	3.3	-65
12	North Dakota	111.6	3.1	-46
13	Colorado	109.2	2.9	-50
14	Delaware	106.3	2.6	-69
15	Indiana	106.1	2.6	-7
16	West Virginia	105.9	2.6	-53
17	Illinois	105.1	2.5	154
18	Florida	103.4	2.3	-160
19	South Dakota	102.5	2.3	-75
20	Iowa	102.0	2.2	74
21	Tennessee	101.3	2.2	-58
22	Virginia	100.9	2.1	-58
23	New Mexico	100.8	2.1	-83
24	Arkansas	100.3	2.1	-63
25	Nebraska	99.7	2.0	-43
26	Kentucky	99.2	2.0	-865
27	Hawaii	99.2	2.0	-129
28	Nevada	98.1	1.9	-132
29	Missouri	95.7	1.6	-442
30	Pennsylvania	95.6	1.6	-365
31	Georgia	95.1	1.6	-194
32	Minnesota	95.0	1.6	-206
33	Oregon	93.9	1.5	-38
34	Vermont	93.0	1.4	-207
35	Maryland	92.9	1.4	-50
36	Maine	91.8	1.3	-68
37	Washington	91.7	1.3	-64
38	South Carolina	91.3	1.2	-181
39	North Carolina	90.2	1.1	335
40	New York	89.2	1.0	-128
41	Rhode Island	87.9	0.9	-79
42	New Jersey	86.4	0.8	-148
43	Michigan	85.6	0.7	-84
44	Massachusetts	83.6	0.5	-72
45	Wisconsin	81.4	0.3	-77
46	Ohio	81.3	0.3	-142
47	New Hampshire	75.8	-0.2	-63
48	Connecticut	69.3	-0.8	-199
(n/a)	Louisiana	(n/a)	(n/a)	(n/a)
(n/a)	Mississippi	(n/a)	(n/a)	(n/a)

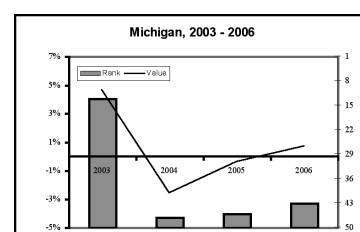
Percent change in proprietor's income per proprietor, 2006

A healthy entrepreneurial economy is one with a strong presence of individual business owners. They put their money on the line daily and frequently seek creative solutions to market demands. This metric captures earnings from self-employment. The above table shows the rate at which proprietor's income per proprietor grew or contracted.

MIDWEST

PERFORMANCE, 2005

State	Increase	Rank
Indiana	2.6%	15
Illinois	2.5%	17
Kentucky	2.0%	26
Michigan	0.7%	43
Wisconsin	0.3%	45
Ohio	0.3%	46



NET FIRM ENTRANTS

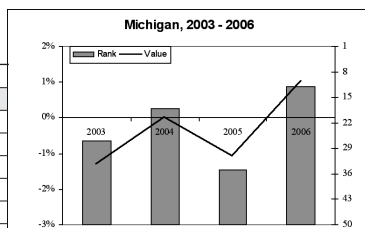
Rank	State	Score	Net Entrants Rate (%)	Change 2003 - 2006 (%)
	50-State Average		-0.5	-0.8
1	Idaho	139.1	4.9	-7.4
2	Nevada	132.5	4.0	1.9
3	Arkansas	128.0	3.4	-0.2
4	Utah	126.8	3.3	-1.4
5	Florida	126.0	3.2	2.8
6	Oklahoma	122.5	2.7	0.0
7	Louisiana	118.0	2.1	2.1
8	North Carolina	116.5	1.8	0.3
9	Virginia	113.9	1.5	1.0
10	New Jersey	112.2	1.3	1.1
11	Texas	110.6	1.1	7.0
12	Michigan	110.4	1.0	0.8
13	Oregon	109.8	0.9	-1.0
14	Georgia	109.4	0.9	2.0
15	South Carolina	108.2	0.7	1.7
16	Tennessee	108.2	0.7	-0.5
17	Montana	108.1	0.7	-0.3
18	Indiana	107.5	0.6	1.0
19	New Mexico	107.2	0.6	0.9
20	Maryland	107.0	0.6	0.3
21	Wisconsin	104.7	0.2	-0.7
22	New York	103.7	0.1	-1.5
23	Hawaii	103.5	0.1	0.1
24	Kansas	102.7	0.0	-2.0
25	Pennsylvania	100.7	-0.3	-0.3
26	Minnesota	99.3	-0.5	-2.0
27	Delaware	99.0	-0.5	0.0
28	Nebraska	98.4	-0.6	1.7
29	Maine	98.2	-0.6	0.2
30	Colorado	96.2	-0.9	-2.3
31	Wyoming	95.9	-1.0	-2.0
32	Illinois	95.0	-1.1	-0.7
33	Alabama	94.2	-1.2	-0.5
34	Ohio	92.6	-1.4	-5.3
35	Kentucky	92.1	-1.5	-3.1
36	Missouri	90.7	-1.7	-0.2
37	Connecticut	90.4	-1.7	-1.6
38	South Dakota	89.8	-1.8	-3.9
39	North Dakota	89.7	-1.8	-9.7
40	Washington	89.6	-1.8	-6.2
41	Mississippi	89.2	-1.9	-0.9
42	Vermont	89.1	-1.9	0.7
43	New Hampshire	89.1	-1.9	0.0
44	Iowa	88.9	-1.9	-2.4
45	Alaska	88.6	-2.0	-4.3
46	Rhode Island	84.9	-2.5	0.4
47	Massachusetts	84.8	-2.5	0.5
48	West Virginia	82.4	-2.8	-0.4
49	California	81.5	-2.9	-0.4
50	Arizona	-50.0	-23.9	-3.4

Net of new firms minus failed firms, as a percentage of total firms, 2006

Business Churn is one of the most common measures of entrepreneurial activity, and its growth indicates an increasingly dynamic economic environment. High growth areas in the innovation economy are coincident with high rates of new business growth. The above table shows net new firms as a percentage of all firms at the beginning of the year. 2006 values are estimates provided by the U.S. Small Business Association.

MIDWEST PERFORMANCE, 2006

State	Net Entrants Rate	Rank
Michigan	1.0	12
Indiana	0.6	18
Wisconsin	0.2	21
Illinois	-1.1	32
Ohio	-1.4	34
Kentucky	-1.5	35



ESTABLISHMENT FORMATION RATE

Rank	State	Score	Formation Rate (%)	Change 2002 - 2005 (%)
	50-State Average		8.2	12.1
1	Florida	142.5	12.6	22.3
2	Utah	129.4	11.3	58.3
3	Arkansas	118.1	10.1	21.7
4	Georgia	117.4	10.1	13.4
5	Maryland	117.3	10.0	33.9
6	Illinois	116.5	10.0	34.3
7	Vermont	113.4	9.6	18.2
8	Colorado	111.2	9.4	9.7
9	Nebraska	110.6	9.4	14.0
10	North Carolina	109.7	9.3	-14.3
11	North Dakota	109.3	9.2	29.6
12	Mississippi	108.2	9.1	37.7
13	Delaware	108.0	9.1	23.2
14	New Mexico	107.4	9.0	16.7
15	Tennessee	105.7	8.9	3.5
16	Oregon	105.2	8.8	29.5
17	Texas	105.1	8.8	-13.9
18	Missouri	104.7	8.7	-6.9
19	Louisiana	104.6	8.7	7.7
20	California	104.3	8.7	-9.1
21	Hawaii	103.2	8.6	28.8
22	Indiana	103.1	8.6	10.6
23	New York	101.9	8.5	33.0
24	South Carolina	100.9	8.4	6.9
25	Rhode Island	100.8	8.4	25.2
26	Oklahoma	99.2	8.2	14.4
27	Washington	97.1	8.0	12.0
28	Maine	96.7	7.9	18.0
29	Alaska	95.9	7.9	-14.2
30	Michigan	93.8	7.6	-2.4
31	Arizona	93.8	7.6	6.3
32	Kentucky	93.2	7.6	-9.4
33	Connecticut	92.7	7.5	1.1
34	Iowa	92.3	7.5	18.5
35	West Virginia	90.8	7.3	-3.9
36	Wyoming	89.3	7.2	11.4
37	Wisconsin	89.1	7.2	25.7
38	Minnesota	89.1	7.2	18.2
39	Pennsylvania	88.6	7.1	41.9
40	Alabama	87.6	7.0	22.2
41	New Jersey	87.1	7.0	-0.1
42	Virginia	85.9	6.8	7.9
43	Montana	85.6	6.8	0.9
44	Massachusetts	84.2	6.7	-3.3
45	Ohio	82.4	6.5	-11.9
46	South Dakota	79.0	6.1	6.0
47	Kansas	78.8	6.1	4.9
48	Idaho	74.1	5.6	8.7
49	New Hampshire	72.8	5.5	1.0
50	Nevada	70.7	5.3	-2.4

New establishments as a percent of all establishments, 2005

High-growth economies frequently display high business formation rates. These are economies with above average freedoms, flexibilities and motivations to try new ventures. The formation rate is not colored by industry type, firm size, or the socioeconomics factors. It is a collective measure of the degree to which existing or new firms take on risks and embrace the challenge of success and failure.

MIDWEST PERFORMANCE, 2006

State	Formation Rate	Rank
Illinois	10.0	6
Indiana	8.6	22
Michigan	7.6	30
Kentucky	7.6	32
Wisconsin	7.2	37
Ohio	6.5	45

