GROWING SUCCESS

A Report on Entrepreneurship in Louisville

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of

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Summary of Findings

Entrepreneurial companies are the source of nearly all of the net new jobs and most of the new wealth created in the economy. Research by Cognetics, Inc. indicates that most new job creation occurs in a small number of mostly young, small, rapidly growing companies. These "Gazelle" companies–about 300,000 firms, or 3% of the total–accounted for all of the net job growth in the U.S. between 1990 and 1994. In addition, entrepreneurial companies create much of new wealth in the economy–wealth which helps fund civic projects and serves as the seed capital for the next generation of growth companies.

Louisville trails its closest competitors significantly in the creation of high-growth companies. When compared to nearby cities like Nashville and Indianapolis, Louisville has fewer small companies per capita and fewer growth companies. For instance, since 1992 Louisville has produced just 3 new public companies, compared to 12 in Nashville and 11 in Indianapolis. Similarly, Louisville has produced just 5 *Inc.* 500 high-growth companies since 1992, compared to 15 in both Nashville and Indianapolis. In a ranking of America's entrepreneurial "hot spots" produced by David Birch of Cognetics, Inc., Indianapolis ranks 4th, Nashville 12th, and Louisville 74th. Louisville has vastly less venture capital–an important resource for growth companies–than either Nashville or Indianapolis.

Louisville has a number of characteristics that contribute to its relatively cool entrepreneurial temperature. Louisville's deficit of significant growth companies is the result of important weaknesses in each of the five key "entrepreneurial success factors" identified by experts: Talent, Know-How, Capital, Technology, and Culture.

With regard to Talent, Louisville's population has not grown significantly in the past two decades, while the populations of nearby cities such as Nashville have exploded. In the past 20 years, over 28,000 more young people have left Louisville–to seek education or job opportunities elsewhere–than have moved into the city. Louisville trails its nearby competitors significantly in the percentage of its population with either high school or college education.

As previously mentioned, Louisville has a much smaller pool of Capital than some of its nearby competitors. With regard to Technology, Louisville has few institutional sources of innovative new technology, and those that do exist trail competitors in other cities. While the community does possess entrepreneurial Know-How, it does only a fair job of mining its base of knowledge.

Perhaps most significantly, our community's Culture is not particularly favorable to entrepreneurship. Entrepreneurship is not accepted or encouraged in Louisville to the extent that it is in some other cities, and our tax and regulatory environment does not encourage entrepreneurship.

Entrepreneurship is a critical part of a sound economic development strategy. Since growth companies create most of the jobs and much of the new wealth in the economy, communities that wish to create jobs and wealth must have a healthy supply of home-grown entrepreneurial companies. Contrary to conventional wisdom, which holds that entrepreneurship cannot be taught, that most entrepreneurial companies fail, and that entrepreneurial companies create only undesirable jobs, entrepreneurship can be a successful economic development strategy.

Communities can foster more entrepreneurship by fashioning a culture that supports and encourages entrepreneurs and by offering programs like training, mentoring, and networking that help deliver entrepreneurial know-how to new ventures.

Louisville has a few programs that offer support to entrepreneurial companies, but these programs are fragmented, underfunded, and underpublicized. The community has begun taking new steps to encourage entrepreneurship, but much work remains to be done.

Summary of Recommendations

If it is to be competitive, Louisville must adopt a strategy of supporting and encouraging the creation of more growth companies. Louisville should make a commitment to entrepreneurship as an economic development strategy. This commitment would include the creation of an Enterprise Corporation of Louisville, which would become the focal point for the community's entrepreneurial development effort.

The mission of the Enterprise Corporation would be to

- Create a new "Culture of Entrepreneurship" in Louisville
- Dramatically increase the number and quality of entrepreneurial companies in Louisville

with the result that Louisville becomes a more prosperous, dynamic, and resilient community.

The Enterprise Corporation could consolidate and coordinate existing entrepreneurial support programs, and would launch significant new support programs. It would be a virtual incubator, offering the support services commonly associated with incubators without the real estate. The Enterprise Corporation would champion the cause of entrepreneurship in Louisville by producing an annual "Celebration of Entrepreneurship" event, publishing an annual report on entrepreneurship in Louisville, and publicizing and promoting the Corporation's entrepreneurial support programs. Across time, the Enterprise Corporation would also help lead the effort to overcome Louisville's structural weaknesses in capital, technology, and talent.

The Enterprise Corporation would have equal status with other leading economic development agencies, including the Chamber, the Partnership, and OED. It would be funded through program revenues and fees, and through grants from the State, City, and County, local businesses, and local and out-of-town foundations. It would have a board of leading supporters of entrepreneurship, and a CEO with entrepreneurial experience.

Why is Entrepreneurship Important?

Why is entrepreneurship important? Why should a community like Louisville be concerned about the quantity and quality of its small, growing companies? What difference does a thriving entrepreneurial sector–or lack thereof–make to the long-term prosperity of a community?

Entrepreneurial companies create nearly all of the net new jobs in the economy. It is a truism that small companies create most of the new jobs in the economy. But a careful look at the actual job-creation data shows the great extent to which job creation actually is concentrated in a very few rapidly growing companies.

Research into job creation confirms that most of the net new jobs in the economy are created by small companies. The leading research into job creation and entrepreneurship comes from Cognetics, Inc., a consulting firm founded by David Birch, formerly an MIT professor and one of the deans of entrepreneurial research. In the 1994 report *Who's Creating Jobs*, Cognetics explains that, if one divides all companies into two equal groups by number of employees, companies in the "bottom half" (roughly, those employing 100 or fewer people) created 65% of the gross new jobs between 1990 and 1994, and about 195% of the net new jobs.[1] In other words, small companies created enough jobs to compensate for all the jobs lost in larger firms, and then added millions more.

Birch points out that the period 1990 to 1991 was a time of recession, and that small companies' contribution to job creation in recession is higher than in times of growth. Still, he concludes that, across time, about two-thirds of the net new jobs will be created by small companies.

It is not small companies per se *but* growing *companies--most of which are small--that create jobs.* When seeking the source of new jobs, it is more useful to focus on the growth rate of companies than on their size. While it is true that most of the net new jobs are created by small companies, not all small companies grow; in fact, most do not. For instance, Cognetics reports that 54.8% of the firms which were started in 1965 (and which remained in business in 1994) had fewer than 5 employees in 1994. Less than 5% of those firms had more than 50 employees.[2]

According to Cognetics, most new job growth occurs in a small number of *rapidly growing* companies, which it calls Gazelles. It is this group of companies–about 300,000 firms, or 3% of the companies in the U.S.–that accounted for *all* of the net job growth between 1990 and 1994. Most of these companies are small–over 80% have fewer than 20 employees–but they have an impact that far exceeds their size.[3]

While most Gazelles are small, the few that are large are very important. Cognetics found that a very small group of larger Gazelle companies–Gazelles that had over 100 employees in 1990–produced 53% of the net jobs produced by all Gazelle companies in the period 1990 to 1994. This group of companies, which Cognetics calls Superstars, make up just 3.6% of the Gazelles–only .1% of all companies or about 11,000 companies nationwide–yet were responsible for creating about half the new jobs between 1990 to 1994.[4] This despite the fact that larger companies as a group create few net new jobs.

In short, it is growth companies–most of which are small, but a few of which are large–that are the crucial engines of economic growth. While these companies represent just a tiny percentage of the total number of companies, they create nearly all the net new jobs in the economy.

Entrepreneurial companies create much of the new wealth in the economy. As entrepreneurial companies grow and create jobs, they are also creating wealth. While this wealth is the private property of the owners of the business, in another sense it is a real community asset.

For instance, think of the philanthropic work done by organizations such as the Ford Foundation and the Rockefeller Foundation, or the personal philanthropy of Andrew Carnegie–all the result of entrepreneurial success. On the recent Urban Workshop to Kansas City, a delegation of Louisvillians saw evidence of the wealth created by home-grown companies including The Crown Center (created by Hallmark) and the Ewing Marion Kauffman Foundation (Marion Labs). In Louisville the wealth created by our most successful entrepreneurs has helped fund The Kentucky Center for the Arts, The Riverfront Development, the Grawmeyer Awards, and many other projects. Entrepreneurial wealth is also responsible for the Brown Foundation, the Humana Foundation, and many other local foundations.

The total wealth generated by entrepreneurial businesses in a community is hard to measure, since much of it remains hidden inside closely-held businesses for generations. However, when companies are sold or taken public it is possible to get a glimpse of the wealth created. For instance, in the 1990s several local entrepreneurial companies, all started in the 1980s–including Healthcare Recoveries, CompDent, The Cobb Group, Home Care Affiliates, and Financial Alliance–were sold for an aggregate price of over $200 million dollars. Much of this wealth remains in the community, and some of it is being reinvested in new growth companies.

Similarly, four companies have gone public in Louisville since 1990: VideoLan, Papa John's Pizza, Commonwealth Aluminum, and Res-Care. These companies have an aggregate market value of about $750 million. While much of this wealth is held by investors outside of Louisville, much of it remains in the hands of the companies' investors, founders, and employees in Louisville. When combined with value generated by earlier IPO companies such as Vencor and Humana, this locally-held entrepreneurial wealth is a vital community asset.

Entrepreneurship leads to more entrepreneurship, resulting in a thriving, resilient economy. Research into the process of entrepreneurship indicates that places with lots of entrepreneurial companies are on the way to having even more entrepreneurship. This is true for several reasons.

Successful entrepreneurs serve as role models for future entrepreneurs. The existence of visibly successful entrepreneurs in a place can be a powerful encouragement to potential entrepreneurs. Aspiring entrepreneurs gain assurance that "It can be done" by observing the successes of earlier entrepreneurs, and the assurance that "I can do it" as they hear stories of early-stage struggles and mistakes of successful entrepreneurs. Even more important is the role that experienced entrepreneurs can play as mentors or advisors for emerging entrepreneurs. According to Jeffry Timmons, founder and director of the Price-Babson College Fellows Program and professor of entrepreneurship at the Harvard Business School and Babson College

> Numerous studies show a strong connection between the presence of role models and the emergence of entrepreneurs.[5]

Successful entrepreneurs are an important source of risk capital for new entrepreneurial ventures. Research by William Wentzel, director emeritus of the Center for Venture Research, indicates that so-called "angel" investors–private, wealthy individuals who provide funding for entrepreneurial companies–invest up to $10 billion annually in up to 40,000 companies nationwide.[6] The size of the angel market is several times that of the professional venture capital market, which in 1994 invested some $2.6 billion in about 1000 companies, and far less than $1 billion in early stage companies.[7] And the most important source of angels are entrepreneurial companies: about three-quarters of angels are self-made millionaires, many of whom are entrepreneurs.[8]

Entrepreneurial companies are an important training ground for future entrepreneurs. Many potential entrepreneurs apprentice in entrepreneurial companies before embarking on their own ventures. Jeffry Timmons writes

> Most entrepreneurs follow a pattern of apprenticeship, where they gain business experience and knowledge from their jobs or from parents who are self-employed.[9]

One real-world example of this sort of entrepreneurial training ground is Hospital Corporation of America (now part of Columbia/HCA) of Nashville. Some 65 companies have been founded by former employees of that company, including Phycor, a leading physician management company, and Surgical Care Affiliates, the nation's largest independent surgery center chain.[10]

Entrepreneurial companies are crucial to a prosperous economy. If it is true that entrepreneurial companies create most of the jobs and much of the new wealth in the economy, then communities that wish to create jobs and wealth should promote and support the development of home-grown entrepreneurial companies. According to Dr. Norris F. Krueger of the firm Entrepreneurial Strategies,

> A community that wishes to be competitive in the future must grow its own new companies, particularly highly-competitive, fast-growing "gazelle" firms. If the community

> wishes to stay competitive, it must become increasingly hospitable to entrepreneurs.[11]

If the production of home-grown companies is the key to future competitiveness, the next question to ask is how Louisville is doing in the creation of these companies. We'll consider that issue in the next section.

Entrepreneurship in Louisville

If entrepreneurship is, in fact, important to our community's long-term vitality and prosperity, then we must consider how well Louisville is doing in creating growth companies.

Measuring the entrepreneurial vitality of a community is not simple: There is no one statistic or fact that captures all of the important aspects of entrepreneurial vitality. In fact, there is no one definition of entrepreneurship on which all researchers agree.

There are, however, a number of useful metrics that, when taken together, give a good picture of the entrepreneurial health of a community. First, the U.S. Census Bureau publishes information about the number and sizes of companies by metro area. A more refined look at growth companies (as opposed to simple business starts) is the *Entrepreneurial Hot Spots* ranking produced by Cognetics, Inc. Other useful measures of entrepreneurship include the number of initial public offerings of companies headquartered in the community, the number of *Inc.* 500 companies, and the amount of venture capital available and deployed in a community.

Business Creation

As shown in Table 1, in the period from 1988 to 1992 Louisville added 1,744 new small companies (companies with fewer than 100 employees), an 8.0% increase. Although Louisville trails most of its competitors in absolute number of businesses created (1,744 for Louisville compared to 1,810 for Nashville and 3,288 for Indianapolis), its comparative growth rate is positive.

Table 1
Businesses with Fewer Than 100 Employees, Selected MSAs

City	1988	1992	Growth	Percent
Indianapolis	32,422	35,710	3,288	10.1%
Louisville	21,744	23,488	1,744	8.0%
Charlotte	30,275	32,514	2,239	7.4%
Cincinnati	39,342	42,105	2,763	7.0%
Nashville	25,360	27,170	1,810	7.1%
Kansas City	39,633	41,545	1,912	4.8%

Source: Business First of Louisville, July 10, 1994

Table 2 shows the number of small businesses (companies with fewer than 100 employees) in 1992 per 100,000 population for several cities. This data shows that, while Louisville is creating new companies, it is behind its near competitors in number of small businesses per capita and appears to be falling further behind. For instance, Louisville would have to add about 2,152 small companies in order to have the same number per capita as Nashville. Given the current rates of increase, however, the gap between them is increasing, not decreasing. The same is true for Louisville and Indianapolis.

Table 2
Small Businesses per 100,000 Residents, 1992

City	Number	Rank
Charlotte	2,686	11
Nashville	2,655	14
Kansas City	2,574	22
Indianapolis	2,508	30
Louisville	2,432	39
Cincinnati	2,261	60

Source: Business First of Louisville, July 10, 1994

So while Louisville is generating a fair number of new small companies, it is not creating as many as some of its near competitors. Further, as we'll see in the following sections, there is a question as to whether Louisville is generating enough of the right kind of small companies: small companies with growth potential.

Cognetics' Entrepreneurial Hot Spots Ranking

Cognetics' *Entrepreneurial Hot Spots* ranking combines two measurements of entrepreneurial vitality: the number of "Significant Starts" and the percentage of "Young Growers" in an area. To rank high on the list, a place must have a large number of significant startups and be able to support their continuing growth.[12]

Table 3 shows Cognetics' Entrepreneurial Hot Spots list for the 100 highest ranking metro areas. Louisville ranks 74th overall with an index of 46, placing it ahead of such cities as Cincinnati, Memphis, Dayton, Richmond, and Kansas City. Notice, however, that Indianapolis is tied for 4th with an index of 75 (more than 50% higher than Louisville's), that Nashville is

12th with an index of 65, and that Birmingham is 16th with an index of 62. Notice that Louisville also trails a number of smaller nearby competitors such as Huntsville (90), Knoxville (61), Lexington (56), and Chattanooga (56). Because this list is compiled by MSA or CMSA, entrepreneurially hot smaller cities within larger metro areas are obscured. When these smaller cities are broken out, some of them rank quite high. For instance, Sunnyvale, California (San Francisco) has an index of 86 and Irvine, California (Los Angeles) has an index of 64.

Table 3
Cognetics *Entrepreneurial Hot Spots* Ranking of Metro Areas, 1994

Rank	Metro Area	Index
1.	Huntsville, AL	90
2.	Las Vegas, NV	79
3.	Atlanta, GA	76
4.	*Charlotte, NC*	*75*
	Indianapolis, IN	*75*
6.	Green Bay-Appleton, WI	70
7.	Salt Lake City-Provo, UT	69
8.	Charleston, SC	68
9.	Honolulu, HI	67
	Hickory, NC	67
11.	Raleigh-Durham, NC	66
12.	*Nashville, TN*	*65*
13.	Jacksonville, FL	64
	Baton Rouge, LA	64
15.	Montgomery, AL	63
16.	Birmingham-Tuscaloosa, AL	62
17.	Knoxville, TN	61
18.	Milwaukee-Racine-Sheybogen, WI	60
	Melbourne-Titusville, FL	60
20.	Springfield, MO	59
	Lafayette, LA	59
	Albuquerque, NM	59
23.	Miami-Ft. Lauderdale, FL	58
	Denver-Boulder, CO	58
	Boise, ID	58
	South Bend-Benton Harbor, IN-MI	58
	Pensacola, FL	58
	Mobile, AL	58
29.	Lynchburg, VA	57
	Asheville, NC	57
31.	Washington, DC-MD-VA	56
	Greenville-Spartanburg, SC	56
	Savannah, GA	56
	Lexington, KY	56
	Chattanooga, TN-GA	56
	Burlington-Montpelier, VT	56
37.	Wilmington, NC	55
	Madison, WI	55
	Fort Wayne, IN	55
40.	Spokane, WA	54
	Tallahassee, FL	54
	Tulsa, OK	54
	Sioux Falls, SD	54
	Columbia, SC	54
45.	West Palm Beach, FL	53
	Columbus, GA	53
47.	Phoenix, AZ	52
	Terre Haute-Bloomington, IN	52
	Austin, TX	52
	Des Moines, IA	52

Source: Entrepreneurial Hot Spots, Cognetics, Inc.

Rank	Metro Area	Index
51.	Orlando, FL	51
	Macon, GA	51
	El Paso, TX	51
	Reading, PA	51
	Anchorage, AK	51
	Tucson, AZ	51
57.	Jackson, MS	50
	Fayetteville, NC	50
59.	Greensboro-Winston-Salem, NC	49
	Seattle, WA	49
	Portland-Vancouver, OR	49
	Ft. Smith, AR	49
	Fargo, ND	49
	Evansville, IN	49
65.	Houston-Galveston, TX	48
	San Antonio, TX	48
	Minneapolis-St. Paul, MN-WI	48
	Reno, NV	48
	Augusta, GA	48
70.	Columbus, OH	47
	Ft. Meyers, FL	47
	Toledo, OH	47
	Fort Pierce, FL	47
74.	*Louisville, KY-IN*	*46*
	Manchester-Nashua, NH	46
	Topeka-Lawrence, KS	46
77.	Cincinnati, OH-KY-IN	45
	Fort Collins, FL	45
	Sarasota-Bradenton, FL	45
80.	San Diego, CA	44
	Grand Rapids-Muskegon, MI	44
	Salinas-Seaside-Monterey, CA	44
	Battle Creek-Kalamazoo, MI	44
	Wichita, KS	44
	Andersen-Muncie, IN	44
	Panama City-Fort Walton Beach, FL	44
87.	San Francisco, CA	43
	Omaha, NE	43
	Springfield-Decatur, IL	43
	Eugene, OR	43
	Cedar Rapids-Iowa City, IA	43
92.	Los Angeles, CA	42
	Memphis, TN-AR-MS	42
	Dallas-Ft. Worth, TX	42
	Lancaster, PA	42
	Williamsport-State College, PA	42
97.	Norfolk-Va Beach-Newport News, VA	41
	Bloomington-Champaign, IL	41
	Santa Barbara, CA	41
	Little Rock, AR	41

Initial Public Offerings

Only a select few growth companies reach the stage of an initial public offering. Most growth companies never get large enough for an IPO, and others that do attain the required size choose to remain private or sell to other companies. Nonetheless, publicly-traded growth companies– the kind of companies most commonly listed on the NASDAQ Stock Market–are powerful engines of economic growth. The number of IPOs of companies headquartered in a community across time is a good measurement of that community's success in creating and nurturing these most successful entrepreneurial companies.

As shown in Table 4, between January 1, 1993 and December 31, 1995, only three companies headquartered in Louisville (Papa John's Pizza, VideoLan Technologies, and Commonwealth Aluminum) went public, raising $156 million. This compares to 11 Indianapolis-based companies, which raised $473 million, and 12 in Nashville, raising $422 million.[13]

The results by state were similar. A total of just six Kentucky companies went public in the period 1993 to 1995, compared to 31 Indiana-based companies and 54 Tennessee companies. Louisville is clearly lagging these competitive cities in the creation of NASDAQ-type companies.

Table 4
Initial Public Offerings, 1993 to 1995

City	IPOs
Nashville	12
Indianapolis	11
Cincinnati	4
Kansas City	3
Charlotte	3
Louisville	3

Source: NASDAQ

Inc. 500 Companies

Each year since 1982 *Inc.* Magazine (the leading magazine covering small business and growth companies) has compiled and published its list of the 500 fastest growing private companies in the United States. This list is an annual "honor role" of growth companies and, while there are many successful growth companies that never make the list, the number of *Inc.* 500 companies created in a community across time is a good indicator of that community's entrepreneurial vitality.

As shown in Table 5, in 1995 Louisville had one *Inc.* 500 company (Healthcare Recoveries, Inc.) compared to three in Indianapolis and four in Nashville. From 1993 to 1995, Indianapolis and Nashville each produced 15 *Inc.* 500 companies, while Louisville produced just five. In the three previous years, Louisville produced 11 *Inc.* 500 companies, Indianapolis 15, and Nashville eight.

Table 5
***Inc.* 500 Companies, 1993 to 1995**

City	1995	1994	1993	Total
Kansas City	9	6	2	17
Indianapolis	3	2	10	15
Nashville	4	5	6	15
Cincinnati	4	4	5	13
Charlotte	3	0	2	5
Louisville	1	2	2	5

Source: Inc. Magazine

When measured statewide, the results are similar. From 1982 to 1995, Kentucky produced 36 *Inc.* 500 companies, compared to 91 in Indiana, 69 in Tennessee, 185 in Ohio, and 41 in Alabama. Even when normalized to account for differences in population between the states, Kentucky trails these neighboring states.[14]

Venture Capital

The venture capital industry plays a catalytic role in the entrepreneurial process. Venture capitalists mobilize and allocate scarce capital to new and early-stage businesses with significant potential, and work with entrepreneurs to guide those companies to success. The impact of venture capital on the U.S. economy has been tremendous. A survey by Venture Economics, Inc. and Coopers & Lybrand of 235 venture-backed companies revealed that between 1985 and 1989 these companies, while on average just 1.9 years old, had created 36,000 new jobs and had made $170 million in tax payments.[15]

The existence of locally-based venture capital is an important ingredient in the entrepreneurial vitality of a place. In their book *Venture Capital at the Crossroads*, William D. Bygrave and Jeffry A. Timmons write that

> It is unlikely that a country or area can be competitive in commercial exploitation of innovative processes, products, or services without a strong local venture capital community.[16]

Why is this true? First, because the existence of local venture capital makes it easier for entrepreneurs to seek funding for their innovative businesses. Similarly, since venture capitalists prefer to invest close to home (because nearby companies are easier to research, and once funded, supervise), local companies have some advantage in the acquisition of venture capital. Local venture capital also sends an important cultural signal to potential entrepreneurs that "entrepreneurship is important here." Finally, local venture capital firms are conduits for the flow of venture capital from out-of-town investors into a community through locally-led investment syndicates.

Table 6 shows that Nashville is the home to five private venture capital firms with total capital of approximately $375 million, and that Indianapolis has five firms with total capital of over $160 million. By contrast, Louisville has only one venture capital firm, Chrysalis Ventures, which has $9 million in available capital.

Table 6
Private Venture Capital Resources, 1994

City	Firms	Capital
Nashville	6	$374 million
Indianapolis	5	$160 million
Cincinnati	2	$77 million
Kansas City	2 (a)	$25 million
Louisville	1	$9 million

(a) Kansas City also has local offices of two out-of-town venture capital firms. The two firms have a total of $129 million in capital.

Source: Pratt's Guide to Venture Capital Sources, 1995 Edition

Louisville *is* the home to several private equity investment firms (including Mayfair Capital, Pattco, and R. Gene Smith, Inc.) which are making venture capital-like investments in local companies. These firms are different from classic venture capital firms in that they have not raised pools of capital from limited partners, but instead invest the private capital of their principals. While these firms are an important source of capital for entrepreneurial businesses in Louisville, they are not unique–most cities also have a collection of private equity firms like those in Louisville. For instance, Indianapolis has at least four firms of this sort with total capital of about $55 million.[17] Likewise, *Pratt's Guide to Venture Capital Sources* lists two firms of this sort in Kansas City.

Louisville is also home to the $8 million African-American Venture Capital Fund, which was created in 1994 by a group of concerned Louisvillians lead by Irv Bailey (Providian Corporation) and David Jones (Humana, Inc.) to provide risk capital to Louisville-area ventures headed by African-Americans. This fund is unique: No other comparable city has raised anything like $8 million for an African-American or minority venture capital fund. The fund has made three investments and is continuing to consider new ideas and opportunities. However, the AAVCF is a special interest fund that is not accessible to most of the businesses in the community.

Finally, Louisville is also the home of the Humana Venture Capital Fund, a venture capital subsidiary of Humana, Inc. According to *Pratt's Guide to Venture Capital Resources*, this fund invests only in businesses in the managed health care industry.

Conclusion

Judging by the factors we have considered here–number of small companies, number of growth companies, number of *Inc.* 500 companies, number of IPOs, and the amount of venture capital available–Louisville is not a leader in the creation of growth companies. Louisville is creating more growth companies than some cities, but it is creating far fewer than the nation's hottest metro areas, including Louisville's nearest competitors–Nashville and Indianapolis–which it trails significantly.

If it is true that entrepreneurial companies are important engines of economic development, Louisville's lack of a strong entrepreneurial sector is not good news. In the next section, we will consider why.

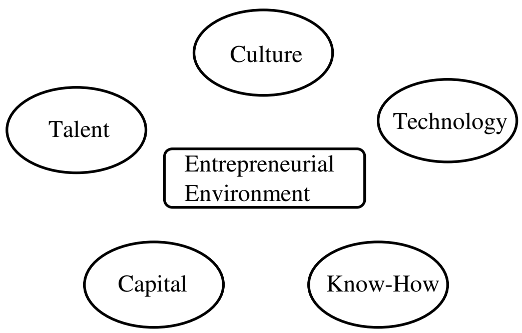
Entrepreneurial Success Factors

Why are some places more entrepreneurial than others? What is it about one city that makes it the home of many high growth companies while another languishes with just a few? And how is Louisville doing when it comes to the key factors that lead to entrepreneurial success?

Entrepreneurial Success Factors

What are the key factors that lead to entrepreneurial success? Various researchers have considered this question, and while their conclusions differ somewhat, there is some consensus that five key factors influence the ability of a place to be an entrepreneurial "hot spot." These key factors are Talent, Know-How, Capital, Technology, and Culture.[18]

Figure 1
Entrepreneurial Success Factors



Talent is the people involved in the entrepreneurial process, including entrepreneurs, value-added investors, and the professional community. For a place to be an entrepreneurial hot spot, it must have both a supply of potential entrepreneurs–people with the personal characteristics (determination, self-motivation, work ethic, and others) that favor entrepreneurial success–as well as investors, accountants, attorneys, bankers, and others who understand the entrepreneurial process. Talent also includes the quality and quantity of a place's work force–the workers and managers required to staff growing companies.

Know-How is the experience and skill required to turn an idea and capital into a successful business. Entrepreneurial know-how is a community resource that resides in a place's professional firms (accountants, lawyers, bankers, executive recruiters, and others with experience advising and working with entrepreneurs); in business schools; in support agencies (such as Chambers of Commerce and Small Business Development Centers); and, most importantly, in the community's pool of experienced entrepreneurs.

Capital is financial resources–the lifeblood of new and growing businesses. This includes everything from R&D and seed funds to start-up and later-stage venture capital to equipment leasing and bank debt. Because capital is so important to rapidly growing companies, the ready availability of entrepreneurial capital in a place is a critical ingredient of entrepreneurial vitality.

Technology is the basic raw material of the entrepreneurial venture–ideas for new or improved products or services with real potential to become successful businesses. Technology is the intellectual capital needed to develop new products, services, and markets. Institutional sources of technology include universities, private and public research institutions and labs, and large corporations. Places with a large number of high quality "technology engines" have a good chance of producing a steady stream of high-potential ideas.

Culture is the attitude and atmosphere of a place. It includes such things as the social acceptability of entrepreneurship (including recognition of success and acceptance of failure), the presence of entrepreneurial successes to serve as role models, and the active involvement of community leaders in the support of entrepreneurship. Culture also includes the absence of entrepreneurial stumbling blocks like high taxes and heavy government regulation. Finally, culture includes the support system a community creates for growth companies.

How Does Louisville Measure Up?

If it is true that the five factors explained above–Talent, Know-How, Capital, Technology, and Culture–are the forces that determine the entrepreneurial vitality of a place, then the next important question to ask is how Louisville performs on these factors.

Talent

Every place has entrepreneurial talent, and Louisville is no exception. The amount of entrepreneurial talent in a place is not easy to measure, because entrepreneurs do not fit neatly into any one mold. Given the right circumstances, it is possible for almost anyone to become an entrepreneur. And the history of entrepreneurship in Louisville shows that people with a wide range of backgrounds, skills, and abilities have become successful entrepreneurs in our city.

There are a few common characteristics of entrepreneurs that can be measured to determine the size and quality of the entrepreneurial talent pool in a place. One interesting fact about entrepreneurs is that they tend to start their companies in the cities where they already live. Research by Dr. Paul Reynolds of Marquette University's College of Business Administration shows that 90% of new entrepreneurs had lived in a state for six years before they incorporated a business there.[19] In other words, the pool of potential entrepreneurs in a place is a subset of the existing population. Further, if the overall population is growing, the pool of entrepreneurs is probably growing; if it's shrinking, the pool of entrepreneurs is shrinking.

Moreover, research has found that entrepreneurs tend to start businesses between the ages of 25 and 40 (Louisville entrepreneurs who fit this mold include David Jones, Bruce Lunsford, and John Schnatter), have on average about thirteen years of education, and have previous work experience, most recently in a small company.[20]

In other words, places with growing populations (especially growing populations of 25 to 40 year olds), reasonably well-educated people, and a healthy community of small companies where future entrepreneurs can apprentice are likely to have a good supply entrepreneurial talent.

Population First, as shown in Table 7, Louisville's population is not growing as fast as that of many surrounding cities, meaning that we're not adding as much new talent to our community as are our competitors.

Table 8 shows another aspect of the Talent problem in Louisville: Many of our young people leave our community to pursue educational and employment opportunities elsewhere and do not return. Table 8 shows a comparison between the number of children aged 0 to 9 in Louisville in 1970, the number of children aged 10 to 19 in 1980, and the number of young adults aged 20 to 29 in 1990.[21]

Table 7
Change in Population, Selected MSAs, 1980 to 1994 (000s omitted)

City	1980	1994	Growth
Charlotte	971	1,260	29.8%
Nashville	851	1,070	25.7%
Indianapolis	1,306	1,462	11.9%
Cincinnati	1,726	1,894	9.7%
Kansas City	1,566	1,646	5.1%
Louisville	954	981	2.8%

Source: US Bureau of the Census, *State and County Population Estimates and Components of Change 1990-1994*

Table 8
Migration of Louisville's Youth

	1970	1980	1990
Age	0-9	10-19	20-29
Population	171,791	163,944	143,107
Change		-7,847	-28,684

Source: US Bureau of the Census, *1990 Census of Population and Housing*

Clearly, we're losing a steady stream of young people, and we're not recruiting enough new residents to make up the difference. Anecdotal evidence indicates that many of those who are leaving are exactly the people we need to keep if we are to be an entrepreneurial "hot spot." Further, the lack of significant immigration of young people from other communities into Louisville means that we're lacking an important source of new ideas and new perspectives.

Education Louisville lags in educational attainment. As shown in Table 9 on the next page, we trail our competitors only slightly in the percentage of our residents who have completed high school. On the other hand, only 17.2% of our citizens have completed college, compared to 21.4% in Nashville, 20.2% in Indianapolis, and 20.3% for the nation as a whole.

A college degree is not a requirement for an entrepreneur. Still, the relatively low education level of our workforce means that we have fewer people with the education usually associated with successful high-growth entrepreneurs. It also means that we have a smaller pool of skilled, educated workers to staff the entrepreneurial ventures we do create.

Table 9
Percent of Residents Who Have Completed High School and College, 1990

City	College	High School
Kansas City	23.2%	82.3%
Nashville	21.4%	74.0%
Indianapolis	20.2%	78.1%
Cincinnati	19.9%	74.4%
Charlotte	19.6%	72.5%
Louisville	17.2%	73.3%
U.S. Average	20.3%	75.2%

Source: US Bureau of the Census, *1990 Census of Population and Housing, Supplementary Reports, Metropolitan Areas as Defined by the Office of Budget and Management, June 30, 1993*

Conclusion None of this is to say that Louisville does not have entrepreneurial talent, or that the talent we have is inferior to that in other communities. Clearly neither is true. But it is also true that our pool of talent is growing more slowly than that of other communities, that we are not retaining enough of our young talent, and that our talent pool, on average, lacks the education that is important to entrepreneurial success. These are serious weaknesses.

Know-How

Just as Louisville has a supply of entrepreneurial talent, it also has a body of entrepreneurial know-how. As in most cities, our "body of knowledge" is diverse and fragmented.

Educational Institutions Our educational institutions are a source of entrepreneurial know-how. The University of Louisville's College of Business and Public Administration has two professors of entrepreneurship and offers several courses in entrepreneurship, including New Venture Creation and Entrepreneurship I and II. Bellarmine College's W. Fielding Rubel School of Business offers courses in entrepreneurship, including Small Business Problems and New Business Ventures. The Small Business Institute at Indiana University Southeast offers courses such as Small Business Management/ Entrepreneurship, Venture Growth Management, and a Small Business Practicum. The Jefferson Community College Entrepreneurial Institute, located at the college's Southwest Campus, offers classes for small business owners.

Professional Community The professional community is also an important repository of know-how. Accounting and law firms–including both local firms and local offices of national firms–have significant experience working with entrepreneurial companies. Louisville is weaker in finance–venture capital, banking, and corporate finance–and recruiting, but nonetheless has some skills in these areas. While it's difficult to compare one city to another in this regard, it is likely that Louisville has, or could quickly develop, sufficient professional expertise to support a growing entrepreneurial community.

Entrepreneurs Like all cities Louisville has a group of experienced entrepreneurs who serve as role models and (in some cases) mentors to new entrepreneurs. Still, our collection of entrepreneurial successes is smaller than those in surrounding communities.

Further, fewer of Kentucky's citizens are employed in our fastest growing companies than in nearly any neighboring states. Table 10 shows the number of employees of *Inc.* 500 companies per 100,000 employees, by state, in 1994. Kentucky trails all surrounding states (except for West Virginia), and trails all states in the Southeast (except for Alabama and Mississippi), in this measure. In other words, fewer of Kentucky's citizens are gaining entrepreneurial know-how by apprenticing in successful entrepreneurial companies.

Table 10
Number of Inc. 500 Employees per 100,000 Employees for Selected States

State	Number
Virginia	77.4
Georgia	69.2
South Carolina	60.2
Tennessee	55.0
Florida	45.6
Missouri	40.2
Ohio	29.3
North Carolina	27.7
Illinois	27.0
Indiana	17.1
Kentucky	13.4
Alabama	11.8
Mississippi	2.7
West Virginia	0.0

Source: Inc., The Inc. 500 1995, p. 38

Economic Development Agencies Louisville also has a group of not-for-profit supporters of small business and entrepreneurship, including the Chamber's Center for Small Business, Small Business Development Centers at both Bellarmine and U of L, the Small Business Institute at Indiana University Southeast, and others. Appendix A details Louisville's existing entrepreneurial support programs.

Conclusion Our current efforts to support entrepreneurship through increasing entrepreneurial Know-How are fragmented, underfunded, and not well coordinated. As a result, they are not reaching as many entrepreneurs as they might. Further, these existing programs have not yet been effective in molding our culture. While they provide a base for future efforts in entrepreneurial economic development, there is much more that we can do. We'll consider some of our options in the next section of this report.

Capital

Although Louisville does have a variety of sources of capital for entrepreneurial firms, it trails its direct competitors on the availability of Capital for growth companies.

Equity Capital In the previous section we noted that Louisville has only one private venture capital firm, Chrysalis Ventures, which has $9 million in committed capital. The Louisville Chamber's catalog *Financing Options for Small and Growing Companies* lists 12 sources of equity capital for local companies, including local private equity firms (including Mayfair Capital, and Pattco), the previously-mentioned African American Venture Capital Fund, and venture capital firms from other cities (including CID Equity Partners from Indianapolis). Several of these sources indicate a willingness to make subordinated debt investments as well as equity.

Louisville also has a new angel network, the Venture Capital Club of Louisville. Organized in late 1995 by several Louisville area investors, led by Robert Ogden, Henry Hensley, and Peter Barrick, the Club, which has about 150 members, has been meeting monthly since October 1995 and has reviewed three investment opportunities at each meeting.

(In the late 1980s, another angel network, the Louisville Chamber's Louisville Venture Forum, existed in the community. This network helped fund such notable Louisville-area ventures as Active Ankle and Kentucky Kingdom.)

In addition, The Louisville/ Jefferson County Office for Economic Development offers another program, InvestNet, which attempts to link entrepreneurs who need capital with a network of venture and angel investors.

When we asked local entrepreneurs to rate out community's sources of equity capital, several said that, to their knowledge, there was no formal venture capital in the community. One said that comparing Louisville to Nashville with regard to the availability of capital was a "night and day picture." Another said that venture capitalist from out of town were "conservative about this area" because of our lack of high-technology and the difficulty of travel to Louisville. One mentioned that there is "no true seed round investors" in Louisville. He also mentioned that Louisville had "no strengths in the area of capital for startups."

Another idea that came up in the focus groups was the lack of sophistication of area entrepreneurs in raising capital. One experienced entrepreneur indicated that Louisville-area entrepreneurs are "unrealistic about how much equity they need to give up" to obtain funding.

Yet another interesting observation was that Nashville's entrepreneurial climate was enhanced by the presence of J.C. Bradford, a leading investment bank.

In summary, there is some risk capital available locally to new and early stage businesses. Still, compared to surrounding cities Louisville has a serious weakness in the area of risk capital.

Debt Louisville's banks are another source of capital for entrepreneurial ventures. The *Financing Options* catalog lists 10 local banks that indicate an interest in small business lending. The Chamber's Financing Options catalog also lists six sources of lease financing for small companies, five of which are banks.

However, banks are not regarded by entrepreneurs as a realistic source of capital for their ventures. When we asked local entrepreneurs to rate out community's banks, they said that it was "unrealistic to expect banks to fund startups." One entrepreneur indicated that she had tried to obtain a line of credit for her business at four banks before finding one that would fund her company.

Government In addition to the private sources, the Louisville/Jefferson County Office of Economic Development offers seven different loan programs and services for small and growing companies. Several of these are administered under the Metropolitan Business Development Corporation (METCO). These programs include the Business Loan Program, which offers long term loans targeted at job creation within the city of Louisville; the SBA 504 Loan Program; several programs targeted at specific neighborhoods; and several programs targeted at minority businesses.

The Commonwealth of Kentucky also offers a collection of capital programs, including the Kentucky Investment Capital Network, which attempts to link entrepreneurs with capital statewide, and the Kentucky Development Finance Authority (KIDFA) loan programs. The Federal Small Business Administration also offers its loan guarantee programs in the state.

Other Sources Other possible sources of equity and debt capital for local entrepreneurs include pension funds and insurance companies. Interestingly, Kentucky is one of the few states in the nation that has not set aside a portion of its state pension fund for use in venture capital. Providian Corporation has an active venture investment program but makes most its investments through venture capital funds, none of which are located in Louisville.

Conclusion There is some capital available in Louisville for growth companies. Nonetheless, we trail nearby competitive cities in this success factor, especially with regard to venture capital. In our focus groups, entrepreneurs indicated that improving the availability of capital–especially capital for start-ups–would be one of the most important steps toward improving our city's entrepreneurial vitality.

Louisville's capital shortage is probably a direct result of fewer historic entrepreneurial successes than its competitors. Recall that entrepreneurial companies are an important source of new wealth, and successful entrepreneurs are an important source of angel capital .

The bottom line? A thriving venture capital and angel investor community is a crucial factor in the development of high-growth companies. Louisville does not have nearly the sources of capital available in other nearby cities.

Technology

Louisville is not blessed with a large number of high quality institutional sources of entrepreneurial technology. The University of Louisville is our only significant research institution, and it does not command the research resources available to some universities. As shown in Table 11, The University of Louisville ranked 167th in the nation in 1994, with R&D expenditures of just over $22 million. Notice how Louisville trails institutions such as MIT, Stanford, Texas, and the Research Triangle schools–which are associated with entrepreneurially hot regions–as well as nearby urban and state universities.

U of L has the potential to be an important source of entrepreneurial technology for the community. The University's Medical School, Speed Scientific School, and Telecommunications Research Center all have the potential to be significant sources of entrepreneurial ideas and opportunities. But there is much work to do to realize that potential.

Table 11
1994 Research and Development Expenditures for Selected Universities

School	R&D Expenditures	Rank
MIT	$364	4
Stanford University	$319	8
University of Texas	$261	17
Duke University	$220	25
University of North Carolina	$202	27
North Carolina State University	$173	35
Purdue University	$173	37
University of Alabama-Birmingham	$142	46
Indiana University	$137	50
Vanderbilt University	$110	66
University of Kentucky	$106	67
University of Cincinnati	$94	76
Virginia Commonwealth University	$77	89
University of Dayton	$48	121
University of Louisville	$22	167
University of Memphis	$13	201

Source: National Science Foundation, Division of Science Resource Studies, *Survey of Scientific and Engineering Expenditures at Universities and Colleges, Fiscal Year 1994*, Table B39

Other possible sources of entrepreneurial technology include local corporations, some of which have active R&D or product development functions, and Ft. Knox, which is an important magnet for federal government dollars In addition, the existence of the UPS air hub in Louisville is a possible source of new ideas for entrepreneurial ventures in logistics and distribution. Currently, however, little is being done to exploit whatever opportunities might be available through these organizations.

Kentucky's technology assets are poor. The 1995 Development Report Card for the States, published by the Corporation for Economic Development, lists Kentucky 47th in the number of Ph.D. Scientists and Engineers in the workforce per 1000 workers, 47th in the number of science and engineering graduate students per million population, and 45th in the number of patents issued in 1994 per one million population. [22]

In our focus groups, entrepreneurs confirmed Louisville's weakness in the area of technology. They specifically mentioned that there were "not enough good ideas in Louisville" and that the city "does not have "enough technical infrastructure." Several indicated that improving our community's educational resources, especially higher education, would be one of the most important steps toward creating more entrepreneurship in Louisville.

Louisville is clearly at a disadvantage to its competitors with regard to institutional sources of entrepreneurial technology. Further, we're probably not exploiting what we have to maximum advantage. Still, Louisville's lack of institutional sources of technology is not an insurmountable hurdle. While institutions like universities are an important source of entrepreneurial technology, many (if not most) ideas for new businesses–especially high-growth service businesses–are not the result of institutional research. Companies based on high-tech products or processes are likely to have roots in Universities and R&D labs, but high-growth service companies are not. Ideas for many successful businesses come not from research labs or corporate R&D departments but from the kitchen tables of persistent entrepreneurial geniuses. Of Louisville's local entrepreneurial "home runs"–companies like Humana, Vencor, Active Transportation, Papa John's Pizza, Kentucky Kingdom, and SerVend, and many others–none is the result of institutional R&D.

Culture

Does Louisville have a culture that encourages entrepreneurship? Because culture is a subjective factor, it is difficult to measure, and opinions about it are likely to be diverse. Still, this factor is so important that we need to try to make at least a rough measurement of our city's entrepreneurial culture.

Acceptance of Entrepreneurship Dr. Jack Karsarda of the University of North Carolina offers an interesting test of the entrepreneurial culture. He offers a list of ten questions–shown in Table 12–one can use to judge the entrepreneurial climate of a place. Seven or more yes answers is a passing grade. Anything less than a 7 indicates that the community is closed to entrepreneurs and entrepreneurial success.

Each reader will judge for himself or herself Louisville's score. However, when we asked local entrepreneurs to evaluate this list of questions, the average score was 2, and only one score (a 6) was above 4.

Table 12
Entrepreneurial Climate Test

1. When the mayor of the city meets with business leaders, are there as many chief executives officers of mid-sized growth companies as bankers and corporate executives?
2. Are entrepreneurs invited to join the best athletic, social, and country clubs? Have they joined?
3. Does the local newspaper follow the fortunes of start-ups and mid-size growth companies with the same intensity and sophistication as it does large corporations?
4. Are innovative companies able to recruit nearly all of their professional work force from the local area?
5. Is there a sizable, visible venture capital community?
6. Does the local university encourage its faculty and students to participate in entrepreneurial spin-offs, and do they?
7. Do growth company CEOs and venture capitalists hold at least a quarter of the seats on the boards of the three largest banks?
8. Does the city's economic development department spend more time helping local companies grow than it does chasing after branch facilities of out-of-state corporations?
9. Is there decent, affordable office and industrial space available for new businesses in the central business district?
10. Can you think of 10 recent spin-offs–growth companies started by entrepreneurs who have left large companies?

Source: Entrepreneurial Hot Spots, David Birch, Anne Haggerty, and William Parsons, © Cognetics, Inc., 1994, p. 17

Specific comments obtained during our focus groups from entrepreneurs about the community's entrepreneurial culture included the observation that Louisville's "city fathers" did not seem to have much interest in entrepre-neurship. Another entrepreneur indicated that Louisville had a "deep-set anti-business sentiment" that was discouraging to potential entrepreneurs.

The media was singled out in our focus groups as an important force shaping Louisville's entrepreneurial climate. One entrepreneur mentioned that the Courier-Journal was a leader of the community's anti-business sentiment, and another said that an improvement in the paper's coverage of business "could help to create a pro-business attitude" in Louisville. Another indicated that

Business First does a good job of promoting the importance of business in the community.

Other Factors A place's entrepreneurial climate also includes factors such as tax rates, business regulations, and other factors that have the power to discourage potential entrepreneurs.

With regard to taxes, the recent Barents Group, LLC report *Comparative Analysis of Kentucky's Tax Structure* concluded that "Kentucky's business tax structure is generally competitive for the states and industries covered by this study."[23] However, the report pointed out several "red-flag" issues that may create obstacles to business investment and economic development, including:

- High income and franchise tax burden–18% higher than the fifteen-state average
- Inclusion of debt in the franchise tax base, which "has particularly important consequences ... on entrepreneurship, because start-up companies rely more on debt..."
- The intangible personal property tax , which discourages the formation of capital

In our focus groups, at least one entrepreneur mentioned Kentucky's tax climate as one factor that discourages entrepreneurship in the state.

Another problem for business in Kentucky is the state's high worker's compensation and unemployment insurance costs. Table 13 shows worker's compensation payments as a percentage of wages and salaries for Kentucky and several surrounding states in 1993.

Another factor that may help influence the entrepreneurial culture of several of our nearby competitors–including Nashville and Indianapolis–is that these cities are state capitals. Further, both of these cities, as well as Charlotte, have adopted unified city/county government.

Finally, it is worth noting that several states that have experienced significant entrepreneurial success in recent years–including Tennessee and North Carolina–are right-to-work states.

Table 13
Worker's Compensation Payments as a Percentage of Wages and Salaries, 1993

State	Percent
Ohio	1.63%
Kentucky	.43%
Tennessee	.11%
North Carolina	.05%
Indiana	.04%

Source: U.S. Bureau of Economic Analysis, Local Area Personal Income, 1969-1993, May 1995

Conclusion Louisville's entrepreneurial culture is not healthy. Our community lacks the excitement and activity of such entrepreneurially hot places as Nashville, Austin, and Silicon Valley. Entrepreneurs do not feel that the community respects, understands, or values their contributions. State and local government policy is not particularly favorable to entrepreneurship.

It is encouraging to note that Louisville's culture may already be shifting to be more favorable to entrepreneurship as a result of the *Growing Success: A Celebration of Entrepreneurship* day, the founding of the Venture Capital Club and the African American Venture Capital Club, and other recent events. Still, changing a community's culture is not easy, and much work remains to be done.

As we'll see in the next section, culture may be the most important factor contributing to the entrepreneurial success of a city. It is certainly the one factor that can be addressed quickly, without the need for huge capital investment, and it may be the factor that, if changed, has the most impact on a community's entrepreneurial success.

Conclusion

Louisville falls short of its competitors on most of the key entrepreneurial success factors: Talent, Know-How, Capital, Technology, and Culture. If we want to improve our ability to create growth companies, we must begin to address each of these weaknesses.

A couple of these weaknesses–especially Culture and Know-How–could be improved fairly quickly; others will take longer. But all can be improved if the community decides that it wants to be more entrepreneurial.

Entrepreneurial Economic Development

What can an entrepreneurially cool city like Louisville do to raise its entrepreneurial temperature? How can we overcome our weaknesses in Talent, Capital, Technology, and Know-How to begin creating and nurturing more new entrepreneurial ventures?

Creating Entrepreneurship

The idea that communities can create more entrepreneurship is fairly new. It was only in the 1980s that leading cities like Austin and regions like North Carolina's Research Triangle Park began investing in programs to help stimulate the development of more home-grown companies. While the trend has gathered momentum in recent years, the idea of entrepreneurship as a tool of economic development is in its infancy.

Still, there is reason to think that a community that wants to increase its entrepreneurial temperature can do so. In fact, the task is as simple–and as difficult–as improving the community's performance on the five entrepreneurial success factors: Talent, Know-How, Capital, Technology, and Culture.

Culture and Know-How

In the study *Prescription for Opportunity: How Communities Can Create Potential for Entrepreneurs*, Dr. Norris F. Krueger explains that increasing the level of entrepreneurial activity in a community requires the community to take action to increase both the perceived desirability of entrepreneurial activity and its perceived feasibility.

> If we want more potential entrepreneurs, we must create policies that enhance perceptions among community members that entrepreneurial activity is both desirable and feasible.[24]

By combining efforts to improve the culture with a robust entrepreneurial support program, communities can develop more entrepreneurial ventures. Krueger reasons:

> ... a particularly clever community could actually spawn entrepreneurs by sincerely committing itself to the creation of a welcoming and supportive environment for business start-ups. Ideally, it would couple this with comprehensive assistance programs to ensure entrepreneurs had access to every possible tool necessary for success. In such an environment, many entrepreneurs will emerge.[25]

Desirability: The Cultural Factor The perceived desirability of starting a venture is influenced by the entrepreneur's perceptions about the likelihood of success or failure, his or her prior experiences with entrepreneurship (through family or career experiences), the opinions of family and friends, and the receptivity of the community to entrepreneurial activity. Krueger explains:

> The task, then, for communities is to foster entrepreneurship by taking actions that enhance the perceptions among citizens that the community values and supports entrepreneurial activity.[26]

In other words, the task is to create a culture that encourages entrepreneurship. Among the actions that communities can take to improve their entrepreneurial culture are:

- Recognizing and celebrating entrepreneurial ventures at every stage
- Honoring entrepreneurial successes
- Promoting the importance of entrepreneurship to the community
- Providing venture capital funds and other capital initiatives
- Reducing tangible and perceived barriers to entrepreneurship such as excessive taxes, burdensome regulations, and barriers to capital formation
- Offering assistance programs that nurture entrepreneurial companies
- Improving education and research

Taken together, these actions have the effects of persuading entrepreneurs that the community values their efforts and of encouraging potential entrepreneurs that the venture they are contemplating will be welcomed by the community.

Feasibility: The Know-How Factor The perceived feasibility of a new venture is influenced by the entrepreneur's perceptions about his or her own personal competence, as well as the existence of role models ("If she did it, so can I"), and the availability of training and support in the community.

A community that wishes to raise its entrepreneurial temperature must offer an entrepreneurial support effort that helps nurture new ventures. Such an effort would include programs, such as training, coaching, mentoring, and networking, to help increase and improve access to the entrepreneurial know-how of the community. It could also include the creation of seed and start-up venture capital funds, small-business loan funds, and other capital initiatives. It might also include the creation of an incubator to house promising early-stage businesses.

As it turns out, an entrepreneurial support program is one of the best "actions" that a community can take to enhance the perception that it desires entrepreneurial activity. So entrepreneurial support programs work both by helping specific entrepreneurs with specific problems and by helping to create a culture of entrepreneurship.

Long Term Factors

If the effort to increase entrepreneurship begins by focusing on Culture and Know-How, it cannot ignore the other factors of entrepreneurial success: Talent, Capital, and Technology. Unfortunately, overcoming weaknesses in these factors requires time. For instance, it may take many years to improve the skills of the workforce in a community, or to create new institutional sources of technology.

The good news is that efforts to improve Culture and Know-How will also help improve Talent, Technology, and Capital. While a change of culture will not overcome weaknesses in the other entrepreneurial success factors overnight, it will help to ensure that a community gets the most entrepreneurship possible out of its existing resource base. Once the entrepreneurial ball gets rolling, it picks up speed as each generation of entrepreneurial firms spawns the next.

Even better is the news that efforts to improve the availability of Talent, Technology, and Capital in a community also help improve its Culture. As potential entrepreneurs see the community tackling these tough long-term problems, they will be increasingly convinced of the community's commitment to entrepreneurship, and will be encouraged about the desirability of their own entrepreneurial efforts.

Is Entrepreneurial Economic Development Effective?

Several arguments have been made across time to argue that entrepreneurship is an ineffective strategy for economic development. Let's take a look at these issues.

Don't Most Small Companies Fail ?

One of the most enduring "truths" about entrepreneurship is that four out of five new companies fail. The widespread acceptance of this truism has been a major factor discouraging communities from pursuing entrepreneurship as an important economic development strategy.

The truth is that many new companies survive, and many that close do not "fail."

Cognetics has found that almost 70% of the firms that were four years old or younger in 1989 were still in business in 1994. In other words, only about 30% of the youngest firms in existence in 1989 closed by 1994. In addition, only about 27% of firms that were between five years old and nine years old in 1989 had closed by 1994. Further, Cognetics found that about 50% of the firms started in 1989 were still in business in 1994.[27] This result is confirmed by Bruce Phillips (of the Small Business Administration) and Bruce Kirchloff (of the New Jersey Institute of Technology), who found in a study of the government's Small Business Data Base that 39.8% of new firms survive their first six years.[28]

Further, businesses that grow have much higher survival rates that those that do not. Phillips and Kirchloff discovered that 78.4% of firms that grow at a rate of 10% or more survive six years or more.[29] In addition, research indicates that companies backed by experienced venture capitalists have failure rates of only 15% to 20%, implying that the high-growth opportunities that attract venture financing have a much higher chance of success than average.[30]

It is also important to recognize that a firm closing is not the same as that firm failing. Failing implies that the business has "gone broke," leaving creditors unpaid or equity investors with a loss. Many firms that close do so in an orderly fashion, having fulfilled their missions and paid their obligations, because the owner sells out, takes another job, or starts another business. In fact, Kirchloff estimates that only about 18% of all new businesses end in real failure.[31] Cognetics, Inc. writes:

> It is important to make a sharp distinction between closing and failure. The majority of

firms that close are not failures. The firm has provided an income to its owners for several years, it has perhaps even built up a substantial net worth which can be sold or liquidated at the end, and the owners walk away far ahead of where they were when they started. Only a small percentage (5% to 10%) of the firms that close are forced to do so because they owe more money than they have, and are forced into some sort of bankruptcy. Bankruptcy is a rare event; closing is a common one.[32]

Finally, it is important to note that many so-called failures are stepping stones to significant entrepreneurial success. Many successful entrepreneurs have, at one time or another, failed. Persistent entrepreneurs gain valuable experience from their failures which later helps them achieve success.

Aren't All High-Growth Companies High-Tech Companies?

Some object that entrepreneurship is dependent on creating high-tech companies. The objection continues that, since our community doesn't have much technology, we won't be effective in creating high-growth companies.

The fact is that high-growth Gazelle companies are found in every industry segment. Cognetics' study *Hot Industries 1995* reports that Gazelles are found in all industries, and that they are about as common in one industry as another. Contrary to the popular belief that all high growth companies are high tech companies, Cognetics found that just 1.8% of Gazelles are high tech firms, while about 25% are service companies and 12% are manufacturers. Birch writes that "it is no longer the production of technology, but its application, that creates growth opportunities."[33]

Further, Cognetics points out that, in every industry group, small companies outgrew large companies, and that, in many cases, the advantage of small companies increased the more poorly a sector was performing. Table 14 shows the percentage net job growth from 1990 to 1994 for a selected group of industries.

The dispersion of the 1995 *Inc.* 500 companies further confirms this trend. While 143 of the 500 were in the computer industry (including software and computer services), 97 were in the business services sector, 76 in consumer goods and services, 23 in construction, 20 in industrial equipment, and 20 in financial services.[34]

Cognetics concludes that this wide dispersion of growth companies "means that innovation is occurring everywhere in the economy–not just in certain hot sectors like high tech or bio tech." Birch also points out that "knowledge-value is being added to all sectors, and no one sector offers the path to future growth."[35]

Table 14
Percent Job Growth, 1990 to 1994, by Company Size, for Selected Industries

	Number of Employees	
Industry	**1-99**	**100+**
Manufacturing	6.2%	-4.2%
Trade	2.8%	-.3%
Financial, Insurance, Real Estate	2.8%	-1.1%
Services	6.0%	1.9%
Other	1.6%	-4.3%

Source: Who's Creating Jobs 1995, David Birch, Anne Haggerty, and William Parsons, © Cognetics, Inc., 1995, p. 5

Aren't Most Growth Companies in California or Massachusetts?

In fact, while California, Massachusetts, and a few other states command a large number of the country's most successful entrepreneurial companies, Gazelle companies are located everywhere in the United States.

According to *Inc.* Magazine, between 1982 and 1994 every state (including the District of Columbia and Puerto Rico) created at least a handful of Inc. 500 companies. Granted, California produced 14.9% of all *Inc.* 500 companies in that time, but California has about 12% of the nation's population. Other leading producers of *Inc.* 500 companies included New York, Florida, Massachusetts, and Michigan. Even small, poor, rural states produced a few rapid growers: Mississippi had 5, Arkansas 14, and West Virginia 7.[36]

Don't Small Companies Create "Bad" Jobs?

First, there is some debate about whether any job is a "bad" job. That argument aside, it is true that small companies tend to create jobs that pay less and offer fewer benefits than larger companies.

However, this truism misses a crucial point: Gazelle companies are not like other small companies. Gazelles, which produce most of the jobs, also appear to create good jobs. According to Cognetics, Inc., Gazelle companies "hire a workforce with above average skill levels" and "pay above average wages."[37] A community that focused on the creation of growth companies would likely raise, not lower, its average wage.

Can Entrepreneurship Be Taught?

It's true that many successful entrepreneurs have some characteristics–such as creativity, independence, and determination–that are more personal traits than acquired skills. However, research by Afar Bhide of the Harvard Business School indicates that there is no one ideal entrepreneurial personality. According to Bhide, "Successful founders can be gregarious or taciturn, analytical or intuitive, risk-averse or thrill seeking..."[38]

Further, the work of Jeffry Timmons indicates that entrepreneurship is a career that can be taught. He writes:

> How do you teach students to be entrepreneurs? The bedrock is instruction: technical skills, finance skills. Then, expose them to some real entrepreneurs to educate by inspiration, by example, and by demonstration of what is possible.
>
> It does work. We have a hugely disproportionate number of graduates who wind up doing entrepreneurial things.[39]

Perhaps the best way to think of the nature/ nurture argument is to say that entrepreneurship, like law, medicine, or any other career, requires certain abilities, and that people with those abilities may be attracted to entrepreneurship as a career. Just like law and medicine, however, natural ability is not enough. Success in entrepreneurship requires the mastery of numerous skills, which can be taught.

What About Incubators?

In many places, the effort to develop more entrepreneurship has resulted in the creation of a small business incubator. Incubators offer low rent, shared office resources, training, mentoring, and support–and, in some cases, capital–to early stage businesses. Further, incubators offer a supportive environment where entrepreneurs can learn from and encourage one another.

The National Business Incubator Association reports that there are now over 500 incubators across the country, housing 80,000 companies, and that 45,000 companies have graduated from incubators. The NBIA estimates that incubator companies have produced over 100,000 jobs.[40]

There are numerous examples of successful incubators. The Austin Technology Incubator, headed by Laura Kilcrease, has incubated more than 38 companies which have created more than 550 jobs. The Center for Business Innovation in Kansas City was selected the 1993 Incubator of the Year. The center is headed by Robert Sherwood, himself an experienced technology entrepreneur. Other successful incubators are located in Pittsburgh, Minneapolis, and throughout California.

While some incubators have been quite successful, the track record of incubators is, at best, mixed. For one thing, a successful incubator is more than just a big building in a bad part of town filled with small businesses. A good incubator requires a good incubator manager–preferably one with entrepreneurial experience. The incubation process is slow, so successful incubators require patient community support. Further, incubators are expensive and require significant financial support. In the book *Growing New Ventures, Creating New Jobs* Dr. Jana Matthews writes

> ...the *process of business incubation* is much more important than the *incubator facility* within which the companies co-located. However, many communities have focused on the bricks and mortar aspect of incubators to the detriment of the incubation process. [41]

This problem has led some to consider the idea of a "virtual" incubator–an organization that offers the support and know-how of an incubator without the cost of a building. Bob Sherwood has commented:

> It's important to understand that the incubator building is a very minor part of the incubator's array of services–a necessary evil for being able to provide assistance with the 'Three Ms'–marketing, management, and money–to client entrepreneurs. For most of the people I talk with, this is truly a paradigm shift in thinking. They think the building is the incubator, but nothing could be farther from the truth.[42]

Incubators can work, but they are expensive to create and operate, and require great skill to manage. Communities that wish to have more entrepreneurship should consider creating an incubator facility. But much of the work of an incubator can be accomplished without the cost of a physical incubator.

What Not To Do

While there is general agreement that entrepreneurship can be an effective economic development strategy, there are a few tempting strategies that seem unlikely to be successful.

Don't Pick Winners There is a strong temptation for entrepreneurial development efforts to turn into industrial policies encouraging the development of certain types of companies. For instance, a place might decide that it needs more high-tech companies, more health care companies, or more companies that build on a local strength such as manufacturing or distribution, and launch efforts designed to support only such companies.

While it makes sense for a community to build on its strengths, entrepreneurial development efforts must cast the net wide, offering assistance to all promising small businesses and not just those in a few attractive industries. For one thing, focusing on existing strengths almost certainly means missing some hot new opportunity. For instance, a city that focused on its advantages in distribution might miss the opportunity to incubate new companies pioneering on-line sales.

In addition, a quick look at some of Louisville's most successful entrepreneurial companies shows how unlikely they are for Louisville: Who in 1963 would have predicted that Louisville would become the headquarters for a fast-growing hospital management company (now a health insurance company) or in 1984 that the city would become the home of the leading publisher of computer newsletters?

David Birch of Cognetics concludes:

> To base an economic development strategy on one, or a few key sectors is, in today's world, to ignore most. To pick "winners" is extremely difficult, if not downright dysfunctional. Most kinds of companies can be started and grown in most places.[43]

Don't focus only on glamorous startups. As we've seen, it is not small companies but growing companies (many or which are small) that create the new jobs and the new wealth. According to Cognetics,

> It is not the local drug store, body shop, or restaurant that is the main engine of job growth–it is the Gazelle. [44]

So an entrepreneurial development policy should focus not just on creating more small companies, but on creating more companies that grow.

However, it is important to realize that growth companies are very hard to distinguish from other small companies at birth. Who's to say that a pizza delivery business being run out of a neighborhood bar is not just another small business? Or how about a nursing home built with borrowed money by two young lawyers?

Since it's difficult–if not impossible–to tell new growth companies from other small companies, entrepreneurial economic development should offer help to all promising comers. At the same time, though, it should focus its efforts on programs and services to help companies grow, and should devote a majority of its attention to companies that are growing.

Entrepreneurship vs. Attraction

Which is the more effective strategy for economic development: Business Attraction or Business Creation? While both are important, there are reasons to think that creating home-grown business is, in the long run, the more effective strategy.

According to Cognetics, between 1990 and 1994, locally headquartered, independent companies increased their employment, on average, by about 2.5%. Local branches of companies head-quartered out-of-town experienced decreased employment, on average, of 1.2%. Birch adds this comment:

> There is a tendency to look to out-of-state firms for a big economic boost. Economic developers chase after them with never-ending persistence. Governments offer financial incentives. Landlords seek them out as tenants. The fact is, however, that out-of state firms are a highly overrated currency. Across the nation, it was the home-grown, single unit company that carried most places (and the nation) through the recession.[45]

In the book *The New Technology Incubator*, Dr. Raymond Smilor writes:

> Industrial relocation, long the central focus of regional economic development, tends to be a zero-sum game–one region or location benefits only at the expense of another. Indigenous company growth may be a more beneficial and necessary long-term development strategy for several reasons. First, it harnesses local entrepreneurial talent. Second, it builds companies which, it turn, create jobs and add economic value to a region and community. Third, this strategy keeps home-grown talent–a scarce resource–in the community. Fourth, it encourages economic diversification and technological innovation by creating a climate that rewards productivity and innovation.[46]

Should a community abandon business attraction in favor of entrepreneurial economic development? No. In a competitive world, communities should do all they can to attract businesses that wish to relocate. On the other hand, neither should a community place all of its eggs in the attraction basket. A balanced approach–one that supports both attraction and creation–is the right approach.

Conclusion

Entrepreneurial economic development is not simple. But it is also not impossible. When the facts about growth companies are carefully considered, they support the idea that entrepreneurship can be an effective strategy for economic development.

What Others Are Doing

Louisville is not the first community to ask what it can do to improve its entrepreneurial climate. Others, including Pittsburgh, Raleigh-Durham, San Diego, and Kansas City have launched initiatives to stimulate and nurture entrepreneurship.

Pittsburgh

The Enterprise Corporation of Pittsburgh was founded in 1983 to increase the number of jobs in southwestern Pennsylvania by promoting entrepreneurship and helping those individuals starting and building businesses. Enterprise is affiliated with Carnegie Melon University and the University of Pittsburgh.

Enterprise is a leader in the entrepreneurial efforts in the community. The assistance Enterprise offers includes business plan preparation, networking introductions, and attracting both financial and human resources. It produces an annual Entrepreneur's Day where hundreds of entrepreneurs attend workshops, hear speakers, and seek advice, information, and contacts, and an annual Venture Idea Fair where entrepreneurial companies showcase their innovative products and services. The Corporation also hosts Entrepreneur Forums and an angel network, the Private Investors Group.

Since its founding, Enterprise has consulted with over 1,400 people seeking to start new businesses. Companies helped by Enterprise raised over $260 million of outside capital and employ over 4,000 people in this region. Many have the potential for further substantial growth. Unlike other business assistance organizations in the community which have broader charters, Enterprise has remained focused exclusively on high potential, early stage businesses.

The Enterprise Corporation of Pittsburgh has an annual budget of $729,000.

Research Triangle

The Council for Entrepreneurial Development in Research Triangle Park, North Carolina, stimulates the creation and growth of high impact companies in the Research Triangle region. Founded in 1984, CED is a private, non-profit organization which brings investors, professionals, and entrepreneurs together.

CED works to heighten the awareness of the contribution that entrepreneurial companies make to the economy. It provides programs and services in four key areas: education, capital formation, mentoring, and other communications. Each month, CED responds to hundreds of queries from entrepreneurs, innovators, and others. CED acts as a central clearinghouse and makes referrals to CED volunteer consultants, financial resources, and other non-profit organizations that can provide assistance.

CED was founded in 1984 as an outgrowth of the Triangle Venture Capital Committee, which comprised the three area universities and the Raleigh, Durham, and Chapel Hill-Carrboro Chambers of Commerce. The Council's founding members recognized a need for more business guidance for entrepreneurs, more regional venture capital operations and a network for the exchange of information between entrepreneurs, investors and service professionals. CED held its first general meeting on January 12, 1984 and has since held regular monthly meetings. The Council's membership has grown from 26 to over 750.

In May 1984 the Council sponsored the first Southeastern Financing Conference for Emerging Growth Companies, which provided an opportunity for selected growth companies to present their business plans to an audience of over 100 investors. Because of its success, the Venture Capital Conference has become an annual event, sponsored by the Council and the Fuqua School of Business at Duke University.

CED has an annual budget of $431,000.

San Diego

Founded in 1985 at the urging of the local business community, UCSD CONNECT was created to contribute to the economic development of San Diego by nurturing high-tech entrepreneurship, facilitating interaction between the University and the business community, and further developing San Diego's infrastructure.

CONNECT accomplishes its mission through educational and networking programs, practical business seminars and technology transfer illustrations, and international strategic and financial forums. CONNECT's programs are practical rather than theoretical, and have been credited with giving company executives a mental picture of what they can achieve, while providing access to the resources which accomplish these goals. CONNECT's programs also serve business service providers–attorneys, accountants, and others–by providing them with knowledge about emerging technologies and access to new business opportunities.

CONNECT is described by some as an incubator without walls. It functions as a catalyst for growth, providing a forum for the exchange of ideas and the opportunity to network with peers, and facilitates the ripple effect that the success of various high-tech industries has on the community which supports them. CONNECT has helped numerous high-tech companies obtain financing and develop effective business strategies.

CONNECT would not disclose its budget.

Kansas City

Kansas City has two institutions that are working to improve its entrepreneurial environment.

The Center for Entrepreneurial Leadership of the Ewing Marion Kauffman Foundation is a national leader in the effort to support entrepreneurship. CEL promotes the development of healthy economic communities by nurturing and encouraging entrepreneurial leadership through educational activities targeted at adult and youth entrepreneurship. CEL is an independent not-for-profit educational institution with resources in excess of $600 million.

While CEL has a national mission, it has a special interest in developing entrepreneurship in its hometown. Programs developed by CEL and introduced in Kansas City include

- Premier FastTrac, a leading entrepreneurial training program
- Entrepreneurial Leadership Program
- YESS! (Youth Empowerment and Self-Sufficiency), an entrepreneurship education curriculum for students K through 6.
- Energizing Entrepreneurs, a celebration of entrepreneurship in Kansas City

The Center for Business Innovation is Kansas City's growth company incubator. The CBI was founded in 1985 through a joint effort of the Missouri Department of Economic Development and the University of Missouri-Kansas City. CBI is supported by fee income and rent, and by grants from the State of Missouri. Its annual budget is $2 million per year.

CBI provides typical incubator services to client companies, including business advice, business services, assistance with fund raising, and inexpensive space. Capital programs offered by CBI include a microloan fund, a seed capital fund (Capital for Entrepreneurs, Inc.), and an angel network (the Capital Resource Network) which provides seed capital to new ventures.

In exchange for the services it provides, CBI receives an equity stake in each of its client companies. Eventually, CBI hopes that returns on these investments will make it self-sufficient.

CBI is headed by Robert Sherwood, an experienced technology entrepreneur. In 1993, CBI was selected the national 1993 Incubator of the Year. The CBI currently hosts 53 companies.

Conclusion

As we have seen, communities that wish to create jobs and wealth–and create a vibrant, resilient economy–must invest in the creation and nurturing of new companies. To do that, they must make an investment in entrepreneurial economic development, offering programs to support emerging entrepreneurial companies and attacking long-term structural weaknesses such as capital, talent, and technology shortages. In addition, community leaders must make a commitment to a culture that welcomes and encourages entrepreneurs.

The good news is that there is an emerging awareness of the importance of entrepreneurial growth in our community. Many of the necessary elements are in place, but we do not employ our scarce resources in a way that will make enough of an impact on the challenges we face. The missing elements are coordination, commitment, and focus. In the recommendations that follow, we call for a partnership of organizations, business leadership, higher education, government, and the community to bring those elements to our entrepreneurial development efforts.

Recommendations

If it is to remain competitive, Louisville must adopt a strategy of supporting and encouraging entrepreneurship.

Our community should begin by making a commitment to entrepreneurship as an economic development priority. This commitment should be demonstrated by the creation of an Enterprise Corporation of Louisville, which would become the focal point for entrepreneurial support in the community. The Enterprise Corporation would have equal stature with the other key economic development efforts: The Chamber, the Partnership, and OED.

The Enterprise Corporation

The mission of the Enterprise Corporation would be to

- Create a new "Culture of Entrepreneurship" in Louisville
- Dramatically increase the number and quality of entrepreneurial companies in Louisville

with the result that Louisville becomes a more prosperous, dynamic, and resilient community.

Short-Term Objectives

The Enterprise Corporation would have both short-term and long-term objectives. In the short term, the Enterprise Corporation would work to assure that Louisville gets the maximum possible results out of our existing entrepreneurial talent pool, our existing capital base, and our existing technology. This would be accomplished by

- Offering programs to support entrepreneurs
- Championing the cause of entrepreneurship in the community.

The creation of the Enterprise Corporation would send an important signal that we welcome, desire, and support entrepreneurship. This would be an important first step in creating a more entrepreneurial culture in our community.

Programs The Enterprise Corporation could coordinate and consolidate many of our community's existing entrepreneurial support programs, including programs offered by:

- The Chamber's Center for Small Business
- The Office for Economic Development
- The Small Business Development Centers at Bellarmine and the University of Louisville
- The Venture Capital Club of Louisville

Coordinating and consolidating these programs into one agency would eliminate duplication, improve efficiency, and promote the accessibility of the programs.

In addition to these existing programs, the Enterprise Corporation would launch a number of new entrepreneurial support programs such as:

- Entrepreneur Roundtables
- Mentoring Program
- "Board of Directors" Program
- "Congregation" Program
- Topical Seminars: Finance, Marketing, Strategic Planning, Compensation, etc.
- Entrepreneur of the Year Panel Discussions
- Displaced Executives Workshops
- Opportunity Recognition Workshops
- Idea Forums
- Internship Program for students
- Other programs for students
- Minority entrepreneurship programs

The Enterprise Corporation of Louisville would not be a physical incubator, but a virtual one, offering the support services commonly associated with incubators without the real estate. Its clients would be entrepreneurial growth companies of all ages and sizes, including companies that are in the process of being created.

The Enterprise Corporation would work closely with emerging efforts to launch mini-incubators at U of L's Telecommunication Research Center and new Health Sciences Research Center, at the Naval Ordnance Station, and at the Community Development Bank center at 28th and Broadway, and would offer support programs to companies housed in those incubators.

Community Awareness The Enterprise Corporation would also be responsible for continuing to measure the entrepreneurial condition of the community, and publicizing and celebrating entrepreneurship in Louisville. This would be accomplished through

- Producing an annual "Celebration of Entrepreneurship" event

- Publishing an annual report on entrepreneurship in Louisville
- Other publications, including a newsletter and periodic special reports
- Publicizing and promoting the Corporation's entrepreneurial support programs
- An annual "Best Business Plan" contest
- A Speakers Bureau
- An annual recognition program for emerging entrepreneurial companies (modeled on Nashville's "Future 50" program)

Long-Term Objectives

In the long term, the Enterprise Corporation would help lead the community effort to overcome our structural weaknesses in capital, technology, and talent. The Enterprise Corporation would take a leading role in efforts to

- Create more sources of entrepreneurial capital in Louisville
- Retain more of our bright young entrepreneurial talent
- Reform Kentucky's tax laws
- Improve U of L's ability to serve as a source of entrepreneurial technology
- Work with the Jefferson County Public Schools, Junior Achievement, and others to stimulate more entrepreneurial education in area schools

The Enterprise Corporation would also cooperate with emerging statewide efforts to encourage entrepreneurship.

Leadership

The Enterprise Corporation of Louisville would require excellent entrepreneurial leadership from both its board and its staff. The Board would include leaders of Louisville's entrepreneurial community (including both proven and emerging entrepreneurs) and entrepreneurial support community (bankers, lawyers, accountants, venture capitalists, and so on) as well as leaders from government and education.

The Enterprise Corporation would seek a CEO with significant experience in entrepreneurship and entrepreneurial economic development. It would also seek managers for its programs and for its communications and planning efforts who have experience with growing companies.

Funding

Delivering the programs described here would require an annual budget of between $500,000 and $750,000 per year. Some part of this amount could be raised through fees and program sponsorships, but the majority of the budget would be funded through grants. Funding would be sought from state, city, and county governments, from local business (especially our successful entrepreneurial corporations) and from foundations, including local foundations and the Ewing Marion Kauffman Foundation.

Location

The Enterprise Corporation would be housed with the other leading economic development agencies at the Commerce Center at 600 W. Main Street.

Measuring Success

The success of the Enterprise Corporation will be determined by measuring its ability to improve Louisville's performance on many of the indicators used in this report: The city's Entrepreneurial Hot Spots ranking, the number of Louisville-based *Inc.* 500 companies, the number of IPOs of Louisville-based companies, and other measures. The Corporation's success will also be measured by its ability to help improve Louisville's weaknesses in Talent, Technology, Capital, Know-How, and Culture.

Conclusion

Louisville is an entrepreneurial city. It has produced some great entrepreneurial companies–companies like Humana, Vencor, Active Transportation, Papa John's Pizza, and many others–that have produced many jobs and much wealth for the community. Still, Louisville is not producing as many new growth companies as some of its competitors. Given the importance of growth companies as engines of job creation and wealth production, our weakness in entrepreneurship is a serious problem.

Louisville may not have as much talent as some other places, but we do have thousands of entrepreneurs and potential entrepreneurs, some of whom have the potential to create great companies. We may not have as much capital as some places, but we do have capital that is ready to help launch tomorrow's hot growth companies. We may not have as much technology as some places, but we do have plenty of good ideas for new products and services.

What we lack is a coordinated strategy for mobilizing the resources we do have for maximum impact, and a plan for overcoming our weaknesses across time. What we lack is a culture that encourages and supports entre-preneurs and entrepreneurship.

These weaknesses can be addressed by making a commitment to entrepreneurship as a key to our city's economic future. That commitment would require the creation of a new institution–an Enterprise Corporation of Louisville–that would become the focal point for our efforts to create and support entrepreneurship in Louisville.

Louisville *can* be more entrepreneurial. If we want to have a prosperous, resilient economy, we *must* be more entrepreneurial. Now is the time to begin building our entrepreneurial future.

Appendix A
Entrepreneurial Support Programs in Louisville

Louisville already has some programs designed to help small business and entrepreneurial ventures. Many of these programs have emerged recently as a part of the community's new interest in entrepreneurship.

Existing Programs

Louisville's existing program for small business support include the Center for Small Business at the Louisville Area Chamber of Commerce, the Small Business Development Centers at Bellarmine College and the University of Louisville. These programs are primarily focused on delivering know-how to entrepreneurs and potential entrepreneurs in the community.

The Center for Small Business (Chamber of Commerce) offers a number of programs for the personal and professional development of the growing company owner or manager and is beginning to create a support system to foster the start of entrepreneurial ventures. The Center for Small Business is dedicated to nurturing and encouraging the growth of small-to-mid-sized companies. Programs include:

- Business at Breakfast Series
- Business Solutions Center
- CEO Roundtable Program
- CEO Strategic Planning Program
- Climbing Mountains Seminar
- Fine-Tuning Workshops
- Topical Seminars
- Videotape Library

The Small Business Development Center (Bellarmine College) provides comprehensive training and management assistance to existing small businesses and start-up companies. One-on-one counseling is provided at no charge to business owners with particular problems or opportunities related to their business operations. Counseling reaches into all areas of business, including financing, management, personnel, operations, marketing, sales, etc. Courses and seminars are scheduled on a regular basis and cover a variety of topics important to the small business owner. For individuals who are starting a business, the SBDC provides a comprehensive training plan which prepares the individual for one-on-one contact with the counselor. Courses offered include:

- Pre-Startup Skills
- Financing a Small Business/Preparing a Loan Application
- Developing a Business Plan

The Small Business Development Center (University of Louisville) provides counseling services to entrepreneurs and companies that have technology-dependent enterprises. The SBDC draws upon the expertise of its staff and on the University of Louisville's faculty, including that of the Speed Scientific School. The Center provides business management assistance to technology-based enterprises and provides services to local companies interested in making application for federal Small Business Innovative Research (SBIR) grants.

The Small Business Institutes (University of Louisville and Bellarmine College) are designed to give Kentucky small business owners an opportunity to receive intensive management counseling from qualified college-level business students working under expert faculty guidance. The students meet frequently over the course of a full university term with the small business owner to identify and solve specific management problems. Business clients receive a detailed report on the steps they need to take to make improvements in their operations.

The Jefferson Community College Entrepreneurial Institute (Jefferson Community College Southwest) offers classes for small-business owners. The classes are designed to provide new business owners with information necessary for solid business planning. The primary purpose is to adequately prepare those individuals who wish to start their own small businesses. The instructors employ a fundamental, hands-on approach to business ownership covering aspects such as developing a business plan, bookkeeping systems, legal considerations and marketing techniques. JCC's Entrepreneurial Institute has been named a National Model Program, and is one of only three programs in the nation to receive this honor.

The Indiana University Southeast Small Business Institute offers classes in entrepreneurship and offers periodic Small Business Forums–short breakfast forums on topics of interest to small firms. In addition, several IUS faculty members, including SBI Director Dr. Edward Hufft, provide consulting help for small businesses.

The Division of Small Business (State of Kentucky) encourages small business development in the state by providing potential and existing small businesses with information on start-ups, training, financing and business planning; directing individuals to resources that offer specialized assistance; counseling craftspersons and critiquing business plans and loan applications for crafts loans; coordinating and initiating programs, workshops and seminars beneficial to small businesses; and providing assistance to individuals interested in successfully operating businesses from their homes.

The Small Business Administration (SBA) is a federal agency created by Congress in 1953 to assist small businesses that are independently owned and operated. The SBA offers a broad range of loan programs including a loan guarantee through banks. The agency provides counseling, business education, and training seminars to existing and potential entrepreneurs and corporations in cooperation with SCORE and the Small Business Development Centers throughout Kentucky. The agency also specializes in general courses, workshops and one-on-one counseling five days a week. The SBA provides publications related to business operation and management.

The Service Corps of Retired Executives (SCORE) volunteers provide management counseling without charge to assist companies with business start-up, expansion, review operations and management problems. SCORE provides regular courses in Owning Your Own Business, Forecasting and Cash Flow, Recordkeeping, Accounting and other topics pertinent to new ventures.

The Louisville/Jefferson County Office for Economic Development (OED) is a joint city/county government agency which provides expansion and retention assistance to local businesses through a variety of economic development programs. Programs of interest to entrepreneurial ventures include:

- Business loans
- Expediting the bureaucratic process when accessing government services (permitting, zoning, licensing, etc.)
- Minority business assistance
- Neighborhood commercial development for targeted areas
- Export trade assistance
- A BUY LOUISVILLE program to link local suppliers to local buyers
- Government procurement assistance to help businesses obtain contracts with local, state and federal government agencies
- The INVESTNET capital network

The Louisville Minority Business Development Center (LMBDC) provides counseling, management and technical assistance, and training and business development programs to ethnic minority businesses and individuals. LMBDC specializes in business planning, loan packaging and contract procurement. Additional services include: advertising and promotion; bidding and estimating; marketing strategies; demographic reports; finance and accounting; lines of credit; and construction project reports. Data resources include information on marketing, construction, export, loan programs, government contracts, and bonding. LMBDC is an advocate for minority business and identifies business capital and procurement opportunities.

The Minority Business Development Division (The Chamber) facilitates and promotes procurement opportunities and technical training for African-American-owned businesses in the community. These educational and networking opportunities are promoted through the division's Procurement Through Partnership program, which meets monthly, and its Electronic Data Interchange (EDI) Training program.

Our Recent Progress

In the past year, several new programs and initiatives have been launched in Louisville, some of which are intended to help improve the community's entrepreneurial culture and others of which are designed to offer training and support to entrepreneurs.

Urban Workshop In the summer of 1995, a group of Louisville leaders journeyed to Kansas City on the Louisville Chamber's annual Urban Workshop. On this trip, these Louisvillians were exposed to the programs of the Center for Entrepreneurial Leadership of the Kauffman

Foundation and to the Center for Business Innovation, a Kansas City incubator.

Growing Success Day In September 1995, the Chamber produced a one-day event called *Growing Success: A Celebration of Entrepreneurship in Louisville*. *Growing Success* featured some of Louisville's most successful entrepreneurs–people like David Jones, Bruce Lunsford, Charlie Johnson, and Debbie Scoppechio–who told their success stories to the audience of over 650 entrepreneurs and potential entrepreneurs. The event also included an exhibition highlighting 25 local entrepreneurial companies and 15 providers of services to entrepreneurs. A one-hour edited version of the program was broadcast numerous times on the local public-access channel, where it was seen by thousands more.

FastTrac In early 1996, the Louisville Chamber launched a new training program for entrepreneurs, Premier FastTrac. Premier FastTrac is a practical and effective business development program for entrepreneurs. It is designed to assist entrepreneurs in getting their new ventures off to the right start or to quickly develop the skills they need to manage and grow their businesses. FastTrac I, a nine-session course, offers basic training to entrepreneurs who are considering launching new ventures. FastTrac II, an eleven-session course, offers more advanced training to entrepreneurs in existing ventures. FastTrac was created by Dr. Courtney Price and is endorsed by the Center for Entrepreneurial Leadership, and is offered in Louisville by the Chamber in conjunction the Midwest Center for Entrepreneurial Education.

Conclusion

The existing entrepreneurial support programs in Louisville are an important source of Know-how for entrepreneurs in the community. But because they are small, underfunded, underpublicized, and lack coordination, they are not reaching as many entrepreneurs as they might. Further, these existing programs have not yet been effective in molding our culture. While they provide a base for future efforts in entrepreneurial economic development, there is much more that we can do.

EndNotes

1. *Who's Creating Jobs 1995*, David Birch, Anne Haggerty, and William Parsons, © Cognetics, Inc, 1995, p. 4

2. *Corporate Evolution*, David Birch, Anne Haggerty, and William Parsons, © Cognetics, Inc, 1995, p. 3

3. *Who's Creating Jobs 1995*, p. 6

4. ibid., p. 8

5. *New Venture Creation: Entrepreneurship in the 1990s*, Third Edition, Jeffry A. Timmons with Leonard E. Smollen and Alexander l.M. Dingee, Jr., Irwin, © Jeffry Timmons, p. 24

6. *Heaven Help Us ('Business Angels' Provide Investment Capital*, Dale D. Buss, Nation's Business, November 1993 v81 n11 p29

7. *How to be an Angel*, Susan Oliver, Forbes, June 19, 1995, v155 n13 p. 228

8. *Heaven Help Us ('Business Angels' Provide Investment Capital*, p. 29

9. *The Entrepreneurial Mind*, Jeffry Timmons, Success, April 1994, v41 n3 p. 48

10. "Frist 'family tree' has roots firmly planted in Nashville," Sandy Lutz, *Modern Healthcare*, September 11, 1995

11. *Prescription for Opportunity: How Communities Can Create Potential for Entrepreneurs*, Norris F. Krueger, Jr., Small Business Foundation of America, © Norris F. Krueger, Jr., 1995, p. 5

12. *Entrepreneurial Hot Spots*, David Birch, Anne Haggerty, and William Parsons, © Cognetics, Inc, 1994, p. 2

    Significant Starts are companies founded within the last 10 years which now employ at least 5 people. Young Growers are firms that were 10 years old or less four years ago and which have grown significantly during the last four years. A places rank in the *Entrepreneurial Hot Spots* listing is based on a weighted average of its Significant Start Index and its Young Grower Index.

    Cognetics uses a metric called the Growth Index to measure the growth of firms. The Growth Index for a firm is its percent employment growth (expressed as a decimal) times its absolute employment growth. For instance, a firm that grew from 20 to 30 employees would have a growth index of (30/20) x (30-20) or 5. The Growth Index captures both the absolute number of jobs created by a firm and the percentage growth of jobs, thus avoiding distortions caused by very small firms that add one or two jobs but have high growth rates and very large firms that add a large number of jobs but have very small percentage growth in employment.

    Cognetics considers firms with a Growth Index of 3 or more to be growing significantly.

13. One other Louisville-based firm, Res-Care, completed its IPO in December, 1992. Its current market capitalization is about $106 million. Other recent Louisville-based IPOs include Caretenders, Rally's, and Vencor.

14. *Inc. 500 Companies By State, 1982-1994*, Compiled by *Inc.* Magazine

15. "The Economic Impact of Venture Capital," a joint study conducted by Coopers & Lybrand, Strategic Management Services, and Venture Economics, Inc., quoted in *Venture Capital at the Crossroads*, William D. Bygrave and Jeffry A. Timmons, Harvard Business School Press, 1992, p. 3

16. *Venture Capital at the Crossroads*, p. 286

17. Telephone interview with Robert Compton, partner, CID Equity partners, Indianapolis, Indiana

18. See, for example, *The New Business Incubator: Linking Talent, Technology, Capital and Know-How*, Raymond W. Smilor and Micheal Doud Gill, Jr., Lexington Books, © 1986 D.C. Heath and Company, pp. 13-14; *Venture Capital at the Crossroads*, p. 251-258; and *Entrepre-neurial Hot Spots*, p. 13-18

19. *Inc., Special Issue: The State of Small Business*, May 16, 1995, p. 61

20. *Change Agents in the New Economy: Business Incuabtors and Economic Development*, Candice Campbell, National Business Incubator Association, October 1987, p. 6

21. Assuming that Louisville invested $2500 per year (in 1995 dollars) to educate each of the 21,000 young people who left the community after 1980, and assuming that each of these people spent 8 years in our schools before moving, Louisville's net export of educational investment in the 1980s was approximately $420 million.

22. *The 1995 Development Report Card for the States, Ninth Edition*, © 1995 The Corporation for Enterprise Development, p. 166

23. *Comparative Analysis of Kentucky's Tax Structure*, prepared by Policy Economics Practice of Barents Group LLC, a KMPG Peat Marwick Company, Washington, DC, July 19, 1995

24. *Prescription for Opportunity: How Communities Can Create Potential for Entrepreneurs*, Norris F. Krueger, Jr., Small Business Foundation of America, © Norris F. Krueger, Jr., 1995, p. 15

25. ibid., Introduction

26. ibid., Executive Summary

27. *Corporate Evolution*, p. 11

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33. *Hot Industries 1995* , David Birch, Anne Haggerty, and William Parsons, © Cognetics, Inc, 1994, p. 7

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37. *Entrepreneurial Hot Spots*, p. 13

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Methodology

This report was commissioned as an outcome of the Louisville Area Chamber of Commerce 1995 Urban Workshop. At the Workshop's follow-up meeting, the attendees requested Douglas Cobb, Chairman-elect of the Chamber, to form a committee and create a "business plan" for entrepreneurial development in Louisville. This report is that plan.

The Entrepreneurial Development Committee met for the first time in October 1995. The members of the committee are

Douglas Cobb	Chrysalis Ventures, Inc.
David L. Armstrong	County Judge/Executive, Jefferson County
Nolan Allen	Cotton and Allen
Brad Baumert	Zip Express
Malcolm Chancey	Bank One Kentucky
Dr. Paul Coomes	University of Louisville
Tonya York Dees	Chamber of Commerce
Bill Federhofer	Small Business Administration
Lynn Fischer	Hospitality TV
Bill Frentz	InvestNet
Ed Glasscock	Brown, Todd, & Heyburn
Norm Gill	Bohn-Gill Design
Jerome Hutchinson	Greater Louisville Communications
Mark Kristy	Coopers & Lybrand
Bruce Lunsford	Vencor
Neil MacDonald	Independent Container
Merrily Orsini	Eldercare Solutions
Jerome Parham	African Amerian Venture Capital Fund
Andy Payton	Professional Search Consultants
Dr. Ed Popper	Bellarmine College
Jim Rives	Rives Development
Debbie Scoppechio	Creative Alliance
Paul Schulte	Horizon Research
Brad Smith	Ernst & Young
Maurice Smith	Heritage Hardwoods
Rudy Straub	E&H Integrated Systems
Al Sullivan	Sullivan College
Dr. Robert Taylor	University of Louisville
Karen Taylor	Chamber of Commerce
Paul Thistleton	Office of Economic Development
Sharon Williams	Chamber of Commerce

After considering the proper outline and scope of the project, the Committee decided to create a Research Subcommittee that would gather the data and draft the report. That Subcommittee was lead by Mr. Cobb and included:

Brad Smith	Ernst & Young
Mark Kristy	Coopers & Lybrand
Barbara Keane	Deloitte & Touche
Hart Hagan	Carpenter & Mountjoy
Paul Schulte	Horizon Research
Paul Coomes	University of Louisville

This committee's research included

- A thorough review of academic and popular literature on entrepreneurship and entrepreneurial economic development
- Study of other data sources (such as census data) for information about Louisville's economic health
- Focus groups with both experienced and new entrepreneurs
- Interviews with leaders of successful entrepreneurial economic development agencies in other communities

After collecting its data, the Research Subcommittee drafted this report. After careful review, the final report was submitted to the Entrepreneurial Development Committee on March 11, 1996, and was adopted by that committee on March 28, 1996.

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Douglas Cobb

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