

Besides Capital, What Else? Key Building Blocks for Building Businesses

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CDFA is about development finance, so it's no surprise that most of its programs and most of its members' attention is focused on issues of finance and capital. This makes sense, as access to finance is a critical ingredient in determining whether a new venture succeeds or goes out of business. But, money alone does not guarantee success. One look at the long list of well-endowed, but now defunct, dot-com businesses confirms this fact. Other ingredients are needed in the recipe for success.

What are these ingredients? What do new ventures require to succeed in the marketplace? Many of these requirements are internal to the new entrepreneur or the new management team. For example, few businesses succeed without good ideas or the ability to execute on these ideas.

At the same time, much of the success of new ventures can be attributed to factors that are external to the business. Access to capital is one critical external factor. Other outside influences include access to talent or the ability to participate in networks with fellow entrepreneurs or key service providers.

These outside influences are important because they are amenable to outside influence. Community leaders—in both the public and private sectors—can make critical investments (in both time and money) that will make it easier for people who want to start a new business or expand an existing firm. An extraordinary entrepreneur can succeed anywhere, but he or she is more likely to succeed in communities where these critical building blocks are in place. There's a reason why high growth businesses tend to cluster in certain regions, like California's Silicon Valley. It's not that Silicon Valley residents are smarter; it's because the region has an entrepreneurial ecosystem in place. In these regions, the key external ingredients to entrepreneurial success are easily accessible.

The recipe book for an entrepreneurial ecosystem will differ from place to place, but a couple of things seem to matter. A region should host world-class educational institutions, including a top-notch community college system. This foundation must be supplemented with specific training in entrepreneurial skills such as how to recognize opportunities, amass resources, and build businesses. Educational institutions from kindergartens through adult education must make entrepreneurship education part of their core missions. Lots of excellent programs already exist. For example, the National Foundation for Teaching Entrepreneurship (NFTE) operates in numerous cities. This program trains teachers to teach entrepreneurship and works with high school students to create their own businesses. Since 1987, NFTE has served more than 120,000 students who have been given the basic building blocks to succeed in business.

Training people to build start-up businesses is just that: a start. But, an economic transformation involves moving these new firms to the fast growth or gazelle stage, i.e. firms that grow at an annual rate of 15-20% per year. This difficult step requires both talent and money. But, money—and especially equity for fast growing firms---can be hard to come by. There is no single solution on the financing front. As CDFA members know, banks, public agencies, and entrepreneurs must all play a part.

Finally, successful regions encourage, nurture, and support entrepreneurs. State and local government officials regularly laud the contributions of small business, yet many of the benefits of public policy decisions (e.g. tax incentives, regulatory relief, training support) go exclusively to large corporations. Entrepreneurs aren't looking for a handout, but they would appreciate

recognition every once in awhile. The range of possibilities may be endless: create an annual local Entrepreneur of the Year Award; include new business owners on community leadership groups; create opportunities where business owners can mentor youth; and the list goes on. The bottom line is pretty simple: engage entrepreneurs in the leadership of your community. This is not only good business as these companies bring jobs and innovation and the region. It's also good politics, as new business owners can become the future leaders of your community.

North Carolina's Research Triangle region offers one real-life example of how ecosystems get built. While the region is now recognized as a hotbed for entrepreneurship, this was not always the case. The Research Triangle Park facility was first opened in the late 1950s, yet by the late 1980s, the region had not spawned any major new companies. Instead, major out of state firms, such as IBM, had placed branch plants in the region.

Hoping to change this state of affairs, a group of entrepreneurs and service providers began collaborating in the mid-1980s in an effort to spur new business development. Much of this activity was centered around a new group, the Center for Entrepreneurial Development (CED). CED worked to train entrepreneurs on how to build businesses and achieve high-growth. One element critical to CED's success was the financial and philosophical support of the corporate business community. Corporate leaders contributed time, energy, and resources to ensure the organization's – and region's – success. At the same time, the region's leaders worked to convince investors and entrepreneurs that the Research Triangle was a good place to grow a business. This effort took time, but it has paid tremendous dividends. The region has become a major regional center for venture capital investing, and it was recently cited as the nation's fastest-growing center for the biotech industry.

These success stories can be replicated elsewhere. The ultimate objective of these investments is to create a powerful feedback loop. As more local people start businesses and become successful at it, they send a message to others that "you can do it, too." More importantly, they become mentors and angel investors to the next generation of entrepreneurs who continue the process. They also become civic leaders, not simply providing funds to charitable organizations but also leading key institutions like School Boards and citizen's advisory councils. Ultimately, it is this cycle of wealth creation, regeneration, and reinvestment that will build a region's future economic and civic health.

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