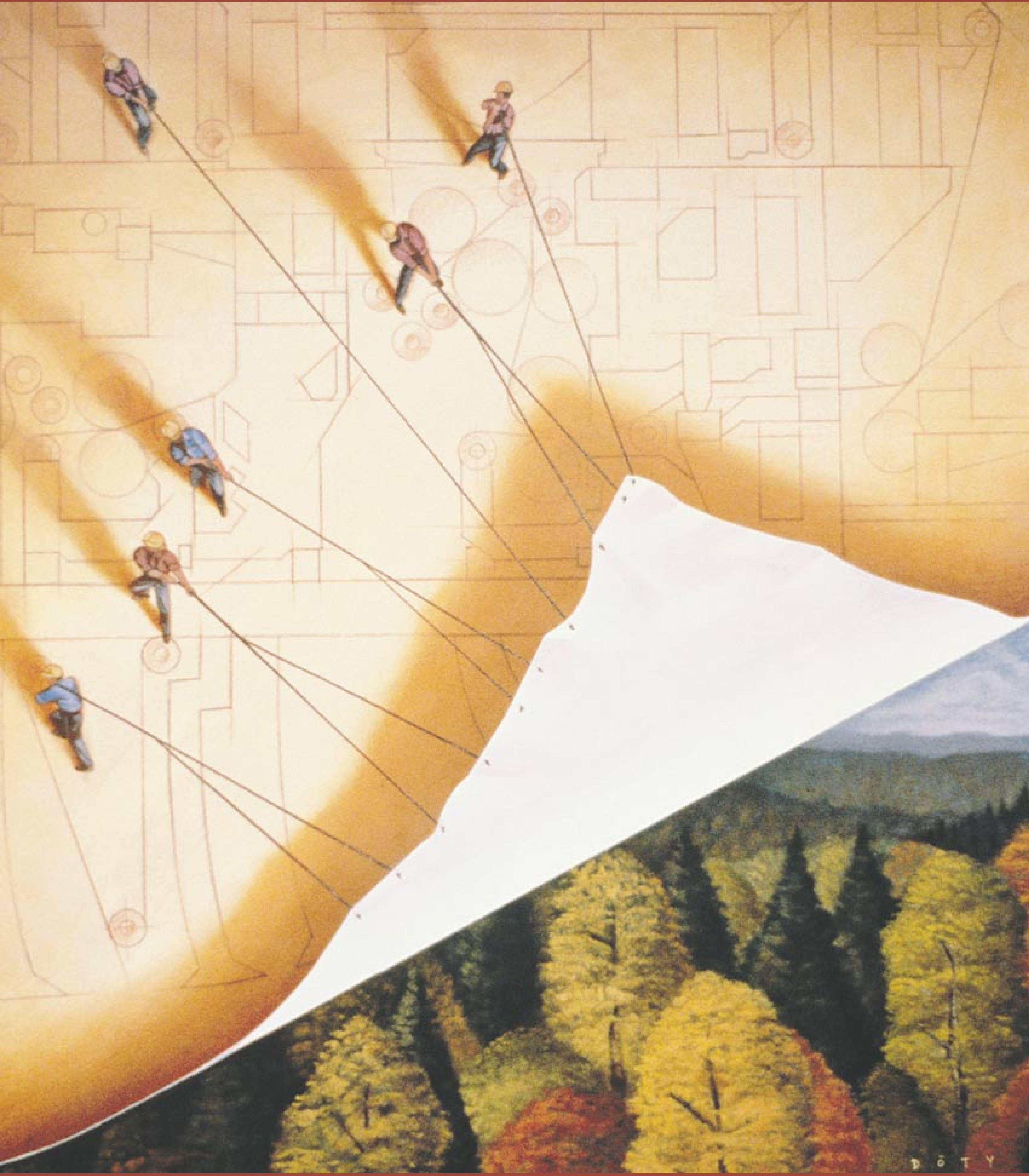

The Aspen Institute
Rural Economic Policy Program

Developing Entrepreneurial Economies in Rural Regions

Lessons from Kentucky and Appalachia

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PREFACE

In June 1996, the Kentucky Science and Technology Council, Inc. (KSTC) in Lexington, Kentucky, in cooperation with The Aspen Institute Rural Economic Policy Program in Washington, DC and TVA Rural Studies in Lexington, Kentucky, held a workshop focusing on the subject of entrepreneurship. This workshop, which involved state and national professionals, was part of a larger emerging effort of the Council centering on the challenge of creating an entrepreneurial economy in Kentucky.

A framing paper[1] was developed by the workshop sponsors that helped prepare the participants for the meeting and explored a range of issues surrounding the topic of entrepreneurship. These proceedings report highlights of major issues discussed throughout the workshop.

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[1] Copies of the framing paper, entitled *Creating an Entrepreneurial Economy,* are available from KSTC, PO Box 1049, Lexington, KY 40588-1049; 606-233-3502, ext. 223.

INTRODUCTION

A workshop was held in June 1996 at Shaker Village, Harrodsburg, Kentucky to explore ways that predominantly rural regions such as those in Kentucky and Appalachia can develop more entrepreneurial economies. In preparation, the sponsors asked participants to think about the following questions:

- How can economies long dependent on outside ownership and initiative, low value-adding employment, and massive transfer payments unleash waves of enterprise formation, development, and growth?

- How can economies with relatively large numbers of poor, unskilled, and undereducated workers, underdeveloped commercial and public infrastructures, low levels of interaction with outside markets, modest amounts of research and development, and a paucity of risk capital create a large number of growth-oriented businesses?

- How can economies that tend to resist change adapt to the realities of a highly competitive global economy?

About half of the 30 or so meeting participants were Kentuckians; half were practitioners and experts from around the nation *(see Appendix A).* To nourish the discussion, participants:

- Learned about different models for supporting entrepreneurship—e.g., venture capital, education and training programs, business incubation, manufacturing networks, and support for low-income entrepreneurs.

- Considered several frameworks for understanding what an entrepreneurial economy is and how it develops.

- Focused on the problem of growing an entrepreneurial culture—the various "communities of practice" in which people share understandings and commitments about entrepreneurship, as well as entrepreneurial experiences.

A framing paper, entitled *Creating an Entrepreneurial Economy,* was prepared as a tool to orient, frame, and stimulate the discussions—although not, however, to persuade. It presented several ways of thinking about the subject of entrepreneurship and economic development, and it argued that predominantly rural areas must develop ways to change their economic cultures. It went on to explore ways that this can be done. These proceedings capture the major ideas emerging from the richly diverse conversations at Shakertown about this culture shift that is changing the way Kentucky and so many other states do business.

A BRIEF NOTE TO THE READER

The Kentucky Science and Technology Council, Inc. (KSTC) was pleased to host and cosponsor with The Aspen Institute Rural Economic Policy Program in Washington, D.C. and TVA Rural Studies the 1996 workshop focusing on entrepreneurship. This workshop, which involved state and national professionals, was part of a larger emerging effort of the Council centering on the challenge of creating an entrepreneurial economy in Kentucky.

It is our view that creating such an economy capable of growing firms founded on Kentucky talent, technology, and know-how is one of the defining issues for the Commonwealth as it approaches the year 2000.

A framing paper entitled *Creating an Entrepreneurial Economy* was developed by the sponsors to help prepare the participants for this workshop—and copies are available from KSTC. The framing paper explored a range of questions revolving around the issue of entrepreneurship. This report on the proceedings from the workshop highlights the rich discourse on the culture of change necessary to create entrepreneurial economies able to compete on a global scale.

KSTC was pleased to be a sponsor in the ongoing dialogue about entrepreneurship and investing in our homegrown human capital. After you have had a chance to review this report or the framing paper, we would be interested in hearing any thoughts or comments that you might have on this important issue. You may communicate with us at KSTC either by phone (606-233-3502, ext. 223), mail (P.O. Box 1049, Lexington, KY 40588-1049), or email (kkimel@kstc.org).

We look forward to hearing from you and joining with others to build the many facets of an entrepreneurial economy.

Sincerely,

Kris W. Kimel
PRESIDENT, KENTUCKY SCIENCE AND TECHNOLOGY COUNCIL, INC.

To hear Lee Todd tell it, his company shouldn't even be in Kentucky. DataBeam, the firm he launched in the early 1980s, makes software that links personal computers together for teleconferencing. It is based in Lexington, in the heart of the Kentucky Bluegrass. Its surroundings are breathtaking, but they are also thousands of miles from the places that truly count in DataBeam's business: Silicon Valley, the Seattle region and other vibrant centers of software design.

For Todd, the miles that separate DataBeam from its customers, suppliers and competitors are tolerable; they're the price he pays for setting up shop in his home state. There is another trade-off that Kentucky has exacted, though, that he finds less bearable: the immense amount of time and energy that making a go of it in Kentucky demands from the executives of fast-growing, entrepreneurially minded companies.

This has been apparent to Todd (a former University of Kentucky professor), who grew up in rural Hopkins County at the state's western end, ever since he returned home as an MIT graduate with six patents under his belt and a yen to make money off of what he knew. Raising the $2 million he needed to start DataBeam turned out to be a seven-year ordeal, in large part because finding local backers with the sophistication to fund a high-tech start-up proved almost impossible. Todd eventually stitched together his seed funds from relatives and friends, along with private investors. A few years later, he was able to work with Hilliard-Lyons, a Kentucky-based investment banking firm, to raise $2 million to get started. "We needed people who knew more about the software business than what we could find in Kentucky," Todd says, explaining why he finally went out of state for venture funding. "There's just nobody around here who can tell you how to raise high-tech, growth funds for a technology company."

Once he had DataBeam up and running, though, start-up capital began to look like the least of his challenges. As DataBeam grew, adding customers and building its employee base, it needed to find experienced executives and sophisticated business advice, neither of them plentiful within Kentucky's borders. Plainly put, Kentucky does not have a home-grown support system for companies trying to compete in the global market.

The problem is easy to understand, but harder to resolve. Fast-moving companies need high-end services to help them grow, and Kentucky doesn't offer them. Todd's litany of needs unmet by Kentucky-based service firms is a long and gloomy one.

"You go to a public relations firm here and they have no idea how to PR our technology," he says. "They don't have any contacts with the magazines; they don't have any contacts with the editors. Talk to your accounting firm about amortizing your software costs, and they have to call out-of-state experts to ask them what that means. Talk to them about how to do revenue recognition on intellectual property contracts, and they don't have the experience in the industry. Talk to your legal advisers about a software distribution boilerplate agreement, and they go for the books. I couldn't even talk to banks, because they didn't understand our needs. I just tell them that they shouldn't be venture capitalists, but they darn well ought to be able to tell me where to go if they really want me as a long-time customer, and they couldn't do that."

THE CHALLENGE

DataBeam is, of course, just one relatively small firm. Yet the hurdles it has had to overcome, simply because Todd chose to base his business in Kentucky, are worth pondering. Nationwide, small entrepreneurial firms rank among the most productive sources of high-wage jobs and wealth. They are engines of job creation and, if successful, steadfast employers. Though there is division within the world of economic development experts on the merits of small versus large companies, there's no question that smaller entrepreneurial firms, low- and high-tech alike, can be critical to the future of states and communities that don't routinely find themselves on the maps of corporate location consultants. That they aren't commonplace, either in Kentucky or in other predominantly rural states, should be a matter of great concern to those anxious to see those states begin to thrive.

It was to start the process of changing this state of affairs that 30 consultants, researchers, venture capitalists, business executives and government officials met in Harrodsburg, Kentucky on June 3-5, 1996. The group, made up of Kentuckians and non-Kentuckians, was brought together under the auspices of the Kentucky Science and Technology Council, Inc., with help from The Aspen Institute Rural Economic Policy Program and TVA Rural Studies, to explore the challenge of creating an entrepreneurial economy in states such as Kentucky with little or no history of widespread entrepreneurial activity.

This is no small task. Kentucky is, to be sure, a small-business state: Some 81 percent of its businesses have 19 or fewer employees, and only 208 companies within the state—out of 88,000—employ more than 500. Employment is skewed toward manufacturing, and not especially toward that sector's high end. Apparel and industrial machinery account for the bulk of those jobs, and apparel, in particular, has traditionally depended upon a poorly skilled, low-wage workforce; Kentucky's economy, in other words, is not sufficiently geared toward improving the skills of its workers or the wealth of its citizens. Poverty is endemic, as is what one analyst called "a legacy of economic and social disadvantage that is both self-limiting and self-perpetuating."

Equally disheartening, the state is hardly prime turf for the development of new enterprises. As a 1996 report prepared by the Louisville Area Chamber of Commerce noted, between 1992 and 1995 only six companies went public in the state, a fraction of the numbers in neighboring Indiana and Tennessee. Equally alarming, on such measures as resources going into research and development, scientists and engineers in the workforce or patents issued per million population, Kentucky lags not just behind the U.S. as a whole, but behind every other state around it, with the occasional exception of West Virginia.

The Harrodsburg get-together was sparked by the question of how to transform an economy like Kentucky's so that entrepreneurship becomes both easier to pursue and more common. The challenge, though rooted for concreteness' sake in the particular circumstances of Kentucky, is one faced by states and communities throughout the rural United States. These are places that are often dependent on outside ownership, on economic initiatives and decisions made beyond their borders, on employers who extract their resources but add value to them elsewhere, and on low-wage, low-skill industries that provide jobs but do little else to help create a workforce equal to the challenges posed by a highly competitive global economy.

They are also, not coincidentally, places whose economic development policies have for the most part tended to focus on a single bottom line—jobs created—rather than on issues that affect the state's long-term economic strength and quality of life: what kinds of companies create those jobs, what sorts of jobs they are, and how well the climate thus fashioned serves the end of generating or attracting new, quality employers. By focusing on quantity and ignoring issues of quality—in particular, the degree to which employers are willing to invest either directly or in partnership with other players in improving the quality of their own workforces—these states and communities often condemn themselves to remaining low-skill, low-wage backwaters.

THE NEED FOR AN ENTREPRENEURIAL ECONOMY

A few decades ago, a state could base an economy on its ability to offer a poorly educated, barely skilled workforce to employers whose competitive standing depended on keeping their labor costs low; many Southern states did precisely that. It is no secret that this approach is no longer enough. States and communities that do not find ways of creating growth-oriented local economies risk dealing themselves entirely out of the national economic picture.

For Kentuckians, as it happens, there is a reminder of this right-at-hand. Over the last 15 years, Louisville has seen a modest level of growth, while Nashville, Tennessee, just 175 miles down Interstate 65, has exploded. "People in Louisville think of Nashville as being the next city down the road, more or less like Louisville," says Louisville venture capitalist Doug Cobb. "And 15 years ago it was. But Nashville has added almost 250,000 people, where we've added less than 50,000." It is not just Nashville's population that is growing. Its economy is thriving—and with it, the city's more rural surroundings.

Nashville these days is a cauldron of start-ups, as large companies spin off new entrepreneurial efforts. "Something like $300 million in new venture-capital investments have been made in health-care start-ups in Nashville in the last 12 months," Cobb notes. "I don't think $300 million in venture capital has been invested in Louisville in all time; in fact, I don't think $30 million has been invested." Nashville, Cobb says wryly, "has left us in the dust."

What is at stake for both the region and Kentucky as a whole goes well beyond jobs. Rather, it is the ability of people within the state to create prosperity and guide its benefits. Wealth does not just show up on successful entrepreneurs' bank statements. It also funds football stadiums, museums and regional theater companies; it helps new companies get a start, successful companies to expand and urban companies to establish a rural presence; it seeds the economic rebirth of depressed communities; it brings financial stability to cities and counties, giving them the foundation to develop as efficient and effective civic managers; and, when coupled with the adaptive mindset that is crucial to entrepreneurial success, it allows entire regions and states to keep their footing in a slippery and chaotic global economy.

Traditional approaches to economic development in Kentucky and states like it—public investment in infrastructure and business services, and spending on relocation incentives for out-of-state firms—have their place, but only as they help create the conditions needed for dynamic, indigenous economic activity. In a very real sense, Kentucky's future rests on its ability to nurture home-grown firms and to encourage the innovation, risk-taking and investment that are the hallmarks of a vital economy at the end of the 20th Century. In short, entrepreneurship must become both a matter of course and a habit of mind if Kentucky is to thrive.

WHAT COMPRISES AN ENTREPRENEURIAL ECONOMY?

Before considering what this will entail, it is worth a brief detour to look at what comprises an "entrepreneurial economy." "Entrepreneurship," commented meeting facilitator Pete Plastrik in the paper he helped produce to frame the discussion, "combines innovation, control, risk-taking and investment. Entrepreneurs use resources in new ways to produce new goods or services, and they own their methods and products...Typically, we think of entrepreneurship as the act of a 'rugged individual,' the entrepreneur. But entrepreneurs—whatever their genius—are usually made, as well as born. They exist and thrive in communities of entrepreneurial practice, in distinct cultures."

An entrepreneurial economy is not, in other words, a matter of creating a few high-performing companies, or even a lot of prosperous small businesses. It is, at its root, a matter of creating an entrepreneurial culture in which people are encouraged to seek opportunity and embrace creative approaches to exploiting it—i.e., to say, "I can see things that don't exist and make them exist." "Entrepreneurial behavior has to be more than just people starting companies," insists the Kentucky Science and Technology Council's Kris

Kimel. "It's an entrepreneurial pattern, whether starting a company, innovating within a company, or innovating within the public sector."

It is a pattern that is fed by a sense of enterprise, an attitude that obstacles are made to be overcome, not taken at face value. "Great companies," notes The Aspen Institute's Meriwether Jones, "consist of a lot of employees who, when there's something wrong, fix it. They don't ask themselves, 'I wonder whose job it is to fix this?' [An entrepreneurial economy] means creating a broader culture of can-doism."

The vision of an entrepreneurial economy articulated at the Harrodsburg gathering is this: "A dynamic economy fueled by new and innovative Kentucky firms, founded on Kentucky ideas, creativity and know-how. It is an economy characterized by risk-taking, a 'can-do' attitude, and a commitment to continual learning."

This approach defines entrepreneurship by how firms and people behave, not by what they produce. And it is concerned as much with the environment within which they operate as it is with entrepreneurs and companies themselves. An entrepreneurial economy creates a setting in which current and prospective entrepreneurs and the people who support them—from investors and attorneys to family members, business schools and chambers of commerce—have access to ideas for new or improved products or services, to the financial capital to start or enlarge businesses and to the web of support services that can help them thrive.

Notice that this definition challenges three fallacies that, particularly in rural states, tend to derail talk of entrepreneurship even before its advocates have a chance to develop a vision:

- **ENTREPRENEURSHIP ALWAYS MEANS "HIGH-TECH."** Hardly. Businesses will almost certainly use technology to get a leg up over competitors, but entrepreneurship in Kentucky is initially far more likely to emerge in sectors with which Kentuckians are already familiar—manufacturing, transportation, agriculture, health care—than in high-tech industries. Indeed, between 1989 and 1993, small-business researcher David Birch has found, the fastest-growing firms tended to be in industries that were not high-tech: paper products, chemicals, even food products.

- **ENTREPRENEURSHIP MEANS RAPID GROWTH AT THE CUTTING-EDGE OF INNOVATION.** "When people think of entrepreneurialism," says Harvard Business School professor Greg Dees, "they think of the 'gazelles' only." He is referring to the fast-growing, high-performance, industry-leading firms that Birch has identified as crucial economy-makers. Most people also tend to think that entrepreneurship is the sole domain of radically innovative firms. In fact, Dees says, "A lot of successful firms are me-too firms that just do something that's already being done, only they do it a little better or they find a different market, a particular niche, while they innovate incrementally." Indeed, in the study cited above, Birch found that of the 20 industries friendliest to fast-growing companies, none was among the 20 fastest-growing sectors of the economy.

- **ENTREPRENEURSHIP MIGHT BE FINE FOR THE CITIES, BUT IT IS BOUND TO FAIL IN RURAL COMMUNITIES.** No single vision of entrepreneurship will suit states like Kentucky, which have great disparities between their urban and rural regions. Louisville and Lexington may not be world-beaters, but they have financial and intellectual resources from which to build. In Appalachian eastern Kentucky, on the other hand, joblessness, poverty and lack of education are endemic—hardly the place to envision, say, a thriving cluster of biotechnology firms. It may, however, be exactly the place for an Internet marketer interested in selling traditional handicrafts over the World Wide Web. There is a great deal that can be done in rural areas, as Meriwether Jones puts it, "that doesn't presume world-class, high-tech companies doing their most creative, newest work there."

A couple of Kentucky firms illustrate these points. Take, for instance, Cox Interiors, a 13-year-old business that sits on a former drive-in movie site in Campbellsville, a town about 80 miles south of Louisville. The family-owned firm makes doors, mantels, stairways and architectural moldings using Kentucky wood, and sells them in five states. Cox uses advanced manufacturing processes, which use computer-driven machinery; it is technology-driven, in other words, but not a high-tech company. It is also a success: Cox employs 568 people and had 1996 sales in excess of $40 million.

Laura's Lean Beef, on the other hand, is notable less for its use of technology than for the success that Laura Freeman of Winchester, Kentucky has had at exploiting a particular food industry niche with minimal capital investment. Her firm sells lean beef to major supermarket chains in 17 states; the cattle are raised on contract and processed at two locations on either side of the Mississippi River. Freeman's company is essentially the product's market coordinator, arranging for growers to follow its guidelines on raising cattle and for the packing plants to process and trim the beef to ensure cuts that are as lean as possible.

TWO TOWNS

That there aren't more firms like Laura Freeman's or the Cox family's driving the Kentucky economy is due in no small part to the state's poor entrepreneurial "ecosystem." This notion might best be illustrated by two towns that sit some 80 miles apart in Michigan's Upper Peninsula. One is Calumet, a one-time copper-mining center that in its heyday in the late 1800s and early 1900s was home to 60,000 people. It is all but a ghost town today, down to about 900 residents. After years of casting about for a solution to their economic woes, Calumet's citizens decided to turn the town into a national historic park in a bid to attract tourists. "The best I can make of that strategy," muses Richard Anderson, who runs a nonprofit economic development organization called the Northern

Economic Initiatives Corporation in the Upper Peninsula, "is that they think their future is as a memorial to the past."

To the south, the town of Iron Mountain sits in stark contrast. As its name suggests, Iron Mountain was, like Calumet, dependent on mining. But it had one other industry as well, a Ford Motor Co. parts plant whose workers were all skilled in the wood and metals trades. In an event that could have been as devastating for surrounding Dickinson County as the closure of the copper mines turned out to be for Calumet, both the mine and the Ford plant shut their doors in the early 1950s, throwing thousands of employees out of work. Instead of picking up and leaving, though, many of Iron Mountain's residents stayed. Using their experience working for Ford or in the mines, they started a series of small companies that built on their skills—a foundry, heavy equipment manufacturers, a firm that has become the country's largest maker of ready-to-assemble raw furniture. The result, these days, is a stable set of 100-to-150-person firms and a two-decade history in Dickinson County of the lowest unemployment and poverty rates in the Upper Peninsula.

Anderson argues that precisely what combination of factors made Iron Mountain such a hotbed of entrepreneurialism is a mystery. However, some elements of the town's success do stand out. The skills and manufacturing know-how developed by Ford employees were crucial; so, too, was a certain stick-to-itiveness that seems to have been part of the community's character. These are elements that can be found everywhere in rural America. Moreover, Iron Mountain is evidence that concentrated entrepreneurship—a dense web of innovative, risk-taking people and firms among whom information and resources flow rapidly and efficiently—can have a transformative effect. It gives hope that when the conditions are right, a vibrant and prosperous local economy can grow—even in the rural backwaters of the national economy.

INGREDIENTS

It was the purpose of the conversation in Harrodsburg to shed some light on how Kentucky might go about crafting those conditions. This get-together was the beginning of a discussion—the first, tentative exploration of mostly uncharted ground. It sketched out paths that Kentucky and other states might follow and considerations they ought to keep in mind; it did not deliver a detailed itinerary. That job has to be done elsewhere: by the Kentuckians who have been pondering these issues in the months since they met in Harrodsburg; by those in other rural states who have been seized by a yearning to see entrepreneurship flourish on their own home ground; and perhaps by a smaller collaborative effort to draw up specific recommendations for addressing the issues sketched out at the meeting.

The meeting did lay out a clear picture of what issues need to be addressed if a state like Kentucky is to build an entrepreneurial economy. These fall, not entirely cleanly, into what might be called the "supply" and "demand" sides of entrepreneurialism. On the "supply" side are efforts to provide the tools and resources that entrepreneurs need. These help the Lee Todds of the world both by lowering the amount of energy it takes to start and sustain a business and by helping entrepreneurs improve the quality of their undertakings. On the "demand" side are steps that will boost the number of entrepreneurs in the first place and thereby increase demand for entrepreneurial support, helping to stoke the supply side. Supply-side issues include:

- The widespread availability of capital in the hands of investors and financiers who know what they're doing with it; and

- A support structure of private-sector service providers—accountants, lawyers and the like—who are sophisticated enough to meet the needs of their most forward-thinking clients.

On the demand side are conditions that help *create* entrepreneurs in the first place:

- An environment that encourages spinoffs from established businesses and research institutions;

- An educational system, from elementary school through the post-secondary system, that stimulates and prepares entrepreneurs;

- A "culture" that values and celebrates entrepreneurship.

CAPITAL

One of the most striking qualities of regions where entrepreneurship flourishes is the manifold sources of capital to which entrepreneurs can turn. "In Northern California there are so many seed funds, you can do a deal over lunch," one venture capitalist told *Fortune* a few years ago. Silicon Valley may be an extreme, but wherever a vibrant entrepreneurial community exists, it is supported by a diverse capital infrastructure. This infrastructure includes banks, which according to some reports have begun to slough off their tight-fisted caution of the late 1980s and early 1990s and are devoting more resources to small business; venture capital firms, many of which in the early 1990s seemed to have given up providing seed capital but now appear to be getting back into the game; networks of "angels," often successful entrepreneurs themselves who will provide seed capital to promising start-ups, usually with a somewhat smaller expectation of return than venture funds; large corporations looking to foster innovation that set up partnerships with start-ups; private placement financing; federal and state small business programs; microenterprise loan funds and the like.

Some of these are available to entrepreneurs even in hard-pressed rural areas, but the fact remains that in states and regions with little history of entrepreneurship, the capital infrastructure usually isn't geared to support it. This is a problem, but also an opportunity, since it means that even small improvements can make a difference to a region. This can be seen in the experience of Nick Smith, an attorney in Duluth, Minnesota who now runs a venture capital fund serving northeast Minnesota, the state's hard-hit Iron Range.

In the early 1980s, when the nation's steel industry entered its wrenching crisis and demand for iron ore plummeted, the Iron Range region was devastated. Its residents passed through all the stages one would expect, excoriating the mining companies, struggling desperately to find ways of rebuilding their old way of life. Eventually, though, key regional players drew together, determined to explore new strategies for economic development. One of the results was Smith's fund, Northeast Ventures.

Northeast Ventures is one of a few dozen budding and embryonic venture funds around the country aimed explicitly at encouraging community development through home-grown businesses; another is the Kentucky Highlands Investment Corporation in eastern Kentucky. For the most part, the Minnesota fund operates like a traditional venture capital firm, with the important exception that it exists, as Smith says, "to help turn around the economy" of a single region. "Our overarching goal," he says, "is to foster self-sufficiency and an entrepreneurial spirit in the region...You know the old phrase, 'If you give someone a fish, you feed him for a day; if you teach a person to fish, you feed him for the rest of his life.' Well, this wag I read not long ago went on to say, 'But what's really important is who owns the boat!' We're in the business of trying to grow some boat owners."

To that end, the fund has invested about $5.5 million in 18 businesses and helped its recipients raise another $20 million from other sources, including traditional venture capitalists. Just as important have been the changes Smith believes the fund's activities have wrought on the region's psychology. "At first I was cynical about our creating an atmosphere of risk-taking," he says. "But I think we've had a significant impact on it. People are considering business ownership as an alternative to unemployment, to welfare, to underemployment. My belief is that over time we will directly, measurably affect the economy through our efforts."

Smith's experience suggests that the *supply* of money is, in a way, the least of the challenges that face a state like Kentucky. There is plenty of capital in the state; the challenge is to ensure that this money is focused on stoking entrepreneurship, whether family-run start-ups in Appalachia or high-tech "gazelles" in Lexington or Louisville. Making this happen will mean enlisting everyone from state and local decisionmakers to bankers to venture capitalists to microenterprise loan fund managers to friends and family members willing to stake a budding entrepreneur to his or her seed capital. The meeting did not address every aspect of this issue, but it did suggest that:

- **PLAYERS WITHIN THE FINANCIAL SYSTEM NEED TO BE BETTER PREPARED TO DEAL WITH ENTREPRENEURS.** "Increasingly," suggests Meriwether Jones, "one comes to understand that the flow of capital is also about talent. If you're talking about risk capital, you're not just talking about money, you're talking about whether you have people *managing* that money who have enough experience to manage higher-level risk. They need to know how to look at deals that are outside their normal parameters, and understand which ones stand a chance and what they have to do to make them viable."

- **SUPPLIERS OF VENTURE CAPITAL NEED TO BECOME FAMILIAR ENOUGH WITH THE STATE'S FINANCIAL INFRASTRUCTURE** that, should a particular lending institution decline to work with a potential borrower, they can then refer him or her to other possible sources of funding. Similarly, bankers in the state should know the venture capital network well enough that they can steer people launching ventures they consider too risky to other funders. They can also play their part by making far more capital available for very small businesses—and therefore enormously aid the process of seeding entrepreneurship—by adopting standards under which they'd make microenterprise loans, or at least by supporting other financial intermediaries to do so.

- **ONE OF THE KNOTTIER CHALLENGES SMALL BUSINESSES FACE—AND THIS IS ESPECIALLY SO IN RURAL AREAS—IS THAT OF FINDING SKILLED AND KNOWLEDGEABLE INTERMEDIARIES** who can provide them with a point of entry into the financial network. This is a role that venture capitalists play with promising start-ups, but it is not worth their time when only small loans are involved, which most of the time is likely to be the case in Kentucky's rural counties. Though there are community development organizations that can serve as brokers, such as Berea's Mountain Association for Community Economic Development (MACED); another route might be through a network of small business development centers. "What we need," says David Freshwater of TVA Rural Studies, "is a classic venture capital function, but for a much smaller business. It requires someone with a degree of sophistication in finance, but also a lot of local expertise."

- **KENTUCKY MUST FIND WAYS TO HELP ENTREPRENEURS IMPROVE THEIR FITNESS TO OBTAIN FUNDING.** Private lenders, community nonprofits and even state and local government might think about providing opportunities to hone management and accounting skills through community college programs or privately sponsored workshops. The school system, as part of any entrepreneurship curriculum it might adopt, could include training in managerial accounting in order to help potential entrepreneurs prepare to go after financing.

- **BANKS AND UTILITIES MUST RECOGNIZE THAT THEIR OWN FUTURE GROWTH DEPENDS ON THE GROWTH OF THEIR COMMUNITIES;** they must be "proactive" in seeking out opportunities to encourage entrepreneurial growth, rather than simply sitting back and waiting for opportunities to come to them.

- **GOVERNMENT NEEDS TO BECOME BOTH MORE EFFICIENT—AND MORE "TRANSPARENT"** in the sense that its financing programs are easily understandable to ordinary citizens and marketed in such a way that people feel encouraged to use them, rather than daunted or burdened by them. There are a host of programs either funded by or promoted by federal, state or local government, from industrial revenue bonds to loan guarantees to revolving loan programs to Business and Industrial Development Companies. Making them as accessible as possible ought to be high on policymakers' agendas.

THE BUSINESS SERVICE SYSTEM

In the end, capital is useful to an entrepreneurial economy only in concert with a set of other services that can help entrepreneurs make the most of the money they've secured. Some of these services, of course, are in the hands of the public and nonprofit sectors—a state's small-business development network, county economic development practitioners, and community groups that provide technical assistance or managerial training to small business owners.

But for the companies that will likely drive a state's entrepreneurial economy, the *private* support system—the accountants, management consultants, attorneys, bankers and other investors, public relations firms, marketing researchers, and so on—is critical. It must comprise players who are capable of working both with firms and business owners undertaking risky, often unusual ventures, as well as with those running less glamorous ventures who simply need help growing. This means, for example, banks that are comfortable not just making loans against typical kinds of collateral, but that provide a variety of lending products. It means accountants who go beyond simple audit accounting to management accounting techniques that help business owners control cash flow and exert close control over every aspect of their business. It means legal and accounting consultants who launch initial public offerings and marketing specialists who do sophisticated market analysis and research.

And it means having all those capabilities locally. As Meriwether Jones comments, "The 'Big Eight' accounting firms will say, 'Oh, of course we can do all this stuff, because we have people in our affiliates around the world who can do anything.' In fact, if they haven't done it in *your* state, it's not the same thing. The problem is, it's hard to justify making it available in a state where there's no one demanding it."

That is, in a nutshell, what lies at the root of DataBeam's problems in finding the support it needs. There hasn't been enough entrepreneurial demand in Kentucky to create a market that service firms will rush to supply. In that regard, the state faces something of a Catch-22: It needs a critical mass of entrepreneurial firms to create a demand for high-level services but is unlikely to get that critical mass without a support network of high-level services.

Nonetheless, based on his experience designing programs at a quasi-public enterprise development agency in South Carolina, Jones believes there are paths out of the dilemma. One key is that leading firms within the state must start demanding that service providers help them compete; they need, in other words, to raise their expectations of local service providers. "We found that when change really did occur in those worlds, it was because certain companies that had a lot of cachet—high-growth companies that everyone wants as their client, or even significant bread-and-butter companies—started demanding certain kinds of services," Jones says.

Another tactic—in fact, a quick way of shaking up the system—is to recruit companies from elsewhere that are accustomed to getting high-quality help. The idea essentially is to import ventures that will bring high expectations with them, on the theory that they will prod service providers to improve their offerings. "Bring in a company that's used to getting [high-quality services] somewhere else," Jones says, "and they'll come in and say to your local people, 'I know you say you do it, but I'm looking at what you're doing and that's not [what I'm used to], so I'm going to continue to use my people in Chicago.' That [competition] is a real instigator of change in the support system."

It is also possible to find relatively fast ways of upgrading existing local firms to a point where they need different and better services than they're getting. In South Carolina, for instance, Jones' agency trained entrepreneurs to move beyond the basics in using their financial statements. "What we found was that training them in how to use their financials for real management control led them to demand things from their accountants they had not been demanding previously," he reports.

SPINOFFS: ENTREPRENEURIAL FISSION

There is, of course, another route to creating demand for a beefed-up entrepreneurial support structure, and that is to create more entrepreneurs in the first place—to address the "demand" side of the equation. This is, to be sure, a long-term response to Kentucky's "supply-side" problems, but the reasoning is simple: If the state is to produce enough service providers to sustain an entrepreneurial economy, it must also produce enough entrepreneurs and businesses to sustain the service providers.

There are any number of routes to this goal. To begin with, many successful businesses hold within themselves the seeds of other businesses—employees or executives who believe they can do the same thing better, or so it in a slightly different fashion, or want to exploit some technological advance in the marketplace. Indeed, entrepreneurship researcher Stuart Rosenfeld observes that more than 60 percent of manufacturing firms are started by employees of existing firms.

If one looks around at successful local economies, it is precisely this process of splitting off new entrepreneurial endeavors (somewhat like fission, the energy-creating reaction in which atoms are split) that creates vibrant regions. This is as important in low-tech industries as it is in technology-driven fields. One of the most successful rural manufacturing regions in the country is the area around Tupelo, Mississippi, which over the last few decades has seen an explosion of small upholstered-furniture manufacturers—many of them working initially out of their own garages—who have provided a crucial entry-level employment market for workers with basic skills. Of the roughly 200 firms now in business, the vast majority are either direct or indirect spinoffs from a single, large manufacturer that has anchored the local economy since 1948.

Deliberately setting out to encourage spinoffs requires addressing three different issues. One is the ability of employees to start their own companies. If they are to be capable of using what they've learned in a given firm to launch their own business, they need at the most basic level to know how to go about starting one. At a minimum, this means building training in entrepreneurial skills into the state's vocational education track and other schools, so that workers who gain a skill also gain some knowledge about applying it to their own business.

At the same time, it is less clear how one goes about encouraging employers to help employees spin off new ventures in a culture that doesn't already sanction it. Are there incentives that might motivate employers to set up current employees as suppliers? Or, when they have to downsize, to think of opportunities to spin out pieces of the business to employees, rather than simply abandoning them. Similarly, when they create new products that may be outside their own business focus, why not hand them off to employees, rather than expanding their own business? Businesses that develop and nurture local, quality-driven supply chains are bound to explore all of these paths; the challenge for Kentucky is to find ways of seeding such initiatives.

Finally, the state's universities ought to be playing a central role in turning research into marketable commodities. Neither the University of Kentucky nor the University of Louisville has been particularly vigorous in this regard. The state has not traditionally demonstrated a strong commitment to university research and development, either politically or financially.

More to the point, faculty reward structures at the moment—indeed, the mentality of entire departments—discourage faculty entrepreneurship. "The first day one of our new deans started at the university when I was there," Lee Todd recalls, "he said, 'Tell me about this new company you've got; I'm worried about it.'" What worried him, Todd says, was that the business would take time away from Todd's teaching. "I told him, 'Let me tell you, if I was at MIT, they'd be worried if I *didn't* have a company.'" Keeping in mind that there are important issues of academic responsibility to work through, it still does not take too great a leap of the imagination to see the potential of creating incentives for faculty members to embrace the commercial aspects of their research, or at least to teach in such a fashion that their students do. The technologies with which university faculty work could very well be driving a booklet of start-ups in Louisville, Lexington, and elsewhere in Kentucky.

REMAKING EDUCATION

The notion that entrepreneurship can be taught is not, at first blush, self-evident. Successful entrepreneurs tend to owe as much to their personal qualities—the desire to run their own business, say, or simple persistence—as to their business acumen. Yet the skills that make it possible to be a success can be taught, and it seems fair to suggest that doing so more widely than is the case today will give far more students who dream about starting their own business the capacity to do so.

That this can be done is beyond doubt. One prominent example is REAL Enterprises, which since the late 1970s has been running programs in rural areas around the country that are designed to encourage young people to see and take advantage of the business opportunities in their communities. With active chapters in eight states and teachers who have been through its training sessions in 23 states, REAL can claim considerable experience in giving the high-school and community-college students it targets the basics of an entrepreneur's education. It stresses both hands-on learning—"We figured out early on that entrepreneurs are lousy students; they don't learn well *in the traditional classroom,"* reports Rick Larson, who runs REAL Enterprises nationally—and gaining knowledge of business planning, legal requirements for small businesses, market opportunities, and the like. Just as important, Larson says, is learning "non-quantifiable" skills, such as critical thinking and the ability to discern business opportunities within a given community.

Any effort to teach entrepreneurship needs to define the matter broadly. That is, it needs to think of entrepreneurship as an approach not just to business, but to community and public life as well. Students leaving elementary and secondary school with "entrepreneurial skills," then, would come out not only knowing how to balance a checkbook and understanding capital and returns, but would:

- be better able to manage change and risk, and be comfortable dealing with such notions as continuous improvement and the constant change that is a feature of this era's economic landscape;
- know how to think creatively about problems and their solutions; and
- be able to find the opportunities inherent in problems.

All of these are characteristics of successful entrepreneurs. They are also, however, characteristics of vital communities, the kinds of places that produce a culture of success—in their economy, in social relations, and in the networks of people and organizations that underpin community life.

At the post-secondary level, entrepreneurship training ought to be available to all students, whether in vocational schools, community colleges or state universities. This is the level at which particular business and entrepreneurial skills ought to be taught, and they need to be relevant both to the student who dreams of starting a computer networking company and the student who has an idea for a new kind of hay preservative. "There's lots of material for the gazelles of the world," comments Cameron Wold, who runs an entrepreneurial training project based at the University of Colorado. "But most small businesses don't need to sharpen their skills to do an Initial Public Offering (IPO). They need to learn negotiating skills to get a small-business loan." A fully prepared education system should be sensitive to the entire range of entrepreneurial needs suggested by Wold's observation.

The importance of the education system—not just its focus on entrepreneurship, but its overall quality—can be seen in the results of a recent study that showed that young people are responsible for a disproportionate number of entrepreneurial start-ups. The study, by Paul Reynolds, a professor of entrepreneurship at Babson College in Massachusetts, found that of the 1,200 business owners he surveyed nationwide, the highest percentage of start-ups came from those aged between 25 and 35. Most of them, he found, had graduated from high school, but not necessarily from college; they also tended to have lived for five to 10 years in the area where they set up their concern. "It takes a while to know where to get customers and suppliers," Reynolds told *Nation's Business*.

What all this means is that Kentucky is unlikely to be able to import very many entrepreneurs; it needs to encourage and equip them at home. But its education system is not doing this. Comparing Louisville to 18 other communities with which it competes for jobs and business attractions, the city's economic development practitioners found that it ranks last in college attainment and next to last in high-school attainment. As a result, Doug Cobb believes, it is losing families to communities with better school systems. "We have a tremendous talent retention problem," he laments. "We're exporting young people."

Similarly, neither the University of Kentucky (UK) nor the University of Louisville has found a way to compete nationally for students who would, once done with their studies, inject new insights and energy into the state's economy. "We have no brain magnets that attract people at those transitional stages of their lives to the state of Kentucky," Cobb says. "UK does a little of it, and so does the University of Louisville, but it's nothing compared to an MIT or even a Vanderbilt (in Nashville)." A business school program that sets itself the goal of doing everything it can to prepare its graduates to start their own businesses, as business schools around the country are increasingly trying to do, is virtually certain to draw from a national pool of students who value such a bottom-line approach.

NURTURING AN ENTREPRENEURIAL CULTURE

Undoubtedly the knottiest issue a state such as Kentucky must face is how to go about making entrepreneurial values and thinking part of the broader culture. In a state with no such track record, can one even contemplate creating a "culture of can-doism?"

Part of the answer, of course, is that to some extent it already exists—not as a statewide phenomenon, perhaps, but in selected communities and industries. This is what lies behind a project in Appalachian Kentucky to be undertaken jointly by Harvard's Greg Dees and Don Harker of MACED. Their goal is essentially to find a set of communities—some that have fostered successful entrepreneurship, others that have failed to do so—and to try to isolate the factors responsible for each outcome. “We’re looking at communities because we think entrepreneurship is as much a community phenomenon as an individual phenomenon,” Dees explains. “We’re trying to understand how these different communities work: what kinds of resources are available in them, what kinds of support systems and structures, what can be done to enhance entrepreneurship in these regions.” The point is that there are currents running through any state that, if strengthened, can buttress the growth of entrepreneurialism.

Robert Friedman of the Corporation for Enterprise Development has a list of ingredients he believes are essential to nurturing an entrepreneurial culture. All of these are already present in Kentucky and in any rural region; the trick is to foster them. They are:

- **RESPECT.** “The only way you build an entrepreneurial economy is by having faith in the people that are around,” Friedman says, “and that includes those of whom most people don’t expect much.” It is foolish, he insists, to write off the talents of people who live in abject poverty or remote communities simply because of the circumstances in which life has placed them. “Even in the most depressed communities,” he says, “where there doesn’t seem to be a future, there are people who are capable of doing amazing things.”

- **MICROENTERPRISE.** Microenterprises—that is, sole proprietorships and small businesses with just a few employees—”provide part-time work to women and men who also have to take care of families, and seasonal work in places where crops have to be harvested,” wrote Hal Kane in a recent Worldwatch Institute report on the issue. “They require little capital, office space, or start-up tittle. They can thrive in rural areas. Jobs in microenterprises are accessible to immigrants and disenfranchised people who need to moonlight or share jobs. And they are run by women at least as often as men.” Beyond being an accessible entry point into the economy for people who have few other options, though, microenterprise strategies have a profound cultural effect. “I can’t tell you how many microbusinesses I’ve gone into where the kids have a corner where they’ve set up their own shop,” Friedman reports. “We know that a major correlative of entrepreneurship is having had a parent or a neighbor who had a business, and it seems to me that should work prospectively as well as retrospectively.”

- **SAVINGS.** We do not encourage savings as a culture, Friedman argues, and it is time to change that. “Income may feed people’s stomachs, but assets change their heads,” he says. “When you have a little bit of savings, it buffers you from the everyday accidents and illnesses that otherwise become crises. As those savings grow, it encourages you to think about a future better than the present—to plan for it and prepare for it. I think it’s directly connected to entrepreneurship, to having a place to stand and the ability to invest in yourself and your kids.” What this demands, he suggests, is not only a deliberate effort to instill the savings habit, but a conscious shift in tax and other policies. “We subsidize asset acquisition on the part of the non-poor to the tune of about $200 billion a year in the tax code, with the home mortgage deduction, preferential capital gains and pension fund exclusions," he points out. "What if a state were willing to match the first $50 to $100 a year of kids' savings in an account restricted to business capitalization, a first home or education. What would that do if you had a generation of kids who grew up knowing there was a nest-egg?"

- **INFORMATION.** "One of the characteristics of entrepreneurs that has always struck me is that the best ones I know are voracious when it comes to gathering information," Friedman says. "They read all the newspapers; they're the first on-line. The use of information technologies to change culture, it seems to me, is absolutely critical." At the very least, spreading information about entrepreneurship helps infuse notions of its value through a given community or culture. Equally important is information about opportunity. "Entrepreneurialism is a process that begins well before people need to have capital or technical assistance," says Dees. "It begins with the recognition of an opportunity. And that requires certain conditions, some of which have to do with the individual and their orientation and mindset, some of which have to do with the environment they're in and whether they have access to the information that would let them know there's an opportunity." Communities that have rich connections to the world beyond their bounds, that know about shifting markets, new technologies and changing ways of doing business, are far more likely to be successful than those that remain isolated and uncaring. For a state like Kentucky, finding ways of tying rural communities one to another, and to the state's urban areas, will be vital.

YES, BUT IN KENTUCKY?

Tackling all of these issues is a big enough challenge for any state. It will be made even harder in states like Kentucky where people don't harbor particularly high expectations of themselves.

Lee Todd tells the story of a conversation he had with a Louisville reporter writing about the state's brain drain. Todd mentioned wanting to hire former students of his who had left Kentucky. "How can you have a business plan to develop a company based on just Kentuckians?" the reporter asked. "Don't you have to have a plan where you're going to be the best company you could possibly be?" "It never occurred to her that some of the best people that could be would be Kentuckians," says Todd.

"The message I get repeatedly is, 'It's not going on here,'" says Kris Kimel. "I can't count the times that we encounter this attitude that we're just blowing smoke [when we preach entrepreneurship]. That it's not critically important to invest in our universities because we're never going to be doing the quality of R&D that's going on at MIT or Stanford. That we ought not invest in our firms because we're never going to create the kind of company that could be the next Microsoft. That it's not worth building this kind of capacity into our education system because our students are not going to be the next generation of entrepreneurs in this state."

What is most dismaying about this attitude is that it can frustrate the simple, eminently do-able steps that add up to measurable progress. Remaking Kentucky's economy is not going to be accomplished by a single, coherent set of policies enacted by the legislature and signed by the governor, or by a group of the state's leading business executives getting together and deciding to make it happen. It will require a far more disorderly process than that. "If an entrepreneurial economy is to come to this state or to develop from the entrepreneurial economy that's already here, it will come from lots of places all at once, not from any single institution," asserts Bob Friedman. *No single player holds the key to an entrepreneurial Kentucky—not state or local government, not the business community, not the banks or the schools or even the state's ordinary citizens; rather,* ***all*** *of them do.*

With this in mind, there are a host of actions that Kentucky's citizens might take to get the ball rolling. These are suggestions, possible routes the state might take, and not prescriptions. Most of them require effort; some of them demand great care in choosing who takes responsibility for them; none of them is impossible.

IDEAS FOR STOKING THE SUPPLY-SIDE

- **CONVENE MEETINGS OF, SAY, 20 ENTREPRENEURS FROM AROUND THE STATE** to talk about transforming the state's economy. The idea, says BellSouth's Joe Mefford, is to "get a core group of entrepreneurs together to identify key issues that would make them be able to operate better in the state of Kentucky, and to talk about ways of changing the culture." This will probably mean handpicking them; the entrepreneurs from eastern Kentucky, for example, would need to be able to convince others within their region of the need for abandoning what Lee Todd calls "the apparel mentality."

  If this is to be an ongoing effort, it will almost certainly have to be coordinated through an adequately staffed organization that is outside both state government and the university system. "If you get 20 entrepreneurs together to lay out some plans, someone's got to take it and run with it," Todd says. "If it's serious enough to do in the first place, it's serious enough to organize in such a way that you can make a difference as a result." This is also likely to be crucial because, as knowledgeable as they may be about what it takes to make their own businesses a success, these entrepreneurs are likely to need help articulating the crucial issues for a state in a way that is meaningful to others.

- **CREATE COMMUNITY COLLEGE-BASED PROGRAMS OF TECHNICAL ASSISTANCE TO ENTREPRENEURS**. These need not be anything glamorous: short courses and continuing education programs that are geared to real-world needs and made as convenient as possible for people who don't have much free time or patience for traditional academic learning. This means, among other things, being quite flexible in when and where these programs take place, and in who teaches them.

- **CREATE AN INFORMAL ENTREPRENEURIAL SERVICE-PROVIDERS' GROUP.** The idea is that, out of their own self-interest, bankers, CPAs and other financial service providers need to identify what "gazelles" (in particular) need but are not getting, and then try to supply it. The group probably ought to be led by an entrepreneur and would be helped enormously in its deliberations by the creation of an informal database of successful entrepreneurs in Kentucky whom its members could consult.

- **FORM LOCAL, INFORMAL GROUPS OF FINANCIAL CAPITAL PROVIDERS.** One of the weaknesses of the state's financial system is that each of its component parts seems to have little interest in learning what the others have available. Learning who has money and what lending profiles they seek to fill would make it far more likely that an entrepreneur entering the system at any single point could get referred to other appropriate potential funding sources.

- **BUILD A SEAMLESS AND TRANSPARENT SUPPLY OF CAPITAL.** If this is to happen, Kentucky needs a statewide micro-lending initiative consisting of both public and private sources of money; a system of "mezzanine" capital providers—people and institutions who can help families and individuals start a business; and a clear idea of the funding gaps, which state government and private capital providers can then work together to fill.

NOTIONS FOR DEVELOPING THE DEMAND-SIDE

- **TAKE ADVANTAGE OF FORMER KENTUCKIANS' DEVOTION TO THE STATE.** People leave Kentucky for all sorts of reasons, but many of them do it reluctantly, because they've been unable to find the educational or employment opportunities they wanted at home. Yet they have talents the state can use. To begin tapping them, it makes sense to create a database of expatriate talent, especially graduates of its universities, that Kentucky entrepreneurs could use as they search for employees and senior talent. A more ambitious project would include a list of all high-school graduates who had left the state to go to a college or university elsewhere. This need not be a public-sector initiative; it may, indeed, prove to be a viable idea for a business.

- **DO THE RESEARCH NEEDED TO "CROSS THE CHASM."** This is a notion propounded by author Geoffrey Moore and brought to the Harrodsburg meeting's attention by Lee Todd. Moore's idea is that, in any marketplace, there is no easy continuum of buyers that runs from innovators and early adopters—the people who tend to be first to latch onto new ideas or products—to those who are more risk-averse. While most businesspeople believe that selling more of their product is simply a matter of expanding beyond the base of early adopters, Moore argues that there is a chasm that must be leaped—that the move from early buyers to the general population actually requires finding specific buyers within the general population who can help make a case for the product. Lee Todd's point is that this notion applies just as readily to those pushing an entrepreneurship agenda. They need to identify the people who can help them sell the idea to a skeptical public. This, however, requires detailed knowledge of the state's business community, its political leadership, its community leaders. And as Pete Plastrik points out, at the moment no one knows much about precisely who in the larger "buying" population—county judge executives, mayors, businesspeople outside Louisville and Lexington, other opinion leaders—is a likely prospect or a point of leverage for convincing others. Figuring out who they are will be vital to the political job of creating a constituency for change.

- **PURSUE INITIATIVES TO BUILD BUSINESS/ENTREPRENEURIAL NETWORKS** within regions and industries. This is, in essence, an effort to create "clusters" of businesses that would support and challenge each other—chains of suppliers, forums for discussing solutions to common business problems, networks for sharing the information that is vital to the smooth functioning of an entrepreneurial economy.

- **COMMERCIALIZE UNIVERSITY RESEARCH AND DEVELOPMENT (R&D).** This is, of course, easier said than done. But readily available first steps would include bringing together the state's college presidents to consider ways of making it possible, perhaps using existing technical assistance, training, and resources provided by the Southern Technology Council. The harder part will entail looking at current incentives for faculty and deciding how reward systems and departmental expectations might be changed to encourage faculty to think in terms of commercializing their research. In the end, this is a cultural question: Are faculty efforts to explore commercial prospects valued and supported, or are they looked at as peripheral—even detrimental—to their duties?

- **TARGET THE MEDIA.** As Janet Holloway of the Kentucky Small Business Development Center comments, "Unless we can educate and pull in the media, I don't think you can have success." This will require sitting down both with publishers and broadcast station owners, who have a natural interest in seeing the state thrive economically, and with editors, to explain what the entrepreneurship effort is trying to accomplish and why.

- **MAKE SURE EVERYONE KNOWS ABOUT THE SEAMLESS SUPPLY OF CAPITAL AND OTHER KEY ENTREPRENEURIAL SERVICES.** The point is obvious: Making services available is futile unless they are widely used. The problem here is not the private sector, whose service providers are unlikely to stop marketing their products. In the public sector, however, that is precisely what tends to happen. "The Legislature can put a million dollars into a program," comments Liz van der Oort of the state's Cabinet for Economic Development, "but there is often never any real money allocated to put the word out there, so [the money] sits and stagnates."

WHAT MAKES IT HAPPEN?

In order for these ideas and others to begin gaining a foothold in Kentucky, they need support from within every sector that has a say in the state's future. They need, for instance:

- **ENDORSEMENT AND COMMITMENT AT THE HIGHEST PUBLIC-SECTOR LEVELS,** without it becoming a totally public sector game. This effort will need political support, but it is crucial at the same time to understand that informal groups of investors or businesspeople, or "skunk works" within state government that are dedicated to the entrepreneurship agenda, may accomplish more. If creating an entrepreneurial culture within Kentucky becomes just one more government program, the effort will fail.

- **A WILLINGNESS ON THE PART OF THE PEOPLE WHO DRIVE ENTREPRENEURSHIP TO BEAR A HEAVIER BURDEN THAN MOST.** On the one hand, they need to continue doing what they do best: creating companies. "It occurs to me," venture capitalist Doug Cobb reflected as the meeting wound down, "that the answer for me is to quit going to conferences and invest in more businesses. What if we put together a venture fund that has a limited-partner board of six or eight entrepreneurs around the state? We would just go create companies. It's clear to me that the most significant point of impact is when some young guy calls up and says, 'I've got an idea,' and even if it's not a great idea but the kid's smart, you work together and you get a business on the ground." On the other hand, they must also be willing to recognize that the state's business climate matters, and to push both the public sector and the state's banks, businesses and business service-providers to tackle the issues that will add up to a more entrepreneurially friendly environment.

- **SUPPORT AT THE COMMUNITY LEVEL.** This takes the entrepreneurship agenda beyond the public and private sectors, and into what The Aspen Institute's Janet Topolsky calls the "community sector." "Any community can start learning to value its entrepreneurs," she explains. "A community can be the driver of this as easily as the public sector or the private sector." This might mean a group of community members deciding that they need to explore routes to reinvigorating the local economy or instilling a sense of can-doism among area residents. It might mean instituting community-based mentoring initiatives for entrepreneurs, or using mentors as one-stop shops for advice and referrals. There are, in short, a host of things that individual communities can do to create a culture in which entrepreneurship thrives.

- **SUPPORT WITHIN THE PUBLIC AT LARGE.** Finding ways of making clear to ordinary Kentuckians what an "entrepreneurial Kentucky" would mean to them will be crucial if any of these initiatives is to gain widespread acceptance.

A FINAL WORD ABOUT STRATEGY

If any single conclusion emerges from the deliberations in Harrodsburg, it is that moving entrepreneurship forward, in Kentucky and elsewhere, will at its heart be a public process—in the sense that building a broad public consensus behind it will demand careful consideration of how to sway a variety of constituencies. At the same time, though, the effort is probably doomed if it becomes political in a more traditional sense. Any initiative to transform the state's economy that becomes too closely identified with a particular political leader or faction of the state's business community will not only be discounted by opposing parties, but deep-sixed once its champions pass from the scene. That is why it properly belongs in the hands of many players.

Yet it also seems fair to say that unless some recognized coordinating group takes responsibility for energizing the effort, it will likewise get lost. Without a group of people whose overriding purpose is the creation of an entrepreneurial economy, who are widely accepted by those who wield public and private power as a reference point in this process, all the initiatives that arise from here on out will be dissipated. When the state's movers and shakers take up the issue of taxes or R&D spending or curricular reform or business recruitment strategies, there must be someone who says, "How does this relate to our goal of creating entrepreneurship in Kentucky? How does it promote new Kentucky enterprises, or Kentucky know-how, or Kentucky-made technology?"

There are advantages to making such a group a formal one; there are also advantages to keeping it as informal as possible. But if entrepreneurship is to grow in Kentucky, it needs champions who are willing, as of today, to devote themselves to its cause. Their contribution may lie, as Doug Cobb suggests above, in simply redoubling their commitment to what they're already doing. It may involve taking up a cause to which they've only given scant attention in the past. But as Pete Plastrik argues in the paper he wrote for the Harrodsburg get-together, "The task ahead for Kentucky and other predominantly rural economies is to learn how to grow many diverse entrepreneurial cultures." This can happen only if the cause of entrepreneurship is embraced by people throughout the state, from many different walks of life. If it remains the passion only of a small group of dreamers in Lexington, Louisville and Frankfort, Kentucky will never realize the entrepreneurial potential that lies within.

APPENDIX A. A LIST OF MEETING PARTICIPANTS

The two days and evenings of the Harrodsburg gathering were remarkable for the concentration attendees devoted to the complex issues laid out in this paper. In formal presentations, small working groups and broad discussion, they tried to distill the central questions that Kentucky and others will face as they tackle entrepreneurship. Though the conversation was filled with attendees' experiences, it also left most of those questions unanswered. As a result, its most important legacy may not so much be that it laid out the terrain to be explored, as that it sparked among the Kentuckians present a determination to embark on the uncertain venture of exploring it. In that regard, this summary and the framing paper that preceded it are only the first steps in an ongoing process. What happens next will rest largely with those who participated in the get-together—and those who are or become interested in the issues it raised.

ATTENDEES FROM KENTUCKY:

SAM BURCHETT
Alford & Burchett—Lexington

MIKE CHILDRESS
Kentucky Long Term Policy Research Center—Frankfort

DOUG COBB
Chrysalis Ventures—Louisville

DAVID FRESHWATER
TVA Rural Studies—Lexington

ARNOLD GAITHER
Mayor's Training Center—Lexington

RONALD GEOGHEGAN
BellSouth Telecommunications—Frankfort

DON HARKER
Mountain Association for Community Economic Development (MACED)—Berea

JANET HOLLOWAY
Kentucky Small Business Development Center—Lexington

KRIS KIMEL
Kentucky Science & Technology Council, Inc.—Lexington

MARK KRISTY
Coopers & Lybrand—Louisville

JOANNE LANG
Kentucky Science & Technology Council, Inc.—Lexington

SYLVIA LOVELY
Kentucky League of Cities—Lexington

JOE MEFFORD
BellSouth Telecommunications—Frankfort

RAY MONCRIEF
Kentucky Highlands Investment Corporation—London

CHARLIE NETT
Kentucky Long Term Policy Research Center—Frankfort

WIMBERLY ROYSTER
Kentucky Science & Technology Council, Inc.—Lexington

JAMES STROHMAIER
Kentucky Long Term Policy Research Center—Frankfort

MELISSA TAYLOR
TVA Rural Studies—Lexington

LEE TODD
DataBeam Corporation—Lexington

LIZ VAN DER OORT
Kentucky Cabinet for Economic Development—Frankfort

OTHER ATTENDEES:

RICHARD ANDERSON
Northern Economic Initiatives Corp.—Marquette, MI

J. GREGORY DEES
Harvard Business School—Cambridge, MA

ROBERT FRIEDMAN
Corporation for Enterprise Development West—San Francisco, CA

MERIWETHER JONES
The Aspen Institute—Washington, DC

RICK LARSON
REAL Enterprises—Durham, NC

PETE PLASTRIK
On Purpose Associates—Lansing, MI

STUART ROSENFELD
Regional Technology Strategies, Inc.—Chapel Hill, NC

NICK SMITH
Community Development & Venture Capital Alliance—Duluth, MN

JEFFREY THOMPSON
Appalachian Regional Commission—Washington, DC

JANET TOPOLSKY
The Aspen Institute—Washington, DC

CAMERON WOLD
Colorado Center for Community Development, Western Entrepreneurial Networks, University of Colorado-Denver—Denver, CO

THE RURAL ECONOMIC POLICY PROGRAM (REPP)

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*Jan Youtie, Philip Shapira and David Roessner. 1995. 55 pages and 75 pages, respectively.
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**THE TSUNAMI, PHOENIX, TEQUILA SUNSET AND FEDEX SCENARIOS:
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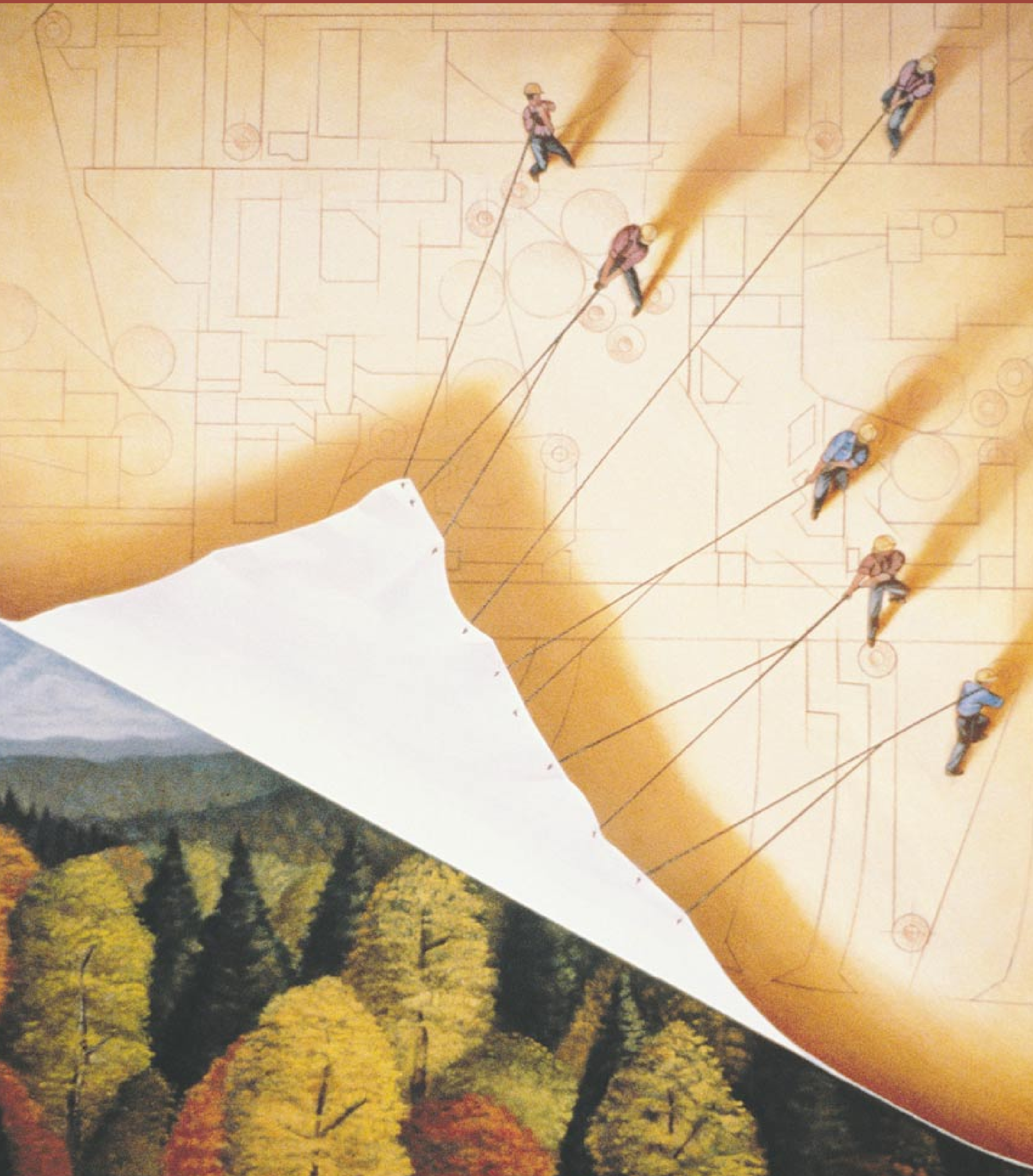

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