

Remarks on Entrepreneurial Cities and Regions

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WHAT COGNETICS, INC. MEASURES/1997

Cognetics, Inc. compares places in terms of their successes fostering startup businesses and nurturing the growth of other companies. They measured *significant starts* — firms started in the last 10 years that employ at least five people today and *young growers* — firms 10 years old or less 4 years ago that grew significantly in the last four years.

Ranking is based on a weighted average of the Significant Start Index and Young Grower Index. Place in the rank was allocated by assigning 100 percent to the top-ranked place and 0 percent to the bottom-ranked place.

DETERMINANTS FOR ENTREPRENEURIAL SUCCESS

Cognetics, Inc. specifies four “hard determinants” related to successful entrepreneurial regions:

- Universities
- A Skilled Labor Force
- Airports
- A Nice Place to Live
- **“Universities are the feedstock for most Gazelles.”** (To be classed as a gazelle, a company must show a minimum of 20% sales growth each year, starting with a base year revenue of at least \$100,000)

In the course of their research, Cognetics, Inc. found that growing companies hire employees with above average skill levels. Proximity to an active university community enhances the workforce. In addition, university laboratories are the source of many entrepreneurs.

Research in both Seattle, WA and Boston, MA revealed intriguing statistics about university-industry relationships: 70 percent of the companies in Seattle had a direct active role in the operation of the University of Washington for a period of time, the two-thirds of a square mile around the Massachusetts Institute of Technology was creating more jobs than 13 states. Even now, this area is creating more jobs than 6 or 8 states.

- ***"A knowledge-value economy requires, as one of its key inputs, a skilled labor force."***

The community must be able to supply a workforce adept with new technologies and flexible enough to grow with the changes. The city of Louisville, KY made a commitment to turn their ill-prepared workforce around. Computers became part of the school curriculum and, in 1994, Louisville graduated its first class with computer-based learning in every grade.

- ***"One of the most striking features of the 1980's was the emergence of smaller firms as global players."***

The importance of the hub airport, ideally an international one, to gazelles cannot be overstated. Nine of the top ten most entrepreneurial larger metropolitan areas are hubs.

Recent research also confirms the importance of hub airports:¹ Comparing Cincinnati, Ohio and Pittsburgh, Pennsylvania, (hub airports) with two non-hub airports (Milwaukee, Wisconsin and Nashville, Tennessee), experts found more rapid and even growth in high-technology jobs in the hub cities.

- ***"A nice place to live' is perhaps the most profound of the hard determinants."***

It can be quantified to some extent: climate, quality of education, recreational and cultural opportunities. An area can maximize its geographic resources to some degree, but climate and topography are fixed. Zoning and planning can help offset problems created by urban sprawl and inner city decline. Cities can control this part of "nice."

THE ENTREPRENEURIAL CLIMATE QUIZ

Cognetics, Inc. tackles some of characteristics of entrepreneurial regions by addressing some *soft determinants*. The bottom line, according to them, is that *"tolerance and recognition of new and different people doing new and different things is the hallmark of a place in which entrepreneurs will start and grow companies."* Check your city out by taking the Entrepreneurial Climate Test.

Entrepreneurial Climate Test

- When city leaders meet with business leaders are there as many CEOs of mid-size growth companies as bankers and big corporate executives?
- Are entrepreneurs invited into the best country and athletic clubs? Do they join?
- Do local newspapers follow the fortunes of start-ups and mid-size growth companies with as much intensity and sophistication as they do large corporations?
- Can innovative companies able to recruit most of their professional workforce from the local area?
- Is there a sizable, visible venture capital community?
- Do local universities encourage faculty and students to participate in entrepreneurial spin-offs? Do they?
- Do growth company CEOs and venture capitalists hold at least a quarter of the seats on the board of the three largest banks?
- 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?
- Is there decent affordable office and industrial space available for new businesses in the central business district?
- Can you quickly think of 10 recent spin-offs (growth companies started by entrepreneurs who have left large companies)?

Score 10 points for every question (there are 10) answered "yes." A score of 70 or higher is passing. Anything less than 70 points suggests that serious attitude readjustments in the community are necessary in order to become an attractive place for growing companies.

SOURCES:

Entrepreneurial Hot Spots: The Best Places in America to Start and Grow a Company (1997) David Birch, Anne Haggerty and William Parsons, Cognetics, Inc.

The Benefits of Being a Hub Airport City: Convenient Travel and High-Tech Job Growth (October 1998) Kenneth Button and Roger Stough. The Institute of Public Policy, George Mason University. (Aviation Policy Program, Working Paper 3.)

Quiz based on *The Upus Tree: Glasgow 1875-1975* (1975) Sydney Checkland, University of Glasgow Press.