

IOWA ENTREPRENEURSHIP TASK FORCE

HD
62.5
.159
1991

FINAL REPORT
FEBRUARY 13, 1991

Submitted in Response to
House File 2482,
73rd General Assembly

THE NEED FOR A COMPREHENSIVE ENTREPRENEURSHIP STRATEGY

The goal of economic development is to create new wealth in a nation, state, region or community. As a 1984 book by the Council of State Planning and Policy Agencies, "The Wealth of States", indicated, there are many ways that economic development can be boosted in an area--through investments in technology and innovation, through investments in education and training, through investments in physical infrastructure, and others. But economic development will not truly occur in a region unless it has a dynamic private sector capable of generating new wealth. The key factor necessary for a vibrant private business community is the presence of entrepreneurship--a willingness to organize, operate and assume the risk for a business venture, thereby producing goods and services that consumers will want to buy. New wealth creation leads to other gains, such as new jobs and tax receipts.

Over the past several years, Iowa has embarked on a comprehensive program for economic development. Strategic plans have been prepared. An impressive array of programs have been created and put into action. The business climate of Iowa has been improved in many ways. Iowa's economy has recovered from the severe recession of the early 1980's and resumed growing. Numerous companies have chosen to locate new plants in Iowa. Many existing companies have expanded here. Iowa's economy has diversified considerably. However, there has not been a great surge in entrepreneurial activity in Iowa as compared to other states.

GENESIS OF THE ENTREPRENEURSHIP TASK FORCE

In response to this situation, the Governor and the seventy-third General Assembly passed House File 2482 and created the Iowa Entrepreneurship Task Force. The legislation indicated that the Iowa Department of Economic Development should convene a task force on or about November 15, 1990 to study ways of encouraging, promoting or supporting entrepreneurship in Iowa. This legislation was an outgrowth of recommendations contained in a report on Iowa's economic future prepared by the Iowa Future Project in November 1989. The Department of Economic Development's Five Year Strategic Plan also identifies Business Development as a critical issue for Iowa's future.

MAKEUP OF THE TASK FORCE

Appointments to the Entrepreneurship Task Force were made during the Fall of 1990. The makeup of the 21 member group included nine Iowa entrepreneurs and business managers, four members of the General Assembly, four representatives of Iowa's Universities, private colleges and community colleges and four representatives of various government organizations providing services to small business and entrepreneurs. A listing of the Task Force membership is provided in the Appendix to this report. Ms. Camille Hogan, President of Shorts Travel, Inc. of Waterloo, served as the Chair of the Task Force. Mr. Ted Johnson,

Chairman of the Board of J-Tech Associates of Cedar Rapids, served as the Vice Chair.

The Bureau of Planning and Research, Iowa Department of Economic Development provided staff support for the Task Force.

PLANNING PROCESS FOLLOWED BY THE TASK FORCE

Following the completion of appointments to the Task Force, a first meeting was convened on November 19, 1990. At the first meeting, a mission statement for the Task Force was developed. The mission statement eventually adopted by the Task Force read:

"To generate an entrepreneurship development strategy that will lead to increases in the formation and success of new and existing business enterprises in Iowa."

The Task Force also decided that a lack of a consistent set of definitions has, in the past, hindered discussions of entrepreneurship in Iowa. The members agreed that economic development is often thought of as the process of creating new jobs, when in fact the point of economic development should be to create new wealth. These definitions are also contained in the Appendix.

Another definition problem involves the terms "entrepreneur" and "inventor". Iowa is rich in inventive genius. But inventors and entrepreneurs are not the same. An inventor is a person who produces or contrives something previously unknown through the use of ingenuity. An entrepreneur is a person who organizes, operates and assumes the risk for a business venture. Entrepreneurs risk their own time and often her own money betting he or she can produce products or services that consumers will want. Although an inventor can come up with a new idea for a product or service, the management talents and risk reduction skills of the entrepreneur are necessary to take it to market and have it succeed as a business. While inventiveness is important, it is entrepreneurial talent that drives new wealth creation.

During the deliberations of the Task Force, there was considerable discussion of "growth companies" versus "mom and pop companies". Research conducted in Iowa indicates that Iowa's small businesses tend to be overwhelmingly of the "mom and pop" variety. Many are sole proprietorships and small retail businesses. They are mainly operated to produce income for the proprietors. Iowa's private sector is dominated by lifestyle and craft-oriented businesses. Very few Iowa firms fit the definition of growth companies.

The Task Force membership decided not to just concentrate its effort on growth companies, feeling instead that all entrepreneurial activities should be supported by the Task Force's recommendations. This is because the "mom and pop" firms, even without much growth potential, still do form the economic foundation of many small Iowa towns.

In developing a comprehensive entrepreneurship strategy for Iowa, the Task Force followed a strategic planning process of the sort used to

develop plans for businesses and non-profit organizations. Background information was gathered. Strengths and weaknesses were assessed.

Critical issues were developed and refined. Finally, achievable strategies were formed for each critical issue.

At the first meeting a set of critical issues for the Task Force was suggested. These are the issues the Task Force feels Iowa needs to address to improve its climate for entrepreneurship. They are:

- * Risk Culture and Entrepreneurial Talent.
- * Private Support Networks for Entrepreneurs.
- * Risk Capital.
- * Service Delivery.
- * Spin-Off Enterprises.
- * Government Barriers to Entrepreneurship.

These issues will be discussed in further detail in a later part of the report.

At the Task Force's second meeting, a paper on entrepreneurship support networks prepared by Joseph Kayne of the National Governors' Association was delivered. This paper discusses the importance of establishing networks of skilled individuals and services to support entrepreneurs. Iowa has attempted to do this with several of its programs, including the Regional Economic Development Centers. Several other states, including Colorado, Florida, Georgia, Illinois, Indiana, Nebraska, North Carolina, and Ohio have established various sorts of support networks or efforts that Iowa can learn from.

Also at the second meeting, several Task Force subcommittees were set up to explore a few of the critical issues in greater depth. These issues included Risk Culture, Risk Capital and Government Barriers to Entrepreneurship. The Risk Culture group addressed both entrepreneurship education and public information on entrepreneurship. This subcommittee also discussed concerns about the effective delivery of government services to small business.

The third meeting of the Task Force, on January 10, 1991, was largely taken up hearing reports of the subcommittees. These contained potential actions and strategies which will be related below. A presentation on why Fairfield, Iowa has become a hotbed of entrepreneurial activity was also part of the third meeting. The gist of this presentation had to do with human factors and entrepreneurial talent as opposed to issues such as taxes, regulations, capital availability or government services.

A final meeting to review the draft Final Report was held on February 4, 1991. Minutes of all four meetings may be found in the Appendix.

LITERATURE REVIEW

The Entrepreneurship Task Force was very concerned that its work be action oriented, build upon previous efforts to promote entrepreneurship in Iowa and capitalize on previous work. Therefore, a review of the literature on enterprise development was completed.

There is considerable literature on the subject of entrepreneurship in Iowa. Included in this literature are several recent research reports and three previous public policy studies. The research reports include Popovich and Buss' 1987 study on rural enterprise, Ernst & Young's 1989 study of the Des Moines area's entrepreneurial climate and the Iowa Department of Economic Development's 1990 evaluation of its business incubators program.

The Popovich and Buss study surveyed rural Iowa entrepreneurs and found them to be a diverse and rather independent group. Most small businesses in Iowa start up on less than \$20,000 in capital, mainly from personal savings and money from relatives. On the other hand, fewer than 15 percent of Iowa small businesses were found to have expansion plans and even fewer have received any form of technical or financial assistance from government. The vast majority of businesses in rural Iowa are one or two person, income-oriented operations.

The Ernst & Young study supports these findings. It also notes that very few Iowa small businesses have much expansion potential and that there are few spin offs of small firms from large firms in the Des Moines area. This fact is attributed to the makeup of the industrial and service base of the area and to a lack of "critical mass" of entrepreneurial talent in the area. The Ernst & Young study also reports that Des Moines area entrepreneurs' awareness of available support services is poor even though there has been a proliferation of service activity recently.

The incubator program evaluation echoed the other reports' findings with regard to a general lack of growth companies in Iowa and a need to improve delivery of services.

Previous public policy efforts aimed at improving Iowa's entrepreneurial climate include INVENT and SCOPE. INVENT was a group convened by the Iowa Business Council in 1988. INVENT's report concentrated mainly on ways that economic development service delivery could be improved. Many improvements can still be made in this area. The SCOPE Task Force, on the other hand, focused on how Iowa's securities regulations could be liberalized to aid in the formation of risk capital to businesses. SCOPE was a great success in that most of its recommendations were later adopted by the Governor and General Assembly. Iowa's securities regulations have been streamlined considerably.

HOW IOWA MEASURES UP ON ENTREPRENEURSHIP

Measurement of entrepreneurial activity in Iowa is made difficult by the fact that there is no truly accurate way to gauge small business starts, growth or health. None of the generally available measures--incorporations, failures, tax permits or INC. Magazines' "growth company" listing, are without drawbacks. Even so, some general observations may be drawn about Iowa's entrepreneurial climate.

The first observation that can be made is that Iowa's private sector is dominated by small businesses. According to the 1987 issue of "County Business Patterns" issued by the US Department of Commerce, nearly 90 percent of all Iowa establishments employ fewer than 20 persons.

As of 1988, there were about 72,000 of these small establishments in Iowa. This was up 7.5 percent from about 67,000 firms in 1980.

Even though there is a large number of small establishments in Iowa, the small business sector has not grown as rapidly as those of other states. Iowa's overall economy and population are ranked about 30th among all the states. Iowa business potentially has a large pool of capital to draw upon for investment, ranking 5th in passive income and 23rd in bank deposits. Iowa consistently ranks about 25th in patents issued. Yet, Iowa ranked 44th in business incorporations in 1988 and 36th in fast growing companies as measured by the Corporation for Enterprise Development. Iowa business incorporations did increase sharply for one year in 1989, but declined back to about the same level experienced from 1980 through 1988 level during 1990.

While Iowa's business incorporation rate has tended to lag behind other states, its business failure rate has not. Business failures in Iowa grew sharply in the mid-1980's during the recession and farm crisis. Failure rates have since declined. But the combination of lower-than-average business incorporation rates and higher-than-average business failure rates translates into an entrepreneurial climate that has been less vibrant than those found elsewhere.

Other measures of Iowa's entrepreneurial economy support a similar conclusion. Although INC. Magazine's "INC 500" list of fast-growing, small companies is an imperfect measure in that it is based on nominated firms, it is still interesting to note that only one Iowa company made the 1990 list.

IOWA SUCCESS STORIES

While many parts of Iowa suffered economic doldrums and out-migration of population during the 1980's, there were success stories. Entrepreneurial companies, like Teleconnect of Cedar Rapids and Microware of Clive did emerge and grow rapidly. Diverse communities, such as Eldora, Fairfield, Mt. Pleasant and Osceola were notable in terms of their ability to generate business activity locally.

Fairfield is an interesting community to study in that it illustrates several key points about the development of a climate in which entrepreneurship can thrive. It is now the home of about fifty growing, entrepreneurial firms in fields ranging from computer software to ice cream. Fairfield provides an excellent illustration of the key role management talent play in entrepreneurship. A pool of entrepreneurs has been attracted from around the globe. A "critical mass" of talented and motivated individuals has been created. The local community, along with the staff of the local University, are very supportive of new and growing business ventures. Support services and networks--involving management consulting, venture capital, accounting, legal and the like--have been created. A true entrepreneurial culture has been created on a small scale.

IOWA'S ENTREPRENEURIAL STRENGTHS AND WEAKNESSES

Another analysis prepared for the Task Force listed Iowa's entrepreneurial strengths and weaknesses. A complete copy of these listings is contained in the Appendix. The main strength of Iowa in terms of entrepreneurship is that there is evidence of new business start-up activity throughout the state, both in urban and rural areas. The legislature and Governor have cooperatively enacted a number of new programs and other legislation that has improved Iowa's overall business climate. The main weaknesses have to do with conditions necessary to support growth companies. There are relatively few experienced entrepreneurs and therefore not the "critical mass" necessary to support a large number of rapidly-growing, wealth-oriented companies. Services provided for entrepreneurs are not as effective and customer-oriented as they could be, although the foundations have been laid.

Another set of strengths and weaknesses revolve around capital formation and availability. Iowa is a wealthy state measured in terms of indicators such as bank deposits and investment income. Iowa banks are very liquid and tend to be very conservative about making business loans. They view their role as lenders for real estate and other activities which involve little risk. This frustrates potential entrepreneurs, although the banks' prime responsibility is to protect their depositors. More needs to be done in Iowa in terms of involving Iowa banks in business financing, particularly in rural areas.

DISCUSSION OF CRITICAL ISSUES

Once Iowa's strengths and weaknesses are understood, the issues facing the state in improving its entrepreneurial climate become clear. Six critical issues were identified by the Task Force as part of its strategic planning process. These were each stated in the form of a question or set of questions. The answers to those questions are the strategies the Task Force recommends be followed in improving Iowa's climate for entrepreneurship. The six issues identified are stated below. Each has several questions associated with it. In answering the questions, the Task Force developed a strategic plan for supporting a greater degree of entrepreneurship in Iowa.

1. RISK CULTURE AND ENTREPRENEURIAL TALENT.

- * How can Iowa develop a cultural environment that more fully supports business risk taking from start-up through the entire growth process?
- * How can Iowa build a larger pool of entrepreneurial talent?

2. PRIVATE SUPPORT NETWORKS FOR ENTREPRENEURS.

- * What can be done to establish and improve networks of support, training and information for entrepreneurs and Iowans considering starting business ventures so that improved business

plans and stronger active ventures are supported?

- * How can Iowa entrepreneurs be trained in such subject areas as risk management and successful business growth strategies?

3. IMPROVED AVAILABILITY OF RISK CAPITAL.

- * What can be done to encourage Iowans and Iowa institutions to make investments which provide risk capital?
- * How can managers of capital resources be trained so that they are better able to participate in business deals?
- * How can entrepreneurs be put in touch with available sources of risk capital?

4. SERVICE DELIVERY, COORDINATION AND MARKETING.

- * How can available public and private support services for entrepreneurs be coordinated and marketed more effectively?
- * How effective are these services?
- * Are there gaps in the services provided? How can program managers be encouraged to behave less bureaucratically ?

5. SPIN-OFFS FROM LARGE COMPANIES AND UNIVERSITIES.

- * What can be done to encourage spin-offs of new, growing companies from Iowa's large firms and research institutions?
- * How can "intrapreneurship" and a spirit of innovation be encouraged within existing Iowa companies?

6. GOVERNMENT BARRIERS TO ENTREPRENEURSHIP.

- * Are there tax, regulatory or other government-created barriers to entrepreneurship in Iowa? If so, what can be done to ease them?
- * What can be done to see that government becomes more supportive of business development in Iowa?

Each of these issues and their accompanying strategies is addressed in the following sections. The discussions are based on the subcommittees' reports.

RISK CULTURE AND ENTREPRENEURIAL TALENT

Clearly, Iowa's greatest weakness in terms of entrepreneurship is a relative lack of entrepreneurial talent. This weakness is also reflected in an Iowa culture which is in many ways unfamiliar with the sorts of opportunities, needs and business risks associated with entrepreneurship.

The Task Force strongly feels that some of the most important, yet difficult, steps that Iowa can take to improve its entrepreneurial climate involve making basic changes in Iowa's economic culture. Iowa must attract, grow and retain entrepreneurial talent. It must also develop a comprehensive entrepreneurship education program so that its youth become aware of entrepreneurship as a career option. Adults who want to begin business ventures must be able to gain the skills necessary to do so. Existing Iowa entrepreneurs must be able to improve their abilities. Finally, the general public of Iowa must become more comfortable and supportive of entrepreneurs and entrepreneurship.

Since this critical issue involves changing Iowa's economic culture, quick results should not be expected. This process may take a generation to have a measurable effect.

Recommended Strategies:

1. Develop an effort to recruit experienced entrepreneurs to Iowa. Several models or opportunities may exist. One possible model for this effort is a recruiting program recently begun in Nebraska by the Nebraska Research and Development Authority (NRDA), a state authority similar to the Iowa Product Development Corporation. NRDA is able to temporarily employ venture managers who eventually leave the state payroll to take on key management responsibilities for companies in which the authority invests. Also, US immigration policy now permits special consideration for attracting entrepreneurial talent. This may present Iowa with another means of attracting new talent.
2. Have the Departments of Education and Economic Development cooperatively develop a statewide database and clearinghouse on continuing education entrepreneurship courses and programs offered throughout Iowa. The two Departments should make this database available to the public through such service providers as the Small Business Development Centers, business incubators and Regional Economic Development Centers. Get the word out.
3. Improve education and training efforts aimed at helping Iowa businesses manage growth and the risks of growth. Have the Department of Economic Development coordinate a Business Growth conference once a year.
4. Require the Iowa Department of Education to establish entrepreneurship and free enterprise courses as part of the school curriculum for grades K-12. The Department should require public school teachers to take entrepreneurship/business enterprise

courses as part of their continuing education to maintain a teaching certificate. The Department should also track the availability of entrepreneurship programs in public schools.

5. Encourage public schools to sponsor and organize school/business interaction programs and events, including field trips, in-school speakers career days and "adopt-a-school" programs.
6. Provide incentives and direction to Iowa's public universities and private colleges and universities to develop additional coursework and educational experiences related to entrepreneurship and new business venture creation. Resources may be needed for additional faculty positions, scholarships for students of entrepreneurship and for a statewide conference on ways of integrating the teaching of entrepreneurship into educational curricula.
7. Improve general public awareness of entrepreneurs in Iowa and the possibilities for entrepreneurship here by integrating such material into economic development marketing campaigns. Successful Iowa ventures should be actively profiled and promoted in state and perhaps national media. Iowa should be promoted as a pro-entrepreneurship state with great advantages as a place to start and grow a business venture.
8. Examine the feasibility of establishing an intensive training program for a small group of entrepreneurs similar to the Colorado Leading Edge Program. Participants would be selected on a competitive basis. Private sector funding should be sought if such a program is established.
9. Encourage the continuation of the ten existing Iowa business incubators. The incubators serve as focal points for support services to entrepreneurs and as a conduit for identifying entrepreneurial talent on a regional basis.

PRIVATE SUPPORT NETWORKS FOR ENTREPRENEURS

Entrepreneurs need support services, training and information to succeed. In many states and regions, these services are provided through the mechanism of private support networks. Private support networks are organized to link entrepreneurs with more experienced entrepreneurs, with investment "angels", with venture capital funds, with management expertise, with attorneys, with experts on employee benefits and with accountants. There are several such networks already operating in or near Iowa, but more support networks could operate here.

Recommended Strategies:

1. Encourage corporate leaders and other Iowans involved in entrepreneurship to invite in and, if necessary underwrite the establishment of private support networks in Iowa. Groups which can help in starting private support networks in parts of Iowa include The Entrepreneurship Institute operating out

of Columbus, Ohio and the INC. Magazine Council of Growing Companies. The Entrepreneurship Institute is now active in Omaha.

2. Encourage attorneys, management consultants, accountants and other professionals to provide pro bono services for entrepreneurs through various support organizations (such as incubators) and trade and professional organizations. Some of this activity already goes on in Iowa, but more could be done.
3. Establish a pilot project for a regional entrepreneurship support network through one or several Regional Economic Development Centers, Business Incubators or Rural Technical Assistance Centers. This effort could be modelled on regional efforts in other states and should stress education and mentoring of entrepreneurs.

RISK CAPITAL

Iowa is a wealthy state, ranking high in both bank deposits and investment income. However, until recently, it has been difficult to obtain venture capital or other risk capital in this state. Bank lending activity has been tied mainly to agriculture and real estate. However, a number of recent public and private initiatives, including the Iowa Product Development Corporation, the Community Economic Betterment Account, Venture Funds of Iowa, the Business Development Finance Corporation, the Heartland Seed Capital Fund and Venture Network of Iowa, have made risk capital and business expansion capital more readily available. In addition, securities regulation reform suggested by the SCOPE Task Force has expedited raising funds through public stock offerings.

Still, more can be done in Iowa to make it easier for businesses to get the capital they need to start up, develop new products, modernize, expand and compete more effectively. There is particularly a gap in capital availability for small businesses wanting to expand or modernize without assuming a large amount of high cost debt.

Recommended Strategies:

1. Move away from the current emphasis on job creation and toward an emphasis on wealth creation in the administration of State-funded business financing programs.
2. Retain or restore as much flexibility as possible in State funded financial assistance programs. Excessive requirements and regulations make it difficult to use the programs and slow project development. It is also vital that the State and the media both recognize that there is an inherent risk in funding new and growing enterprises--some entrepreneurs simply will not succeed. Many will.
3. Provide for an independent, outside evaluation of each State financial assistance program to see if they are meeting their intended purpose, if they are sufficiently used and if their users are satisfied. Determine if any programs are duplicative or overlapping and could be combined into fewer, more flexible ones.

4. Market Iowa to outside venture funds and attempt to convince them to establish Iowa offices or representatives.
5. Conduct an evaluation of whether income tax laws, State and federal, discourage the availability of risk capital in Iowa. Consider lobbying the US Congress for a reduction in the federal capital gains tax rate.
6. Encourage--perhaps through appropriate incentives--major industries in Iowa to act as investment angels for entrepreneurs.
7. Expand the linked deposit concept to create a low-interest financing mechanism to serve the growth needs of small businesses in Iowa. This effort should not be limited to disadvantaged businesses alone.
8. Support current efforts to train Iowa bankers to make greater use of deposits for local business loans.

SERVICE DELIVERY, COORDINATION AND MARKETING

Iowa has an extensive and bewildering range of technical assistance programs and financing programs aimed at encouraging economic development and business growth. There are so many programs and service providers involved in business development that users cannot hope to understand the system; even persons involved in providing services are confused. Large guidebooks and charts have been developed to help businesspersons navigate through this maze.

A recent survey of several thousand Iowa businesses indicates that few of Iowa's business development programs are well-known or extensively used. This seems to stem mainly from a lack of effective marketing. Services need to become more pro-active and more customer-focused. Service providers need to be knocking on new businesses' doors and assessing their needs rather than waiting for them to walk in the door.

Delivery of Iowa's business development programs and services is in desperate need of cleaning up and consolidation. Emphasis needs to be placed on making existing business development programs work better rather than on creating any new programs.

Recommended strategies:

1. Continue the process of regional service provider identification begun by the Regional Economic Development Centers. Matrices of service providers have been completed and are now in draft form. A computer database version of these matrices should be developed and kept updated and tied in with recommendation number 3 below.
2. Require the development and implementation of marketing plans for economic development services on a regional basis. The plans should be based on solid business data/information and local knowledge. Services need to concentrate on outreach and be pro-active.

3. Provide a 1-800 telephone number (an "Entrepreneurship Hotline") for simplified access to an economic development service clearinghouses both on a statewide basis. This service should be developed through the cooperation of the Iowa Department of Economic Development, other service providers and private industry. Staff supporting the hotline must be well-trained and knowledgeable about all relevant services.
4. Consider requiring the co-location of all economic service providers in each region of the state. This would allow support staff and other overhead expenses to be shared among several providers, thus putting more resources into customer service.
5. Review regional service provider matrices to identify opportunities for program or provider consolidation. Require an independent evaluation of all business technical assistance programs and services and act on its recommendations.
6. Pilot alternative systems of business service provision, such as a voucher system in which greater choice is given to the customers. Both public and private service providers should be included in this system.

SPIN-OFFS FROM LARGE COMPANIES AND UNIVERSITIES

In some parts of the country, particularly along Route 128 in Massachusetts, in California's Silicon Valley and around North Carolina's Research Triangle, entrepreneurial spin-offs from larger companies and universities are common. In Iowa, this sort of activity is fairly rare. The reasons for this probably include the lack of experienced entrepreneurial talent in Iowa, the composition of Iowa's industrial and services base (in non-"high-tech" manufacturing, agriculture and insurance) and the short amount of time that Iowa has recognized the possibilities for transferring technology from the university laboratory and into the marketplace. Still, some limited successes have occurred and Iowa has begun to make substantial investments in applied research and technology transfer.

Recommended Strategies:

1. Adopt a more aggressive plan to market Iowa's locational advantages for research and development activities that fit with the strengths of Iowa's research institutions, for instance advanced materials at Iowa State University or biocatalysis at the University of Iowa.
2. Continue to make carefully-targeted investments in applied research, research and development infrastructure and technology transfer associated with Iowa's research institutions.
3. Encourage Iowa's largest companies to actively support "intrapreneurs" operating within them and to invest in promising spin-off enterprises that could locate in Iowa.

4. Support the use of the Wallace Technology Foundation to identify Iowa companies' needs and interests in technology transfer and serve as a bridge between research organizations and the marketplace. Keep the companies "in the driver's seat" in technology transfer.

GOVERNMENT BARRIERS TO ENTREPRENEURSHIP

Governments in Iowa do not purposefully erect barriers to successful business ventures. However, government and entrepreneurs have different goals and often operate on very different time schedules. This may lead to misunderstanding or conflict. When government is involved in issuing permits necessary for the operation of a business, excessive delays may threaten the very existence of a firm. This has been particularly true in Iowa for environmental permits which are now required for compliance with newly-enacted laws. When an entrepreneurial firm is participating in a government financing or procurement program, delays in disbursing contracted funds can also cause severe cash flow problems.

Recommended Strategies:

1. Develop a training course in business operations and require completion of it for State government employees involved in either regulating or financing business in Iowa.
2. Require State government permitting and financing programs to operate on an "account executive" basis. Businesses should have a single individual to contact throughout the permitting or application process.
3. Strengthen and consolidate small business support and financing functions within the Iowa Department of Economic Development.
4. Enact proposed legislation to create a permanent Small Business Advisory Council. This group will advise State government on policy issues of importance to small business and entrepreneurs. Its activities should be given a high profile.
5. Enact legislation to expedite payments from State government to businesses. This does not mean that State government should abrogate its responsibility to make sure that public moneys are expended wisely and for their intended purpose.
6. Streamline the State environmental permitting process wherever possible.
7. Make sure that each State financing and regulatory program involving business has a clear and measurable service standard in terms of processing time.

PLAN FOR ACTION

The Entrepreneurship Task Force does not wish to see its efforts simply become "another report decorating a bookshelf". Actions are needed to insure that recommendations are turned into reality. Some of these actions are simple and can be accomplished almost immediately with limited resources. Others require more study. Some require legislation.

The following Action Plan restates the Task Force's recommendations and places them into three categories. The first are recommendations requiring some sort of legislative action to implement. In the second category are items that should be able to be acted upon by the Executive Branch through adjustments to existing programs or administrative procedures. The third category includes recommendations on which the private sector should take the lead.

ITEMS FOR LEGISLATIVE ACTION:

1. Provide incentives and direction to Iowa's public universities and private colleges and universities to develop additional coursework and educational experiences related to entrepreneurship and new business venture creation. Resources may be needed for additional faculty positions, scholarships for students of entrepreneurship and for a statewide conference on ways of integrating the teaching of entrepreneurship into educational curricula.
2. Examine the feasibility of establishing an intensive training program for a small group of entrepreneurs similar to the Colorado Leading Edge Program. Participants would be selected on a competitive basis. Private sector funding should be sought if such a program is established.
3. Encourage the continuation of the ten existing Iowa business incubators. The incubators serve as focal points for support services to entrepreneurs and as a conduit for identifying entrepreneurial talent on a regional basis.
4. Move away from the current emphasis on job creation and toward an emphasis on wealth creation in the administration of State-funded business financing programs.
5. Retain or restore as much flexibility as possible in State funded financial assistance programs. Excessive requirements and regulations make it difficult to use the programs and slow project development. It is also vital that the State and the media both recognize that there is an inherent risk in funding new and growing enterprises--some entrepreneurs simply will not succeed. Many will.
6. Provide for an independent, outside evaluation of each State financial assistance program to see if they are meeting their intended purpose, if they are sufficiently used and if their users are satisfied. Determine if any programs are duplicative or overlapping and could be combined into fewer, more flexible ones.

7. Expand the linked deposit concept to create a low-interest financing mechanism to serve the growth needs of small businesses in Iowa. This effort should not be limited to disadvantaged businesses alone.
8. Review regional service provider matrices to identify opportunities for program or provider consolidation. Require an independent evaluation of all business technical assistance programs and services and act on its recommendations.
9. Consider requiring the co-location of all economic service providers in each region of the state. This would allow support staff and other overhead expenses to be shared among several providers, thus putting more resources into customer service
10. Continue to make carefully-targeted investments in applied research, research and development infrastructure and technology transfer associated with Iowa's research institutions.
11. Enact proposed legislation to create a permanent Small Business Advisory Council. This group will advise State government on policy issues of importance to small business and entrepreneurs. Its activities should be given a high profile.
12. Enact legislation to expedite payments from State government to businesses. This does not mean that State government should abrogate its responsibility to make sure that public moneys are expended wisely and for their intended purpose.
13. Streamline the State environmental permitting process wherever possible.

ITEMS FOR EXECUTIVE BRANCH/DEPARTMENTAL ACTION:

1. Develop an effort to recruit experienced entrepreneurs to Iowa. Several models or opportunities may exist. One possible model for this effort is a recruiting program recently begun in Nebraska by the Nebraska Research and Development Authority (NRDA), a state authority similar to the Iowa Product Development Corporation. NRDA is able to temporarily employ venture managers who eventually leave the state payroll to take on key management responsibilities for companies in which the authority invests. Also, US immigration policy now permits special consideration for attracting entrepreneurial talent. This may present Iowa with another means of attracting new talent.
2. Have the Departments of Education and Economic Development cooperatively develop a statewide database and clearinghouse on continuing education entrepreneurship courses and programs offered throughout Iowa. The two Departments should make this database available to the public through such service providers as the Small Business Development Centers, business incubators and Regional Economic Development Centers. Get the word out.

3. Improve education and training efforts aimed at helping Iowa businesses manage growth and the risks of growth. Have the Department of Economic Development coordinate a Business Growth conference once a year.
4. Require the Iowa Department of Education to establish entrepreneurship and free enterprise courses as part of the school curriculum for grades K-12. The Department should require public school teachers to take entrepreneurship/business enterprise courses as part of their continuing education to maintain a teaching certificate. The Department should also track the availability of entrepreneurship programs in public schools.
5. Encourage public schools to sponsor and organize school/business interaction programs and events, including field trips, in-school speakers career days and "adopt-a-school" programs.
6. Improve general public awareness of entrepreneurs in Iowa and the possibilities for entrepreneurship here by integrating such material into economic development marketing campaigns. Successful Iowa ventures should be actively profiled and promoted in state and perhaps national media. Iowa should be promoted as a pro-entrepreneurship state with great advantages as a place to start and grow a business venture.
7. Establish a pilot project for a regional entrepreneurship support network through one or several Regional Economic Development Centers, Business Incubators or Rural Technical Assistance Centers. This effort could be modelled on regional efforts in other states and should stress education and mentoring of entrepreneurs.
8. Market Iowa to outside venture funds and attempt to convince them to establish Iowa offices or representatives.
9. Conduct an evaluation of whether income tax laws, State and federal, discourage the availability of risk capital in Iowa. Consider lobbying the US Congress for a reduction in the federal capital gains tax rate.
10. Continue the process of regional service provider identification begun by the Regional Economic Development Centers. Matrices of service providers have been completed and are now in draft form. A computer database version of these matrices should be developed and kept updated.
11. Require the development and implementation of marketing plans for economic development services on a regional basis. The plans should be based on solid business data/information and local knowledge. Services need to concentrate on outreach and be proactive.
12. Provide a 1-800 telephone number (an "Entrepreneurship Hotline") for simplified access to an economic development service

clearinghouses both on a statewide basis. This service should be developed through the cooperation of the Iowa Department of Economic Development, other service providers and private industry. Staff supporting the hotline must be well-trained and knowledgeable about all relevant services.

13. Pilot alternative systems of business service provision, such as a voucher system in which greater choice is given to the customers. Both public and private service providers should be included in this system.
14. Adopt a more aggressive plan to market Iowa's locational advantages for research and development activities that fit with the strengths of Iowa's research institutions, for instance advanced materials at Iowa State University or biocatalysis at the University of Iowa.
15. Support the use of the Wallace Technology Foundation to identify Iowa companies' needs and interests in technology transfer and serve as a bridge between research organizations and the marketplace. Keep the companies "in the driver's seat" in technology transfer.
16. Develop a training course in business operations and require completion of it for State government employees involved in either regulating or financing business in Iowa.
17. Require State government permitting and financing programs to operate on an "account executive" basis. Businesses should have a single individual to contact throughout the permitting or application process.
18. Strengthen and consolidate small business support and financing functions within the Iowa Department of Economic Development.
19. Make sure that each State financing and regulatory program involving business has a clear and measurable service standard in terms of processing time.

ITEMS FOR PRIVATE SECTOR ACTION:

1. Encourage corporate leaders and other Iowans involved in entrepreneurship to invite in and, if necessary underwrite the establishment of private support networks in Iowa. Groups which can help in starting private support networks in parts of Iowa include The Entrepreneurship Institute operating out of Columbus, Ohio and the INC. Magazine Council of Growing Companies. The Entrepreneurship Institute is now active in Omaha.
2. Encourage attorneys, management consultants, accountants and other professionals to provide pro bono services for entrepreneurs through various support organizations (such as incubators) and trade and professional organizations. Some of this activity already goes on in Iowa, but more could be done.

3. Encourage--perhaps through appropriate incentives--major industries in Iowa to act as investment angels for entrepreneurs.
4. Support current efforts to train Iowa bankers to make greater use of deposits for local business loans.
5. Encourage Iowa's largest companies to actively support "intrapreneurs" operating within them and to invest in promising spin-off enterprises that could locate in Iowa.

APPENDIX

- * Task Force Membership
- * House File 2482
- * Working Definitions for the Task Force
- * Needs of Entrepreneurs
- * Entrepreneurship Statistics for Iowa
- * Iowa's Entrepreneurial Strengths and Weaknesses
- * Task Force Meeting Agendas and Minutes
- * Bibliography

Entrepreneurship Task Force

Ms. Les Horrell
Sioux City Chamber of Commerce
101 Pierce Street
Sioux City, Iowa 51101

Ms. Betty Davis
Intern Director
Des Moines Housing Council
1151 24th Street
Des Moines, Iowa 50311

Dr. Charles Davis
Chairman
Entrepreneurial Studies
College of Business Admin., UNI
Cedar Falls, Iowa 50614

Dr. Ken Stone
Iowa State Extension Service
Iowa State University
Ames, Iowa 50011

Mr. Michael F. Klimesh
Upper Iowa University
105 N. Main
P.O. Box 97
Spillville, Iowa 52160

Mr. David Lyons
Commissioner
Iowa Division of Insurance
Lucas State Office Building
L O C A L

Honorable John Peterson
State Senator
8 1/2 Washington Avenue W.
Albia, Iowa 52531

Honorable Paul Pate
State Senator
2670 27th Avenue
Marion, Iowa 52302

Honorable Glen Jesse
State Representative
RR 2
Mitchellville, Iowa 50169

Honorable Ron Corbett
State Representative
276 Northview Place
Cedar Rapids, Iowa 52402

Ms. Sally Smith
Chops of Iowa, Inc.
600 5th Ave. N. 18
Des Moines, Iowa 50309

Mr. Jim Davies
Vice President/General Manager
Davies Manufacturing
521 4th Street S.E.
Hampton, Iowa 50441

Ms. Kathleen Kelly
President
TeleDirect International, Inc.
736 Federal Street
Davenport, Iowa 52803

Ms. Camille Hogan CHAIR
President
Shorts Travel Services, Inc.
1001 Peoples Square
Waterloo, Iowa 50701

Mr. Bill Rose, Jr.
President
The Bagel Works
P.O. Box 138
Ellsworth, Iowa 50075

Mr. Warren Dunham ✓
Warren Dunham & Associates
Golden Circle Incubator
2010 S. Ankeny Blvd.
Ankeny, Iowa 50021

Mr. Ken Kaplan
Microwave Systems Corp.
1866 N.W. 114th Street
Clive, Iowa 50322

Mr. Ted Johnson VICE CHAIR
Chairman of the Board
J-Tech Associates
5255 Rockwell Drive N.E.
Cedar Rapids, Iowa 52402

Ms. Eleanor Kaiser
President
Rose Bar
7807 Wilwood Lane
Toddville, Iowa 52341

Dr. Nancy Tomes
Microbial Genetics
7300 N.W. 62nd Ave.
P.O. Box 38
Johnston, Iowa 50131

Ms. Jan Bahr
Iowa Lakes Community College
300 S. 18th St.
Estherville, Iowa 51334

HOUSE FILE 2482

AN ACT

ESTABLISHING AN ENTREPRENEURSHIP TASK FORCE, AND PROVIDING AN APPROPRIATION.

BE IT ENACTED BY THE GENERAL ASSEMBLY OF THE STATE OF IOWA:

Section 1. ENTREPRENEURSHIP TASK FORCE.

The department of economic development shall convene an entrepreneurship task force on November 15, 1990, or as soon thereafter as practicable, for the purpose of studying how to encourage, promote, and support entrepreneurship in the state with the goal of increasing the formation and success of new business enterprises. The entrepreneurship task force shall be composed of twenty-five members appointed or designated by August 1, 1990, as follows:

1. The director of the department of economic development or the director's designee.
2. A member of the board of directors of the Wallace technology transfer foundation appointed by the board of directors of the Wallace technology transfer foundation.
3. A member of the board of directors of a small business economic development corporation appointed by the director of the department of economic development.
4. A member of the board of directors of the Iowa product development corporation appointed by the board of directors of the Iowa product development corporation.
5. A member of the board of directors of the Iowa business development corporation appointed by the board of directors of the Iowa business development corporation.
6. A member of the Iowa finance authority board appointed by the Iowa finance authority board.
7. A representative of the university of Iowa to be appointed by the president of the university of Iowa, a

representative of Iowa state university of science and technology to be appointed by the president of Iowa state university of science and technology, and a representative of the university of northern Iowa to be appointed by the president of the university of northern Iowa.

8. A representative of the community colleges appointed by the Iowa association of community college presidents.

9. A representative of the private colleges and universities appointed by the Iowa association of independent colleges and universities.

10. A designee of the governor from state government.

11. A senator appointed by the majority leader of the senate.

12. A senator appointed by the minority leader of the senate.

13. A member of the house of representatives appointed by the speaker of the house of representatives.

14. A member of the house of representatives appointed by the minority leader of the house of representatives.

15. Nine public members who are actively engaged as entrepreneurs appointed by the governor.

If a member has not been appointed by the date of the convening of the task force, the members already in place shall appoint the member at the task force's first meeting. A vacancy occurring in the membership of the entrepreneurship task force shall be filled in the same manner as the original appointment. The members' appointments shall terminate December 31, 1991. The members shall elect a chairperson at the first meeting of the task force. The chairperson shall call and conduct all future meetings.

The entrepreneurship task force shall submit a report of the task force's deliberations with a request for assistance to further study entrepreneurship or with specific recommendations to the department of economic development for transmission to the governor and the general assembly by January 15, 1991.

Sec. 2. APPROPRIATION.

There is appropriated from the general fund of the state to the department of economic development for the fiscal period beginning July 1, 1990, and ending January 15, 1991, the following amount, or so much thereof as is necessary, to be used for the purpose designated:

For the entrepreneurship task force for expenses as necessary:

..... \$ 25,000

DONALD D. AVENSON
Speaker of the House

JO ANN ZIMMERMAN
President of the Senate

I hereby certify that this bill originated in the House and is known as House File 2482, Seventy-third General Assembly.

JOSEPH O'HERN
Chief Clerk of the House

Approved _____, 1990

TERRY E. BRANSTAD
Governor

WORKING DEFINITIONS FOR ENTREPRENEURSHIP TASK FORCE

ECONOMIC DEVELOPMENT: The real goal of economic development is to create new wealth. Job creation may occur as a result of wealth creation.

WEALTH CREATION: Wealth is created by using resources (land, labor, capital, technology, ideas, management skill, time, etc..) in more valuable ways so as to create new opportunities (goods and services) for consumers.

ENTREPRENEUR: A person who organizes, operates and assumes the risk for a business venture. Entrepreneurs risk their time and usually their own money betting they can produce new goods and services that consumers will want; or make existing ones better or available at lower cost; or penetrate new markets with existing goods and services.

INVENTOR: A person who produces or contrives something previously unknown by the use of ingenuity or imagination. Inventors and entrepreneurs are not the same.

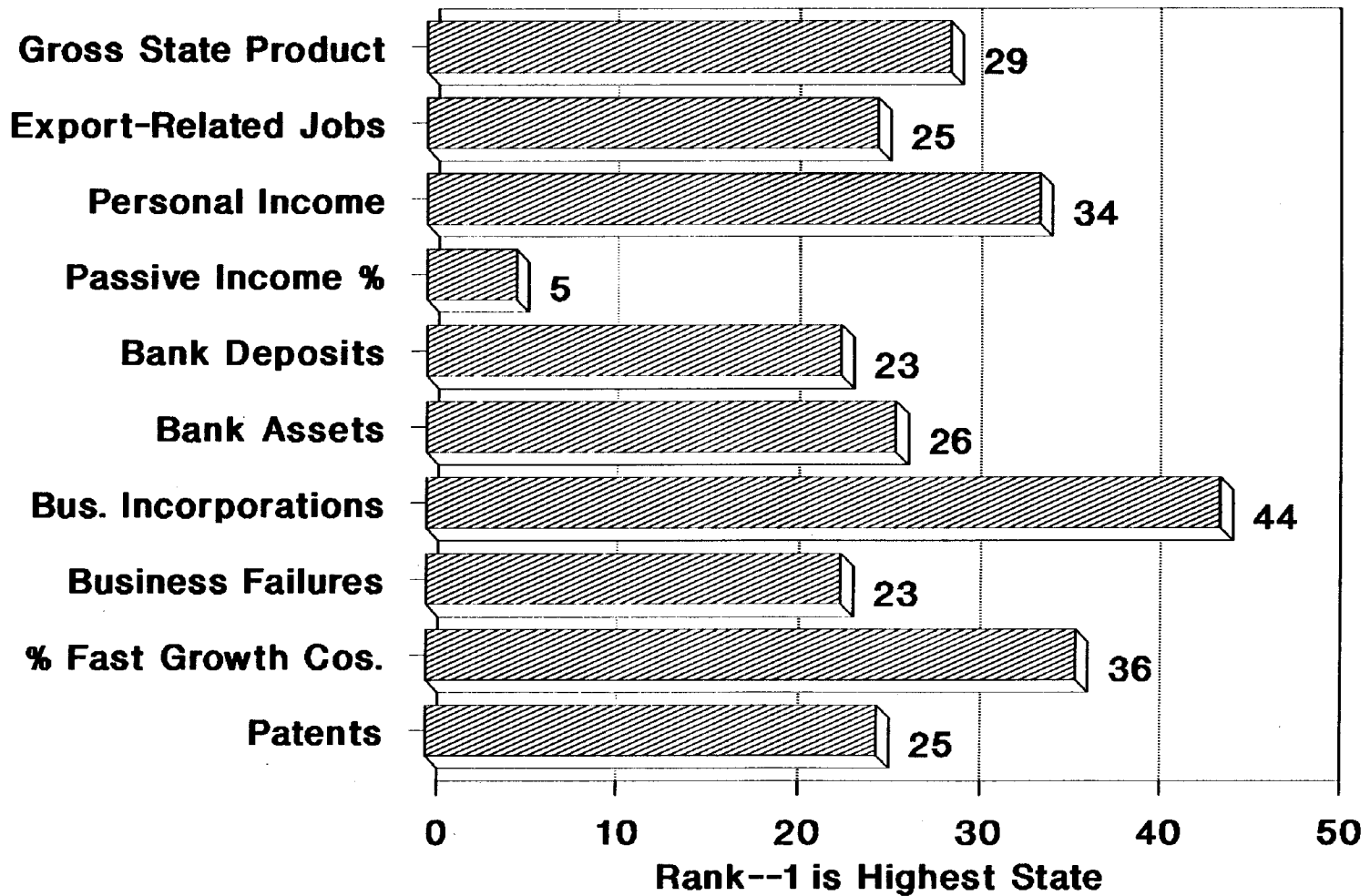
SELF-EMPLOYED PERSON: A proprietor of an income-oriented, locally-marketed business.

MANAGER: A person charged with the day-to-day direction of a business enterprise. A manager may, in later stages in the life cycle of an enterprise, be better able to run and grow it than an entrepreneur.

NEEDS OF ENTREPRENEURS

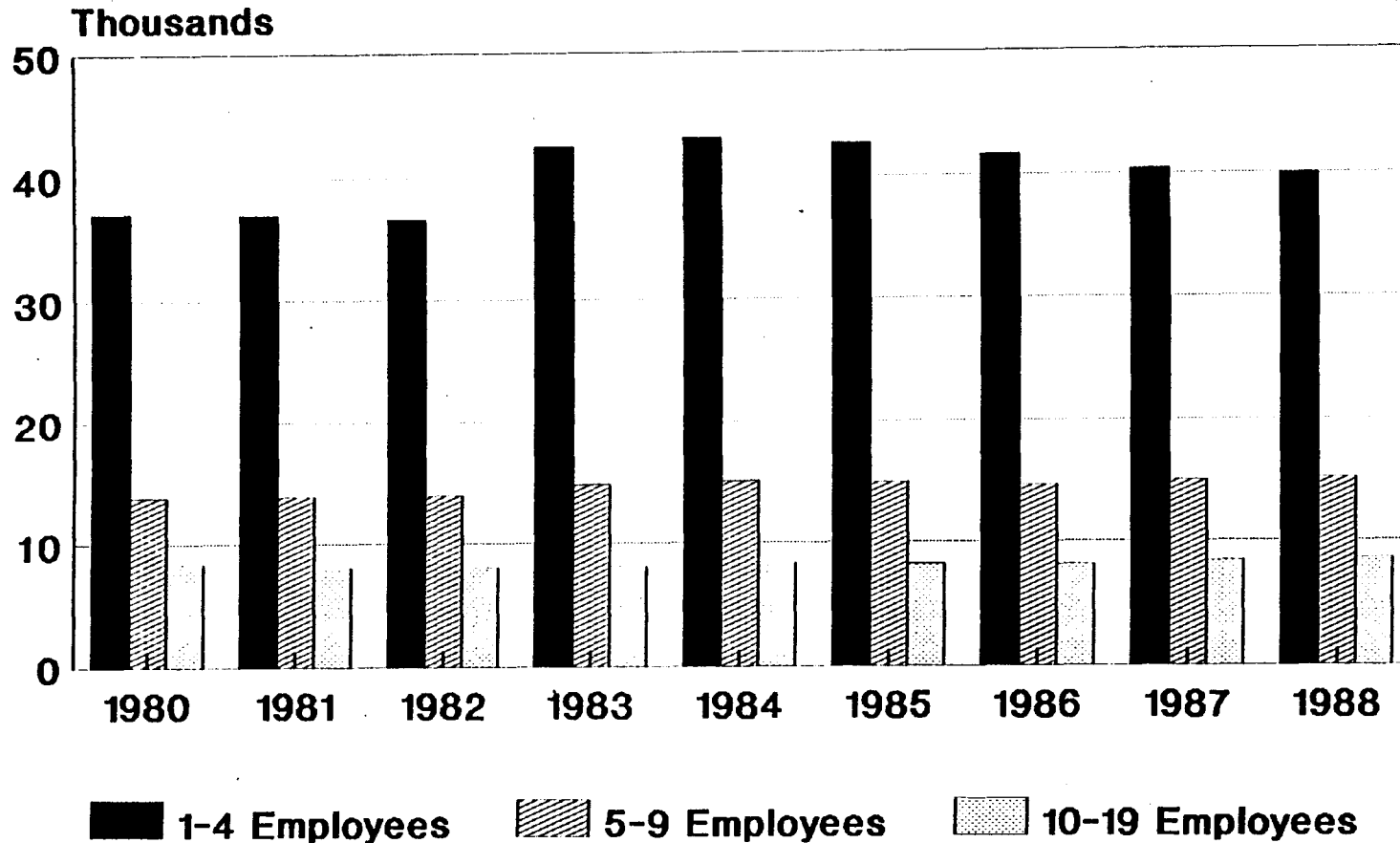
- * A culture and climate where innovation and risk-taking for business purposes are encouraged.
- * A entrepreneurial tradition and "critical mass"--there must have been entrepreneurs around in the past and there must be enough of them around at present for role models.
- * The opportunity to start an enterprise and compete; there must be no artificial barriers to competition.
- * A favorable (or at least not unfavorable) tax and regulatory environment.
- * The ability to acquire useful information and advice. This may include market information, management information or other technical assistance.
- * The ability to communicate an idea/business plan to potential backers, partners and financiers so that risk capital (especially equity capital) may be obtained.
- * The ability to persuade customers to try their product or service.
- * The ability to overcome technical, managerial and production barriers.

Iowa Economic Rankings



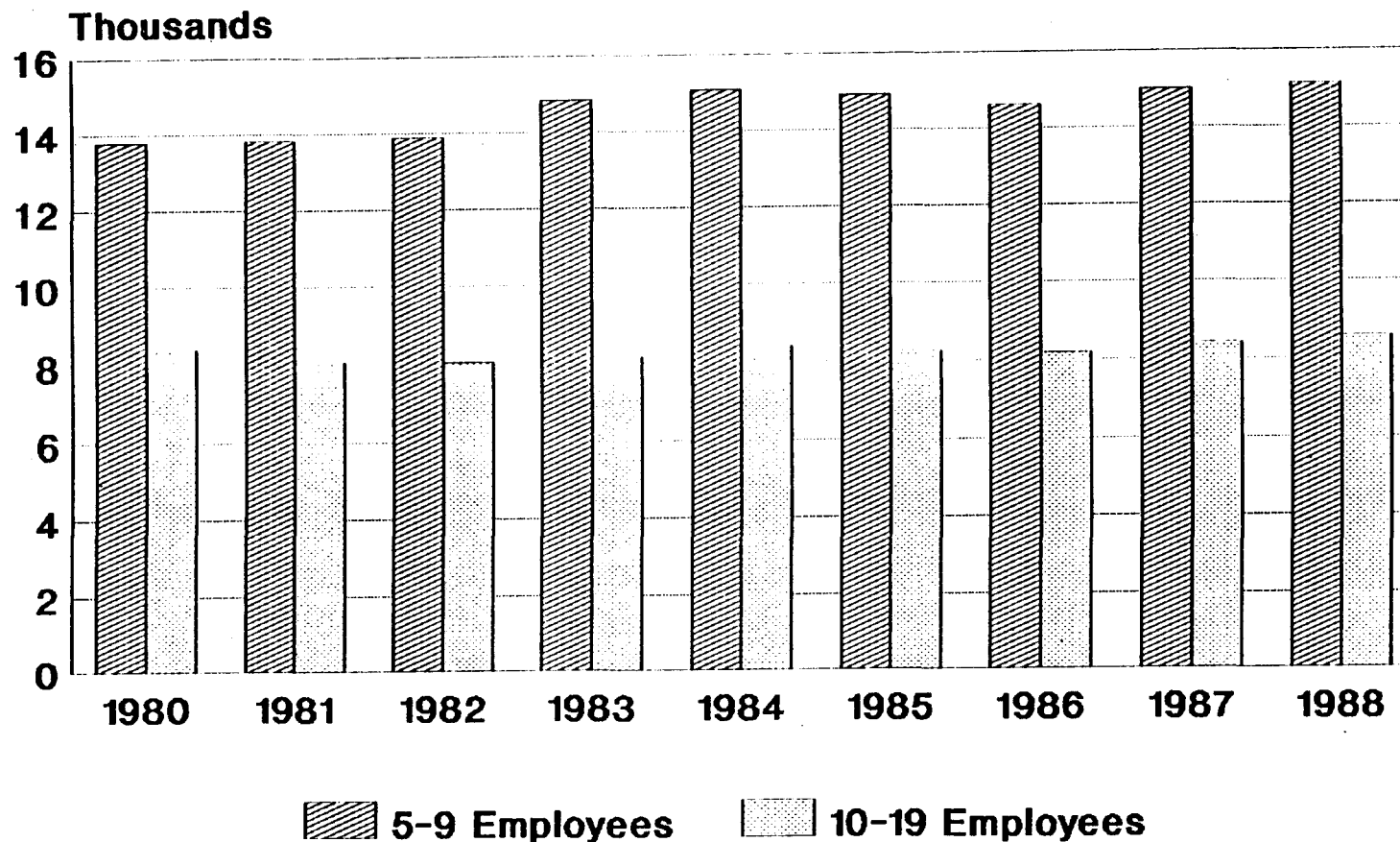
Note: Data are from period 1986-1989.

Small Businesses In Iowa 1980-1988



Source: County Business Patterns

Small Businesses In Iowa 1980-1988



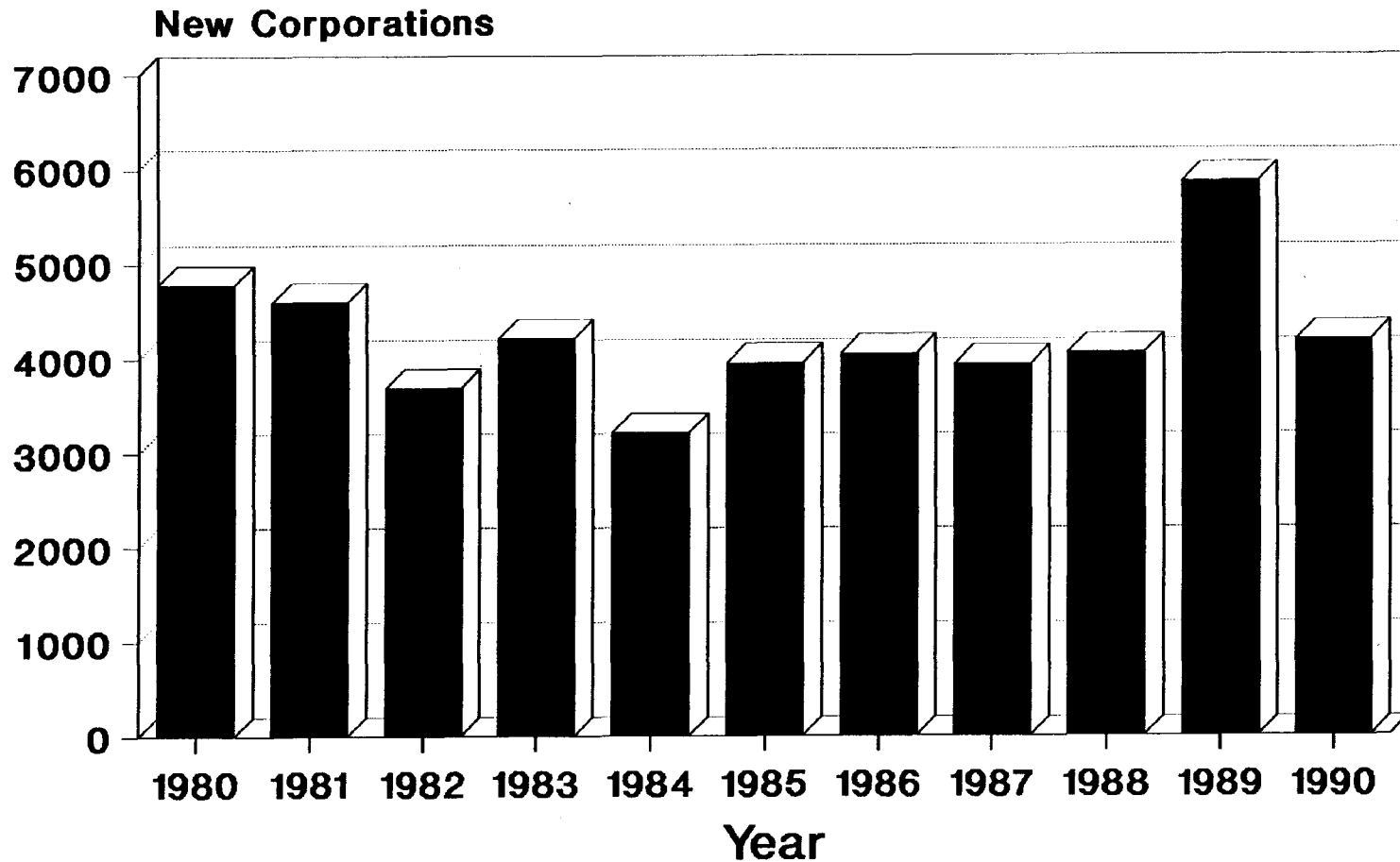
Source: County Business Patterns

Small Businesses in Iowa

| <u>Year</u> | <u>Employees</u> | | | <u>Total</u> |
|-------------|------------------|------------|--------------|--------------|
| | <u>1-4</u> | <u>5-9</u> | <u>10-19</u> | |
| 1980 | 37,114 | 13,789 | 8,387 | 66,904 |
| 1981 | 37,035 | 13,827 | 8,078 | 66,289 |
| 1982 | 36,616 | 13,890 | 8,046 | 65,546 |
| 1983 | 42,533 | 14,829 | 8,140 | 72,437 |
| 1984 | 43,115 | 15,071 | 8,385 | 73,847 |
| 1985 | 42,638 | 14,905 | 8,247 | 73,208 |
| 1986 | 41,610 | 14,619 | 8,198 | 71,823 |
| 1987 | 40,357 | 14,990 | 8,406 | 71,535 |
| 1988 | 39,992 | 15,118 | 8,595 | 71,782 |

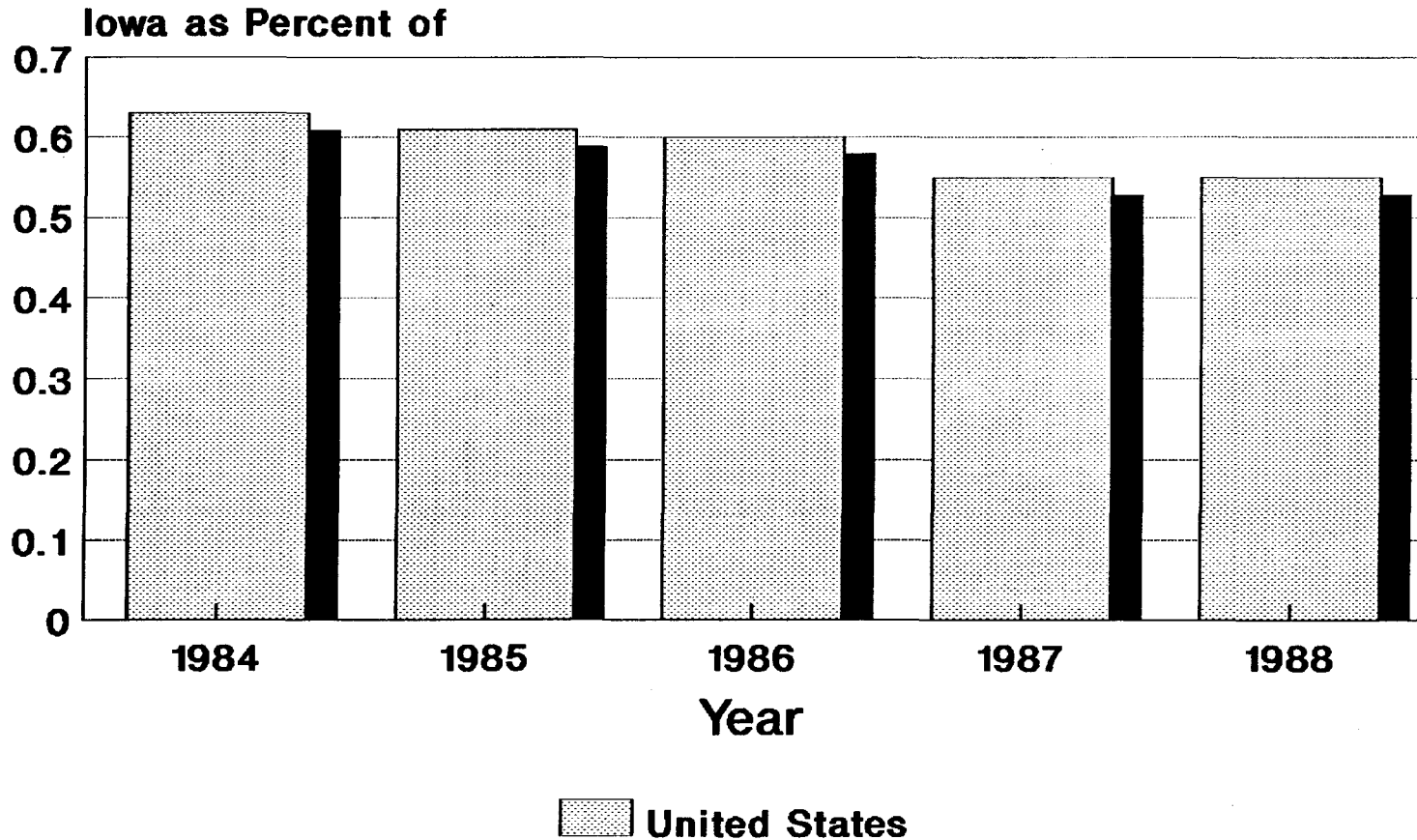
Source: County Business Patterns

Iowa Business Incorporations 1980-1990 (Estimated for 1990)



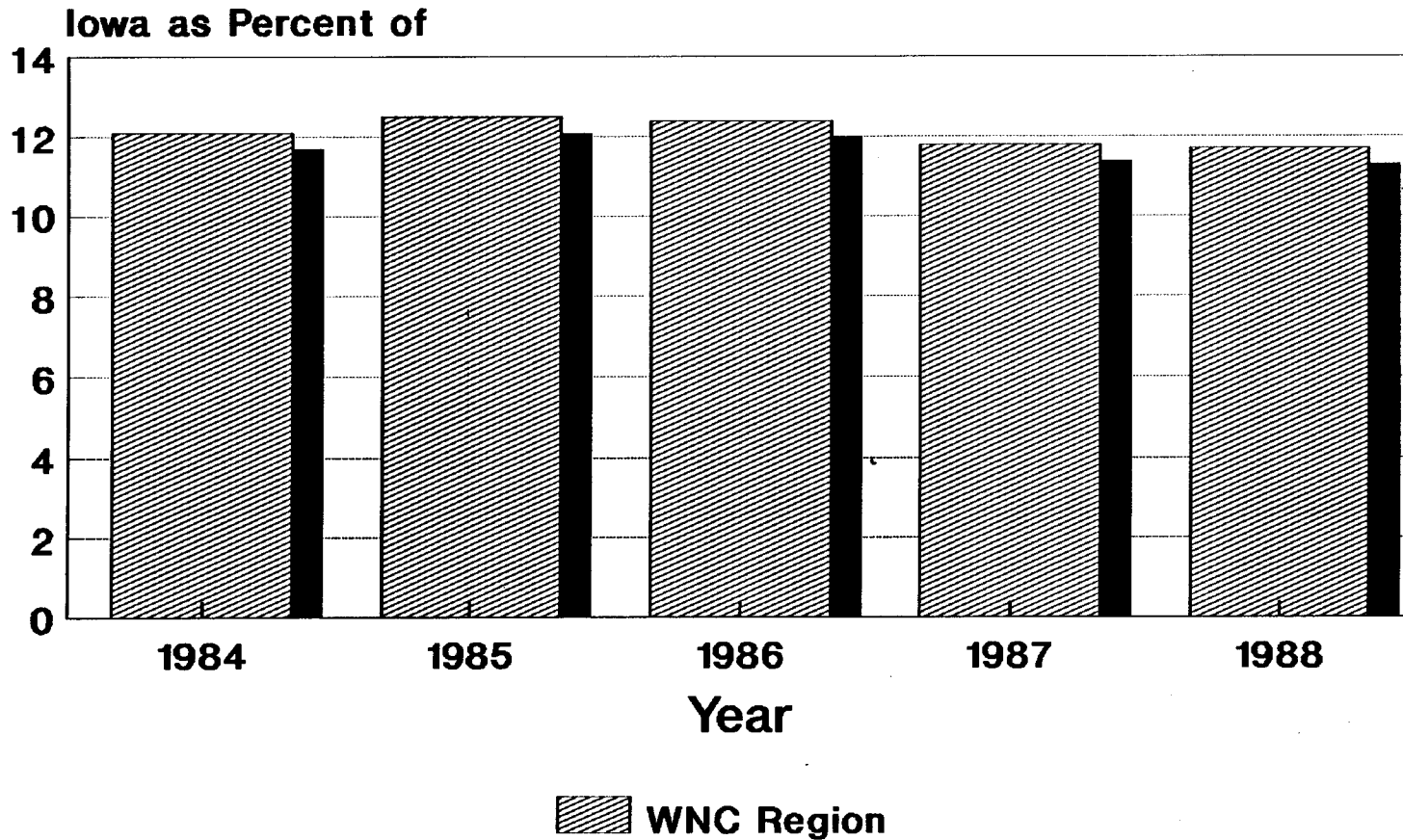
Source: Secretary of State

Iowa Business Incorporations Compared to Other Regions



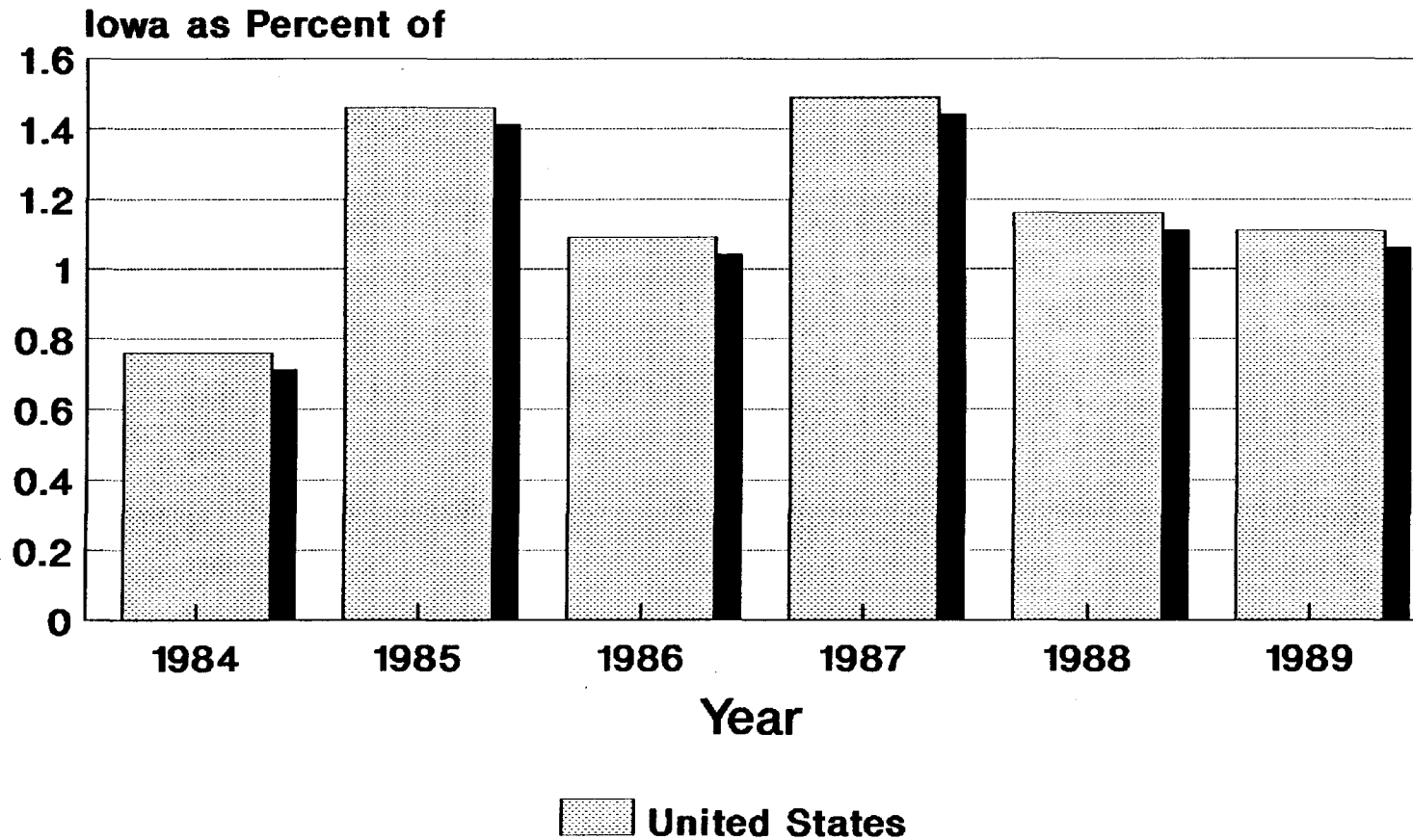
Source: Dun and Bradstreet

Iowa Business Incorporations Compared to Other Regions



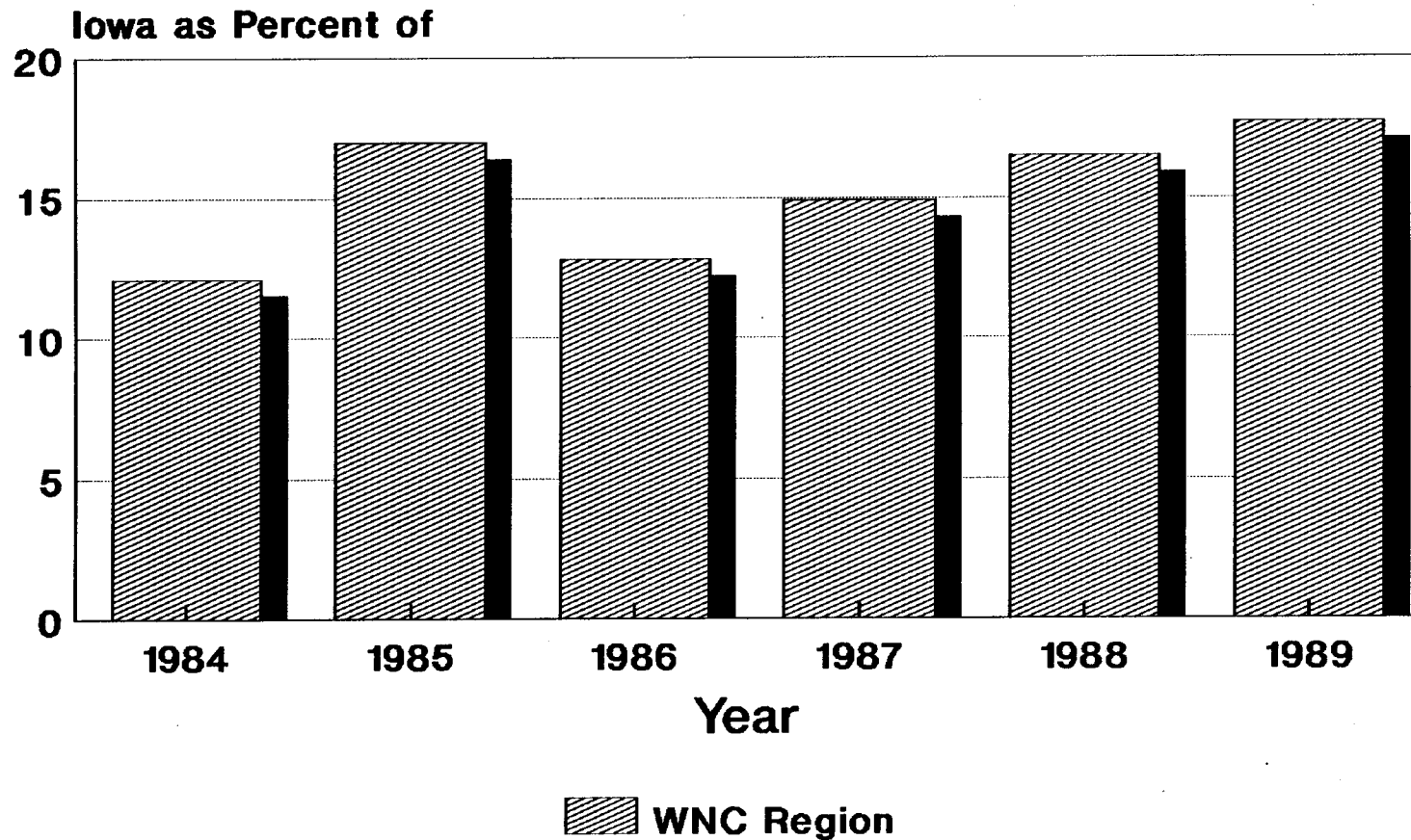
Source: Dun and Bradstreet

Iowa Business Failures Compared to Other Regions



Source: Dun and Bradstreet

Iowa Business Failures Compared to Other Regions



Source: Dun and Bradstreet

STRENGTHS (PRELIMINARY)*

There is a high level of total new enterprise creation (new business starts) in Iowa.

Enterprise creation is strong in both rural and urban areas.

Small firms dominate employment in Iowa.

Business locations for new businesses are usually selected based on personal or family considerations, not cost or other considerations.

Iowa entrepreneurs are a very diverse group in terms of age; about 42% are women; most are relatively well-educated.

About half of all Iowa businesses start up on less than \$20,000.

Personal savings and money from relatives are the sources of start-up capital for 75% of all new Iowa enterprises.

About 20% of all Iowa entrepreneurs have participated in some type of business or management training program.

Those entrepreneurs who have used available government technical or financial support services were satisfied with them.

More than half of all new enterprises in Iowa ultimately receive bank financing.

There has been a great deal of recent activity in Iowa aimed at fostering entrepreneurship, particularly in the area of risk capital--Seed Capital Tax Credit, Iowa Growth Capital Symposium, Iowa Venture Capital Resources Fund, Business Development Finance Corporation, etc...

* Based on survey of literature on entrepreneurship in Iowa.

WEAKNESSES (PRELIMINARY) *

Iowa enterprises are often formed as temporary or supplemental measures by Iowans who are economically dislocated.

Most new Iowa businesspeople (75%) have no previous business experience.

Iowa ranks low among the states in the rate of "growth businesses" formed (businesses that expand to ten or more employees within four years).

Raising capital is the top problem for new businesses in Iowa. Over 40% of new businesses report this as the number one problem.

Most new businesspersons in Iowa believe government has not done enough to support their efforts.

Less than 10% of all new business firms in Iowa receive any form of technical assistance.

Only about 13% of all new businesses expect to hire additional employees in the next 2-3 years.

The vast majority of Iowa new enterprises are one or two person operations.

There has been a proliferation of new programs aimed at supporting entrepreneurship in Iowa.

Iowa's economic concentration in the insurance, finance, manufacturing and agricultural sectors appears to reduce the amount of entrepreneurial activity here.

There is a relatively small base of fast-growing companies here--a "critical mass" may be lacking.

There are few private sector groups, networks or mentors that focus on entrepreneurship.

There are some remaining barriers (e.g. securities regulations) to risk capital formation.

* Based on survey of literature on entrepreneurship in Iowa.

A G E N D A

Entrepreneurship Task Force

Monday, November 19, 1990

Iowa Department of Economic Development Main Conference Room
200 East Grand Avenue, Des Moines
9:30 AM-12:30 PM

1. Welcome and Introductions
2. Administrative Matters
 - a. Task Force Chair/Vice Chair
 - b. Additional Task Force Appointments
 - c. Task Force Budget
 - d. National Governors Association Project
 - e. CGPA Rural Policy Academy
3. Background on and Review of Enabling Legislation (HF 2482)
4. Task Force Mission Statement and Process to be Followed
5. Background Materials/Literature Review on Entrepreneurship in Iowa
6. Situation Analysis Brainstorming Session
7. Future Meetings and Schedule Through January, 1991
8. Other Business
9. Adjourn

MEETING SUMMARY:
IOWA ENTREPRENEURSHIP TASK FORCE
MONDAY, NOVEMBER 19, 1990

The first meeting of the Task Force was begun at 9:30 AM in the Main Conference Room of the Iowa Department of Economic Development, 200 East Grand Avenue, Des Moines. David Plazak, Bureau Chief for Planning and Research of IDED introduced himself and will serve as staff for the Task Force. He also will serve as temporary chair for the Task Force until a permanent chair is elected.

Most members of the Task Force were able to attend the first meeting. They were asked to introduce themselves and describe how their job relates to entrepreneurship in Iowa.

Following introductions, Mr. Plazak covered a number of administrative matters related to the Task Force. He asked for nominations for chair of the Task Force. No nominations were made and this matter was postponed until the next meeting. The subject of legislative gender balance was also discussed briefly. Legislative members on the Task Force indicated that in their opinion, this requirement only applies to Committees or Boards and is not a requirement for this group. Several members thought additional female and minority membership would be salutary and members were asked to submit suggestions to Mr. Plazak.

Following this matter, the Task Force's budget (a \$25,000 appropriation that has not been expended yet) and enabling legislation were discussed. Mr. Plazak reported that he had also arranged for the National Governor's Association to conduct a research project on other states' activities in terms of support networks for entrepreneurs. This project will be reported on at the next meeting.

A lengthy discussion on the mission of the Task Force followed. Mr. Johnson noted that the Entrepreneurship Task Force could prove a valuable followup to the High Technology Task Force of several years ago. Ms. Smith suggested that this Task Force not focus exclusively on high tech businesses since other types of businesses such as food processing are also of great importance in Iowa. There was then a discussion of whether the Task Force should target its efforts toward a specific type of enterprise, "growth companies" in particular. There was a debate on this issue, but no real consensus about targeting. The main reason for this is that many members thought it would be impossible to determine ahead of time which types of companies or specific firms might be expected to grow quickly. It is also difficult to reach a satisfactory definition of what a "growth company" is. Is growth to be measured in terms of sales, jobs or other factors? This being the case, the Task Force will focus on measures to promote the formation and growth of all enterprises in Iowa.

The following statement was adopted as the mission of the Task Force:

MISSION: Generate an Enterprise Development Strategy that will lead to increases in the formation and success of new and existing business enterprises in Iowa.

Other items discussed during the morning included length of impact of recommended policies and a philosophy for the Task Force. It was decided that the Task Force should adopt a mixture of "quick-hitting" and long-term policy recommendations. An example of a short-term recommendation might involve a training effort to help entrepreneurs manage risk. An example of a long-term recommendation might be establishing a comprehensive entrepreneurship education effort. Such an effort might take 15-20 years to pay off but substantially impact Iowa's risk culture. It was also decided that the Task Force should be very much action oriented and specific and not simply issue a general report which sits on a shelf and is not acted upon.

Finally, possible critical issues were discussed by Mr. Plazak. A list of six issues were presented. After some additions were made, these were adopted for further work by the staff prior to the next meeting.

The next meeting date for the Task Force was set for Monday, December 3 and the meeting was adjourned.

A G E N D A

Entrepreneurship Task Force

Monday, December 12, 1990
Iowa Hospital Association Conference Room
100 East Grand Avenue, Des Moines
9:30 AM-3:00 PM

1. Welcome and Introductions
2. View IPDC Video
3. Administrative Matters
 - a. Review of Notes From 11-19-90 Meeting
 - a. Task Force Chair/Vice Chair
 - b. Additional Task Force Appointments
4. Recap of Task Force Mission Statement
5. Review of Additional Background Materials
6. Review of Task Force Critical Issues (From Last Meeting)
7. Begin Review of Proposed Strategies (Prototypes)
8. Lunch Break--On Your Own (12:00-1:15)
9. Discuss Paper By Jay Kayne, National Governor's Association
On Entrepreneurship Support Network Efforts In Other States
10. Discuss Previous Task Force Results
11. Continue Review of Strategies (Brainstorming Session)
12. Future Direction: Establish Next Meeting Date and Format (Early
January)
13. Adjourn

MEETING MINUTES
IOWA ENTREPRENEURSHIP TASK FORCE
WEDNESDAY, DECEMBER 12, 1990

TASK FORCE ATTENDEES:

Rep. Ron Corbett
Rep. Glen Jesse
Sen. John Peterson
Jan Bahr
Jim Davies
Betty Davis
Charles Davis
Camille Hogan
Ted Johnson
Eleanor Kaiser
Mike Klimesh
George Lipper
Bill Rose
Daniel Winegarden

OTHER ATTENDEES:

Carolyn Freedland, Iowa Future Proj.
Doug Getter, IDED
Myrt Levin, Iowa Business Council
David Plazak, IDED
Burt Powley, IDED
Lindy Strodel, IDED

The meeting was convened at 9:35 AM by David Plazak, acting Chairperson. Introductions were made. A video on Iowa entrepreneurs commissioned by the Iowa Product Development Corporation was introduced and shown by Lindy Strodel.

Meeting notes from the November 19, 1990 meeting of the Task Force were reviewed. The notes were accepted, although Rep. Corbett suggested that from now on the minutes reflect the starting time, finishing time and attendees.

The Task Force then elected a permanent Chair and Vice-Chair. Camille Hogan of Shorts Travel was unanimously elected Chair and Ted Johnson of J-Tec was unanimously elected Vice-Chair following nominations from the floor. Dave Plazak then turned the meeting over to Camille Hogan.

The subject of broadening the membership of the Task Force was then discussed. Discussion centered around seeking additional minority and female members to add to the diversity of the Task Force. Also, there was discussion about adding a representative of the financial community. Mr. Johnson asked if it would be legal to appoint additional members since the membership was specified in legislation. It was the opinion of the legislative members that this would not be legal, although non-voting, ex-officio members might be added legally. Mr. Plazak was directed by the Chair to fill the vacant slot representing the Iowa Product Development Corporation with a female member from that Board, if at all possible.

Discussion then moved to the mission of the Task Force. Mr. Johnson suggested that the phrase "Enterprise Development Strategy" be replaced with "Entrepreneurship Development Strategy" in the mission statement as more indicative of what the Task Force is trying to do. Mr. Johnson so moved and Ms. Davis seconded. The motion passed unanimously.

Next on the agenda were additional materials mailed to the Task Force members in their packet. Mr. Plazak explained these as being for the information of the members.

Discussion then moved to the Critical Issues developed during the last meeting. The Risk Culture of Iowa was discussed extensively. The issue here is how to get Iowans to take more, prudent business risks. Risk cannot be eliminated, but it can be reduced and the comfort level for dealing with risk can be raised with knowledge about how to control it effectively. Rep. Jesse noted that Iowans seem to be quite willing to take risks with their own money and time, but not with other peoples' money, which is a key to growing businesses. There is a gap somewhere in Iowa between business starts and the "INC. 500" list of growing businesses. Perhaps this is because Iowans don't want to rely on others to help their businesses grow.

On the subject of Risk Culture, there was also discussion about the types of risk involved in entrepreneurship--e.g., financial, career, social and family. Some members wondered whether a key problem isn't a lack of entrepreneurial role models in Iowa. Many Iowans grow up thinking their only economic option is to take a job working for someone else. There was also discussion of Iowa's "Brain Drain" and how it relates to Risk Culture and conservatism. Ms. Hogan suggested that a real problem has to do with a poor self-image in Iowa--"if it's in Iowa, it can't be very good." Mr. Rose noted that Iowans are many times just not aggressive enough--they lack "street hustle."

There was considerable discussion about whether Iowa's recent loss of well-educated youth has restrained entrepreneurial development. There was speculation that there is some connection here, because people with educations and degrees are more likely to have business talents and succeed, although some members felt that highly educated persons are less likely to start new businesses in the first place.

Discussion then moved on to the subject of whether the Task Force should focus its efforts on companies with growth potential or concentrate on fostering entrepreneurship in general in Iowa. Mr. Johnson stated that Iowa does appear to have a problem growing businesses beyond very small size. Mr. Lipper asked what the legislature intended here. Rep. Jesse stated that in his opinion, the legislation was drafted very broadly and was intended to focus on very small companies, particularly in small towns because Iowa already had many programs focused on growing the next Maytag or Bandag. He noted that something has to be done to address the many small towns with companies dying on the vine.

Another critical issue for the Task Force is Government Service Delivery. Ms. Kaiser asked how many entrepreneurs are turned off at the first point of contact with service providers. Ms. Hogan wondered if service providers wait for contacts to come in the door or if they were pro-active in seeking out clients.

Following a lunch break, Government Barriers to Entrepreneurship were discussed. Ms. Kaiser stated that she felt some barriers are imaginary, while others are very real. She felt that a major problem in Iowa which is getting worse has to do with enforcement of Department of Natural Resources rules and regulations. She stated that DNR has

trouble understanding how businesses operate, especially in terms of cash flow and time constraints. After the DNR staff came out and visited her tire shredding business, the working relationship improved greatly. Better communication and understanding is needed.

Sen. Peterson said he felt the biggest problem is DNR permits related to groundwater protection and that businesspeople ought to be more vocal in taking issues to their legislators.

Ms. Davis and Mr. Getter stated that different time perspectives of business and government along with myopia and lack of responsiveness on the part of government staffs are clear problems. Mr. Davis suggested that government as a whole needed to be redirected from an adversary position to a position more supportive of the business community.

The subject of taxes also came up in this discussion. None of the Task Force members suggested that taxes were a major barrier to entrepreneurship in Iowa. Mr. Johnson suggested that a much greater problem is too many restrictions placed by the legislature on economic development program funds. He stated that the legislature needs to be more accepting of risk and more patient for returns. Mr. Rose noted that a lack of sensitivity on program managers parts about business' cash flow problems is a major problem. Lack of cash flow is a main killer of new businesses. Mr. Johnson suggested that bureaucratization seems to set in to all government financing programs over time. Rep. Jesse agreed that this was a problem and that programs were much too slow in shifting cash to businesses once funding decisions are made. Rep. Corbett stated that the legislature has become far too involved in micromanaging state programs.

Mr. Rose noted that he was aware of one state program--the 623 job training program--which is excellent in terms of operating in cooperation with business and on their schedule. He stated that this should be a model for other programs. Mr. Davies noted that CEBA now has too many strings and is too focused on job creation to allow it to be flexible and work under emerging conditions such as outsourcing. Mr. Klimesh stated that in some new companies, not all the jobs will be in one location due to outsourcing of services. Rep. Jesse disagreed, noting that taxpayer money is being used and that the taxpayers have a right to expect a tangible return in terms of job creation.

There was a brief discussion of the paper on Entrepreneurship Support Networks prepared for the Task Force by the National Governors Association. The consensus of the group was that Iowa had networks of service providers already (the SBDC's and the RCC's were specifically mentioned by Mr. Davies and Rep. Corbett) that could play this role. Mr. Johnson stated that Iowa should not look at starting any new programs in the area of support networks, but should adapt existing programs to serve as these networks and get them to furnish better, more customer-oriented services. It was suggested that one role of the Regional Economic Development Centers ought to be to track all the new businesses in their region and make sure they all gain access to the services they need to survive and grow.

At Mr. Johnson's suggestion, several subcommittees of the Task Force were established to address in more detail specific items in the Critical Issues prior to the next meeting. These subcommittees and their members include:

1. Entrepreneurship Education: Mr. Davis (leader), Ms. Bahr, Mr. Klimesh, Mr. Davies
2. Entrepreneurship Public Information/Relations Campaign: Mr. Rose (leader), Mr. Johnson, Ms. Davis
3. Government Barriers: Ms. Kaiser (leader), Rep. Corbett
4. Risk Capital/Financing: Mr. Johnson (leader), Mr. Rose, Mr. Lyons or his alternate, Mr. Dunham

These subcommittees will report back to the Task Force at the next meeting. Other members are welcome to join any subcommittee.

The next meeting of the Task force was tentatively scheduled for the same location, Thursday January 10 at 10:00 AM. Subcommittees are to meet at 9:00, prior to the Task Force meeting. An announcement of the actual meeting time and location will be mailed in advance.

The meeting was adjourned at 2:30 PM by Ms. Hogan.

AGENDA
IOWA ENTREPRENEURSHIP TASK FORCE

THURSDAY, JANUARY 10, 1991
IOWA HOSPITAL ASSOCIATION CONFERENCE ROOM
100 EAST GRAND AVENUE, DES MOINES, IOWA
9:30 AM to 3:00 PM
(Working Lunch to Be Provided)

1. Subcommittee Meetings (9:30-10:30)--Same Location
2. Entire Task Force Convenes--10:30 AM
3. Welcome and Introductions
4. Administrative Matters/Meeting Minutes Approval
5. Reports From Subcommittees:
 - a. Entrepreneurship Education
 - b. Public Information
 - c. Risk Capital
 - d. Barriers to Entrepreneurship
6. Perspective of a Successful Iowa Community: Fairfield
7. Discussion of Other Critical Entrepreneurship Issues
8. Discussion of Draft Report Contents
9. Process for Submission of Report to Governor and Legislature
10. Further Activities of the Task Force/Future Meetings
11. Adjourn

MEETING MINUTES
IOWA ENTREPRENEURSHIP TASK FORCE
THURSDAY JANUARY 10, 1991

TASK FORCE ATTENDEES:

Jan Bahr
Jim Davies
Betty Davis
Charles Davis
Craig Goettsch
Camille Hogan
Les Horrell
Ted Johnson
Eleanor Kaiser
Kathleen Kelly
Mike Klimesh
George Lipper
Sen. Paul Pate
Bill Rose
Sally Smith
Kenneth Stone
Nancy Tomes

OTHER ATTENDEES:

Charles Borden
Doug Getter, IDED
Dave Plazak, IDED

Subcommittees established at the last meeting met prior to the convening of the entire Task Force. The meeting was convened at 10:30 AM by Camille Hogan, Chairperson. Introductions were made.

Meeting minutes from the December 12, 1990 meeting of the Task Force were reviewed and approved following a modification suggested by Mr. Davis on behalf of Mr. Klimesh.

Reports of each subcommittee were then made, beginning with the one on Entrepreneurship Education. This subcommittee considered efforts in continuing education, K-12 and at the college and university level. Jan Bahr reported that continuing education programs on entrepreneurship were largely in place and partnerships were well developed so that this could be an effective and flexible system.

Jim Davies noted that, by contrast, entrepreneurship education efforts at the K-12 level had not been extensively developed yet. Efforts are essentially left up to individual schools and instructors now. There is little done in the lower grades. However, there are some notable efforts like INVENT Iowa out there. He suggested that the Department of Education develop a comprehensive K-12 entrepreneurship education effort. This effort would: require some continuing education in entrepreneurship for all teachers; make entrepreneurship education a curriculum requirement; pay much more attention to at-risk youth as a target for this program; and, communicate successful entrepreneurship education programs statewide using a "good practices" database.

Charles Davis reported on entrepreneurship education at Iowa's colleges and universities. He noted that Iowa is far behind its neighboring states in both faculty and course offerings in entrepreneurship based on the results of a survey by the Association of Collegiate Entrepreneurs. He suggested additional faculty, course offerings and scholarships are needed in Iowa.

Nancy Tomes asked whether there was any research indicating a correlation between states with successful entrepreneurial companies and more spending on entrepreneurship education. Mr. Davis stated that there is research that shows that entrepreneurs with more training are more successful with their business ventures.

Bill Rose then reported on the results of the Public Information subcommittee. He noted that there are something like 137 groups involved in providing services to small businesses in Iowa. Businesses perceive this system as a "maze" that is difficult to understand. He suggested that the State explore establishing a One Stop Service Center concept with a 1-800 telephone number in conjunction with the Small Business Development Centers and the private sector. The staff of this center would have to know the programs and service providers to guide customers to appropriate services. An electronic database would be helpful for making good referrals. Ted Johnson noted that service providers have to begin being more "discriminating"--helping those businesspersons who have a good chance of success and who can best use their service.

Mr. Rose also suggested that these services are not marketed extensively enough, for the most part. Dave Plazak added that surveys of businesses bear out that observation--businesspersons are generally not very aware of all the services and programs available to them. Mr. Rose suggested an advertising campaign to let people know that Iowa is pro-small business and to highlight Iowa success stories. The ad campaign would also highlight specific services available.

Mr. Rose also suggested that service providers need to be more proactive, and look for new firms to help rather than waiting for them to knock on the door. There was then a discussion of how each of the several measures of business activity in Iowa is flawed and there so it is difficult to know how well Iowa is doing in terms of business growth and success. Ken Stone discussed the various measures available, including Dun and Bradstreet, incorporations data, Department of Employment Services data, INC. Magazine and Department of Revenue sales and use tax permits. None of these measures is completely accurate in presenting a picture of entrepreneurship in Iowa.

An effort similar to that suggested by Mr. Rose in the Waterloo area aimed at making minority businesses aware of available services was discussed.

Ted Johnson reported on the Risk Capital subcommittee. A written set of strategy statements was provided and will be updated based on the discussion during the meeting. Some highlights of the discussion:

- * Task Force members agreed to the need to move away from job creation and toward wealth creation as the criteria for state

financial assistance programs. There was some discussion about how wealth creation is harder to measure than job creation.

- * The need to provide for periodic, independent evaluations of economic development programs was noted. However, Mr. Johnson stated that this should not be an excuse for creating more bureaucracy.
- * The need to provide State incentives to create local/private venture capital funds in regions of Iowa.
- * The need to provide more low-interest working capital funds for startups. One of the largest difficulties for startups is cash flow and meeting market rate interest expenses. Doug Getter discussed the linked deposit concept which can be used to buy down bank loans. He suggested that the group look at expanding this concept beyond its current focus on Targeted Small Businesses.
- * The need to review Iowa's Subchapter S law to see if it or related tax laws inhibit the startup or growth of Iowa businesses. This was felt to be a major issue along the border with South Dakota.

Eleanor Kaiser reported on the thoughts of the Government Barriers subcommittee. She suggested that long time lines for State grants and permits were the two biggest problems. Special environmental permits simply take too long to obtain. She suggested that rules, regulations and policies are not as well-communicated to the public and businesses as they should be. As a result, it is difficult to know what will happen or what is expected.

Ms. Kaiser suggested that when grant applications or permits are being processed, state agencies adopt an "account executive" approach so that the business can have a single point of contact all the way through the process. That way, there will be fewer people to talk to and less confusion for the businessperson.

Other suggestions from this subcommittee were: a small business ombudsman to help businesses cut through red tape in state government; a "prompt payments act" so that State government cannot unreasonably delay paying obligations owed to small businesses; and an effort to encourage attorneys and CPAs to offer pro bono services to entrepreneurs. George Lipper added that much free work does go on now for clients of the Iowa Product Development Corporation.

Following the subcommittee presentations, Charles Borden, of a Fairfield venture capital concern, gave a presentation on why Fairfield has been such a hotbed of entrepreneurial activity. He noted that Fairfield was the home of a large number of growing businesses, especially in the computer hardware and software field. Several of these firms have, unfortunately, been lost to Iowa because of capital considerations.

His assessment of the success of Fairfield revolves around cultural issues rather than issues such as capital, however. Maharishi University has been a powerful drawing card for all sorts of technical and entrepreneurial talent. That talent has come to Fairfield from all

over the US and world. Maharishi University is also unique in that it values ties between university research and the marketplace. There are networks in place that support entrepreneurs.

Mr. Borden thinks that a critical mass of talented, creative and motivated people is the key reason for Fairfield's success. Developing these human resources ("creative intelligence") is the key to Iowa's future economic prosperity. Iowa needs to develop its human resources and create a new entrepreneurial culture. Everything else to be done, such as capital access and new programs, is secondary to this.

Following Mr. Borden's presentation, Mr. Plazak asked if the Task Force needed to place more emphasis on the human resources aspects of entrepreneurship, for instance in terms of attracting, retaining and developing entrepreneurial talent. Mr. Lipper said this was important and noted an effort by Nebraska to attract experienced business management talent there to aid startup ventures.

The next meeting of the Task Force was tentatively scheduled for Monday, February 4 from 10:00 AM to around noon. At that meeting, a draft final report of the task force will be commented on by the members. In the meantime, an interim progress report will be prepared for submission to the Governor and General Assembly to satisfy the requirement for a January 15 report contained in the enabling legislation. Mr. Plazak was assigned to complete this report in consultation with Camille Hogan.

AGENDA:

ENTREPRENEURSHIP TASK FORCE

Monday, February 4, 1991, 10:00 AM
Iowa Hospital Association Conference Room

1. Welcome and Introductions
2. Approval of Meeting Minutes from January
3. Other Administrative Matters: 1991 Budget Reversion
4. Review and Comment on Draft Final Report
5. Adoption of Final Report
6. Ideas on Publication/Distribution of Final Report
7. Future Directions for the Task Force

MEETING MINUTES
IOWA ENTREPRENEURSHIP TASK FORCE
MONDAY, FEBRUARY 4, 1991

TASK FORCE ATTENDEES:

Jim Davies
Betty Davis
Charles Davis
Warren Dunham
Craig Goettsch
Camille Hogan
Les Horrell
Eleanor Kaiser
Mike Klimesh
George Lipper
Kenneth Stone

OTHER ATTENDEES:

Doug Getter, IDED
Sherry Gupta, Business Record
David Plazak, IDED

The meeting was convened at 10:05 by Camille Hogan. Introductions were made. The minutes from the January 10 meeting of the Task Force were adopted without revision.

Dave Plazak discussed the status of the budget line item for the Task Force. He indicated that the \$25,000 originally appropriated for the Task Force from the State General Fund for FY 1991 had been identified as a target for deappropriation along with several million dollars in other funds appropriated to IDED. He said it should be assumed that it will not be available for expenditure.

The remainder of the meeting was spent in making revisions to the draft final report of the Task Force, which had been sent to the members the previous week. Discussion centered around the following points:

- * The distinction between entrepreneurs and inventors.
- * The amount of emphasis in the report on growth companies and their needs.
- * The need to beef up the section on Iowa's entrepreneurial strengths and weaknesses to include a section on capital.
- * That the section on success stories should be edited.
- * The need to stress access to management expertise in the section on support networks.
- * The need to add a strategy to create a revolving loan fund for making low interest loans to Iowa small businesses. This will end up involving an expansion to the existing linked deposit concept in place for disadvantaged businesses.
- * The need to make a stronger statement about improving delivery of business technical assistance services offered by government.
- * The need to support the technology transfer efforts of the Wallace Foundation.

Warren Dunham strongly suggested that an Action plan be added to the report to indicate which items the legislature would need to act on

and which items should be acted on by others. Dave Plazak indicated that this idea, along with the others noted above would be incorporated into the Final Report.

Camille Hogan asked that the Final Report be sent to the Task Force for one last review by February 8 or 11 with a "drop dead" date indicated. Unless members have strong objections to the report, it will be submitted to the Legislature and Governor's office around the 13th or 14th.

Finally, a discussion was held about publicizing the report's recommendations. It was suggested that the chairperson make a presentation to the appropriate legislative committees. Dave Plazak said he would make the arrangements to do this. A list of groups that should receive the report was also compiled.

Camille Hogan thanked the Task Force for all their work and the meeting was adjourned at 12:10 pm.

A BIBLIOGRAPHY ON ENTREPRENEURSHIP IN IOWA
Prepared for the Entrepreneurship Task Force

- Council of State Community Affairs Agencies, Iowa Funded Business Incubators: An Assessment of Contributions for Enterprise Development, prepared for the Iowa Department of Economic Development, Washington, DC: March 12, 1990.
- Dillard, Rob, "Poor Climate for New Businesses: Study Finds Need for Seed Capital in Central Iowa", Business Record (Des Moines), vol. 85, no. 47, November 20, 1989, p.1.
- Dittemore, Daniel, "Iowa's Entrepreneurship Dilemma", Speech to the Iowa Utility Association Economic Development Conference, February 28, 1990.
- Ernst & Young, Greater Des Moines Chamber of Commerce Federation Entrepreneurial & Small Business Climate Assessment, Final Report, Des Moines, IA: 1989.
- Gupta, Udayan, "States Take Different Paths to Spur Small Business", The Wall Street Journal, January 9, 1991, p. B2.
- Illinois Development Council, Strategies for Maximizing the Contributions of Small Business and Entrepreneurship to Economic Development, Springfield, IL: 1985.
- Iowa's Climate for Innovation and Entrepreneurship: Making It Work Better, Summary of the Findings of the Innovation and Entrepreneurship Team (INVENT), Iowa Business Council/Iowa Department of Economic Development, Des Moines, IA: March 3, 1988.
- Iowa's Future: A Quality Economy for Tomorrow, Center for Economic Competitiveness, SRI International, Menlo Park, CA: November 1989.
- Iowa's Future: Building a Quality Life and Vibrant Economy, Iowa Future Project, Des Moines, IA: Fall 1990.
- Iowa Non-Regents Business Incubators: Needs Assessment of Business Centers and Their Client Companies, prepared for the University of Northern Iowa, R.H. Van Fossen Jr. Consultants, Decorah, IA: October 29, 1990.
- Iowa Policy Academy on Rural Economic and Community Development, Proposed Objectives and Strategies for Business Development/Retention and Capital Access, Des Moines, IA: November 1990.
- Kayne, Joseph A. and Eric Dobson, Private Support Networks: Assistance to Emerging Businesses, Prepared for the Iowa Department of Economic Development, Center for Policy Research, National Governors' Association, Washington, DC, December 3, 1990.