



# Economic Vision 2010

## Report Card Results; Independent Analysis

**T**he fifth annual *Economic Vision 2010 Report Card* evaluates Indiana's business competitiveness against other states and nations. The goal is to measure progress toward the realization of *Economic Vision 2010*, which states: "Indiana will be one of the best business start-up and growth economies in the world, focusing on the creation of high-skill, high-wage jobs and outstanding productivity."

The following pages contain the key Report Card results grouped by the five driver areas: Business Costs/Productivity, Government/Regulatory Environment, Education/Workforce Development, Infrastructure/Quality of Life and Dynamism/Entrepreneurism. In addition, *BizVoice* invited authorities in their fields to look at the Report Card and offer their insights on Indiana's accomplishments and challenges.

Grades changed little from previous years. The state continues to perform well in higher education and government/regulatory environment, as well as seeing improvements in business costs. Major advances, however, are needed in workforce development, economic dynamism and productivity.

The full Report Card contains an in-depth analysis from noted researcher and Indiana economist Graham Toft. The message: The state needs to "pick up the pace" in order to avoid falling further behind national and international competitors. The executive summary and full Report Card are available at [www.indianachamber.com](http://www.indianachamber.com). Contact Mark Lawrance at (317) 264-6893 for additional information.

# Business Costs and Productivity

A primary reason for the disinflationary environment of today's national and global economy is overcapacity. Productive investments made during the boom times of the 1990s, along with a global shift to free enterprise economics, have combined to put downward pressure on prices for standardized products and services. The result is that many Indiana businesses have lost their pricing power. Their response is to improve productivity and to control costs. Doing both requires innovation and

tight financial management. Costs of doing business remain a critical factor in business location and growth. The Business Costs sub-driver is based on seven metrics, weighted according to their relative importance in the "typical business" cost equation.



## **Business Costs .....B-**

Unit Labor Costs .....	32nd
Energy Costs.....	9th
Worker's Compensation Costs .....	2nd
Unemployment Insurance Costs.....	7th
Business Taxes .....	8th
Metro Office Rents.....	12th
Health Care Premiums .....	21st

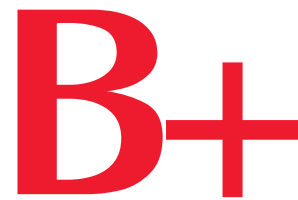
## **Productivity .....D**

Gross State Product per Job.....	34th
Value Added in Manufacturing.....	21st
Service Industry Gross State Product per Job .....	39th

# Government and Regulatory Environment

A state must find the right mix of size, taxing power, program and expenditure to provide high return on investment in public assets and services, while at the same time interfering minimally in the day-to-day dealings of the marketplace. The metrics chosen attempt to measure the size of government as well as its performance.

Next to tax policy, regulatory policy is probably the most important aspect of business climate. The metrics chosen attempt to measure outcomes from regulation, rather than regulatory practices per se.



## **Government Efficiency.....B-**

Government Gross State Product.....	8th
Units of Government per Capita.....	34th
State & Local Tax Burden .....	35th

## **Regulatory Environment.....A-**

Liability .....	17th
Malpractice Costs .....	13th
Tax Base Conformity.....	19th
Health Mandates.....	15th
Resource Efficiency .....	22nd

# Education and Workforce Development

Information, knowledge and ideas are critical assets for success in the innovation economy. Having a strong human capital base is a necessary but not sufficient condition for success. States, or even countries, may be endowed with a well-educated population, but lack some other necessary condition, such as a free enterprise system that cultivates creativity and entrepreneurship. Nevertheless, those states and countries performing well in the innovation economy

present strong scores in human capital assets. Those falling short in economic progress but possessing abundant human capital can use this attribute to their advantage. For example, countries such as Ireland, Australia and India are capitalizing on respective strong human capital assets as means to economic progress.



## **K-12 Education.....C-**

AP Overall .....	34th
High School Graduation Rate .....	19th
SAT.....	37th
ACT.....	16th
NAEP 4th Grade.....	17th
NAEP 8th Grade .....	21st

## **Postsecondary Education .....A-**

Associate's Degrees Granted .....	30th
Innovation Economy Associate's Degrees .....	5th
Bachelor's Degrees Granted.....	16th
Innovation Economy Bachelor's Degrees.....	17th
Graduate Degrees Granted.....	22nd
Innovation Economy Graduate Degrees.....	25th
Two-Year Tuition.....	37th
Four-Year Total Fees .....	33rd
U.S. News Undergraduate Reputation .....	9th
U.S. News Top-Ranked Graduate Programs.....	13th
College Migration .....	2nd

## **Workforce.....F**

High School Diploma Attainment.....	35th
Bachelor's Degree Attainment .....	44th
High-tech Manufacturing Employment .....	9th
High-tech Services Employment.....	43rd
Adult Education .....	34th

# Instituting a High-Impact, Low-Cost, Mid-Term Strategy

By Brian Bosworth

Indiana's lagging overall performance in education and workforce reflects an apparently odd mixture of strengths and weaknesses – very high grades (A-) for postsecondary education; dismally failing grades (F) for workforce development; and discouragingly mediocre grades (C-) for K-12 education.

But, in fact, there are no real surprises here. Indiana has what it has consistently sought to build. These grades are the concrete reflection of legislative investment priorities going back over the last several decades. The public four-year schools with their baccalaureate and advanced degree mission for traditional students have fared well in this investment strategy. Ivy Tech State College, with a workforce development and adult education mission for non-traditional students, has been much less favored. The K-12 system has been starved. To the extent that new priorities are now evident, it may take a few decades to see impacts on most metrics of economic competitiveness.

But, suppose Indiana wanted to attempt to make a big difference and accomplish substantial improvement in less than a decade, without going broke in the effort? My suggestion for a high-impact, low-cost, mid-term strategy to significantly move the needle on education and workforce drivers of economic competitiveness is a direct attack on the huge problem of low postsecondary education attainment among Indiana's adult workforce. Let's set two aggressive goals: tripling the number of age 25+ adults participating in postsecondary education and doubling the number of Indiana citizens with sub-baccalaureate postsecondary credentials, both by the year 2010.

## Focus on Ivy Tech

Credentials would include two-year associate degrees, one-year certificates and industry-recognized certifications tied to entry and advancement in high-wage, high-skill occupations. The principal institutional mechanism to carry out this strategy would be Ivy Tech State College. It has made enormous strides in reputation and capacity in the past few years and is now well positioned, if not adequately funded, to take on this challenge.

Here is why I think these goals are so important – and achievable: First, postsecondary education attainment in Indiana is very low compared to the nation as a whole and to competitor states. Of special concern is Indiana's trailing position in the percentage of its population with associate degrees. For the nation as a whole, 7.2% of the age 25-65 population has an associate degree. In Indiana only 6.8% of this group has a two-year degree, and it trails all states in its region except Kentucky. The gap is not closing: the rate of adult participation in postsecondary education is not increasing any faster in Indiana than in the nation as a whole.

Second, Indiana's economic ambitions in such sectors as advanced manufacturing, logistics and transportation, health services, bio manufacturing, information technology and others underscore the need for a technically proficient, mid-level workforce. While employers can recruit managers and professionals with

four-year and advanced degrees from national and international labor markets, they must recruit most sub-baccalaureate workers from within their region. In 21st century America, sub-baccalaureate technical skills (and the high performing, flexible postsecondary institutions that can produce them) are the single most important factor shaping regional competitiveness.

## Questions of age

Third, Indiana faces a special demographic challenge – there simply will not be enough young people. Indiana is a slow growth state and the rate of growth will slow further in the years ahead. The number of 18 to 24-year-old new entrants to postsecondary education and the labor market will be about the same 20 years from now as today. This means that if Indiana is to produce more skilled technicians with postsecondary credentials it must become very good at pulling adult incumbent workers into postsecondary programs.

Fourth, what better signal about the value of education to send high school youngsters than to see tens of thousands of adults going back to get their postsecondary credentials. And finally, what better way to enlarge the pool of Indiana-connected baccalaureate candidates for Indiana's four-year institutions.

## Change of course

The challenges are big. Many, probably most, working adults without credentials are not prepared for college level work and will need much remediation. While that is part of Ivy Tech's educational mission, it has never been properly supported and that must change. Also, traditional programming – daytime classes, 16-week semesters, traditional seat-time credit policies – simply won't work for adults with demanding job and family responsibilities. Ivy Tech must get much better at short-term, competency-based, evening and weekend programs. Ivy Tech will need more physical plant capacity; it may well need to borrow from other postsecondary institutions.

And of course, all this will take some more money. Ivy Tech has capacity, but it will need a bigger budget for this bigger job. On the other hand, this is already Indiana's most efficient investment in public education – cheaper even than K-12 and cheaper than traditional baccalaureate-oriented programs. It's the smart thing to do, and it just may be the only thing that can make a difference fast enough to halt Indiana's slide toward the bottom.

### INFORMATION LINK

**Resource:** Brian Bosworth is founder and president of Arlington, Massachusetts-based The FutureWorks Company, a firm providing strategy-consulting assistance to regional institutions of economic, workforce and civic development. Bosworth has 35 years of economic development experience, including 10 years in various government positions in Indiana

# Dynamism and Entrepreneurism

A dynamic economy is not one that merely creates jobs. It must be constantly upgrading the quality of its jobs. This means it will be shedding some jobs while creating others. Equally, it is one experiencing business failures as well as starts. In fact, one characteristic of today's innovation economy is the degree to which it is "churning" – residents coming and going; new occupations forming while others decline; businesses locating, then relocating.

The Dynamism sub-driver comprises a number of growth or change metrics. The Research and Creativity sub-driver seeks to measure the strength of the discovery process behind this churning, while the Financing sub-driver seeks to measure the degree of capital formation, especially for business starts and expansions.



## Research and Creativity .....C-

Patents.....	18th
Privately Funded University R&D .....	15th
Publicly Funded University R&D .....	28th
University Spinout Businesses .....	24th
Univ. Royalty/License Income.....	31st

## Dynamism.....F

New Business Churn .....	28th
Gross State Product Growth .....	25th
Small Business Payroll Growth .....	43rd
Large Business Payroll Growth.....	46th
Fortune 500 Headquarters .....	20th
Business Incubators .....	23rd
Capital Investment Growth.....	27th
Foreign Direct Investment Growth .....	19th
Exports Growth.....	12th
Non-wage Income per Capita Growth.....	43rd
Bank Deposits per Capita Growth .....	35th
Wages per Job Growth.....	24th
Poverty Rate Decline.....	48th

## Entrepreneurial Financing.....D

SBIR & STTR Awards .....	43rd
SBIC Financing.....	42nd
Venture Capital Financing .....	39th
IPO Financing .....	20th
Private Lending to Small Businesses .....	11th
Bank Commercial and Industrial Lending .....	26th

# Measuring Indiana's Real Entrepreneurial Future

By Donald F. Kuratko

The *Economic Vision 2010 Report Card* is released each year for the purpose of comparing Indiana to other states in a variety of measures. Dynamism and entrepreneurship is one of the major drivers with sub-drivers of research and creativity, dynamism and entrepreneurial financing. Indiana has continually ranked from below average (D) to average (C) on these measures.

I am not going to debate the inherent validity of these measures because I have great respect for Dr. Graham Toft, the Hudson Institute and the Indiana Chamber of Commerce. So, in comparison to other states, based upon the chosen benchmarks, Indiana scores low.

However, these particular metrics measure only a part of the full equation. "Dynamism" is an all-encompassing word as is "entrepreneurism." In my latest book, "Entrepreneurship: Theory, Process, Practice" (2004)\*, I define entrepreneurship as "recognizing opportunity where others see chaos, contradiction and confusion." Using this definition, I find a great deal of opportunity being recognized and pursued here in the state of Indiana.

## Top of the class

Let me provide a few numbers of my own. Within our state, Indiana University's Kelly School of Business is ranked among the top business schools in the country, while Purdue University's engineering school is also ranked among the absolute best in its discipline. More specifically, in the latest *U.S. News & World Report* rankings for 2005, Indiana University-Bloomington, Ball State University and the University of Notre Dame all rank in the top 25 business schools for entrepreneurship at both the undergraduate and graduate levels. No other state can match that accomplishment, not even California, which can only equal that achievement at the graduate level.

**Entrepreneurial firms play a crucial role in the innovations that lead to technological change and productivity growth. In short, they are about change and competition because they change market structure.**

The Johnson Center for Entrepreneurship & Innovation (IU-Bloomington), the Gigot Center for Entrepreneurial Studies (ND), the Burton Morgan Center for Entrepreneurship (Purdue) and the Midwest Entrepreneurial Education Center (BSU) are all nationally recognized centers igniting the entrepreneurial spirit in our young adults.

Another initiative within our state has been the development of the Indiana Venture Center. This unique collaborative effort of five universities (Indiana University, Rose Hulman Institute, Purdue University, Ball State University and the University of Notre Dame) was the brainchild of Mike Hatfield, a former Indiana resident and now hugely successful entrepreneur. Beyond his idea, Hatfield financed the initial development of the center with \$3 million. Under the leadership of president Steve Beck and vice

president Bruce Kidd, the Indiana Venture Center has exceeded everyone's expectations – assistance to nearly 150 companies in the first seven months and establishment of AngelNet groups in local communities and statewide. These activities demonstrate a statewide effort that has never been seen before.

And let's not forget Jack Hess at the Columbus Enterprise Development Corporation. He and his staff spent years developing "SmallBizU," a program consisting of 18 web-based courses for entrepreneurs to educate and train themselves on particular aspects of the venture start-up process. To date, over 200 early stage companies have tried the courses, which have received outstanding reviews. The product is being marketed statewide and eventually will reach across the country. Yes, Indiana is developing educational products for entrepreneurs across the U.S.



Donald F. Kuratko

## Looking to the future

All of these examples of unique entrepreneurial efforts here in the state of Indiana are not reflected in the *Economic Vision 2010 Report Card*. That's because the Report Card focuses on the established numbers in measurable categories (patents, payrolls, bank deposits, Fortune 500 headquarters?) These are static figures that measure the past. The future is much harder to quantify, yet it is where we need to focus.

The programs I described are indicators of the entrepreneurial future in Indiana. Kevin Kelly stated in an article entitled, "New Rules for the New Economy," that "Wealth in the new regime flows directly from innovation not optimization; that is, wealth is not gained by perfecting the known, but by imperfectly seizing the unknown."

We must remember that entrepreneurial firms make two indispensable contributions to the economy. First, they are an integral part of the renewal process that pervades and defines market economies. Entrepreneurial firms play a crucial role in the innovations that lead to technological change and productivity growth. In short, they are about change and competition because they change market structure. The U.S. economy is a dynamic organic entity always in the process of "becoming," rather than an established one that has already arrived. It is about prospects for the future, not about the inheritance of the past.

Second, entrepreneurial firms are the essential mechanism by which millions enter the economic and social mainstream of American society. Smaller firms enable millions of people, including women, minorities and immigrants, to access the American Dream. The greatest source of the U.S. strength has always been the American Dream of economic growth, equal opportunities and upward mobility. In this evolutionary process, entrepreneurship plays the crucial and indispensable role of providing the "social glue" that binds together both the high-tech of Wall Street and the low-tech of Main Street activities.

\* Donald F. Kuratko & Richard M. Hodgetts, *Entrepreneurship: Theory, Process, Practice*. Mason, Ohio: South-Western Publishers, 2004

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# Infrastructure and Quality of Life

In the innovation economy, infrastructure can be broadly defined to include both traditional physical infrastructure, such as roads, water and sewer, and “virtual” infrastructure (the digital economy). The metrics chosen attempt to measure outcomes, productivity and level of service, rather than inputs, such as capital expenditures per resident.

Amenities and quality of life are an increasingly important part of the foundation of states, regions and localities. As

incomes grow, residents become more discriminating about where they live and the kinds of amenities and public life available to them. This is particularly so of the GenX and

GenYer’s, who appear to trade jobs for lifestyle preferences.



## Physical Infrastructure.....B-

Highway Quality .....	20th
Bridge Quality .....	17th
Railway Productivity .....	32nd
Water Systems .....	9th
Major Market Access .....	32nd
Traffic Congestion .....	33rd

## Digital Infrastructure.....C+

Broadband Infrastructure.....	37th
Next Generation Internet.....	17th
Rural Online – Last Mile Internet .....	26th
Digital Government .....	4th
Technology in Schools .....	25th

## Quality of Life.....C

Urban Housing Costs .....	8th
Homeownership Rates .....	8th
Cost of Living .....	6th
Arts & Culture Employment .....	33rd
Recreation Employment .....	26th
Sports Employment .....	12th
Gender Equity .....	39th
Racial/Ethnic Equity .....	35th
Parkland .....	35th
Health of the Population .....	27th
Violent Crime/Crime Rates .....	25th
Ozone Compliance .....	30th
Toxic Release Inventory .....	42nd

# Enhancing Logistics Strength Requires Leadership

By Cathy Langham

**A**s a CEO and Indiana business owner for over 20 years, I have a distinctive view of our state's strengths and challenges. Working side by side with other business, civic and government leaders has given me a deep respect for their commitment to making our state robust. Along with this, and because I run a global logistics operation, I have a vested interest in our state's infrastructure and our ability to attract and keep companies and their people.

Two very valuable strengths of this state remain clear: our location and our people. Indiana, by its very location, enables us to be a powerhouse in logistics, trade and transportation. Sixty percent of the U.S. population is within 600 miles of our borders, which makes us conveniently situated to help corporations relocate or expand. Because of our logistical strength, scores of people have acquired knowledge and experience in this area – in turn, offering an intelligent and tested work force.

While I celebrate these two key assets, I stay concerned about our ability to leverage what we have and improve what currently puts us at a competitive disadvantage.

Logistics and transportation are now the greatest leverage for companies that use lower cost of production and delivery as a competitive advantage. New technology and processes have revolutionized how products are made and moved; consequently the cost of freight has become a larger “blip” on the radar of cost containment.

## Up to speed?

That said, transportation and logistics have a profound affect on Indiana's ability to grow and vice versa. Indiana must continue to help companies reduce their costs of freight, increase their speed of movement and keep our knowledge workers. Is Indiana up to the task? Our ability to strengthen our infrastructure has a direct impact on the answer.

We must focus on three things: reducing isolationism, reducing the drain of our knowledge base and increasing leadership's commitment to change.

Public policies that separate Indiana from our sister states make it difficult to do business with us. Outsiders perceive us an obstacle instead of seeing us as a port at which they should stop and build their manufacturing and distribution centers.

## Entrepreneurial Future

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Entrepreneurship is the economic basis for all successful economic activity. It means that any individual is free to transform an idea into a business. The opportunities for Indiana entrepreneurs are unlimited. Let us make sure not to judge our entrepreneurial efforts here in Indiana by the *Economic Vision 2010 Report Card* alone. There are other measures of entrepreneurial activity that indicate a vibrant and powerful force building within our state. The future is not believing something can't be done ... the future is in making it happen!

## Policy changes

Indiana's inventory tax and daylight savings time policy are two examples of isolation that will harm us. True, Indiana's inventory tax is in its demise. But while Indiana waits for the policy to change, CFOs will have already made strategic decisions about their logistics and supply chain management.

As for our policy regarding daylight savings time, I see it as a serious impediment to being easy to do business with. Through my years as a business owner, I have collected many quips and jabs from clients and vendors about Indiana's approach to time zones. Three time zones are simply detrimental to our appeal.

Indiana has been suffering from a “brain drain” for some time as reported in our newspapers and national studies. As our universities continue to revamp programs that mirror the new age of logistics and global business, it is critical that our schools, corporations and government strive to keep our intelligence inside the state boundaries.

## Working together

We are a state committed to leadership in the world of logistics, and we are taking some steps to get there. Like the 2004 Report Card shows, this is neither a fast nor an easy transformation. We need to press toward leadership, set public policy around making Indiana a logistics center and define this economic goal as a key pillar in our state's economic strategic plan.

Single-handedly, no one can remedy the challenges we face. That is probably the greatest point to be made; Indiana's industry leaders and policy makers must solve these risks together.

Indiana is the crossroads, and it is a national logistics, transportation and distribution hub. We have to ensure that what has been our legacy can be realized as our future.



Cathy Langham

### INFORMATION LINK

**Resource:** Cathy Langham is co-founder and president of Langham, a global freight management company based in Indianapolis that maintains a 99% on-time delivery record. Learn more by contacting the company at (317) 290-0227 or go to [www.elangham.com](http://www.elangham.com)

### INFORMATION LINK

**Resource:** Donald F. Kuratko, Ph.D. has recently been appointed The Jack M. Gill Chair in Entrepreneurship; Professor of Entrepreneurship; and Executive Director of the Johnson Center for Entrepreneurship & Innovation for the Kelley School of Business at Indiana University – Bloomington. Previously, he was the Stoops Distinguished Professor of Entrepreneurship and Executive Director of the Midwest Entrepreneurial Education Center, College of Business, Ball State University