

Indiana's Economy

Great for Business, Not Yet for Entrepreneurs



John McDonald

Nolan Bushnell founded a company in 1969 to create a home version of an early mainframe computer game. His product, Pong, and his company, Atari, went on to create the home video game industry through the introduction of the groundbreaking Atari 2600 machine.

After selling the company to Warner Communications in 1978, he launched the now famed pizza and arcade restaurant chain, Chuck E. Cheese, and formed Catalyst Technologies, a venture capital company. Among many other successes, Catalyst notably funded Etak in 1984, which developed the first digitized maps of the world. This move ultimately provided the core data for MapQuest.com, Google Maps and other navigation systems you probably use today.

Bushnell, speaking about entrepreneurship, said: "The critical ingredient (to entrepreneurship) is getting off your butt and doing something. It's as simple as that. A lot of people have ideas, but there are few who decide to do something about them now. Not tomorrow. Not next week. But today. The true entrepreneur is a doer, not a dreamer."

It's unlikely that Nolan would have achieved these successes alone – there were many partners, business associates and employees that contributed – but it's equally unlikely that Nolan would have succeeded if he sat around dreaming and wishing and waiting for

something to happen. Initiative, therefore, is the spark that begets entrepreneurship.

Said differently, you have a 100% chance of failure as an entrepreneur if you do nothing at all.

If the spark that ignites an entrepreneurial company is initiative, then what are the other necessary components that fuel the fire of innovation? Like we learned in elementary school, fire requires fuel, oxygen and heat, and if any of these elements is removed, the fire stops. Similarly, entrepreneurship requires three elements: ideas, capital and skilled people, with the spark of initiative to light the flame. Take any of these away and the fire of an entrepreneurial company "flames out".

Our company, ClearObject, has been the fastest-growing information technology services company in Indiana for the last four years in a row and was recently named by *Entrepreneur* magazine as the most entrepreneurial company in Indiana.

These honors reassure the skilled people of ClearObject and our capital partners that the idea they aligned to, namely to help companies of all sizes ready their products for the new data economy, brilliantly and brightly completes that triangle of entrepreneurial fire.

Adding another element

More modern models of fire add a fourth element to the mix, which represents the chain reaction that sustains the fire once it's burning. As the fuel burns, it continues to release stored energy, which keeps the fire stoked. If that energy is blocked or inhibited, the fire can be diminished or even extinguished, despite the lingering presence of oxygen, fuel and heat. It's as if

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the initial spark that started the fire becomes a self-consuming reaction that doesn't need continued ignition sources to perpetuate.

These conditions that perpetuate the fire of entrepreneurship are what our home state of Indiana does very well. *Forbes* magazine recently ranked Indiana as the 10th best place to do business in America, placing it at number four in quality of life and tops in the nation in overall regulatory environment. I credit this to the work of a series of great governors and the leadership in our part-time state Legislature, as well as the work of the Indiana Chamber of Commerce, working hand-in-hand to create a state economy that perpetuates the chain reaction of business success.

Together they have overcome our lack of mountains and oceans by creating some of the lowest cost and best places to live in America. Just recently, our home city of Fishers was ranked by *Money* magazine as the best place to live in America, with other blossoming Indiana cities often making such lists.

Yet, if you dig a bit deeper into the *Forbes* rankings, you find some troubling data aligned to the triangle of entrepreneurship. In the case of capital, we see Indiana ranked a mediocre 23rd in economic climate. In labor supply, Indiana jarringly ranks near the bottom (45th), aligning directly to the third leg of the triangle, skilled people. Indiana, despite having one of the best places in the country, if not the world, to perpetuate and grow a business, finds two key elements that drive entrepreneurialism seriously impaired.

There's more evidence. In the case of capital, the "oxygen" of any business in our capitalistic economy, we are ranked by the PricewaterhouseCoopers and CB Insights *Money Tree* report as 39th in the country in average venture capital deal size. In addition to a poor national showing, this rank places Indiana dead last in the Midwest.

The deal average, about \$2.5 million, has not changed much over the last three to four years. As Don Aquilano, one of the few active venture capitalists in the state, recently said about the impact on entrepreneurial start-ups: "These companies get passed by companies that are sufficiently funded, and die on the vine." The headline of a 2017 *Indianapolis Business Journal* article accurately reads, "Indiana's tech scene has a lot of things going for it, but venture capital isn't one."

Workers lacking

As noted earlier, the scene related to the "fuel" – skilled workers – is even more dismal. A quick search of Monster.com for "software developer" jobs in Indianapolis reveals over 1,000 unfilled postings. This is puzzling, given the presence of multiple

renowned higher education institutions in Indiana, which are often ranked nationally as leading programs for business, engineering and computer science.

Digging deeper, we find just three of 10 students who enroll in an Indiana-based four-year campus graduate on time, and only half finish within six years, according to the Indiana Commission for Higher Education. It's worse for our two-year campuses, designed to deliver trade-level education and certifications, where the same report shows that only 9% of students finish on time and



Indiana must do more to prepare students for the knowledge-economy jobs that are driving the state's economic growth.

just 12% graduate within three years.

Of every 100 students who start college full time, just six of them will complete a two-year degree, 20 will complete within four years and 28 will complete within six years, leaving the majority with all of the debt and none of the degree. According to *U.S. News and World Report's* Best States rankings, with an 8.3% graduation rate from our community colleges, Indiana is dead last in the nation.

Most disturbing is that this data applies only to those high school graduates who attempt some form of college pathway. Of the 70,000-plus Indiana high school graduates annually, 35%, or over 24,000 of them, will pursue no higher education at all. An educational attempt rate of 65% is a D-minus on most grading scales and our overall completion is decidedly an F-minus.

This is bad not just for entrepreneurship success, but for a sustainable economy that creates jobs. We've all been taught that 95% of United States companies have fewer than 50 employees and that they are the drivers of economic growth.

Yet, according to the widely-cited

Kauffman Foundation, it's not just small businesses that fuel economic growth as widely believed, but in particular it's new businesses – start-up, entrepreneurial companies. Businesses less than five years old account for nearly all net new job creation and almost 20% of gross job creation. Without entrepreneurialism, there is no net new job growth.

Starting point

There is hope. Indiana's leadership just created the Next Level Fund and Next Level

Jobs programs that leverage a small portion of the state's significant capital reserves to, respectively, help seed the creation of a venture capital ecosystem and address the significant skills gaps our high school graduates face in being ready for the data economy.

But we can do more.

In the case of the oxygen of capital, in addition to seeking funds from other states to land here, we must spawn the creation of new funds, based in Indiana, that draw our significant local wealth into the entrepreneurial economy. According to *Business Insider*, there are some 1,105 Hoosier millionaires, with 615 of them in the greater Indianapolis area, ranking it the 19th richest state in America. Yet relatively little of this more than \$1 billion in local capital finds its way into entrepreneurial start-ups, as these individuals often lack the inside knowledge and experience to perform the due diligence necessary to discern a good company from a bad one.

By drawing those investors together into funds, the risk is reduced for the limited partner while simultaneously increasing the available oxygen to propel new companies

and new jobs. Community leaders scratching their heads as to why their local technology co-working spaces fail to attract enough entrepreneurial start-ups to fill the seats and pay the rent should first focus on bringing together local high-net worth investors. They can be encouraged to form funds that will naturally seek to spawn companies close to home, where they can be closely monitored and celebrated for their success.

Skills upgrades

Further, in the case of the fuel of skills, we must see that the jobs needed for our future data economy more closely resemble modern trades, like data plumbers and electricians, than they do four-year bachelor's degree careers. Theoretically, the thousands of software developer openings in Indianapolis may result from simultaneously overshooting and undershooting the educational requirements for these roles.

Students attending a four-year school at the urging of parents trained by a college loan system to believe it's the only path to success in life often find themselves loaded with debt and needing to seek coastal salaries to satisfy loan payback schedules. At the same time, the tens of thousands of Indiana high school graduates who fail to complete degrees, or who don't attend college at all, find themselves without basic trade certifications needed to fill those openings, leaving much opportunity unfilled now – and a deadly condition for tomorrow's data-driven agricultural, transportation and industrial economy.

Our industry must agree to trade certifications for roles such as software development, cybersecurity and data analytics, and demand our community colleges deliver that training close to home for high school graduates with little means to uproot and rent apartments in

far-away cities or drive great distances. Furthermore, just like trades such as electricians and carpenters require significant time in apprenticeships after obtaining certification, we must offer a uniform system of technical internships that prove a clear pathway to becoming a skilled tradesperson.

Ideally these jobs are offered directly in the offices of guidance counselors in the senior year of high school, with the promise of a free trade education and a guaranteed apprenticeship if certification tests are passed – a stark, attractive option to four-year colleges or to having no clear plan at all. Our Legislature should offer companies tax incentives for signing up for these apprentices, as we are effectively extending the state's education system and creating more Hoosier jobs that are just as important, if not more so, than the jobs created by traditional incentives.

That's truly a game-changing approach to filling those thousands of open jobs and to providing a pipeline of brains as fuel for every company in Indiana's entrepreneurial journey into the data economy.

Indiana has no shortage of ideas, which are free and ubiquitous and make up the first leg of the entrepreneurial triangle. But while we can be sure that our business conditions will perpetuate the fire once started, the "fuel" of skilled people and the "oxygen" of capital are deeply substandard. Therefore, despite the spark of initiative at the heart of every entrepreneur, big ideas fail to light in Indiana today and flicker out all too often when they do.

We can, and indeed must – for the benefit of Hoosier companies transitioning to the data economy and for future generations of Hoosiers seeking job growth – make Indiana a great place not only for business, but for entrepreneurship.

AUTHOR: John McDonald is CEO of ClearObject and chair of the Indiana Chamber's Tech Policy Committee. Learn more at www.clearobject.com



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