

Nebraska's Innovation & Entrepreneurial Ecosystem

Executive Summary

The Innovation and Entrepreneurial Task Force
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Senator Danielle Conrad, Chair
Senator Deb Fischer
Senator Rich Pahls

Senator Galen Hadley, Vice-Chair
Senator Heath Mello
Senator Ken Schilz

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EXECUTIVE SUMMARY

In today's knowledge-based economy, there is no doubt Nebraska's greatest resource is its people. Nebraska enjoys a wealth of home-grown talent and has the human resources to outperform most other states. However, surveys and research have shown that the State could do more to encourage its home-grown talent to stay in Nebraska to achieve their career ambitions while at the same time making additional efforts to attract new talent to Nebraska from elsewhere.

In the past, typical economic development policies focused on attracting new businesses to a region. In recent years, however, state and local governments have begun to realize that their existing local business and entrepreneurial talent can and should be the primary catalyst for economic growth. Successful development policies are clearly shifting from "economic hunting" to "economic gardening."

If a noble goal of Nebraska is to increase the number and diversity of high-wage jobs in the State, then a key area of focus should be on improving the entrepreneurial ecosystem. The reason for this is that top-performing young companies are the most fruitful source of new jobs and offer the Nebraska economy's best hope for growth. A new discussion—one that not only promotes entrepreneurship, but specifically *high-impact* entrepreneurship—is necessary.

How Nebraska Stacks Up

Nebraska's approach to supporting the entrepreneurial and innovative ecosystem over the past three decades has been one of bits and pieces. There have been some noticeable efforts made, such as the Venture Capital Network Act, the Nebraska Research and Development Authority Act, the Microenterprise Development Act, the Nebraska Venture Capital Forum Act, the Agricultural Opportunities and Value-Added Agriculture Partnership Grant Program, the Building Entrepreneurial Communities Act (BECA), and the Nebraska Advantage Microenterprise Tax Credit.

However, in comparison to other states much of the recent legislation and policies have been short-term focused and targeted at specific entrepreneurial issues, such as micro-lending, venture capital, and assistance to the agriculture sector. As a result, Nebraska has been ranked toward the bottom in many nationally recognized entrepreneurship and innovation rankings of the fifty states.

Several organizations, such as the Kaufman Foundation, Forbes Magazine, the Milken Institute, Small Business & Entrepreneurship Council, and the Corporation for Enterprise Development, among others, monitor statistical information that can be used to compare states' business environments against one another. While these rankings are based on subjective sub-categories and should not be considered a conclusion of Nebraska's "standing" versus other states, they are very useful in trying to find areas in need of improvement.

An evaluation of Nebraska's entrepreneurial ecosystem in comparison to other states and best practices can be broken down to five key categories that directly impact small business development and growth:

1. **General Entrepreneurship Statistics** - Nebraska generally ranks below average in composite business categories. A major area of specific concern is that Nebraska ranks very poorly for business capital and innovation. On the positive side, Nebraska ranks well above averages for

economic climate (e.g. costs, taxes, etc.) and some “quality of life” factors (e.g. low crime, good education, etc.).

2. Business Cost, Tax, and Regulatory Environment - Nebraska ranks fairly well in regards to ease of doing business, efficient regulatory requirements, and taxation. However, Nebraska ranks lower in areas of technology related to government (e.g. e-government).
3. Access to Capital - Nebraska ranks very low in access to capital (actually dead last at 50th in the Kaufman Index). This is a major area in need of improvement.
4. Innovation - Nebraska ranks very low in technology and innovation. This is also major area in need of improvement.
5. Workforce - In general, Nebraska ranks high in broad human capital categories (e.g. workforce education). However, there is a concern of outmigration of young high-skilled workers (i.e. “brain drain”) and the need to attract more technical professionals to the State.

National and Regional Best Practices

National best practices were reviewed in order to provide leading examples of innovative approaches. In attempt to make a more targeted comparison, programs were further researched in five nearby states: Colorado, Iowa, Kansas, Oklahoma, and Missouri. These states were chosen as they have similar economic and cultural characteristics to Nebraska and in theory provide alternative markets and platforms for potential entrepreneurs in the region.

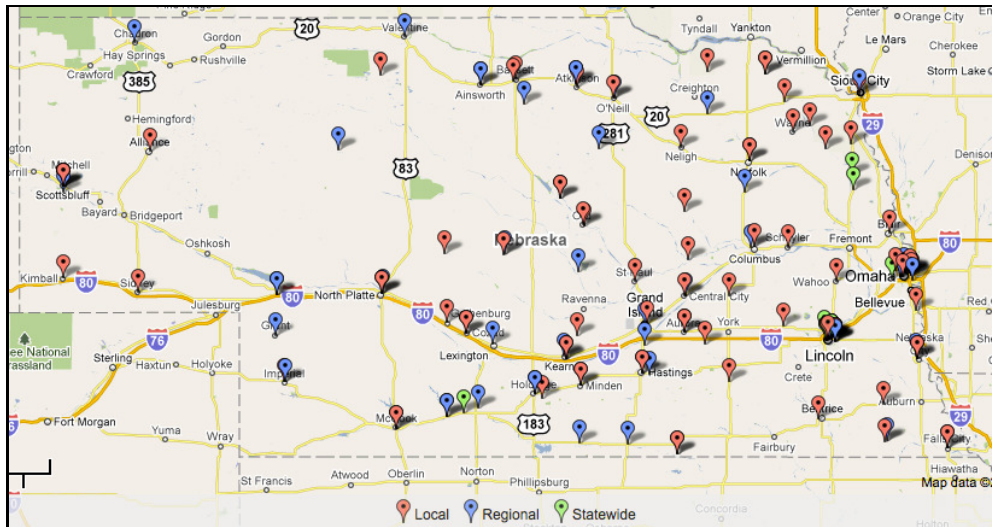
In general, the analysis shows that there is not much differentiation among these states in their approach to entrepreneurship development, except in the case of Colorado which has been more innovative. However, these states do have many individual examples of innovative programs, which Nebraska may want to emulate. More details on national and regional best practices are provided in the full report.

Development Programs and Organizations in Nebraska

To lay forth an effective strategic plan to improve economic developments in Nebraska, it is important to first understand the current landscape of such efforts across the State. To do this, Invest Nebraska developed a comprehensive inventory of 146 existing economic development programs and organizations operating across the State at the local, regional, and statewide levels.

While the number of existing programs and organizations is large given the population of the State, it was a finding of both the inventory analysis and the subsequent survey of those identified (*Invest Nebraska Survey of Development Organizations*) that the majority of these existing programs and organizations are small and localized, and are generally operating within the boundaries of one county. In addition, there also appears to be a lacking of coordination with related local, regional, and statewide groups.

Map of Development Programs and Organizations by Service Area



Some major findings of the *Invest Nebraska Survey of Development Organizations* were:

- Regarding location, 48% of survey respondents who provide entrepreneurial support services defined their program service area as local, or within the geographic boundaries of one county. Another 29% define service area as regional and 24% as statewide.
- Nearly 70% of responding programs receive more than 50% of their program funding from public sources (local, state, and federal governments), with a large number receiving at least 90% of program funding from public sources.
- The majority of respondents provide both financial assistance and entrepreneurial support. However, a significant minority provides no financial assistance. Financial assistance organizations made 242 financial assistance awards with an average award of \$52,724 in 2009 (a significant increase over 2008).
- More than 68% of programs providing financial assistance identified retail as a top-served industry and no respondents indicated home-based businesses, financial services, biosciences, renewable energy, or business management and administrative services as commonly served industries.
- Nearly 82% of programs indicated the offering of one-on-one counseling to entrepreneurs/businesses within their service area. 75% of responding programs offer community workshops, 34% provide research and development assistance, and only 21% offer online workshops.

Stakeholder Opinions of Nebraska's Entrepreneurial Support Programs

At the request of the Task Force, Invest Nebraska conducted another survey (*Invest Nebraska Survey of Entrepreneurs and Business Owner*) in order to gauge the opinions of Nebraskans regarding their interaction with various business service providers and the current entrepreneurial/innovation environment in the State. The survey was sent to an estimated 3,000 Nebraskans (with 638 responding) who were selected by leading business development organizations. The survey was created with three target audiences: Business Owners and/or Entrepreneurs, Economic Development Professionals, and

Aspiring Entrepreneurs and Students. Of the total participants taking the survey, 60% self-identified as Business Owners and/or Entrepreneurs.

Some major findings of the *Invest Nebraska Survey of Entrepreneurs and Business Owner* were:

- Of the Business Owners and/or Entrepreneurs, there was low familiarity (<20%) with the concept “economic gardening.” There was more familiarity with various capital sources.
- Of the Economic Development Professionals, the term “venture capital” was also the most familiar to the respondents (60%) followed by the State’s BECA grant program (58%). Economic gardening was more familiar (40%) in this group, but still at low levels.
- Regarding the Aspiring Entrepreneurs and Students, not surprisingly in today’s internet economy 39% of respondents first use a computer to find information about starting a new business. Friends or family, fellow entrepreneurs, and education centers were also cited as popular sources for information. Somewhat concerning, only 19% sought information from local economic development organizations. In addition, 61% disagreed or strongly disagreed with the statement “entrepreneurs know where to go for needed resources.” However, 65% respondents agreed or strongly agreed with the statement “the State should make it a priority to provide seed capital for start-up companies.”

Recommendations

Recommendations for improving and increasing Nebraska’s entrepreneurial ecosystem recognize that the most success can be gained from fostering innovation at home first. In addition, the recommendations also recognize that the State has limited budget resources and that better utilizing existing state resources should be the main budgetary focus. Finally, the recommendations also recognize the importance and experience of existing economic development organizations in the State, and that these organizations already have existing infrastructure to implement new ideas and approaches.

Based on this analysis, some specific recommendations for improving Nebraska’s entrepreneurial ecosystem are:

Recommendation #1: Create a Statewide Economic Gardening Program: Develop a two-year pilot program consisting of market research and data mining resources available to Nebraska based primary or growth businesses. Existing organizations can be used for implementation.

Recommendation #2: Develop Awareness in the Local Development Community on the Importance of Economic Gardening and High-growth Businesses: The overall goal is to develop a program to educate local/regional economic development professionals, academia, local government officials, and business leaders of the principals, methods, and benefits associated with economic gardening approaches.

Recommendation #3: Industry-specific Venture Competitions: The State of Nebraska already has a successful track record of venture competitions, but should create a series of additional industry specific competitions to focus and highlight high-growth companies from identified native industry clusters.

Recommendation #4: Annual Regional Venture Competitions: The regional competitions currently in place should be reconfigured and expanded to create annual competitions in each of the eight regional Development Districts.

Recommendation #5: Quick Pitch Venture Competitions: Initiate a recurring series of quick pitch competitions to facilitate business origination and networking amongst entrepreneurs and potential investors. New venture competitions can be managed under existing programs and in collaboration with existing, interested stakeholders (e.g. Nebraska Angels)

Recommendation #6: An SBIR Expert Assist with “Phase Zero”: Nebraska has not achieved consistent levels of outside funding and a first step to improve in this area could be to employ an individual to work directly with Nebraska businesses and institutions of higher education to submit SBIR and other related applications to various federal agencies based on the type of technology.

Recommendation #7: Creation of a Nebraska State SBIR Phase I and II Matching Grant Program: The State could also provide a matching grant to any recipient of a SBIR award in the amount of 25% for Phase I and Phase II. There could also be additional incentives for underfunded regions.

Recommendation #8: Create a Nebraska TechStart Program: Similar to the Missouri TechLaunch Program, the State could provide pre-seed low-interest loans (less than \$20,000) to start-up companies engaged in intellectual property development and commercialization, in-depth market analysis, scientific discovery, proof of concept, prototype design and development, and related activities.

Recommendation #9: Encourage Additional Angel Investing: A key area in need of major improvement is access to capital and, as also mentioned by the Nebraska Angels and the Battelle Study, Nebraska could enact an Angel Investment Tax Credit.

Recommendation #10: Increase Seed and Venture Capital Investment: Nebraska could authorize the creation of \$20 million of State income tax credits to sell to private industry to fund the creation of a State sponsored Seed Capital Fund and a High-potential Business Capital Fund, along the same lines as the Colorado Venture Capital Authority, enacted in 2004.

Recommendation #11: Improve Micro-lending Effectiveness and Targeting: Existing micro lending programs could be more focused on high-growth and innovation-based entrepreneurship, and there are several efforts that could be made to redirect current micro-lending assets in this direction. The most effective existing State programs and organizations could implement the shift in strategy.

Recommendation #12: State Add-on Credits and Focus: A total allocation of \$1 million in state tax credits could be made available to any Community Development Entity serving Nebraska that has received a tax credit allocation from the federal New Markets Tax Credit Program.

Recommendation #13: Support the GEDAS Pilot Program: Successful results of the two-year GEDAS pilot project could warrant continued funding by the State to ensure that entrepreneurs are receiving the advice and positive influence they need in order to accelerate the growth of their startup company.

Recommendation #14: Rural Entrepreneurship Focus: Continuing on the successful coordination by the University of Nebraska, further consideration should be given by the University to develop one organization (or division) that focuses on important needs of the rural entrepreneurship community. Most important is the development of a single network that covers a large land mass with small population centers.

Recommendation #15: Consolidated Website: The *Invest Nebraska Survey of Entrepreneurs and Business Owners* found that 61% of respondents identified as Aspiring Entrepreneurs and Students do not think “entrepreneurs know where to go for needed resources” and one website could list all entrepreneurial efforts by government, the private sector, and the University system.

Recommendation #16: Entrepreneurial Training for Researchers: The State could encourage the University to offer entrepreneurial training to its research professionals.

Recommendation #17: Matching Grant Program for Researcher-Firm Partnerships: A matching grant program that encourages Nebraska-based private industry to partner with University researchers could encourage more collaboration, and it could be modeled after the Utah Center of Excellence Program which permits researchers and companies who intend to license technology developed at Utah’s colleges and universities to apply for State grant funding.