

Confessions of a Big Game Hunter

By Bill Sproull

The time has come for economic developers to learn how to hunt gazelles; disruptive emerging growth companies. For too long the profession has only known how to hunt big game, but the herd is thinning!

I've had an epiphany. It started shortly after my last major kill.

The herd is thinning, and I need something else to hunt.

You see, I've been a big game hunter, in the economic development sense of the word, for almost 25 years (yeah, a quarter century). And, like Buffalo Bill, I became really good at it. If you're wondering what I mean by "big game hunting" in economic development, think chasing and landing the big company/capital investment/large job growth recruitment prizes. In Texas, those prizes have been synonymous recently with the Toyota truck plant in San Antonio, the \$2.5 billion Samsung semiconductor expansion in Austin, and Texas Instruments and Countrywide Financial in Richardson. The latter two were mega projects on which I personally took a lead with others, and which became, respectively, the largest capital investment project announced in the U.S. in 2003 (TI committed to build a \$3 billion semiconductor plant), and the largest job creation announcement by any U.S. company since the year 2000 (Countrywide committed in 2004 to create over 7,500 jobs in Texas, 5,000 of which would be in Richardson). I had reached the peak of my hunting career, and I still have 3 more kids to put through college!

Despite these recruitment successes, I knew the herd was thinning. I have seen the transaction volume of mega projects in decline in the U.S. for over a decade. I saw this leading a regional jobs recruitment effort for the Dallas-Fort Worth area, and confirmed it with my peers around the country. Blame it on a flat world in which more corporations are off-shore, corporate belt-tightening ever since the dot.com bust and 9/11, or just plain old productivity improvements and efficiency...any way you chalk it up, corporations are generally on a jobs diet in the U.S. and reluctant to add head count in a globally competitive environment.

Sure, there will still be a market for mega projects for U.S. states and communities to hunt. Texas has been doing very well in this regard as of the last several years, mainly due to Governor Perry's Texas Enterprise Fund, which gives him the financial juice to close the deal for these major projects. The state should continue this strategy, and the primary marketing for recruitment should be left at the state and regional level.

It's just that Texas, and its communities in particular, shouldn't count on big game hunting, by itself, as its primary economic development strategy. Communities should hunt closer to home and leverage their networks.

Shortly after the euphoria of the Countrywide and TI announcements, two things happened that facilitated my hunting epiphany. The first was a trip I took to an executive retreat of my peers from across the country, at which I met Chris Gibbons, a prophet of the Economic Gardening movement. Chris espoused a “grow your own” strategy, a strategy that has always been a basic tenet of the economic development profession, but which always gets the least attention and resources. The second was Governor Perry’s call for creation of the Emerging Technology Fund, a ground-breaking move in Texas public policy and state economic development that said the state could invest in ideas coming out of universities and make disruptive businesses out of them. I’ll get back to Chris and the Emerging Tech Fund in a moment, but first a short lesson.

There are three basic job and wealth creation strategies that any country, state or community employs in economic development: recruitment, retention/expansion, and new growth. The favorite has been the first in the U.S., ever since Thomas Jefferson. Yes, you read it right, Thomas Jefferson. He actually advocated back in the 1700’s that Virginia should recruit industrial businesses (back then timber, textiles and basic metals), since they could be drawn to his home state using its enormous natural resources. Almost two centuries later, Southern states were using this strategy, again, when after WWII, they embarked on recruiting low wage manufacturing jobs from the Northeast. Of course, I can still remember Southern states eventually losing many of these industries a few decades later (think textiles) to cheaper locations overseas, and replacing those jobs with higher paying automotive manufacturing jobs.

Northeast states responded with the second strategy, namely, working on ways to keep your own and help them expand. They employed strategies ranging from export led growth, urban redevelopment of older industrial areas, to job training and tax subsidies to modernize existing industries. Business retention and expansion became the mantra of economic development in the U.S. in the 1970’s and 80’s. It is still the core economic development strategy around which states and communities should build, much as Texas has recently done with its industry cluster initiative process.

There are entire chapters that can be written on how to support existing industry, however many states and communities have fallen into a trap here: they focus on companies and industries whose products are greatly matured, have become a commodity, and who have little to add in terms of new wealth creation. Gibbons argues that this is the case with most recruitment and expansion projects in the U.S., and while I might argue about the magnitude of this error in strategy, it has to be admitted that many engage in it. At its worst, some have focused inordinate public resources on dying industries (I can think of a few examples in my own career dealing with aged auto and steel plants). Suffice it to say that a sound retention/expansion strategy has to focus around industries and firms which have the best opportunities for future growth, reinventing themselves and their products, and not commodity firms and industries that need to eventually shift their production to even lower cost locations.

The third strategy has been to grow your own enterprises. Unfortunately, this strategy for most of the post WWII era has been mis-applied, underfunded, under-appreciated, and

definitely has not been the focus of professional training in the economic development field. Why? In a nutshell, it has been thought to be about small business development. That's a nice and perfectly acceptable lifestyle, but hardly gets a state or community into the economic development hall of fame. It also doesn't, and can't, produce the kind of disruptive wealth and job creation that states and communities need in our global environment. Yes, the Small Business Administration has done laudable things to support the dream of many Americans to own their own business. Yet, as one who used to administer some local SBA programs, I can tell you first hand that they are not designed to produce new disruptive industries and wealth. You just can't do that through debt financing, which is what the SBA and many state small business programs generally provide. You need *risk capital* to get that done, and that means equity.

Really successful growth strategies also got mis-applied because of the misinterpretation of the work of David Burch of in the 1980's. He authored a famous study that is oft mis-quoted as saying that small business creates 80% of all the jobs in America. First, his data was affected by the period of time he studied, and actually a different time frame showed in the early 80's that large business job growth led the economic expansion back then. More to the point, it was *innovative small businesses with high growth rates* that were responsible for the vast bulk of job growth amongst small businesses during these expansions.

Another reason that "grow your own" strategies have been under-funded and under-staffed has to do with the political calculus involved in economic development decision making and the training of the profession. It's a lot easier for elected leaders to justify setting aside public resources to lure a large company with a public balance sheet and P&L, and not take those same resources and invest them in many emerging companies where the failure rate is high. Yet, if you took the same \$1,000 in 1960 and invested in blue chip stocks versus the stocks of emerging growth companies, you would have made more on the latter than the former.

The profession was also affected by the training that went into the big game hunt. When training and coursework was established in our educational curriculum and certifications in the 1960's, mainly overseen by industrial recruitment professionals in banks, utilities and railroads, it became little surprise that generations of economic developers became competent big game hunters. The U.S. enjoyed long periods of expansions, and big industry dominated. Economic developers, like any rational being, just followed the herd.

So, back to Gibbons and the Emerging Technology Fund...as I mentioned earlier, the herd is thinning, and I realized that my colleagues and I must become new kinds of hunters. What Gibbons, me (now), the Emerging Tech Fund, and many others are really hunting are "**gazelles**". They are emerging companies who have early stage products or services that have the potential to grow into very large, wealth creating businesses. This is an economic development model whose time has come for large scale engagement in the U.S. Why? Because it plays to our strong suit in a flat world...we are still the best at entrepreneurship and innovation in the United States, and we have the best higher education system in the world producing lots of intellectual property...a perfect storm of

the right ingredients to revive a basic economic development strategy...grow your own...wow, epiphany!!!

I could go into a very data-driven analysis of why pursuit of gazelles has long-term merit, and the history of entrepreneurship, innovation and commercialization in America. However, we all know the examples of new industries and companies that didn't exist even a decade ago that have created great wealth in this country. Many of them were venture capital backed and were technology based. A lot of them provided a better service that suited our times or took advantage of the internet.

In truth, my experience in hunting and landing gazelles actually goes back to the 80's, shortly after Birch published his study, when I began to work, intermittently, with a high tech incubator in Kansas City. I was fortunate during that time to have actually met Mr. Ewing Kauffman, the founder of the Marion Laboratories and the capital source and namesake of the Ewing Marion Kaufman Foundation. His example of an entrepreneur who built a great company and gave back to his community (and now the nation through the foundation) was truly inspiring. Unfortunately, the tools, training, and capital sources available to me as an economic developer in the mid-80's did not sustain my involvement in gazelle hunting, and the high-tech incubator with whom I worked also floundered. However, it's time was coming.

As seen here in numerous examples in Texas, there are very successful high-tech incubators, such as the Austin Technology Incubator, the SATAI network in San Antonio, the Houston Technology Center, and Startech Early Ventures in Richardson. With the help of the Emerging Technology Fund, the state now has the ability to greatly expand the growth of gazelle entrepreneur companies throughout all the state. Economic developers have the tools available to them to succeed in this form of hunting if they will only go get the training. That training is also available in many forms, esp. from our universities who teach entrepreneurship.

Bottom line for the economic development profession: don't just be a big game hunter...learn how to hunt gazelles.

Bill Sproull is President and CEO of the Richardson Chamber of Commerce, Metroplex Technology Business Council and the Richardson Economic Development Partnership. He also helped lead the coalition that promoted the Texas Emerging Technology Fund. Governor Perry appointed him in 2005 to the 17-member Texas Emerging Technology Fund advisory Board.

Previously he held the senior economic development positions at the Greater Dallas Chamber, the McKinney Economic Development Corporation and at the EDC of Kansas City, Missouri. Mr. Sproull is a graduate of Baylor University, where he received a BA degree with a double major in Economics and Political Science. He is on the Boards of Directors of the International Economic Development Council, Texas Economic Development Council, the University of Texas at Dallas Development Board and the North Texas Commission and holds many honors in the field of economic development.

