

Editorial: Re-thinking the purpose of the Council for Entrepreneurial Development

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Guest Editorial

The economic news for the RTP on January 25, 2003, was not good. Another one of the Triangle's promising ventures, NetOctave, a network security company, had gone belly-up, and was floating lazily down North Carolina's Neuse River of business failures. NetOctave joins a growing list of the other RTP belly-up ventures who are also floating down this stagnant, putrid river. One would think business and financial leaders in the state could glean a clue from the RTP scientists so well trained in evolutionary biology and notice that something is amiss in the RTP economic environment. In other words, when biologists see hundreds of dead fish, floating belly-up, they may think to themselves, "Hey, I wonder if something is wrong upstream that may be contributing to this fish kill?"

In this economic analogy, one of the problems upstream is a 24-person bureaucracy called the Council for Entrepreneurial Development that seems to have lost its focus and mission in serving the "entrepreneurial" part of its title. Rather, in its 20-year history, the mission of the CED seems to have changed to serving the needs of the VCs and politicians who dominate its board of directors. The needs of small ventures and unemployed scientists, who do not yet have a business venture ready to be cherry-picked by the insiders at CED, do not seem to be getting much love. A more descriptive title for CED perhaps would be the "Council for VC and Politician Enhancement."

The original 1982 state government policy document, To The Year 2000, (PDF file available at <http://www.corporateinvestment.net/pubs.aspx>) calling for the formation of the non-profit entrepreneurial association outlined the purposes as one of linking regional economic data to the ambitions and aspirations of scientists and engineers who wanted to start their own companies. The document stated, "While the linkage between the entrepreneurs association and the local economic development boards would be voluntary and informal, it would be a very useful means of transferring knowledge about the local economy. The local chambers of commerce and economic development boards are usually the best sources of ideas and information about market opportunities in the local economy. That knowledge would be a tremendous asset to potential entrepreneurs."

In the CED's first several years of development, a very small CED staff, and a group of dedicated volunteers, primarily Walter Daniels, Larry Robbins and Fred Hutchinson, assisted by Al Calloway, from the NC Department of Commerce, pulled together resources aimed at helping budding entrepreneurs identify new venture opportunities. What those early seminars and meetings for entrepreneurs lacked in slickness, they made up for in content and substance for entrepreneurs.

In 1982, the major NC business and political interest groups were either hostile or indifferent to the new organization, because it did not contribute to the dominant North Carolina economic policy of industrial recruitment of large multi national manufacturing plants. The economic policy of industrial recruitment contributed to

commercial real estate deals, related to developing industrial parks, and to the big commercial banking interests that financed the real estate deals. There was, and still is, in North Carolina, a cozy relationship between industrial recruitment, land development, and political contributions to the Democratic Party.

Small business development and new venture creation was seen by the politicians as merely a sideshow that detracted from the performance of this cozy relationship. As time went on, the politicians successfully co-opted the purpose of the CED from one of serving the interests of potential entrepreneurs to serving the interests of the financial community that could make some big bucks on VC deals. Over time, more and more of the efforts of the CED were directed to road shows and public relations events that featured a few lucky local companies who had received local VC capital trying to get more VC capital from outside VC firms. This VC pyramiding scheme reached its apex during 1998, and then, burst in mid-2000. The carcasses of belly-up fish, like NetOctave and Cogent Neuroscience, along with bigger VC-fed fish, like BuildNet, are the ones now floating down our Neuse River of business failure, as a consequence of this incestuous scheme.

In the meantime, thousands of unemployed scientists and engineers, jettisoned by the large multi-national companies recruited here by the politicians, with the growing use of tax incentive cash giveaways, search desperately for help on what types of ventures may work here in the RTP. A glance at the CED's upcoming calendar of events does not suggest much in the way of help. "Listening to Your Business," and "Balancing Visionary Thinking With Today's Reality," may provide great networking opportunities for MBA students, but with an entrance fee of \$30 to \$75, these events seem to miss the needs of either the unemployed scientists or the small biotech venture.

Like all bureaucracies, the CED has become committed to the status quo political environment in North Carolina. It has just finished raising \$ 4.5 million dollars from the most well-heeled Tar Heel bankers and lawyers to support its future activities. Former Governor Jim Hunt is the honorary chairman of this fund raising program called "Innovation to Impact." Ironically, Governor Hunt was in power back in 1982, and his senior Department of Commerce staff adamantly opposed the North Carolina Department of Labor's policy guidelines for creating the CED because the policies detracted from Hunt's obsession with industrial recruitment. Now, it seems politically convenient to infuse CED with a partisan tinge that obscures the state's continuing policy reliance on the obsolete policy of recruiting outside industries with increased cash giveaways and tax incentives.

The combination of the CED's new funds, in conjunction with the partisan ambitions of Governor Hunt, do not bode well for getting the CED to re-focus its mission on serving nascent entrepreneurs. Being committed to the status quo means that the CED has both the financial ability and, now, the political power to stop new initiatives and programs that may aim at changing the status quo to an emphasis that promotes the interests of native small businesses and entrepreneurs.

There is something terribly wrong in North Carolina's economic environment. Per capita income growth rates have stagnated, the number of individuals living in poverty

has increased from 945,000 in 1995 to 967,000 in 1999, and the state now boasts both the highest marginal tax rates and highest unemployment rates in the Southeast. Organizations, like the CED, with precious organizational resources and assets, could contribute to a regeneration of economic growth in the state if it would start strategically targeting the needs of small business and unemployed scientists. Unfortunately, as an organization, the CED seems to lack the ability for self-examination and self-criticism, content in its self-congratulatory hubris, that it can hob-nob with the very best in North Carolina's financial and political elites. Heck, most of its board are the political and financial elites.

That self-satisfaction with the status quo is great for them, but not such good news for the RTP economy and all of the small ventures and unemployed scientists trying hard not to be the next fish to go belly-up. If the CED can not re-focus its purpose, then the best hope for the RTP economy and the high tech community of small ventures and unemployed is that the CED not deploy its considerable financial resources and new partisan political power to thwart the development of a new organizations whose goals are more in line with the original 1982 purposes for an RTP "entrepreneurs" association.