How to Scale Up Economies like Northeast Ohio with Growth Entrepreneurship

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My thanks to my hosts, Burton D. Morgan Foundation and Fasenmyer Foundation, and of course congratulations to the Akron Forum on your wonderful event. This is my first time in Akron, so I spent a little time with Google and learned about your city sons, Lebron James, and Nobel Laureate Richard Smalley, and the fact that Akron means summit, or high spot, so I guess we are now on the Acropolis of the Midwest.

Ecosystems for Growth

Since 2009, after three decades as entrepreneur, investor, and professor, I and a small band of collaborators have been tackling a fundamental problem facing hundreds of urban and quasi-urban economic regions around the globe: How to accelerate broad-based prosperity, using only existing regional assets, and to accelerate this growth in a way that is rapid, relatively cheap, robust and replicable. Now, almost a decade later, a pattern has evolved into a methodology that meets these criteria, and which appears to be self-sustaining and even self-accelerating. At the heart of this methodology are three guiding principles or action levers:

- The first is to demonstrate that new growth can happen very quickly in a lot of local companies, a lot more than people think.
- The second is to systematically communicate that growth, specifically to communicate what we call "growth events" so that it has a broader community impact.
- The third is to re-focus the actions of hundreds of local leaders and institutions to invest in growth, and to do so because growth benefits *them*.

So in the short time we have, I will touch on each of these three action levers and draw out just a few of their implications for Northeast Ohio (NEO).

Demonstrating New Growth

Since I have been a professor for about half of my adult career, I have license to start this conversation with a pop quiz:

Quiz #1: Each of you imagine a 1 hour driving radius from where we are now in Akron, and then give a snap estimate of how many companies with $1 million or more are located within that radius. You have 10 seconds.

I have learned something that surprised me when I first encountered it: Local leaders (and by leaders I mean in every sector, not just elected leaders) almost always underestimate the stock or inventory of local firms: "We don't have the firms," They say, "We have a few dozen, or maybe

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100-200 companies." "Maybe a few thousand." Then when you ask them to characterize the growth potential of these companies, they say (or think quietly to themselves), "They can't grow. They are small, life style businesses, or are being managed into the ground by the grandson or granddaughter; there is almost no growth potential there, maybe just a handful can grow. Maybe."

The reality, in our experience, with regularity that spans continents and hemispheres, is that both of these estimates are off by a factor of five or ten: Instead of 200 companies there are 2000. Instead of 1000 there are 10,000. And instead of almost no growth potential, so far a remarkably significant minority of these companies can enter into new growth trajectories.

A reasonable rule of thumb seems to be that between 10%-20% of the total stock of companies with over $1 million in annual revenues can be kick started into new growth pretty quickly. To be clear, that does not mean that 20% of these companies will overnight be global market leaders; that is neither realistic nor is it the objective. A handful eventually may become important market players, but what we mean by kick starting new growth is that instead of $1 million and 10 people growing at 5% annually, they can grow at, say, a rate of 10% or 15%. From 5 you will get 10, from 10, you get 30 or 40, from 100 you get 200, and so on. To use a baseball analogy, we are waiting for home run hitters when the base hitters are right under our noses. A lot of games are won by getting a lot of base hits.

As it turns out, in a typical American urban region or MSA of 1 million people there are about 5,000-10,000 firms with over $1 million in revenues. For example, we conducted this exercise in greater Milwaukee, and in the 1.5-2 million population region we found 15,000 companies.

Let's do a back of the envelope analysis for Northeast Ohio, which has a GDP of almost $200 billion and a population of around 4.5 million, so there should be about 40,000 such companies. Many of these companies – say Walgreen's stores or McDonald's franchises, have intrinsically limited form factors and have intrinsically limited growth potential by definition. A Walgreen's store does not expand, its growth is limited. Nothing wrong with that, it is quite natural. That immediately eliminates a third of the companies. But we are still left with 10% to 20%.

Let's play out the implication that 20% of these of these NEO companies can grow faster. 20% of those 40,000 companies means about 8000 companies of $1 million of more, which is conservatively $10 billion in revenues. $10 billion in revenues represents roughly 100,000 jobs. Imagine if that $10 billion grows by 20%, or $2 billion per year: that means 20,000 new jobs a year.

But that is just the beginning. Those $2 billion of new revenues go somewhere, most of it sloshing around the local economy. About 1/3 goes to local salaries, all of which is spent locally. About 1/3 goes to local suppliers of product inputs and services, most of which is spent locally. As customers get bigger, remote suppliers have increased reason for establishing local operations, so over time they invest and hire. Small service companies crop up and/or grow logistics, transportation, retail, food services, personal services, and financial services. Health care providers expand because these people need health services. Students have places to intern, and startups have role models and mentors to talk to right here in the community. Eventually some of those revenues become wealth for shareholders, some of which trickles back down. Along the way more sales taxes, income taxes, real estate taxes are paid.

More local firms with new growth. This is a fairly robust thought experiment because you can be off by a factor of two or even three in any direction without changing the conclusions: *there is vastly more growth potential in the existing assets you have*. This "middle class" of companies is almost entirely ignored as an economic engine beyond the slogans –misstated – that small business are the backbones of economies (if so you might need a chiropractor). But small is not beautiful: Small *and growing* business are the economic spines of our societies. These tend to be unnoticed and neglected in policy: they are not sexy startups garnering headlines, they are not big visible employers with billboards at the airport and sponsorships of community events. Most of these growing businesses are hunkered down, often inside complex supply chains focusing on where they get their next customer and how they will staff up if they do.

I do not believe that this ignorance about the very significant growth potential at hand is your fault by the way; it is our fault, it is the fault of professionals like myself who have filled your heads with fanciful notions about startups and innovation and disruption and unicorns. We've diverted your attention from what is really the driver or prosperity, namely that ***more and more local companies grow more and more rapidly***. The critical social-economic objective is ***not how to grow the number of new firms, but how firms can get new growth***. Some of these are new, and some are old. Some are innovative and some are not. The purpose is prosperity, and prosperity is the process of more and more local companies growing more and more rapidly.

Work horses vs unicorns. Let me say this in a different way: How many of you would prefer to see a local app idea that sells itself as the next Snap, versus a local company that is growing by, say, 15-20% 17%. Well do you know where you end up if you grow 17% for 17 years? You are about 17 times more valuable. Remember this formula: 17 by 17 by 17. That means that a $1 million company with 10 people has about 170 people in 17 years. How many of those 17x17 companies would you need here in Northeast Ohio in order to change the entire region's path to prosperity? This latent potential is already out there; right now.

How many have heard the term unicorn? In contrast to unicorns, what I call workhorses are these 17 x 17 x 17 companies: They are not very sexy compared to what we imagine unicorns to be. Whereas unicorns are mythical beasts (even in the fairy tales, they are very rare), defined only in terms of illiquid shareholder value, that is, how much paper wealth they create for an extremely small handful of shareholders, workhorses are real and plentiful, and they are defined in terms of customer satisfaction, not shareholder wealth. Workhorses are age agnostic, sector agnostic, and ownership agnostic.

A few miles from here this morning we just inaugurated ScaleratorNEO with 16 of these workhorses and potential workhorses representing 852 employees and $115 million in revenues. As we speak, they are putting their hands in the fire to promise 25% new growth in the coming year. You get the workhorses right, and a lot of other things more or less take care of themselves. A few workhorses will break loose and become leaders. A few will stay small, a few will go bust or get bought early, but a few will plug away and become the Gojo's and Sterling Jewelers and the Goodyear tires.

Communicating Growth

Some of these workhorses can of course scale up left to their own devices, but an ecosystem for scale ups will form quite slowly over decades. We know from research by Professor Mark Hart in the UK that about 6%-7% of $1 million firms to add 10 jobs in three years. (Which, by the way, is about three times more than startups to do the same.) But if some degree of scaling up can happen naturally, can we get together and intentionally accelerate it? The answer is yes, it can be accelerated, and just one of the ways is through more and better communication about growth. This may sound very soft but it has hard outcomes.

A fish story. You all know the conundrum: If a tree falls in the forest and no one hears it, does it make a sound? Well, if growth happens in the community and no one notices, it does not have an impact, at least, not a very big impact. I will illustrate with an analogy: I fish from my little boat off of Cape Cod most early mornings during the summer, and often I am the only boat out there at sunrise. Until I have caught a fish that morning, I am continually deciding whether to keep fishing, to move somewhere else, or to pack it up and go home for breakfast. Now, imagine that instead of being along, I see another boat right next to me, and I see them catching and boating a fish just a few dozen yards away just as I was about to go home? What impact does that have on my motivation? You can bet that if I see someone catching a fish next to me, I will stay longer, and fish harder. And as the word spreads to those who did not even go out, some of them will get up early to get their boats out in the fishing grounds.

The bad news is that in most regions, and I would be surprised if NEO were the exception, we fish in the fog, ignorant of the success or failure of fishermen right next to us. The boats are there next to us but we don't see them catching fish even though some of them do. Imagine if we saw them, or even better, the fishermen and women were shouting back and forth, "I just got a fish."

Quiz #2. So this is time for your second quiz: Just thinking back over today, how many of you heard and can repeat a concrete growth story today about a company within this one hour radius? I don't see a lot of hands in the air. In fact, I don't see one. There is a lot of fog here in Northeast Ohio; a few or even a lot of people may be catching fish as we speak, growing, but you don't know it, so it does not have an impact.

Again, that this doesn't happen is not your fault, it is ours. We, the entrepreneurship experts, have created a lot of that fog. We have taught you that entrepreneurial growth is reflected primarily in IPOs and in venture capital investments and in Google buying you up and in unicorns. We have not taught you what **real growth** looks like. In fact, we have mis-taught you. We have mis-taught you that it is going public or getting acquired or raising capital. We have mis-taught you that growth is rare. Real growth (#realgrowth), of the 17x17x17 variety, the workhorse growth, is all around us. It is getting a first $500,000 contract with Goodyear Tire as a supplier, it is expanding your manufacturing facility, it is a partnership with Gojo investing $1 million to develop a new line of hygiene products that you will make, and it is hiring an executive to move from Columbus or Boston, and it is doubling the credit facility with Westfield Bank.

To paraphrase Thomas Edison, #realgrowth is dressed in overalls and looks like work. It consists of a lot of singles and doubles, of course some strike outs, and the odd home run.

Engaging the Ecosystem

The good news about putting firm growth – remember, getting new growth in more local firms – back into the driver's seat of the economic engine is that it has broad-based benefits. Not only are there knock-on effects (what economists call spillovers) in terms of salaries spent locally and supply chains getting closer to home, other entrepreneurs being inspired to try harder and smarter, and restaurants and laundries having more customers. Growth – the workhorse variety that I am referring to – has a unique property – it benefits a lot of different types of stakeholders. In this respect, more and more firms growing more and more rapidly is an essential part of the ecosystem. Bankers, chancellors, mayors, executives, shareholders, media, citizens groups, foundations all benefit because growth helps *them* achieve *their* purposes.

Quiz #3. You know, one of the mistakes we make is treating all stakeholders the same, and the bad news, I suppose, is that they are not the same; they represent a cacophony of motivations. Real ecosystems are chaotic, noisy places, and part of the noise is the plethora of motivations. The simplicity is in our minds, not in reality. So this is the third and final quiz of the day: What do we usually talk about as the positive outcomes of economic prosperity? Hint: It is a four letter word that starts with J, ends with S, and rhymes with sobs.

We have taught you – again, it is our fault, not yours, that you failed this third quiz– but this is wrong – that job creation is the one objective of economic development policies. But bankers are not sustain-ably motivated by creating jobs in the community; what grabs their attention, and their resources and their investment, is the opportunity to broaden their asset base (loans) and increase their returns. What really grabs university deans' and presidents' investment (of time and other resources) is not creating jobs in the community, unless it is *their* graduates getting those jobs, it is *their* alums making generous donations, it is *their* faculty getting research grants. What really grabs entrepreneurs is some mix of wealth, recognition and impact. What really grabs investors, who want to hold headcount down, not up, is increasing their shares' worth. What grabs the media is readers and advertisers. The mayor – now SHE indeed wants to tout job creation, but she also wants a broader tax base and she wants the votes to get re-elected. To be clear, this is not a cynical statement on the crass nature of self-interest: It is a statement of how ecosystems work. Ecosystems work because they satisfy the needs of a broad range of actors.

I will again use an analogy to make this very simple point. I will describe a scenario you have all experienced. You go into a white room, sit down, a man or women dressed in a white gown wearing nitrile gloves taps you on the arm, inserts a needle in your vein, and out comes a beautiful rich bottle of red blood. I have done this dozens of times (I never once have enjoyed it, no surprise there). But our motives for performing this act makes a huge difference in terms of how often we perform it. One motive is to feel healthier: Your doctor tells you that she needs to find out if you have an infection or a vitamin or iron deficiency. You want to be healthy? You rush right over to this white room and say yeah, take my blood. The other motive is to build a bigger blood bank for the community, which requires donating blood. That is of course, a lofty and important goal for every community, and can save lives. But how motivating is it? If you are like me, to be honest, then only a few times in our lives at most do a small minority of us sit down in that white room to donate blood.

Motivating stakeholders by asking them to help entrepreneurs is wonderful, but it can only go so far. If you want the ecosystem stakeholders to give blood, you have to get into their veins for their own health, not only for the health of the community. The good news is that more and more companies growing more and more rapidly has great potential for helping university deans place their alumni and get donations, for journalists to have more compelling content, for corporate executives to recruit better talent, and for mayors and economic develop agencies to tout job creation.

Some Implications

These three levels are not noteworthy for their conceptual brilliance – they are simple. (I did not say they are easy to accomplish, but they are simple). Rather they are amazing because they are within the grasp of the vast majority of economic regions and sub-regions within the US and beyond. They are certainly within the grasp of Akron, Cleveland, Youngstown, and Canton.

So I will sum up by leaving you with a few takeaways:

1. You need to put growth back in the driver's seat of the entrepreneurship engine. You need to align around scaling up companies, not starting them. Quite naturally, enough have been started already, for generations, and the new ones will start up on their own more or less. You need to always be asking yourselves how the various programs and organizations fostering entrepreneurship and economic development contribute to the single minded objective of fostering more and more growth in more and more local companies. You need training programs for growth, need surveys on growth, need to quantify and talk about growth. That is not going to be easy, because it means convincing a lot of people who "discovered" in the past 20 years that the world is flat, that startups drive economies, that the world is really round. It means having a very different kind of dialog, one that always revolves around growth, not start.
2. You need to develop systematic ways of identifying scale up stories (#REALGROWTH) and helping these stories – which are really powerful – work their way into the everyday discussions of entrepreneurship and even beyond, becoming the stuff of dinner table talk. Make a simple pledge: you will strive for *every single entrepreneurship* related event or class or accelerator launch or mentoring program to start every single session with a new story of growth. You need to exercise those growth story telling muscles by doing your daily growth story calisthenics.
3. You need to get the media, banks, public officials, corporate executives, and EDOs adding growth words to their vocabulary. It is not small, it is growing. It is not start, it is scale. It is not exit, it is customers. It is not raising capital, it is getting contracts.
4. Finally, you need to design ways of creating more feedback loops from the workhorse scale ups to the large companies, the startups, the bankers and the investors. By appealing to their enlightened self-interest, you can get the bankers and educators and policy makers and journalists to make smart investments of time and energy and funds to getting more and more local firms grow more and more rapidly.

The good news, and it is very good news, is that real growth is its own incentive. Once the entrepreneurs and the entire ecosystem see that there are fish out there, they don't need to be enticed or incentivized to fish, they will be out there on their own. You won't be able to stop all the growth once it gets rolling; luckily, you won't want to.
