



## Illinois' Fox Valley Area and Entrepreneurism

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## CBEID -Illinois' Fox Valley and Entrepreneurism

Not long ago, Seth Temko did a paper for the Center for Education, Innovation and Development (CBEID) entitled "[An Overview of Entrepreneurial Ecosystems](#)". The article focuses on the pillars needed to cultivate these systems, and what helps them thrive. In particular, the article pointed to some of the most advanced and vibrant entrepreneurial ecosystems in the United States. The core platform is a strong positive relationship and collaboration with universities, government and funding sources; thus, creating the best recipes for innovation, creativity and economic vibrancy. The three pillars behave and act in unison on ways to support, encourage positive outcomes for business innovation and new businesses to develop. As such, it is predictable and observable that the frequency of new start-ups will come from these places. Places where this is found are also known as incubators. It is a good foundation and launching pad to understanding these systems. This article focuses on the landscape of entrepreneur ecosystems in the Fox Valley area emphasizing Geneva, Batavia, St. Charles Illinois. In short, the article will peak under the surface of the area to identify the current elements wanting to advocate the entrepreneur ecosystem. While all societies have entrepreneurial ecosystems, the adaptations of them are divergent. The faces of these entrepreneurs look different. No one group of people applies the ecosystem in the same way or uses the the resources in the same fashion.

This is important and significant because supporting entrepreneurship and innovation allows economies to flourish; thus, supports a healthy economy, provides jobs and opportunities. However, what is elusive is how the seeds are planted to produce a bud. The seeds are one of the elements for germination. Many seeds may be planted before something sprouts and there needs to be ample amounts of sun, rain and nutrients in the soil before something gives off shoots. Additionally, as systems evolve, changes to the systems must evolve too. If markets are people, and people change with wisdom, age, wealth and poverty; then, it would only stand to reason economic ecosystems do the same thing. Furthermore, people can only be in one place at a time. Resources are not equal; the same resources will not be found everywhere; and the way resources are applied are not universal. To the greatest extent possible, this article will explore and shine light on what is happening in the aforementioned geographic area. But first let's clear up some terminology.

Entrepreneurs and small businesses owners are often used interchangeably. It raises the question as to whether there is a difference between the two. Small businesses, however defined, have generated employment growth (Birch 1979).<sup>1</sup> While arguing over the differences between entrepreneurs and small business ownership is attractive, this article will use both as in a grouping-meaning new business and business innovation that are on-going concerns- both providing employment and economic value. It is also significant to note that many start-ups are first a sole proprietorship. In terms of Illinois and the Fox Valley area within Illinois, the business start-up rate is nine (9.00%) or higher as noted by the NIU Center for Government Studies, Bizminer Local Business Summary 2007. The Fox Valley area is in the metro Chicago area. It thereby benefits from things like a large population (approx, 12.9 million in IL; with 10 million in Chicago metro area), outsourcing from mid-sized to large companies within the metro area and financing. Some entrepreneurs live in one area but operate their businesses in another.

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1 Business Start-Ups and Closures: The Illinois Experience, Rural Research Report, Illinois Institute for Rural Affairs, Western Illinois University Winter 2008 Volume 19, Illue 65

For instance, the business may be in Addison but the owner lives in Geneva. Additionally, two significantly large cities Elgin and Aurora are located within the Fox Valley. There are additional advantages to Geneva, Batavia and St. Charles being sandwiched between these other two great cities in addition to being a suburb to Chicago. Caterpillar and other local manufacturers are also responsible for innovations on a regular basis, some of which originate at their local facilities.

Relevant background information:

Let's begin to observe the characteristics, attitudes and attributes of this group of business owners. After all, it is just as important to know what goes on inside people's heads as to what goes on outside of them. The Mid- West, and in particular the Fox Valley area of Northern Illinois, tends to be individualistic, achievement focused, relishes stability, not tolerant of failure, short term oriented and generally very satisfied with their life styles. In the Mid-West, if you are dutiful but not brilliant at work, if you have children and a mortgage, if you are worried about old-age hardship, then instability does not equal opportunity<sup>2</sup>. But what does this have to do with innovation, entrepreneurs and new business start-ups? Interestingly, a lot. In many instances, *different* is dangerous as opposed to different may be curious. Self-employment appears in high frequency in places where people are dissatisfied with their lives, not in places where people are satisfied with their lives. And definitely not in places with a high tolerance for the unknown.<sup>3</sup> While some may be flummoxed, the research shows a strong positive correlation between those societies with higher uncertainty avoidance and self-employment than with societies that are weaker on uncertainty and self employment. This produces a surprise to most. What does this mean? It is all a matter of degrees or to the extent something is more or less of something else. In terms of degrees, it is the amount of collaboration and organization around business incubation. As late as 2009, Chicago Metropolitan Agency for Planning (CMAP) Industry Clusters Snapshot noted seventeen (17) percent of the businesses in the area came from professional and business services. This is also the cluster with the highest wages. This includes Geneva, St. Charles, Batavia and the Fox Valley in general. It also shows there have been business start-ups and that new business services enterprises typically start as small entrepreneurial ventures. However, conversations with angel investors provides a clearer picture of what is happening today in terms of new business start-ups. For this article, these investors are providing only the picture of what has been observed by their groups or individually.

In terms of the demographic make-up of start-ups, Illinois Business and Investor's Forum (ILBIF) has the following to offer. To the degree there is a face or a changing face of entrepreneurs, the issue is a bit complicated. However, in a very general and broad sense, ILBIF does see IT start-ups coming from the twenty somethings. Medical devices come from an older crowd. Medical devices are sophisticated and have a complicated Federal Drug Administration process for approval. Thus, expert experience is critical. New business plans in energy-solar and wind-are generally from people in the thirties and forties. Very typically, those in this group have a background in energy. The resulting activity is based

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2 Richard C. Longworth, *Caught In The Middle: America's Heartland In The Age of Globalization*, (New York, USA: Bloomsbury 2008), 25.

3 Geert Hofstede and Gert Jan Hofstede, *Cultures and Organizations of the Mind: Intercultural Cooperation and Its Importance for Survival*, (New York, USA: McGraw Hill 2005), 185.

upon current events such as government grants or Washington's emphasis on a particular field. Finally, pharmaceutical ventures also come from an older, more experienced population. Characteristic of this pharmaceutical new initiative requires \$1B to get to market and is highly sophisticated, technical. There then is a relationship with the highly sophisticated, technical and the cost to commercialize relative to the expertise and age of the founders, innovators. As the cost, sophistication and technicality increase, older, more experienced individuals are needed to successfully launch. This however is not universal. For instance, some research universities launch ventures that fit in the pharmaceutical, energy and medical devices categories. In these cases, the individuals did not necessarily work in the private sector, and they may be trending on the younger side.

Specifically, are there any start-ups in our defined geography? The answer is a Yes. According to Inc. Magazine the Inc. 500/5000 Fastest Growing Private Companies 2008 Chicago-Naperville-Joliet, IL-IN-WI region does include some innovations from the Fox Valley area: FlexiCorps found in St. Charles and Land AirSea Systems in Woodstock Illinois. The metro-Chicago area includes other examples of new companies: BlueStar Energy Services, Inciscent Technologies, Start Sampling, CouponCabin, Libsys, and SitterCity.

Medium to large businesses play a role in innovation. The St. Charles based manufacturer Bison Gear has just opened a Center for Innovation under the direction of Ron Bullock Chairman of Bison. There is more on the center in later in this article and the Bison story is captured in detail in the section on sources of money. Perhaps the start-ups in the Fox Valley are not as nationally known as others but it seems there are terrific and growing small businesses and emerging start-ups.

The Fox Valley data on small business, innovation and start-ups is not easily extracted and retrieved. And, in particular, information specific to these tri-cities. This potentially suggests the stage in which the ecosystem is in, or that the area produces innovations from the dominant industry sectors such as manufacturing. The structured, steady approach is the style in this region; a story not nearly as enchanting as Groupon, for example.

The greatest population in terms of age falls within 18-65 years old according to the latest US Census report. In this range, it is likely there would be innovations from categories requiring expertise, sophistication and higher amount of money. Therefore, where does the Fox Valley stack up in terms of cooperation, collaboration from universities, government and the sources of money? Do they operate to some degree in unison or independently acting in competition, isolation? Since all play a vital role in subsequent successful start-ups, it seems necessary to look at what is in place. There are bright spots in all categories starting with some new laws.

### **Illinois Politics, Policies and Departments Supporting Entrepreneur-ism**

Some recent Illinois laws show great promise in igniting new growth for new businesses. The first comes from Illinois State Representative Susana Mendoza introduced SB 3710 the Investor Tax Credit

Bill which passed in May 2010 by concurrence. The law provides a tax credit for up to 25% of the amount invested up to \$2 million for each qualifying investment. These credits may be carried forward for up to five (5) years. The law beginning January 1, 2011 has an annual limit of \$20 million and expires December 31, 2016. The Department of Commerce and Economic Opportunity must certify applicants qualifying for the tax credit and must register with DCEO each year if interested in qualifying for the credit. While the law is new and no one can determine the outcome or performance of the law, other states such as Wisconsin, Ohio, and Minnesota have introduced and implemented similar laws which have produced positive outcomes.

There is also the Illinois SB 3655 which creates the Technology Development Account II. It develops a unique private-public partnership that combines funds from venture capital investors; and the Illinois State Treasurer's Investment Portfolio to provide seed money for entrepreneurs and existing businesses. The treasurer is authorized to put up to two (2) percent of its investment portfolio-money that would already be investing on behalf of the state-into the TDAII account. The first TDA account attracted half a billion dollars in private investment to 34 Illinois companies, creating 3,800 new jobs.

The Department of Commerce and Economic Opportunity (DCEO) is also a source of support for entrepreneurs and small business owners. The department is the administrator of grant funds and has a link to the Illinois entrepreneur network providing a source of networking and collaboration. For example, the *Put Illinois to Work* program creates jobs throughout the state by linking low-income parents and young adults with work-sites in local communities. It benefits Illinois workers by immediately placing them in subsidized jobs that pay \$10 an hour and providing the opportunity to develop work skills, build work history, and connect with employers. This is highly beneficial to small and medium size companies that need to have a head-count and are uncomfortable with the company's cash flow to get locked into an additional fixed cost on payroll. DCEO receives the federal funds from the American Recovery and Reinvestment Act. Governor Quinn extended the funding for another six (6) weeks beginning January 16<sup>th</sup>. This program launched as a result of the American Recovery and Reinvestment Act. The first grant administrators for the area was the Kane County Department of Employment and Education. Later, the grant administration changed and the amounts of the grants extended with local funds combined with federal dollars. It is unclear if this program will be extended. However, if unemployment remains high; if employers are unable to hire due to concerns over cash flow; it is possible the state may extend the program. It is also unclear if Washington will continue funding this program.

The Internal Revenue Service does not aggregate and publish data specific to the Fox Valley or to Geneva, Batavia or St. Charles. The facts and figures it provides shows some patterns based upon tax returns. The latest information from the IRS is that sole proprietorships are on the rise and continues trending upward from their latest published report. This could suggest several things: sole proprietorship has a lower impact on income taxation, is simpler to arrange than any other option, provides the easiest, cheapest option to start a business. This is only a guess. As unemployment is stubbornly high at approximately 8.9%, sole proprietorship may be the only way people can bring in some income. This raises a question, in terms of innovation and start-up activity, does it matter if taxes

are high or low? Let's take a deeper look at this issue.

Most of the evidence points to ambiguous results. For instance, some of the highest taxed places in the United States such as California, New York, New Jersey, Massachusetts have a higher degree of innovation, start-ups and investment funds. On the other hand, Wyoming which is a low taxed state, does not produce high frequencies of innovation and entrepreneurial activity. While it is observed that high taxes may drive business out of a state or area, it is unclear that high taxes eradicates innovation and entrepreneurship. Currently, it is also known that new legislation helps to influence growth in innovation and start-up activity. Let's look further at this by addressing the state and its licensing of new corporations.

The Illinois Secretary of State Business Services is a spot for licensing those companies incorporating or becoming a limited liability corporation (LLC) in this state. Companies who plan on becoming a corporation or an LLC in Illinois must register with the state. The state is not mandated to publish the total numbers of the different corporate designations nor is it mandated to publish the resulting aggregate registrants. However, there are approximately 375,000 corporations on file with the state and 163,000 limited liability corporations registered. After speaking to a representative with the department who provided some of this information also suggested, the numbers are trending upward with limited liability corporations. This designation is growing yearly over S or C corp designations. This does not mean that there are more LLCs and S/C corporations in the state. The representative explained there is a migration from the S/C designation to the LLC classification. Why is the state seeing this migration? The only explanation offered suggests the tax implications of the S/C corporate structure is now less favorable than the LLC designation! Since sole proprietorships do not have to register there designation to the state and no such numbers exist for this grouping. It is therefore unclear as to the aggregate numbers of companies operating in Illinois. Knowing this number would help complete the picture of the landscape of entrepreneur ecosystems in Illinois or in the Fox Valley for that matter.

Understanding total numbers on sole proprietorships, S/Cs and LLCs could help augment the collaboration between public policy supporting innovation and the businesses who need the support. For instance, there may be many people with side jobs that are viable for greater capacity and expansion. Some of these individuals operate as sole proprietors who have other full time work. They may lack the knowledge or resources to grow sideline businesses into a full time operation. The point is much of success is tied to the access and knowledge to information and connecting the vast network of "how things work" for success to happen. Unfortunately, the representative from the Secretary of State's office of Business Services could not verify whether the total numbers- corporations and LLC- have been increasing or decreasing.

State Representative Kay Hatcher has just reported an interesting move by the Illinois State General Assembly. They have created a newly formed committee, the House Small Business Empowerment and Workforce Development Committee which will support small businesses; thereby entrepreneurs. While this is a newly formed committee focusing on more support for small businesses and entrepreneurs, the specific mission is unclear. This move is encouraging. As this committee also focuses on workforce

development it is then important to look at how educational institutions support innovation.

## **Universities/Colleges**

There is some interesting and exciting news on the college and university scene. Let's start with some pragmatic programs at the two year college institutions.

Waubonsee Community College's and Elgin Community College have Small Business Development Centers. The Wabuonsee's current and long-standing Director is Harriet Parker, a small business owner herself. The center Director at Elgin is open due to the recent retirement of Kriss Knowles. These business centers are not academic and do not offer degreed programs but are places for consultation and collaboration. For instance, they help someone write a business plan. Yet, while located in a college setting, they have the resources of a two year college facility to hold sessions, meetings and other such activities supporting entrepreneurs. Additionally, the centers are a source for the U.S. Small Business Administration loans with matching sources from the Department of Commerce and Economic Opportunity. The host institution also provides funds. There are approximately 40 of these centers located throughout Illinois. Proudly, in the last five years, the Waubonsee center has assisted over 1700 entrepreneurs and small business owners. As a result, this created 700 jobs. Over \$10M in debt or equity financing has been extended according to the Center Director. The Elgin center has similar numbers.

Northern Illinois University (NIU) is a research university located in Dekalb Illinois. NIU has a number of students from the Fox Valley Area. The students study a wide range of subjects. Recently the school introduced a minor in Business Innovation and Entrepreneurship. This minor is in its infancy- having just been launched Fall 2010. The program is open to all students from any field of study. NIU had surveyed all students in all areas of academics about a career path, and as a result a large number of students identified the desire to go into business for themselves. Thus, the new minor was created.

Aurora University offers classes in entrepreneurship and innovation at the graduate and undergraduate levels. One of the instructors, who is also an entrepreneur, elaborated on the excitement of the undergraduate students in entrepreneurial studies and the process an entrepreneur goes through. While Aurora University offers these classes, there is no formal degreed program or entrepreneur course path. The instructor is Rocco Salviola, founder of RSA Medical. Mr. Salviola's interest in teaching this class is to look at the entrepreneur discovery process. He does not believe any one else is focusing on this stage of the process.

Judson University located in Elgin Illinois is hosting a World Leaders Forum. They are specifically interested in attracting entrepreneurs to a panel of speakers designed to inspire creativity and innovation in business. The event proceeds will go to an Entrepreneur Endowment Fund, which is intended to launch a new learning tract at Judson focusing on innovation and entrepreneur-ism. However, no degrees, certificates or classes of this nature are offered yet.

Therefore, local universities do show interest and activity in the study of innovation and entrepreneurship. However, for these institutions these initiatives are new on the academic horizon. At NIU, the new interest in this field of study may result in creating an incubator. It is also unclear whether the universities provide a source linking them to start-up funds, networking and support.

The community colleges of Waubesa and Elgin offers a practical source and guidance in the application for SBA loans, grants and other support but not a source for pursuing the study of entrepreneur-ism or commercialization. Some would argue a course on start-up topics has a tone of a seminar program and less that of economic development; product development; commercialization and other such issues facing the innovator.

The good news is there is interest. While concepts are great implementation is difficult. Part of successful implementation is funding. Let's take a look at what is available.

### **The Business of Money and sources of Funds**

The Illinois Business and Investor's Forum (ILBIF) started by Dennis Serio is an umbrella group of angel investors spanning the mid-west. It is innovative in that the forum is virtual. It is a way to carry a conversation where travel, time and expenses to travel are not issues. The group has grown to a five state area including 31 angel investor groups. He has also started another group The Midwest Group which syndicated deals to raise funds where there is a hole with available investment monies-\$1M-\$5M. While the group does not release any reports or data, Mr. Serio is willing to confirm that in economic downturns there is typically a spike in new businesses or self-employment. This would seem to verify the IRS data. In ILBIF's world, the most activity is with information technology. It is speculated that IT has a low start up costs; and therefore has robust activity for creativity. Chicago has started three to four incubators showing some promise. Mr. Serio also divulged that there are countless IT start-ups running out of homes; and not yet on anyone's radar. Mr. Serio lives in the area and has a relationship with Northern Illinois University. He also noted, angel financing is growing. Angel investors typically fund new ventures in their earliest stage of start-up; providing seed money.

The Illinois Venture Capital Fund also is a local source. The fund is not for start-up capital. In the latest report the numbers show an enduring robust pace for new ideas in green businesses. Additionally, it shows that investment dollars funded in this category have been rising yearly. Clearly this is a bright spot. Otherwise, the Fund indicates a steady investment in information technology and health-care. Overall, the activity for venture funding in Illinois with this group is lower than in prior years, resulting in Illinois' lower status in the stack ranking of states with venture funding.

There may be other independent sources of angel funding in the region and Illinois. Of course, many start-ups get money from family members, friends, loans on credit cards and other sources. These numbers are difficult to validate. Therefore, in terms of the money spent on financing new ventures, the full picture is difficult to monitor and present.

The U.S. Small Business Administration provides low interest loans for entities who qualify. This is definitely not for start-ups and is typically for going concerns. The process is long; and the terms are not competitive.

One other source of funds exists, and it is through current businesses who invest for new innovations. Bison Gear is clear example. While there may be more companies like Bison, there is no multiple listing for such organizations. Here's a little bit about the Bison program.

Bison Gear has launched an Innovation Institute within it's company. The idea is to keep innovation alive at Bison. Bison employees are encouraged to present a business innovation plan to the Bison senior executives. Upon acceptance of the plan, the employee moves into the institute, away from their regular work, to work on the product or service and the respective commercialization. Bison allows for a five (5) year time period for the innovation to materialize and get traction in the marketplace. This is significant, since many angel financiers allow only 2 years. Bullock Investments an angel investor for mechatronic technologies plays a role in the financing. Ron Bullock the owner of Bison Gear and President of Bullock Investments is driver of this new initiative.

### **Challenges, Summation and looking to the Future**

The face and landscape of the entrepreneur ecosystem in the Fox Valley and in particular the Geneva, Batavia and St. Charles territory has an up to date face. Admittedly, more clarity is needed; particularly, if the focus is Geneva, Batavia and St. Charles. Although in a system, things do not happen in isolation, the surrounding geographies and institutions do play a role and need to be included and addressed. While there are a number of bright spots in the Fox Valley promoting, supporting and encouraging innovation and entrepreneurship, there are some spots for improvement. Creating a business incubator environment takes more organization with education, the business of money, financing and public policy than seems currently observable. Fanning the flames of innovation, creativity and new business is complicated. Collaboration is also complex. Social behaviors add to the complexity as well as the application of the resources made available.

This article only scratched the surface of the area's entrepreneurs and the relating ecosystem. Yet there is a sense great potential.

Reviewing the bright spots: the new legislation that became law, angel investment is on the rise; innovation has become prominent in higher education, and new networking groups supporting new businesses are increasing. Additionally, there are many entities both for profit and non-profit in the area that offer unique office leasing arrangements. Some are low cost, offering a cubicle with an open wireless network; while others offer an arrangement that is tied to cash flow. Specifically, Batavia Enterprises and the Elburn Community Center are such institutions. These are a help to infant companies and entrepreneurs.

One of the most troubling issues is with the uncertainty of Fermilab. Under the direction and funding of the Department of Energy, Fermilab is to advance the understanding of matter and energy. If we are

to understand one of the elements of innovation comes from research institutions, why is Fermilab in trouble? Since it is our current administration's intent to invest in research and education, then it seems odd that the fate of Fermilab is threatened. There have been some Fermi scientists who have started businesses as a result of energy research. It will be sad to see this fade.

Many of the elements explored raise more questions than they answer. Many entrepreneurs are sole proprietors, and many with non-glamorous, non-sensationalized products and services. Without special attention and highlighting, some terrific new business models and innovations are less likely to have access to information and resources. The ability of these infant companies to thrive and grow seems stunted; diminished. It seems also less likely for these people to become visible leaders and examples for others.

In looking to the future, the entrepreneur ecosystem in this area does exist. The Fox Valley and in particular Geneva, St. Charles and Batavia have a history of manufacturing and other businesses start-ups. Just take a look at the number of small to medium sized businesses in the area. The system itself needs some nurturing if it is to have greater output. There is a hint of a budding incubator environment, but more work needs to be done in creating it. Clearly this is reason for encouragement. It will be interesting to see this reviewed two years and what if any changes will have occurred.