

## **Innovation Group: Innovation and Entrepreneurship in Rural Kentucky, U.S.<sup>1</sup>**

*(by Brian Dabson, U.S.)*

### **Description of the approach (aims, delivery, budget etc)**

The Innovation Group, an initiative of the Kentucky Science and Technology Corporation, is an independent non-profit organization created and part-funded by the State of Kentucky. The Innovation Group, through a contract with the state, manages a network of six Innovation and Commercialization Centers (ICCs) housed at universities across Kentucky.

One of these ICCs is the Center for Economic Development, Entrepreneurship and Technology (CEDET) at East Kentucky University. This ICC manages a network of four regional Innovation Centers based in community colleges, although Innovation Centers in other parts of the state are collaboratives of local governments, development districts, small business development centres, chambers, banks, and private companies.

The Innovation Centers have the job of fostering entrepreneurial opportunities through entrepreneurship education and training, mentoring, assisting with the application of appropriate technologies, and providing access to a statewide network of capital, web-based resources, and technical guidance. Each center is managed by someone with strong local ties and knowledge with a background in entrepreneurship, finance, and business. An understanding of local institutions and local culture has been critical to gain the trust of entrepreneurs who normally would not consider engaging with a public program. These centres focus on high growth opportunities based on technology; they provide comprehensive stage-by-stage services from concept to prototype to commercialization and capital-raising; and they embrace community involvement. One example of the latter has been the ability of the Innovation Group to stimulate the formation of four local venture capital investment groups across rural Kentucky to provide equity capital to businesses that have progressed through their commercialization process.

The Innovation Group manages a Rural Innovation Fund designed to help small, rural Kentucky-based firms start out on the road to converting their inventions and ideas into investment quality ventures. The Fund has been active for just over three years and in that time has received 227 applications for funding in excess of USD 3.7 million. One hundred and nine awards have been made to the value of USD 1.6 million. The Fund makes investments in proof of concept development or early stage prototypes at two levels: an initial level of up to USD 7 500 and a higher level of up to USD 100 000 over two years. So far, four of the awards have been at this higher level. As experience has grown about how the Fund operates and is used, the Innovation Group is now considering ways of raising the initial bar so the quality of applications increases and a higher proportion can be funded.

An example of the entrepreneurial ventures that have been supported through this process is a business created by husband and wife farmers, that has developed the hardware, software, and information technology services to allow farmers and others in agriculture-related industries to keep track of soil preparation, crop treatments, and harvesting using hand-held devices linked to a central server, and to prepare appropriate reports for a variety of federal and management purposes. Another example is provided by two brothers who started a software business that has developed a very sophisticated point-of-sale tracking system for hardware stores and other retail outlets with large or complex inventories. This brings affordable technology to smaller operations to enable them to better compete with the large discount retailers. Other ventures that have been emerged from remote rural areas include a syringe for delivering food to the feeding-tube dependent, a programmable handlebar for motorbikes, a computer-regulated medicine dispenser, and a vacuum cleaner for horse grooming.

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<sup>1</sup> Source: Discussion Paper "Entrepreneurship in the Districts Uckermark (Brandenburg) and Parchim (Mecklenburg-Western Pomerania)", in: *OECD LEED Local Entrepreneurship Series*, October 2006.

In all cases, the entrepreneurs work through an intensive protocol – “a continuous conversation” with Innovation Group staff – that builds their financial, marketing, and technical skills to the point where they are confident and ready to seek significant equity investment.

**Why the approach is relevant to East Germany?**

The East part of Kentucky is a large rural area (approximately 40 000 sq. km.) of great scenic beauty but contains some of the most economically distressed counties in the United States. Its main traditional sources of employment have been logging and mining but these no longer adequately support the regional economy and as a result out-migration, unemployment and underemployment, a poorly educated and skilled workforce, and inadequate infrastructure have become major barriers to regional competitiveness.

The importance of The Rural Innovation Fund is that it confirms the fact that potential entrepreneurs do exist in rural regions and that with the right support shows that good ideas and people can be nurtured through commercialization to the point at which they can attract venture capital investment. Public funds are used strategically to support the venture through the process and are not used as employment subsidies. It represents a systemic top-down approach that uses networks of organizations and expertise to connect local entrepreneurs in remote rural locations to statewide systems of support and investment

**Reasons for the success of the approach**

The Fund has been in operation for about three years so it is too early to be definitive about its success. However, there appear to be a number of factors that contribute to the positive results so far. First, the Fund and its operations have been conceived as a process within which entrepreneurs pass through clearly articulated stages leading to a goal of engaging rural-based entrepreneurs with the private investors. Second, a structure has been established that is based on local knowledge and connections that can identify and build trust relationships with inventors and entrepreneurs, and which are part of regional networks of expertise and technical assistance that are in turn part of a statewide system that promotes innovation and technology applications. Third, the lead organization, the Kentucky Science and Technology Corporation is an independent entity that is distinct from the state government, and is thus more able to work alongside private capital companies and development relationships across the public, private, and non-profit sectors.

**The obstacles that were faced**

The challenges to the model are essentially the obverse of the potential success factors. The sharp focus on finding products that have private investment potential means that the search for inventors and entrepreneurs has to be rigorous and extensive in order to generate an acceptable deal flow. The particular characteristics of poor rural regions make this process much harder than it would be in suburban and metropolitan areas. The creation of a structure with many different organizations and institutions with different capacities and competencies leads to transaction costs that are higher than a less complex, more centralized arrangement. The fact that the lead organization is outside state government but largely dependent upon state funds for its operation means that it constantly has to be making its case to legislators for continued financial support.

**Considerations for adoption of this type of approach in East Germany**

The Rural Innovation Fund has been introduced in a context of limited public resources, a challenging economic environment, and a host of problems associated with a poor rural region going through major economic and social transition. To launch something similar in rural East German regions will take a combination of dedicated resources, the availability of skilled technical and

investment staff, and a willingness to make patient investments in entrepreneurial ventures that may take many years to mature. This is not a quick-fix solution to the regions' problems but an expression of confidence in the future.

**Contact details and website for further information**

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