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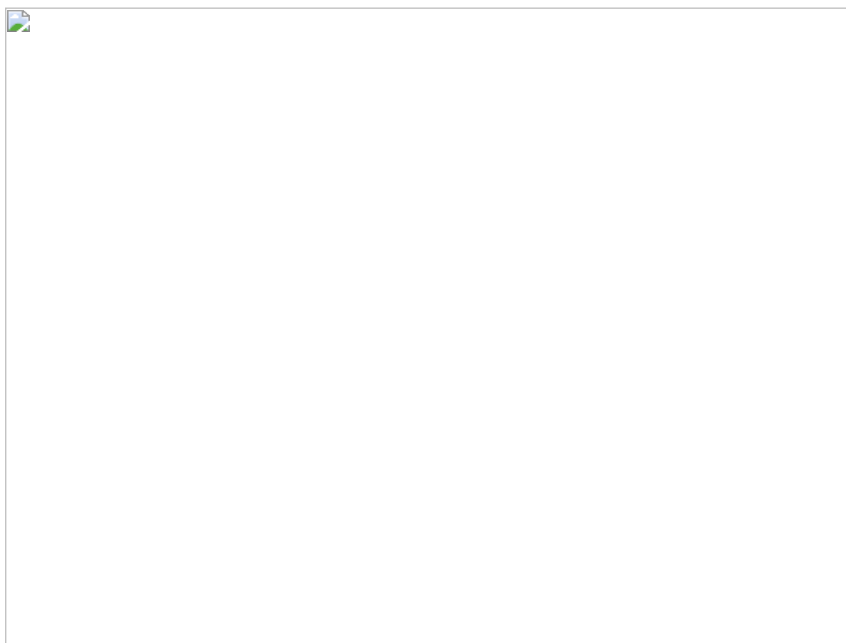
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A Culture of Risk

This is the fifth in a series of articles on Rebuilding the Entrepreneurial Economy.

by Daniel Lovering



Order a beer or watch a football game in Pittsburgh and you'll likely find evidence of the city's industrial past, preserved in brand and team names such as Iron City and the Steelers. That history has also influenced its business culture, even decades after the decline of the steel industry and the restructuring of the regional economy.

Only in recent years, experts say, has Pittsburgh begun to embrace again the notion of entrepreneurialism, the enterprising spirit that led to its original rise as an industrial center.

"If you go back 100 years, the region was entrepreneurial," said Art Boni, director of the Donald H. Jones Center for Entrepreneurship at Carnegie Mellon University's Tepper School of Business, citing steel and banking magnates Andrew Carnegie and Andrew Mellon. "That led to so much success that we ended up with a Headquarters, U.S.A. – large multinational, more bureaucratic organizations, as opposed to entrepreneurial organizations. Then all that went away, but unfortunately the mentality stayed."

When Frank Demmler began working with Pittsburgh-based start-ups in 1984, "people couldn't spell entrepreneur." Entrepreneurs formed a small community that was ostracized in many respects, said Demmler, vice president of entrepreneurial services at Innovation Works, an economic development agency. "They were more viewed as people who couldn't cut it in big companies as opposed to people who had personal aspirations and dreams."

Ann Dugan was met with laughter in 1994 when she founded the Institute for Entrepreneurial Excellence (IEE) at the University of Pittsburgh's Joseph M. Katz Graduate School of Business. "People said, 'There's no way that Pitt students are entrepreneurial – nobody wants to start a business in this region. Everybody here just wants to go work for somebody else. That has changed drastically in our younger people,'" she said.

The high profile, young entrepreneurs behind Facebook, Google and other highly successful ventures have played a role in shifting aspirations. The universities themselves are also nurturing the entrepreneurial spirit more today

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than ever before. Dugan's IEE is an example. Pitt has also institutionalized entrepreneurship, making it one of the five strategic initiatives around which its undergraduate and graduate business education was rebuilt several years ago under the direction of Dean John Delaney. Another example is Project Olympus at CMU, which offers students and faculty support to help commercialize their research and ideas.

The challenge has been to demonstrate that entrepreneurs can succeed and to build a structure that supports the growth of new companies, said attorney Bill Newlin, chairman of Newlin Investment Company based in Sewickley and a former corporate executive.

And attitudes have changed, Newlin said, thanks to a strong trade organization, the Pittsburgh Technology Council, university efforts to license technology and to the painstaking work of attracting venture capital and individual investors. The fundraising success of companies with locally developed technology also has been pivotal, Newlin said, in "having people believe in what we could do in the area. It took a while to develop that culture where people recognized that ... there was a much higher level of risk-taking you have to do, and you also have to be very quick, very quick and very responsive and certainly not bureaucratic."

Some entrepreneurs say risk aversion continues to dampen investment locally.

"The issue is, people have to be willing to lose money," said Andy Hannah, chief executive officer of the printed electronics company, Plextronics. "The people who invest early-stage do not understand that in this city, and that has to be overcome."

Local investors' apprehension may stem from their unfamiliarity with new technologies, as they may have made their money in more traditional lines of business, such as manufacturing or real estate.

"There's comfort in investing in what you know," said Catherine Mott, chief executive officer of BlueTree Allied Angels, a regional group of investors focused on emerging companies. "If it can't be easy for me to understand, it's going to be a lot harder for me to write the check."

It also may be misguided to assume that investors "should just give the company the money and not feel like we should care," she said. "You don't want angel investors to invest in two or three companies and lose all their money."

In Pittsburgh, so-called angel investors -- accredited by the Securities and Exchange Commission as individuals with a net worth exceeding \$1 million or an annual income of at least \$200,000 for three consecutive years -- tend to differ from those in larger cities.

Perhaps 80 percent of the angel investors in cities like Boston or San Francisco are cashed-out entrepreneurs, while the rest have day jobs, Mott said. In Pittsburgh, and comparable cities such as Cleveland or Columbus, the opposite is true.

Other investors say the perceived risk aversion may simply be a reflection of ill-conceived business plans.

"The bottom line is, great people with great ideas get funded," said Glen Meakem, who founded the online software company, FreeMarkets, in the 1990s. Most start-ups fail, regardless of their location, and concerns about risk aversion in Pittsburgh amount to "the 95 percent complaining they can't get funding," he said.

Another factor may be the region's lack of work force diversity. Low migration rates into the Pittsburgh region have led to low overall diversity, with an extremely small Hispanic community, according to U.S. Census Bureau data.

"We're living in a culture that hasn't quite caught up," said Christina Gabriel, president of the University Energy Partnership, an energy technology research and innovation organization. "When you look at board seats and just look at the demographics of the highly placed leaders in the region and the ability of African Americans to move up, it's just not happening here."

The city's relatively recent return to its entrepreneurial roots has meant it has a short history of witnessing the fate common to many startups: failure. Entrepreneurs say failure in more vigorous entrepreneurial communities is regarded as a learning experience. In Pittsburgh, however, failure is a failure, according to Richard McCullough, vice president of research at Carnegie Mellon University. "We're trying to change that mindset."

Posted July 4, 2012