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American Underground is a startup space in a former tobacco factory area in Durham, N.C. The space illustrates the recent wave of innovation and entrepreneurship energizing the Triangle Region in North Carolina, an area where two million people and three universities are spread across Raleigh, Durham and Chapel Hill.

Courtesy of American Underground

Want your government to foster a vibrant economy? See what North Carolina did

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The city of Raleigh, N.C., recently hired Derrick Minor for a single purpose: to help entrepreneurs network. Although he sports a fancy title – innovation and entrepreneurship manager – his entire job consists of hanging out with entrepreneurs making introductions. You need to meet venture capitalists willing to support early-stage tech start-ups? Cheap office space? Accounting or legal advice? Mr. Minor is your man.

The very existence of such a municipal job is illustrative of the recent wave of innovation and entrepreneurship energizing the Triangle Region in North Carolina, an area where two million

people and three universities are spread across Raleigh, Durham and Chapel Hill. While Silicon Valley has long overshadowed the area when it comes to startups, the Triangle is beginning to be noticed. Last year Forbes named Raleigh the second-best place in the United States for business and careers, a ranking based on Moody's data on cost of business, job growth and education attainment. The Daily Beast ranks Durham among the country's smartest cities.

On a recent afternoon, Mr. Minor is sitting in the coffee shop of the Hub, a co-working space where startups share desks, conference rooms, an attorney and, most importantly, ideas. At a long table behind him, a group of programmers brainstorms new photo-sharing apps. Nearby, a 30-something man mentors a high-school senior he met during a summer camp called Startup High. Within a couple of hours and a flurry of Twitter messages, Mr. Minor has introduced Erin Monday, communications director for the Research Triangle Park (RTP).

Around her, a couple of hundred people mill about chatting and drinking local beer after a series of mini-lectures on marketing. Ms. Monday, who organized this event for entrepreneurs and business leaders, explains that this party-like atmosphere is part of RTP's reinvention. The 50-year-old, 7,000-acre RTP is one of the oldest research parks in the United States, where 170 companies, including IBM, GlaxoSmithKline and Cisco, employ 39,000 people.

RTP has long been a prominent site of biomedical, agriculture and technology research, but recently locals have questioned whether its focus on R&D for large corporations is out of touch with the nature of economic development in the region. Not the case, according to Ms. Monday, who says the cluster is increasingly engaging small ventures and startups. "We're going to redevelop RTP, and the structures we build will be built around entrepreneurship."

RTP's transition from solely focusing on large companies to embracing small ventures and startups is a crucial strategy, given global forces, according to experts. "Today the forces of disruption, globalization and regulation are buffeting the economies of every country," writes Steve Blank, an associate professor at Stanford University and serial entrepreneur, in the May Harvard Business Review.

"Established industries are rapidly shedding jobs, many of which will never return. Employment growth in the 21st century will have to come from new ventures. The creation of an innovative economy that's driven by the rapid expansion of startups has never been more imperative."

This suggests a fundamental change in how governments ought to go about fostering innovation. "Economic development is no longer about chasing smokestacks, trying to find a big company to come to your area," says Ronnie Chatterji, an associate professor at Duke University's Fuqua School of Business who researches entrepreneurial communities. "New companies happen when people with a lot of intelligence and new ideas come together in one place – a university or a bar or a co-working office – but space really matters."

The RTP headquarter's glass roof, which hovers high above partygoers' heads, forms a triangle, the corners of which point to the region's three universities, Duke, North Carolina State University and the University of North Carolina at Chapel Hill. The architecture hints at Dr. Chatterji's argument, that the primary reason large and small companies alike are drawn to the region is the human capital produced by the universities. (The Triangle boasts the highest number of PhDs per capita of anywhere in the country.) Campbell Harvey, a professor at the Fuqua School, agrees. "Some people make the case that the North Carolina government gives significant tax relief and incentives: You pay the corporations to locate here and therefore you get innovation. I think that logic is flawed."

While the traditional ways of supporting business are certainly in place in the Triangle – low taxes and little regulation – the government can take an important role in supporting innovation by backing research that falls into the "valley of death," as Jon Fjeld, director of the Center for Entrepreneurship and Innovation at Duke, describes it. "Universities fund basic research. Venture

capital funds the marketing of products. Getting from science to product? There is less and less money funding that," he explains. "This valley of death has gotten bigger and deeper in recent times."

In Canada, the issue of research funding is slightly different in that the Harper government has pushed funding bodies that grant public money to universities to only fund research with commercialization potential, starving much basic research of funding. "The hard part is, how do you know in advance what will go to market?" asks Dr. Fjeld, pointing out that many startups in Ontario and Quebec can be traced to basic research into computer graphics funded in the 1980s.

The universities themselves play an important role by producing entrepreneurial-minded graduates. In August, 2014, North Carolina State University will open a residence building called the Entrepreneurs Village that will house up to 216 entrepreneurial-minded students from all disciplines.

At Duke, that means creating initiatives to encourage entrepreneurship across the university, not just among business students. "You need a business school that connects to a public policy school and an engineering school and a medical school and a school for the environment," says William Boulding, dean of Duke's Fuqua School of Business. "That's critically important in terms of being able to provide that rich information and collaboration that give people the wellspring of ideas and talent."

At the University of North Carolina at Chapel Hill in 2012, 61 per cent of undergraduate business students and 75 per cent of MBA students took at least one class on entrepreneurship.

Students also have the opportunity to seek advice from and pitch to venture capitalists and entrepreneurs through programs such as the business-plan competition Carolina Challenge or the incubator Launching the Venture. Ted Zoller, director of the Center for Entrepreneurial Studies at the University of North Carolina at Chapel Hill, sees increased entrepreneurial content as a fundamental change at business schools, which for decades existed solely to produce employees for big corporations.

"When this region was primarily about corporate research, companies didn't want employees to leave and start companies," he says. "I've had four students [employed at a large company at RTP] at different times have spinoff startup opportunities end up with a package to do something better with their idea within the company or termination. The company wouldn't let anyone leave. There was a corporate culture here and it was not an entrepreneurial place. But it's changing."

The change is apparent from the outdoor patio at Tyler's Restaurant and Taproom in Durham, which overlooks a vibrant mixed-used space under a huge brick Lucky Strike smokestack that reminds one of the deserted cigarette factory that stood here less than a decade ago. After the cigarette manufacturers left town, the city of Durham was too broke to tear the brick buildings down.

When Michael Goodman, who made his fortune at Capitol Broadcasting Co., renovated and redeveloped the site, trees were growing out of walls and the bill to clean up pigeon droppings spiralled to six figures. Now, the factory district holds The American Underground, a co-working space for early-stage startups, a world-class performing arts theatre, a ballpark, condos and much more. In the words of American Underground's Adam Klein, a former Chamber of Commerce employee: "I can't even describe how much this place has changed in the past five years."

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