Kansas City: Cradle of Entrepreneurs

Western Historical Manuscript Collection
Kansas City
Charles N. Kimball Lecture

Carl J. Schramm
April 21, 2004
The Charles N. Kimball Lecture Series

is a tribute to our late friend and civic leader, Dr. Charles N. Kimball, President Emeritus of the Midwest Research Institute, to acknowledge his support of the Western Historical Manuscript Collection-Kansas City and his enduring interest in the exchange of ideas.

Charlie Kimball was a consummate networker bringing together people and ideas because he knew that ideas move people to action. His credo, “Chance favors a prepared mind,” reflects the belief that the truest form of creativity requires that we look two directions at once—to the past for guidance and inspiration, and to the future with hope and purpose. The study of experiences, both individual and communal—that is to say history—prepares us to understand and articulate the present, and to create our future—to face challenges and to seize opportunities.

Sponsored by the Western Historical Manuscript Collection-Kansas City, the Series is not intended to be a continuation of Charlie’s popular Midcontinent Perspectives, but does share his primary goal: to encourage reflection and discourse on issues vitally important to our region. The topic of the lectures may vary, but our particular focus is on understanding how historical developments affect and inform our region’s present and future. The Lectures will be presented by persons from the Kansas City region semi-annually in April, near the anniversary of Charlie’s birth, and in October. Additionally, presentations may occur at other times of the year, if opportunities present themselves.

WHMC-KC appreciates the substantial financial underwriting and support for this Series provided by the Charles N. Kimball Fund of the Midwest Research Institute and by other friends of Charlie Kimball.
INTRODUCTION
to the April 21, 2004
Charles N. Kimball Lecture

David Boutros
Associate Director, WHMC-KC

Good afternoon. I am David Boutros, Associate Director of the Western Historical Manuscript Collection-Kansas City. Welcome to the Charles N. Kimball Lecture—the 16th since April 1995. History is often seen as being about benchmarks—those anniversaries that let us know that time is passing, that change is occurring. One such benchmark is that WHMC-KC turned 24 years old this last March 1st and our 25th is now only months away. For some time we have been assessing needs and trying to figure out how to take the necessary next steps into the future. One fact that has been evident for a long time is that we require more space for storage, staff, and programming than we currently have. With encouragement from Jeannette Nichols and other friends, we are moving forward in planning for a new building on campus to house the Western Historical Manuscript Collection and the UMKC University Archives. This is no small task as you can well imagine, particularly given the current condition of the Missouri State budget, but we are cautiously optimistic that the value of our collections and our contribution to the community is recognized and appreciated.

To give you a few preliminary details of what we are thinking: the new facility would be 36,000 square feet with state-of-the-art environments for the storage of manuscripts, photographs, magnetic media, and motion picture film. We envision an inviting research room, meeting and classrooms, and adequate workspace for staff to process and conserve the collections we receive. Most importantly, we will have the space to store on campus the collections we now have and we will have the room to grow as new collections are donated. Believe me there is much Kansas City area history still in attics, basements, and office filing cabinets.

Price tag: approximately $10 million, including an endowment. I am sure you will hear more as the capital campaign plans become more firm. Of course, there are many approvals that need to be secured within the University and the State as we proceed.

It has now been 10 years since Charlie Kimball’s passing—hard to believe. This came to mind because of the loss recently of two of Western Historical Manuscript Collection advisors, Doyle Patterson and Herman Johnson.

Doyle was one of our earliest supporters. At the time he was active with the State Historical Society of Missouri as a board member and an officer. I remember distinctly a meeting in 1980 at his home where various leaders of local historical societies and agencies were invited. The purpose was to introduce WHMC-KC to the field and encourage cooperation among the many groups doing local history. Additionally, Doyle connected us to donors of manuscripts. Always helpful, he will be missed.

Herman Johnson was a unique force in Kansas City. Others have eulogized him better than I can, but I can add that whenever I called upon him for advice or direction, he was thoughtful, supportive, direct, and importantly right-on in his insights. He too will be greatly missed by the community.

Another of our valued advisors will introduce today’s speaker—Jeannette Nichols....
Good afternoon. I met Carl Schramm at the Greater Kansas City Community Foundation dinner when Frank Rhodes was the guest speaker. Many of you, I am sure, were present when Frank talked about education as the economic engine of our country. Initially, he noted, it was agriculture, then became industry, and today education is our economic engine. What was the nursery rhyme—doctor, lawyer, merchant, chief? Every profession today needs ongoing education. And this has become a particular focus of urban universities; people go to work and study where they live.

It is interesting to note in reading the newspapers about two of Carl's particular interests—education and entrepreneurism. You may not know his educational background. He holds a bachelor's degree, a master's degree, a Ph.D. and also a law degree. With this education and background he has been very entrepreneurial and that is what he's going to talk to us about this afternoon.

I think most of us have had some entrepreneurial experiences. Carl founded the Johns Hopkins Center for Hospital Finance and Management, he was the CEO of the Health Insurance Association of America, he served as President of Fortis Healthcare, and he founded HCIA, the nation's largest provider of data to the healthcare industry. Carl came to us from a merchant banking firm that he founded to support business development in healthcare and insurance. Certainly, there is nothing that we read more about today than healthcare. Carl paired up education and healthcare with entrepreneurism.

It is nice to reflect that Kansas City has earned some pats on the back over the years for the entrepreneurship that has grown our community. We know that entrepreneurship is very important to business growth, and also to the support and growth of Arts in the community. We would not have a symphony or a ballet or a lyric opera without entrepreneurism. And so it is indeed my pleasure to introduce Carl Schramm, President and CEO of the Kauffman Foundation.
In preparing for today’s remarks, I have examined a number of past Kimball lectures. Through many of them runs the theme of attempting to explain the city’s past in terms relevant to the questions of the day. With such a well-established pattern, one would be wise to follow this path. Today, I shall attempt to add one more perspective to the forever-green questions relating to why Kansas City is as it is, and what its future will be.

I believe the role of the entrepreneur in the life of Kansas City is central, not only to seeing its past in a new light, but, more importantly, to understanding what might lie ahead and how the present generation might effectively bring forth a yet more productive future.

The history of every city revolves around a few central questions. The most important is, “Why here?” Of course the corollary question, seemingly motivated by envy, always lurks. “Why did it happen differently for other cities?” “Why did the other city grow faster, more wealthy, more culturally enriched?” But each presages the most fascinating question: “What can we do differently to make the future more acceptable?”

Useful economic histories of most American cities are hard to find. Kansas City is no exception. Descriptive “linear” renditions of events exist. Leading citizen histories exist, as they do in abundance in every city. But carefully reasoned analysis of the causes for the city’s existence, its growth, and its shifting economic base, do not exist.1 There are many reasons for this, and one is the shortage of interest on the part of historians. Writing city histories is not a career-enhancing strategy.

Today I will speak to three issues that are important aspects of any city’s history. First, how did Kansas City emerge from an economic perspective? Second, what does the record of twentieth century entrepreneurs in Kansas City tell us? And third, how can one make the most of the city’s assets to ensure a bright future?

There are several competing theories of why cities exist as they do, and why they achieve a certain size and appear to stop growing or begin to shrink. Perhaps the earliest, and certainly the one that would be most appealing to Kansas City, is the “Isothermal Zodiac” thesis propounded

1. Kansas City has a somewhat better base, namely the University of Chicago’s Kansas City History Project, which was conducted in the late 1950s. However, the project never yielded a comprehensive treatise or theorem of modern economic life.
by William Gilpin, the first governor of Colorado. He believed that cities mystically populated along a band of temperate climate around the globe. In the nineteenth century, he predicted that the next “world city” (akin to Paris, London, or Rome) would be formed somewhere around what is now Kansas City. Neither air conditioning nor global warming have kept Kansas City from this destiny.

The first proposition given academic credibility seems to be the “central place” theory. This suggests there is an organic need in which towns and villages requiring larger trading centers “call forth” larger cities. A second thesis is the “gateway” theory, in which cities form where people and commerce pass to someplace else. William Cronon, the Frederick Jackson Turner Professor of History at the University of Wisconsin, has suggested a new approach that is more economic and environmental by nature. His view, developed in an extraordinary history of the growth of Chicago, *Nature’s Metropolis*, suggests that cities happen because of emerging demands for specific natural resources that are required at some moment in the movement of populations or the development of markets. In the case of Chicago, it was initially the demand for lumber in the West that caused the most explosive growth of any city in American history. In a way, of course, all theories of urban formation are economic in nature.

Kansas City is no different. Its formation was related to the rivers in every way. They brought the first settlers, provided the first food, and sustained a primitive trading-based economy. In time, crossing them became the central fact of the city’s history. Reduced to its barest, the city’s economic origin—on which all its subsequent political and social history hangs—is the bridge. Once in place, the city’s economy was transformed into one focused on land-based transportation. Cows moved by rail, people came by rail, and, in time, grain came and went by rail, as did products moving through and being made in the city.

In a few short post-bridge years, the city’s momentum was secure, and it overtook those cities that had appeared to be better bets for a new metropolis, such as Leavenworth and St. Joseph. One might say that, in the decades after the bridge, either the “central place” or “gateway” theory could be engaged. But neither, in my view, explains the decision to build a bridge. Nor, in the long run, do they explain the growth and subsequent character of the city. Here, Cronon’s thesis is useful because he can explain initial growth by what the region is producing. In other words, the environmental thesis explains the link between what goes over the bridge and what ends up producing wealth—which in turn, brings more people to a locale.

Once Kansas City’s economy was established, as in every other city, it immediately began to change. The dynamics of capitalism are irrepressible. And, with a longer-term view, it appears that each of the theories attenuates in its utility as cities mature. Why is this? I think it is because the academic tendency is to look for organic “man and the land” approaches as opposed to the importance of technology, which inevitably leads to the contributions of single individuals. Such an explanation involves three characteristics that academics avoid. First, the importance of singular individuals takes us to the “great man” approach to history, a decided “intellectual’s allergy” during a revisionist time when heroes were anathemas. To consider singular events in American city-making inevitably leads to a white male with a European name. Second, singular events run contrary to the bias for “organic” solutions. Remember that geographers propound these theories, and the organic approach is comfortable to those who see the world in terms of geographic determinism. Finally, the approach I propose, looking at signal moments in a city’s economy, brings us to one of the largest lacunae in economic theory—not to mention urban formation theory—namely, the role of the entrepreneur. Academics appear to have scant interest in what entrepreneurs are or what they do. For our purposes today, let me merely say that the role of the entrepreneur is discussed more in English departments as an archetype in American novels than in economics departments or in business schools.
Quite understandably, because of the odd unconsciousness American scholarship has regarding the importance of entrepreneurship to the nation’s economic success, an alternative view of how cities are formed is often overlooked. As I have suggested, what keeps cities economically dynamic is the most important of all questions. Indeed, it is clear that what brings a city together initially, in time becomes irrelevant to its continued success, or growth, or character. The once-bustling lumber industry is irrelevant to modern Chicago. The agricultural roots of Palo Alto are now immaterial. Neither Albany nor Austin, being state capitals, can explain their emergence as microchip production centers. Modern Wilmington was largely the creation of the Maryland legislature forcing out Maryland National Bank, the largest credit card company in the nation, from its home state over usury laws. What explains the pharmaceutical industry in New Jersey, which has emerged largely independent of any urban concentration?

The point is, urban economic history is discontinuous. Once formed, concentrations of people in urban settings experience radically different histories. One need only look at dicentennial census records to make the case. The variance in urban growth is a continuous and long-standing phenomenon. Kansas City is a case in point.

As Figure 1 illustrates, eastern cities—older cities—such as Boston, Washington DC, Cincinnati, and Pittsburgh, as well as Salt Lake City in the West, and Kansas City and St. Louis in the Midwest, peak in population and then seem to have natural, unavoidable atrophy. Seattle and Boston are the only two of these cities that have experienced a resurgence in population growth. All of the other cities have seen populations decline from their peaks. While Kansas City has not achieved a second growth period, it at least appears to have leveled out, which can be viewed as positive if one considers population a good measure of economic vitality.

![Figure 1](image-url)

Discontinuous Growth in Selected Cities—1790-2000

In Figure 2, it is apparent that western cities are still trending upward in their population growth patterns. This may suggest that eastern cities are shrinking because western cities are growing, but it cannot be informative of the future track of western cities. They may, in time, face atrophy as well.
Because the urban growth experience is discontinuous, it is wise to avoid making normative judgments about the rate of growth in any given period. Most residents of a given place believe that growth is better than contraction. (Restrictive zoning suggests small groups of people resist proximate population growth, while the “green” approach is to resist all growth.) But, it is the nature of urban economies to change constantly—departing, mostly as a result of technology, from their economic origins. Cities find their economies constantly reshaping themselves. Indeed, one reason some cities grow relatively faster than others is that at any given point, one city’s technological focus may be more promising than another’s.

It has been the existence of entrepreneurs in cities that has been the constant and central force in bringing forth new economic regimes. Entrepreneurs, in fact, have caused economic histories to become largely irrelevant. They have made for historic discontinuity. Take Seattle: It became a modern industrial city because of the technology that an entrepreneur developed into Boeing. Yet, the singular importance of its “flying-aluminum” economy has been displaced by Microsoft and the hundreds of software and hardware firms spawned there. Two ideas transformed what was likely once a gateway city. Likewise, modern Austin was shaped by entrepreneur George Kozmetsky. And, one enterprising dean of the Stanford engineering school is widely thought to be responsible for the modern identity of much of northern California. One person—an entrepreneur, or an enterprising dean, or even an entrepreneur within an established company—created a moment that caused the economy of a place to change. New firms emerged because of a discrete decision or act.

Those who discount the important role one person can play might argue that the enterprising individual merely identified what was already “organically” under way. Did one person “make” the cluster that became the new economic engine, or did he or she merely recognize it as it was emerging? It is hard to unscramble the egg, but it’s also not that important. The undeniable fact is that entrepreneurial clusters do emerge. It appears to me that critical individuals—entrepreneurs—are central to the drama.

What happens as a next step is really important, under any thesis. For a new entrepreneurial cluster to emerge and be successful, a city must witness a shift in its human capital. Everywhere that we have seen a new economic identity emerge, there has been a cluster of new firms that
appeared interdependent or somehow related to each other. The most important commonality has been a specialized form of human capital, a new and unique skill set. Once the first firm starts, because of the specialized nature of the skills needed, a cluster might emerge. What we are really talking about here are entrepreneurs and the formation of highly skill-dependent micro-economies that, if operating in a market area with robust national or world demand, may change the face of an entire region or city. At last, contemporary events give life to that which Albert Hirschman long ago suggested would occur in the growth of developing nations: there would be a moment of “breakthrough” yielding substantial growth.

Kansas City has not had a singular entrepreneur who transformed the city. Few cities have. Yet, its economic base has been transformed. And, we know that entrepreneurs have been responsible for most of the changes. We know many of their names because they were important. I focus daily on the importance of entrepreneurs because I am privileged to oversee the only foundation in the United States that concerns itself with entrepreneurial activity. It was the idea of one great entrepreneur, Ewing Kauffman, who helped transform the Kansas City economy with Marion Laboratories. Oddly, however, we don’t think of Kansas City as a pharmaceutical center. There is no evident or predominant “new” industrial base in Kansas City that easily tells the story of what it now is and will be in the next decade. There is no equivalent of the bridge. There is no Microsoft. There is no “chip” identity. There is no Silicon Valley.

To understand the new economy in Kansas City (as in other cities) requires us to look for micro-economies, the cluster or clusters—sometimes called agglomerations—of transformative new companies that hang together around a highly refined set of skills and knowledge that is a unique human capital asset.

The continued and undisputed growth of any city’s economy can be tied to micro-economies established by a cluster of new, self-sustaining and related firms. Let us consider one such micro-economy. I think part of modern economic Kansas City has been shaped by entrepreneurs focused on “transaction” events. There are no clusters with a critical mass of software engineers, or pharmacy scientists, or space program engineers. Rather, the city’s economy has been shaped by persons who have fashioned mutual fund companies, logistics companies, tax preparation services, the systemizing of medical transactions, the creation of financial support companies, and the formation of international banking support. There is a cluster of people in Kansas City who know how the internal transactions of various markets operate in the much-discussed “information economy.” Now, this economy is not completely disconnected from the city’s past. In fact, at least two important transaction-based companies grew from a railroad company. Placing oneself in Kansas City in 1960, it would have been hard to see the town’s major railroad creating companies that would become central to new industries here and elsewhere. It was an entrepreneur, within a railroad company of all places, who may have had the most important hand in shaping the current economy, or at least an important micro-economy. This story makes the point that economic history is discontinuous, and entrepreneurs make it so.

But what about the micro-economies of our future? Can a “transaction” cluster be nurtured and create yet more growth for Kansas City? I don’t have the answer. But, just asking the question causes us to think about how clusters or micro-economies form and whether new ones can be anticipated or encouraged. In this area, some of the work of the Kauffman Foundation is instructive.

Thinking about the American economy going forward, it is clear that a new model of economic activity is emerging. The post-industrial economy might be best described as the period of entrepreneurial capitalism. It is a time when the importance of the entrepreneur to the economy is becoming more and more critical, and where, in turn, the businesses that achieve significant scale quickly—the so-called gazelles—are technology-based, with very specialized, highly educated human capital requirements.
At Kauffman, we have come to view the emerging economy as one with four theatres of activity. First are the entrepreneurs who start businesses from scratch. Second is the great deal of unrecognized entrepreneurial activity in large and well-established companies serving national or international markets. Third is the government, which plays a critical role in supporting high technology through direct support of research, through creating a market for high technology, and through support of higher education. And, finally, are our research universities, which are supported by the federal government and have been critical to the invention of new technologies from drugs to telecommunications—the commercialized, revolutionizing ideas spawned in campus laboratories. These four theatres of economic activity are highly interdependent and together make for the most virtuous of all virtuous cycles. No other country enjoys a model nearly this robust as the basis of its economy. The importance of entrepreneurs to our economic growth is obvious: at least half of all job creation in the United States comes from firms less than three years old.

This model also suggests that the manner in which the various theatres relate to each other is, in itself, central. Many high technology start-ups are built on ideas that have migrated from university or government and private laboratories, such as Kansas City’s Midwest Research Institute (MRI). We have a clear federal policy on such “technology transfers” that encourages the commercialization of ideas developed with federal support. A relatively new form of investment, venture capital, has been encouraged by federal policy to operate as a channel for private financing of such new companies.

Large companies are increasingly dependent on start-ups to accumulate new science, technologies, and products that their own laboratories cannot produce. The interdependence between start-ups and mature companies is more important than ever; it is the way our larger businesses are buying entrepreneurial cultures. Firms such as Cisco, Intel, Bristol-Myers-Squibb, and Johnson and Johnson often buy hundreds of companies each year. Some operate their own venture capital funds. And, as I’ve mentioned, it is not uncommon for larger companies to spawn new clusters of businesses in markets that are of strategic importance to the originating company. The formation of DST from Kansas City Southern illustrates the ability of large firms to see entrepreneurial opportunities to leverage indigenous, specialized skills that might achieve scale advantage when applied to wider markets.

Government, through its taxing powers, diverts a significant portion of gross domestic product to basic research and development. Much of this is done through universities, which increasingly are seen by society as hothouses for new ideas that can be commercialized. In many instances, they are ideas developed by entrepreneurs in start-ups, thus completing the cycle. Commonly, the university ideas are absorbed directly by large companies, themselves, as part of their own entrepreneurial drive.

We know this model has descriptive power for the national economy. We believe it has great potential to accelerating economic growth in the developing world. Today, I will suggest it has relevance to micro-economies, the economies of specific cities. And, in so doing, I will offer some suggestions as to what might happen in Kansas City.

The model suggests several conditions that must exist for the entrepreneurial cycle to grow and be productive. Obviously, in a future where scale growth will occur in companies exploiting high technology, it is important to have the highly skilled human capital that is the seedbed from which the entrepreneurs of the future will grow. A city of highly trained talent is more likely to experience higher levels of entrepreneurial activity. I personally believe that Martha Gilliland is to be applauded for her ceaseless dedication to strengthening the city’s indigenous university. The proximity of the University of Kansas is vital especially in the life sciences. In this regard, every sign suggests that with the growth of Stowers, the minimal threshold that might be congenial to a cluster of life sciences companies could emerge. I, no doubt, have offered
one too many conditions in this last sentence for those who would be boosters of life sciences. The cold reality is that an entrepreneurial economy cannot be planned and has at least as much to do with cultural predicates, as will be mentioned shortly, as it does with simply counting the number of Ph.D.s and gauging their propinquity.

An entrepreneurial economy requires that mature companies emerge as entrepreneurial entities themselves. Sadly, most large companies are much more skilled at driving entrepreneurs out than nourishing and supporting them as central to the future of the company and/or the constellation of new companies that might grow out of the larger firm. Mr. Kauffman’s history is a case in point. He himself could attest to the inability of large companies to absorb challenging and highly productive employees.

Government research funding must be successfully gathered by more institutions on a much larger scale to support basic research in many fields—research that will increase the likelihood of new ideas spilling out into new companies. MRI is enjoying a new period of growth in government funding under Jim Spigarelli. Stowers has successfully opened a wholly new stream of National Institutes of Health (NIH) funding that, when it achieves its hoped-for scale, can support or become a micro-economy of its own. The University of Kansas is likely to greatly increase its share of NIH funding, and its national reputation bodes well for this to happen. The University of Missouri-Kansas City desperately needs the threshold resources to develop a research faculty large enough that dollars from the federal government and sponsored research will flow more freely to it, thereby increasing its likelihood of becoming a significant source of entrepreneurial growth in the city.

A few other prescriptive comments are in order. The first is cautionary. Lest anyone believe that the future is assured, it is important to note that exercises in economic planning nearly always fail. To dedicate a city’s future as a cradle of entrepreneurs is a risky proposition. It is messy. But, it is, in the end, the only likely road to sustained economic vitality in the twenty-first century. As I’ve suggested, entrepreneurs make economic history discontinuous and thus hard to predict. Many civic leaders are invested in the idea that the life sciences will be the economic future our city should have. To commit to one vision of the future is likely to stifle activity that could prove to be much more important to a city. Recall the importance that the unnoticed “transaction” micro-economy has proven to be for Kansas City. Who could have seen the Internet or its importance? Entrepreneurial activity is disruptive.

Civic culture regarding entrepreneurs must be examined as well. We must ask: Is the city embracing of people with strange new ideas? Are “propeller heads” welcome here? Are we making it easy for KU, Stowers, MRI, UMKC, and Kauffman to recruit researchers and thinkers who know themselves to be disruptive? Are all the necessary resources here? Kauffman research shows that there are at least 180 groups of angel investors in the United States. Yet, there is no active group we know of here. We are attempting to get one started. The city hosts no venture capital fund. There is almost no incubator space in the metropolitan area. These are signs that should make us uneasy, because they make it harder to start and grow a company here.

Let me conclude with a word about the Kauffman Foundation. It is my experience that few in Kansas City see our founder as the seminal intellectual that he was when planning his foundation. Mr. Kauffman saw more clearly than any philanthropist before or since the importance of entrepreneurship to the American experience. In creating his foundation, he has given Kansas City a secret weapon should it see itself as the cradle of entrepreneurs. A few hundred steps from here is an institution regarded around the world as the epicenter for the study and funding of research and education regarding entrepreneurship in all its facets. Our reputation and reach are international. The constant movement of entrepreneurs, scholars, policy makers, teachers, and politicians through our building is a fact of life, taking place in Kansas City. No other city on earth has such an asset. We reach millions of people every year with
information, course work, and advice. We are transforming college life throughout the country such that entrepreneurship will be seen as an important option by millions of university students. Incidentally, we are proud to tell the world of our home, as you hear daily on NPR.

How do we do all this with a staff of only ninety-five people? First, we have the extraordinary asset of being a foundation with little doubt about its mission. Mr. Kauffman told us to be the nation’s foundation dedicated to entrepreneurship. We build on the innovation, discipline, and accomplishments of past and current associates who established much of our extraordinary reputation. And, finally, we are constantly attempting to behave like an entrepreneurial organization ourselves. We leverage our knowledge using the Internet and many other technology assets. It is here that we will add our contribution to the continued economic vitality of Kansas City. In the months and years ahead, we hope to support Kansas City as the home of some of the most innovative programs to identify, educate, and support emerging entrepreneurs. Working with many partners, the Kauffman Foundation will, we hope, be a proud parent looking upon Kansas City in, say, the year 2050, as a place where entrepreneurial capitalism flourished.

Carl J. Schramm, Ph.D. is president and chief executive officer of the Ewing Marion Kauffman Foundation. Before joining the Foundation in April 2002, Mr. Schramm was chairman of Greenspring Advisors, Inc., a Baltimore-based merchant banking firm he founded to support business development in health care and insurance. Previously, he founded HCIA, Inc. He also is a co-founder and vice-chairman of the board of Patient Choice Healthcare, Inc., in Minneapolis. From 1992 to 1996, Mr. Schramm served as executive vice president of Fortis, Inc., where he oversaw health-care operations and was president of Fortis HealthCare. He is a former CEO of the Health Insurance Association of America. He founded the Johns Hopkins Center for Hospital Finance and Management and from 1980 to 1987 served as the director of the center, where he was a professor. Mr. Schramm has a Ph.D. in Economics from the University of Wisconsin and a J.D. from Georgetown University.

The Ewing Marion Kauffman Foundation works with partners to encourage entrepreneurship across America and improve the educational achievement of children and youth. The Kauffman Foundation was established in the mid-1960s by the late entrepreneur and philanthropist Ewing Marion Kauffman. More information about the Kauffman Foundation is available at www.kauffman.org.

© WHMC-KC, University of Missouri, 2004
Questions and Answers

**Question:** How do you plan to measure outcomes?

**Schramm:** That’s a great question. It’s a question that doesn’t bother most people in foundations. We have hugely increased our research budget. Virtually no new Kauffman project of any scale will take place without an outcomes measurement planned the day it passes through our Board. Now, that is a very difficult question that moves from place to place. Let me suggest an example. We’ve just given major grants to eight universities. Interestingly—by the way, I’m very proud of this—we’ve committed $25 million to eight universities to make entrepreneurship a university-wide experience for every student. The condition we put in place for this competition was that the universities had to match Kauffman dollars two to one. We made the grants and announced them, I believe, on December 5th last year. Last time I checked, our matching grants from the universities were approaching $85 million. So we’ve leveraged in one program our entire budget year. That’s one measure of whether or not we’re having success. And that is, by itself, an outcomes measure. But the real trick will be if the kids at Washington University in St. Louis experience a difference across the university. What we’re watching is a natural experiment; and we’re watching other universities and the history—we’ve gone backward in history—to see starts by Wash U graduates. We’re going to use that as a benchmark from which to measure going forward and see what the starts will be in the next five or ten years. Our partner in this is Mathematica in Princeton, New Jersey. We are not fooling around when we evaluate what it is we’re doing with Kauffman money.

**Question:** Carl, you mentioned, unfortunately Kansas City does not have venture capital firms or an angel cluster. Have you speculated or have any of your researchers tried to see what the cause of that may be? And, from that research, can you speculate on how you can create this capital formation here?

**Schramm:** I’m afraid, Mike, there is no systematic answer and I don’t want to contribute to more misinformation by just retelling stories that you’ve no doubt heard yourself from frustrated entrepreneurs who had to go to California and then had to deal with the conditions of starting their company, notwithstanding the fact that they continued to live here, in Minnesota or in Palo Alto. Capital formation is very tricky and it’s not a problem that is unique to Kansas City. There are people who study this carefully who believe that the entire Midwest is basically devoid of venture capital, with only one or two firms, such as Madison Dearborn Partners in Chicago. For the most part, venture capital is clustered in New York and in California. There is a good question here: does venture capital have to be regionalized? I think, at some theoretical level that economists like to talk about, the answer is no. The practical sociological level—can you go around the corner, could we step into Café Zin this evening and meet with, on the spur of the moment, a venture capitalist who would talk to us about our idea? That is a deficiency. And I’m at a loss as to how to fix it. That’s the last place we had dinner, Mike and I, come to think of it.
Question: Thanks. We’ve been talking a lot about capital or capitalist entrepreneurs, and I wanted to ask with regard to social entrepreneurship, because I know the Kauffman program also supports social entrepreneurs and in terms of people like Millard Fuller who started the Habitat for Humanity and things like that. In Kansas City, does the social entrepreneur fit in with the cluster of the transactional entrepreneurs or whatever it might be or do you see that as a separate entity? And what is Kauffman Foundation doing in that area specific of the social entrepreneurs?

Schramm: Well, this is a new area of inquiry for us, and we are in the beginning of understanding it. If you were to return to that four-theater diagram, we have another diagram in the Foundation, a detached fifth theater, which is represented by social entrepreneurs. Historically, the Kauffman Foundation, I believe, has been, let’s say, unenthusiastic about the notion that people who spend their life in the non-profit sector would know anything about entrepreneurship. And that’s a sympathy that many economists and business people would share. The fact is that you can’t look at the complexion of American life and say that there have not been some tremendous entrepreneurs in the non-profit sector. Our system of Blue Cross was created in the late 1920s and early 1930s as a non-profit entity to serve a clear social purpose, and it grew to enormous scale. Those were social entrepreneurs. But as you approach this, there is tremendous confusion. Now, only the other day, I heard an expert on social entrepreneurship say, “you know, we account for 5% of the non-profit sector, 5% of GDP.” Professor Renz will not like what I have to say here, but economists say, “Oh, no you don’t. Non-profits don’t account for 5% of GDP. You don’t make 1%, you don’t make a millimeter of GDP. You may spend 5% of what is GDP, but you don’t make it.” Let us not confuse, as a lot of theorists in social entrepreneurship do, the making of wealth and the efficient and entrepreneurial application of denotive wealth to improve social welfare. Now, even as I answer your question, you can see a Kauffman methodology coming into play—very hard thinking, exceedingly careful use of vocabulary. Clearly, in economics, a predilection to think about things in the hard ways of economics with a view to maximal improving of social welfare. So what that means is that if we’re at all successful, we will help think through at a different plane, what social entrepreneurship is and in time perhaps have a grants program that develops some model social entrepreneuring, both in Kansas City and around the country. But I would suggest to you, that is one of the toughest tasks we face at Kauffman—thinking about social entrepreneurship with the same vocabulary as we think about economic entrepreneurship. If we don’t get the latter correct, there won’t be a penny left for the former. I’m not sure you agree with that, Professor Renz, but that’s sort of the reality as I see it. You know, Ewing Kauffman saw that so clearly. He saw the importance of wealth creation by entrepreneurs as a predicate to the formation of foundations. He was a Johnny Appleseed. He went to one successful entrepreneur after another preaching the gospel of give back, create a foundation. And when he created his foundation, as I’ve said in this speech, he was as careful as any founder has ever been. That’s why I characterize Mr. Kauffman as a very rigorous intellectual, to make sure that when the money was deposited and used in the future, there was no foolishness, no silly pursuit of ideas that made people feel good. The other day I gave my second anniversary speech to our associates. The temptation in philanthropy is to go into autopilot. You know, you can’t do wrong at philanthropy. The people we’re dealing with are good people. They are well motivated. They’re often very well educated. But the fact is, we have to ask exactly your question: What’s the outcome measure? These dollars are in many ways more precious than the dollars that come out of the entrepreneurial side of the economy and, certainly, we are bound by the legacy and directive of a very generous leading citizen of this city to use these dollars exceedingly careful. I think it is scandalous how many foundations don’t put that question as the first question. Is this program making any difference and can you prove it empirically? I hope that in the years...
to come, the Kauffman Foundation will actually be something of a legend for having pushed itself into very uncomfortable terrain around exactly that question.

Well, if there are no more questions, we could go out and enjoy this very beautiful day. Again, I appreciate your attention and your kind reception. Thank you.

---

**Previous Charles N. Kimball Lectures**

The Charles N. Kimball lectures may be found on the Western Historical Manuscript Collection-Kansas City website at [www.umkc.edu/WHMCKC/](http://www.umkc.edu/WHMCKC/). Also located there is the full text of the Midwest Research Institute's *Midcontinent Perspectives Lecture* series from 1974 to 1993.

- **April 22, 1996** - Albert P. Mauro, *The Realization of a Dream: The Development of Hospital Hill*
- **April 21, 1997** - Dr. Robert H. Freilich, *To Sprawl or Not to Sprawl: A National Perspective for Kansas City*
- **April 21, 1998** - Mr. James M. Kemper, *Community Banks and Their Role in Civic Planning*
- **April 22, 1996** - Albert P. Mauro, *The Realization of a Dream: The Development of Hospital Hill*
- **April 21, 1997** - Dr. Robert H. Freilich, *To Sprawl or Not to Sprawl: A National Perspective for Kansas City*
- **April 21, 1998** - Mr. James M. Kemper, *Community Banks and Their Role in Civic Planning*
- **October 21, 1998** - Mr. Donald H. Chisholm, *The Philanthropic Philosophy of Arthur Mag*
- **April 21, 1999** - Ms. Vicki Noteis, *Visions of a City: Kansas City’s Planning Legacy*
- **October 21, 1999** - Mr. John A. Dillingham, *It’s All About Eating: Kansas City’s History and Opportunity*
- **October 23, 2000** - Rabbi Michael Zedek, *One Man Views the Heartland: A Critical Study of Character and Community*
- **April 23, 2001** - Dr. Kala M. Stroup, *Kansas City and Higher Education: A Partnership for Prosperous Citizens and Cities*
- **April 30, 2002** - Dr. Charles J. Carlsen and Dr. Wayne E. Giles, *The Peoples College: Community Colleges in Kansas City*
- **October 22, 2002** - Dr. Carol A. Mickett, *History Speaks: Visions and Voices of Kansas City’s Past*
- **April 21, 2003** - Mr. Andres M. Dominguez, *A Latino Presence in the Heartland: Challenges and Opportunities*
- **October 27, 2003** - Mr. Landon H. Rowland, *Arthur E. Stilwell: The Legacy of an Entrepreneur*
WHMC-KC

The Western Historical Manuscript Collection, a joint collection of the University of Missouri and the State Historical Society of Missouri, contains primary source materials for research and welcomes use by scholars, students and the public. Our network allows for the full resources of the Collection—the holdings of all four branches in Columbia, Kansas City, Rolla, and St. Louis—to be available to researchers throughout the state.

The Kansas City office opened in 1980 with a mission to collect, preserve, and make available for research, documents relating to the history and culture of Kansas City, western Missouri, and the Midwest. Since that time approximately 10,000 cubic feet of documents has been acquired. The Collection owns the papers of important civic and political leaders such as Charles Kimball, Ilus Davis, Charles Wheeler, Oscar Nelson, H.P. Wright, Lou Holland, William Volker, and L. Perry Cookingham; the records of businesses and industries such as the Kansas City Board of Trade, the Kansas City Stock Exchange, and the J.C. Nichols Company; a very large collection of materials relating to Kansas City’s built environment, including the records of the architectural and planning firms of Hoit, Price and Barnes, Wight and Wight, and Hare and Hare, among others; the records of not-for-profit civic and social organizations, including the Chamber of Commerce of Greater Kansas City; the Woman’s City Club, and the National Council of Jewish Women; the papers of scholars and historians who have researched and written on Kansas City’s history, including materials from the Kansas City History Project, and the papers of Bill Goff, Lyle Kennedy, A. Theodore Brown, and James Anderson; and a variety of other collections dealing with such diverse topics as labor unions, the Battle of Westport, music and cultural arts in Kansas City, neighborhood development, civil rights, Kansas City school desegregation, and the overland trails.

Questions about the use of or donations to the Collection should be directed to David Boutros, Associate Director of the Kansas City office. (816) 235-1543; WHMCKC@umkc.edu

www.umkc.edu/WHMCKC/

Cover photo: Looking north through the Kansas City Bridge (Hannibal Bridge), at its completion in 1869. Standing in the foreground is (L to R) George Morrison, Assistant Engineer; Octave Chanute, Chief Engineer; and Joseph Tomkinson, Superintendent of Superconstruction. Native Sons of Greater Kansas City Collection (590kc), WHMC-KC.