

LEAD

The Entrepreneur of the Year: Our fifth annual company-building awards

BY TERI LAMMERS

Introduction and list of judges and winners for Inc.'s 1993 Entrepreneur of Year Award.

Our fifth annual company-building awards

'As national judges of this program, we are a reflection point for the country. We should define and interpret the word entrepreneur to keep it in line with the evolving scenario of the American economy.'

-- Rick Inatome, chairman of \$1-billion-a-year Inacom Information Services and national judge for the Entrepreneur of the Year award program, founded by Ernst & Young and cosponsored by *Inc.* and Merrill Lynch

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Boston, July 26, 1993: After hours of sizzling debate, the national judges decided on the winners of the 1993 Entrepreneur of the Year awards, marking the end of a journey the candidates had begun in the depths of winter.

Thanks to the reams of information collected by Ernst & Young accountants across the country, the judges were hardly operating by the seats of their pants. The following benchmarks were among those that helped determine their selections: the years of time invested, the capital risked, the jobs created, and the profits generated.

From the first regional cut through the last one, in Boston, the criteria used to evaluate candidates were based on the standard definition of *entrepreneur*: a person who organizes, operates, and assumes the risk for a business venture.

But as Rick Inatome's comment, at left, reveals, in the rarefied, competitive air of the national finals, not even the basic definition of *entrepreneur* could be taken for granted. The judges argued over the basic underpinnings of entrepreneurship (including risk, vision, equity, and organization) to decide who most deserved the awards.

As a group, this year's national finalists bore faint resemblance to the clichéd image of an entrepreneur who bets his or her life savings on the business and works out of a garage. It became apparent to the judges that they were dealing with a new, more sophisticated type of entrepreneur: instead of bearing starry-eyed visions and second mortgages, the national finalists were armed with elaborate strategic plans and big money. They are a respected new breed occupying center stage in the U.S. economy.

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The Regional Level In 1993 the 41 Ernst & Young regional offices received a total of 3,813 applications.

Just filling out the application tests a nominee's work ethic. A lifetime of achievement must be boiled down to three years' worth of financial data and six 250-word essays covering the entrepreneur's company and its history. "Our fearless leader is a truly wonderful and successful entrepreneur" just can't compete with the lists of accomplishments of the best nominees.

Each region gives out 6 to 10 awards, some of which match the national-award categories, while others reflect the region's economic strengths. In northern California, for example, it's not uncommon to have software, high-tech, and electronics awards. In San Diego there's intense competition for awards in biotechnology and medical technology.

The basic definition of *entrepreneur* served as a good first filter. For instance, the chief executive of a very successful software company was nominated at the regional level. But he was a professional manager brought in by investors when the real entrepreneur stumbled in trying to keep up with the company's growth. He hadn't risked or undertaken anything to start the company. The same question was raised regarding nominees from family-owned companies that had been handed down through generations. They may have been great company managers, but where was the risk, the vision, the *creation*?

Of course, there were exceptions to the rule. Some categories, like the Supporter of Entrepreneurship, the Entrepreneurship Educator of the Year (a new category), or even the Turnaround Entrepreneur did not require the candidate to be an entrepreneur in the classic sense. But to get to the national level in every other category, a candidate had to be an active, dynamic company builder.

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The National Level By Memorial Day the Ernst & Young offices had shipped the dossiers of 357 regional winners (representing 402 individuals) to *Inc.* to be considered for the national awards. After some regional winners were rejected because of incomplete data, the companies that remained were eligible for the national Turnaround, Master, and Emerging Entrepreneur

categories, as well as for the overall Entrepreneur of the Year.

Senior editorial staffers then rejected those nominees whose companies were losing money, or had slow or negative sales growth, a poor return on investment, or low sales. The remaining pool was then subjected to further due diligence. *Inc.* reporters consulted industry analysts; compared key financial ratios with industry standards in the banker's bible, Robert Morris Associates' *Annual Statement Studies*; and interviewed the most promising candidates about everything from distribution strategies to compensation practices and customer relations.

The findings were then passed on to *Inc.*'s internal judging panel, made up of senior editors with 30 years' experience among them analyzing growth companies. It was clear to the judges that competition for the awards had been heating up, and the Ernst & Young data support their observations. The number of nominations received was up by 10.2% from last year. Average sales for the 255 companies rose from almost \$57 million in 1992 to nearly \$65 million in 1993. And the number of jobs created by the 704 finalists climbed from 171,000 to 369,000 over the past two years.

By July 1 a list of 19 finalists (see page 3) in six categories (not including the Entrepreneurship Educator of the Year, which was selected by Ernst & Young) had been selected.

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The Final Vote On July 26 the 19 companies were under final consideration by the national judges. (See page 4.) Those judges' relentless questioning of fundamental assumptions about the nature of entrepreneurship yielded some fascinating insights.

Take the element of risk inherent in entrepreneurship. The judges didn't want to see who put the largest portion of his or her personal assets on the line. They wanted to see who most minimized his or her personal risk. "I think all the finalists take risks," says Patricia M. Cloherty, general partner and president of Patricof & Co. Ventures Inc. "I want to find out how they crack the issue of getting outside capital to leverage their own personal stake in the company.'

In the Turnaround Entrepreneur category, it was pointed out that Steve Volla, CEO of American Healthcare Management Inc., held only a 2% stake in the company. That didn't trouble the Bank of Boston's Diane Fulman, who found Volla had used plenty of entrepreneurial strategies to make the foundering health-care company profitable. Although Volla's financial stake was minimal, she says, the personal risk involved in taking over a poorly operated hospital, where lives are on the line, is substantial. "He started doing things in the health industry during a period of great uncertainty. For entrepreneurs, uncertainty spells opportunity, but for more risk-averse people it means the possibility of failure,"

explains Fulman. "He took steps such as setting up for-profit and nonprofit alliances that others weren't even seeing at the time. That sort of vision and faith in what you are doing is very risky and very entrepreneurial."

Entrepreneurs are famous for their vision: their ability to see emerging niches, growth markets, and problems as opportunities. The national finalists don't stop there; they elaborate upon visions to make them workable as well as bankable in the real world.

Consider the complexity and mass-market opportunity associated with Trip Hawkins's multimedia endeavor, 3DO/Electronic Arts, which is setting out to change the home-entertainment center forever. Hawkins not only possesses an extraordinary imagination; he has also proven -- with the success of \$200-million Electronic Arts Inc., which he started when he was just 28 -- that he can bring his vision to reality.

The first time Hawkins started a company, he bet on his vision with his own dime. But with 3DO he persuaded MCA, AT&T, Time Warner, and Matsushita to back him. 3DO was trading at \$46 per share in early October -- more than 50 times earnings, without even a trickle of revenues. Donald C. Burr, founder of People Express Airlines, states, "I think it's inspiring that people have been willing to commit that kind of money to a person's vision. And he's got a demonstrated record through the success of Electronic Arts, so his story is very appealing to me."

A few words on the value of equity. None of the national finalists are members of the 100% ownership club. But from the national judges' perspective, the issue is not how long founders hold on to their equity but how adept they are at leveraging it to fuel the value of their remaining shares.

A case in point is Julian H. Danielly, CEO of Aladan Corp., a manufacturer of latex gloves and condoms. Danielly managed to leverage every dollar of a nearly \$200,000 nest egg into \$10 from private investors, giving up just over 50% of the stock in the bargain. Danielly is, among other things, a first-rate salesman -- a skill that comes in handy when selling equity. "I thought it was very smart how he leveraged a small amount of money into a very profitable \$60 million in sales over just six years," says Cloherty.

The national finalists are also distinguished by the large size of their companies, a characteristic that demands sophisticated organizational skills usually associated with professional managers, not entrepreneurs. Says B. Thomas Golisano, "One of the things I like about Robert Nourse, founder of the Bombay Co., is the fact that he did start with his own cash.... Taking on a product line and going against major department stores in malls is a very tough business." Golisano, whose own company, Paychex, has 80 branches, adds, "Managing

an organization like Bombay, with 2,000 employees in remote geography, is no easy task."

"I think we have to be very careful that whomever we select [as Entrepreneur of the Year] is an innovative entrepreneur, not just a management specialist," says F. Kenneth Iverson, chairman and CEO of Nucor Corp., who has amply demonstrated he is both. Nourse and many of the other finalists have demonstrated the same.

There's no doubt entrepreneurship is going through an upgrade. The national winners built companies by leveraging company-building tools such as joint ventures with major corporations, sophisticated customer financing, and proprietary supplier arrangements. Their skills and resources permitted them to "organize, operate, and assume the risk for a business venture" in ways most entrepreneurs never imagined possible.

NATIONAL ENTREPRENEUR OF THE YEAR FINALISTS

The Entrepreneur of the Year

An individual whose company's success can serve as a case study of management excellence in every respect.

Monte Ahuja, Transtar Industries, Walton Hills, Ohio

Robert Nourse, The Bombay Co., Fort Worth

Tom Velez, CTA, Rockville, Md.

The Emerging Entrepreneur

A company builder whose company not only has grown rapidly within the past five years but also possesses a solid infrastructure to support future growth.

Jamie Coulter, Lone Star Steakhouse & Saloon, Wichita

Julian H. Danielly, Aladan Corp., Dothan, Ala.

Paul Jain, Media Vision, Fremont, Calif.

Gary Hirshberg and Samuel Kaymen, Stoneyfield Yogurt Farms, Londonderry, N.H.

The Master Entrepreneur

An entrepreneur who has maintained company-building and management excellence over a period of time and who is an established leader of the entrepreneurial community.

Jerral Jones, Dallas Cowboys, Irving, Tex.

Trip Hawkins, 3DO/Electronic Arts, San Mateo, Calif.

David Heerensperger, Eagle Hardware & Garden, Tukwila, Wash.

The Turnaround Entrepreneur

A person (not necessarily a founder) who assumes responsibility for a company in dire straits and applies entrepreneurial expertise and spirit to make it profitable again.

Andrew Brosius, Midwest Industries, Ida Grove, Iowa

William Mercurio, Plastic Trim, Beavercreek, Ohio

Steven Volla, American Healthcare Management, King of Prussia, Pa.

The Socially Responsible Entrepreneur

An individual who solves societal problems by leveraging the entrepreneurial skills that have made his or her business a success.

Bruce Feldman, Economy Linen and Towel Service Inc., Dayton

Dean Kamen, U.S. First, Manchester, N.H.

The Management Committee, Shorebank Corp., Chicago

The Supporter of Entrepreneurship

Spotlights an individual whose work makes entrepreneurial success possible for others by providing the infrastructure and encouragement necessary to help bring ideas to reality.

Monica Putnam Doss, Council for Entrepreneurial Development, Morrisville, N.C.

Nancy A. Flake, Howard University Small Business Development Center, Washington, D.C.

Donald Monroe, River East Economic Revitalization Corp., Toledo

The Entrepreneurship Educator of the Year

This award was given for the first time this year. It goes to a grade-school, high school, or college teacher or educational-service provider who has pioneered effective ways to teach entrepreneurship. The winner receives a grant from the Ewing Marion Kauffman Foundation Center for Entrepreneurial Leadership, in Kansas City, Mo., to write about his or her ground-breaking work.

Pier Abetti, Rensselaer Polytechnic Institute, Troy, N.Y.

Ronni Cohen, Burnett Elementary School, Wilmington, Del.

NATIONAL ENTREPRENEUR OF THE YEAR JUDGES

The Rebel Entrepreneur

Harry V. Quadracci

President and Founder

Quad/Graphics Inc.

Pewaukee, Wis.

By 1971 Harry Quadracci had had it with traditional management. That's when he hocked his house and started Quad/Graphics, one of the largest privately owned printers in the United States, with sales of more than \$580 million. How did he accomplish that? With a management style that's been making news since 1986, when Quadracci was featured in *Inc.* for his innovative employee-training program and organizational structure.

The Big-Picture Specialist

Diane Fulman

Senior Economics Editor

Bank of Boston

Boston

Fulman was thrilled to receive the 12-inch stack of finalists' dossiers. "I love to read this stuff and see what's going on in different corners of the economic universe." It's not what most of us would choose as juicy summer reading, but then, Fulman's usual diet of dense economic analyses and academic research papers is pretty heady stuff. Fulman writes extensively on entrepreneurship and small-business development.

The CEO's CEO

F. Kenneth Iverson

Chairman and CEO

Nucor Corp. Charlotte, N.C.

Iverson is an award-winning executive. President Bush awarded him the National Medal of

Technology, the nation's highest award for technological achievement. In 1992 Iverson was recognized as the best chief executive in the steel industry by the Wall Street Transcript. He also has several honorary doctorates to his credit. No wonder. This is the man who pioneered the minimill concept, which helped salvage the steel industry in the United States. Nucor sales were \$1.6 billion in 1992.

The Capital Expert

Patricia M. Cloherty

General Partner and President

Patricof & Co. Ventures Inc.

New York City

Cloherty is a busy woman. Since 1970 she's been responsible for investing in numerous entrepreneurial ventures while serving as CEO of an educational-toy company. In addition to being a venture capitalist, she was deputy administrator of the Small Business Administration in the Carter administration, where she helped liberate pension funds, making it possible for them to be used as venture capital.

Mr. Bottom Line

B. Thomas Golisano

Chairman & CEO

Paychex Inc.

Rochester, N.Y.

"But what's the bottom line?" Tom Golisano would ask the judges when the going got tough. "What's the return on assets? The return on equity? The profit margin?" When Paychex was founded, in 1971, it focused on what at the time was an invisible market: growing companies with fewer than 50 employees. Today the company has 80 branches nationwide and revenues of \$190 million. Golisano's personal experience growing a company and working with other entrepreneurs served him well in this year's judging.

The Growth Expert

Donald C. Burr

Founder

People Express Airlines

Martha's Vineyard, Mass.

People Express Airlines has gone down in history as the world's fastest-growing corporation, going from nothing to \$2 billion in sales in six years and earning a profit every year but the last. We think that qualifies Burr as an expert on growth -- and its hidden dangers.

The Billion-Dollar Man

Rick Inatome

Chairman

Inacom Information Services

Omaha

When Rick Inatome speaks, the other judges listen. His profound insights into the nature of entrepreneurship stem not only from growing his own computer-reseller company to more than a billion dollars in revenues but also from investing in many start-ups over the years. When he's not thinking of ways to turn around a foundering quick-print chain he's purchased, he's dreaming up a revolutionary concept for the food-service industry.

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