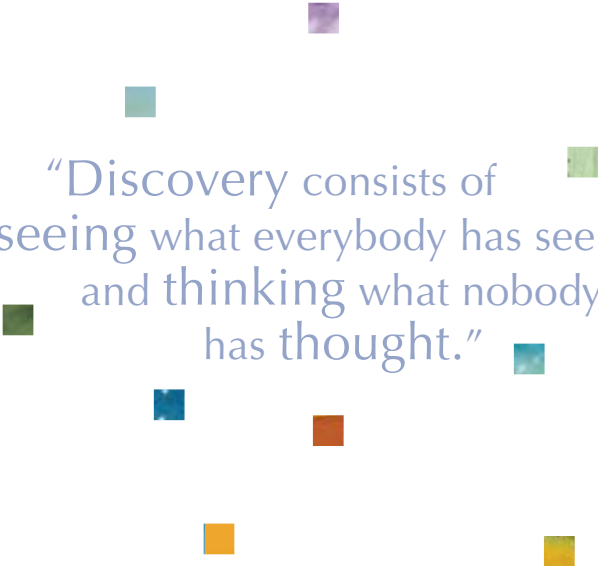


EXCERPT FROM



“Discovery consists of
seeing what everybody has seen
and thinking what nobody
has thought.”

KAUFFMAN Thoughtbook 2009

Fourth in an ongoing series, the *Kauffman Thoughtbook 2009* captures what we are thinking, learning, and discovering about education, entrepreneurship, and advancing innovation. This collection of more than forty essays is written by the talented Kauffman Foundation associates, partners, and experts who are pursuing the principles and vision set by our founder, Ewing Kauffman.

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What policies,
environment, and
mindset are needed
to accelerate
entrepreneurial
activity?



How can
entrepreneurship
provide a path to
success in places
where you'd least
expect?

What's in Federal Policymakers' Playbook to Sustain Economic Growth?

Economists advise elected officials and consumers alike to put the present U.S. economy into perspective. After growing at nearly 4 percent in the first twenty-five years of the post-war era, the nation's economic growth rate then fell below 3 percent from 1973 to 1995. Only in the last decade has the economy returned to roughly 4 percent annual growth. When the credit crisis of 2008 ends, what will the pace of growth be?

The central economic challenge for all policymakers is thus to answer this critical question: "What plans do they have, if any, to get the economy's long-run growth rate back up to the 4 percent range?" (The difference between 4 percent and 3 percent growth, for example, can mean a difference in average living standards in thirty years' time of roughly 40 percent.)

There is compelling evidence that policies encouraging innovations spurred by entrepreneurs can be central to returning to the higher path of economic growth. Accordingly, the public would be well served by knowing how their elected representatives plan to stimulate innovation that will lead to long-term economic growth.

Extensive research by and for the Kauffman Foundation has identified several policy areas that have the greatest potential impact on helping innovative entrepreneurs succeed. The following recommendations are offered to help federal elected officials address this challenge.

Recommendation: Ensure a skilled workforce to sustain strong long-term economic growth.

Entrepreneurs say finding and attracting highly skilled, entrepreneurial workers is one of the more important challenges facing the U.S. economy. Further, some researchers say that to overcome this challenge, major, entrepreneurially driven improvements are necessary throughout our educational system (K–12 through graduate school). This will help prepare skilled workers, especially in math, science, technology, and engineering—the fields that will be most relevant to generating future innovative breakthroughs.

Federal policymakers should implement policies to ensure that our workforce will continue to develop and commercialize the innovations required to sustain rapid long-run growth.

Recommendation: Take into consideration the significant economic impact highly skilled legal immigrants have on our economy.

With so much attention focused on illegal immigration policies, lost in the shuffle are the nation's highly skilled legal immigrants, many of whom are here on short-term visas and may eventually have to leave the country. Recent studies, however, have identified immigrants as some of our most productive and innovative workers and entrepreneurs. For example, one quarter of the science and technology startups launched in the United States between 1995 and 2005 had a foreign-born founder. These companies employed 450,000 workers and generated \$52 billion in revenue in 2006.¹

¹ Wadhwa, V., G. Gereffi, G. Jasso, B. Rissing, R. Freeman, August 2007. Intellectual Property, the Immigration Backlog, and a Reverse Brain-Drain: America's New Immigrant Entrepreneurs, Part III. Kauffman Foundation.

Policymakers should consider how the immigration system could be reformed, if at all, to address issues regarding the impact that highly skilled legal immigrants can have on the U.S. economy.

Recommendation: Curb growing health care costs, which are especially burdensome to small and growing firms and deter would-be entrepreneurs from starting new businesses.

Continued escalation of current health care costs and uncertainties about future trends rank high on entrepreneurs' lists of concerns, as well as on those of American business generally. The fear of losing health care most likely deters some employees from leaving their current jobs to launch new enterprises. How do policymakers propose to deal with these concerns?

Policymakers should consider approaches to health care that will encourage rather than discourage new firm development.

Recommendation: Reevaluate financial reporting and corporate governance requirements (incorporated in the Sarbanes-Oxley Act) to see if they are dampening entrepreneurship.

Researchers have documented that the Sarbanes-Oxley (SOX) reforms, enacted after the corporate financial reporting scandals earlier this decade (and before), have turned out to be substantially more costly than was expected at the time. In addition, some researchers are concerned that the SOX requirements may be discouraging successful entrepreneurial firms from going public and instead to sell to larger companies, an "exit" path that may reduce the entrepreneurial energy that drove the success of these firms in the first place. What, if anything, are elected officials doing to reform SOX?

Recommendation: Examine trade policy positions on the global economy/market in light of how it has fostered growth for America's most successful entrepreneurial firms.

In this global market, many successful firms are doing business with the world—and really must do so in order to compete and grow. Innovative, entrepreneurial companies like Intel, Microsoft, eBay, and Google would not be the giants they are today without global markets. In addition, research suggests that firms of all sizes benefit from having access to global markets to purchase supplies and services required to produce the goods and services they sell here and abroad. Elected representatives should consider how their trade policies affect access to global markets by America's entrepreneurs for both inputs and outputs.

Recommendation: Consider solutions to the long-run fiscal challenges posed by retiring baby boomers and the continued escalation of health care costs (which are driving up the costs of Medicare) that will not discourage future entrepreneurship and innovation.

The Congressional Budget Office projects extraordinary future fiscal deficits if future entitlement costs are not reduced and/or not funded. If this prospect worries policymakers, they will need to consider policies that avoid reducing incentives for the entrepreneurship and innovation that will be essential if the American economy is to return to a high-growth path.

For more information on these policy areas, see the Kauffman Foundation's *On the Road to an Entrepreneurial Economy: A Research and Policy Guide* at kauffman.org/policyroadmap.



From Chasing Smokestacks to Embracing Entrepreneurship: Regional Growth Through Economic Policy

ED GLAESER, Ph.D.

Fred and Eleanor Glimp Professor of Economics, Harvard University

A century ago, cities could succeed by being low-cost producers of manufactured goods. Good ports and rail yards made the cities of the Midwest and Northeast industrial powerhouses. Changing transportation systems and globalization have eliminated that path to prosperity. Today, cities can succeed only if they are centers of innovation that produce new technologies and new business models. There is no way for governments to mandate innovation from on high. Individual entrepreneurs are the key producers of new ideas. But how can places manage to be centers of entrepreneurship?

At the city level, an abundance of small entrepreneurial firms predicts success. High skill-levels are a potent predictor of population and income growth. Industrial diversity and an abundance of independent suppliers also seem to be helpful. These are the facts that suggest that cities should put entrepreneurship ahead of smokestack chasing.

There are two related tasks involved in creating entrepreneurial cities. First, cities must attract smart, entrepreneurial people. Second, cities must possess an infrastructure that supports creative, risk-taking behavior. The two tasks feed into

each other. Smart, entrepreneurial people will be attracted by good entrepreneurial infrastructure. If those entrepreneurial people come to an area, they will help to build the legal, social, and physical infrastructure they need to successfully innovate.

The economic imperative to attract skilled, prospective entrepreneurs means that quality-of-life policies become economic development strategies. Good schools both produce well-educated students and attract well-educated parents. Kalamazoo, Michigan's strategy of paying for college for all of the city's 10,000 public school children is a creative education strategy that may attract smart people. Smart transportation policies, like congestion charging, can create fast commutes and help connect prospective entrepreneurs. Moderate taxes also will attract people who are planning on generating wealth.

In a world where firms are extremely footloose, an area must make sure that it is not erecting policies that stand in the way of smart people trying new things.

Heavy land-use regulations restrict local growth and keep housing prices high. If an area wants to attract young, prospective entrepreneurs, that area needs to make sure that developers can build a new, affordable housing stock that will appeal to future business leaders. This doesn't mean housing subsidies; it means just giving the free market enough freedom to build needed homes and business space.

Government policies should support rather than stymie entrepreneurial activity. Entrepreneurs are sensitive to business taxes and regulations. Right-to-work states have been much more successful in attracting new businesses over the last fifty years than their more pro-union competitors have been. In a world where firms are extremely footloose, an area must make sure that it is not erecting policies that stand in the way of smart people trying new things.

Entrepreneurship is rarely a solo enterprise. Smart people learn from each other, and an infrastructure for entrepreneurship should encourage connection. One of the great advantages of urban density is that physical proximity promotes the exchange of ideas. The great success of places like Silicon Valley and Research Triangle Park owe much to the easy flow of ideas in these concentrated clusters.

All cities can do more to promote the interactions of current and future entrepreneurs. Easy transport is one way to achieve this end; public and private

Economic Gardening

Economic gardening is an economic development model that embraces the fundamental idea that entrepreneurs drive economies. The model seeks to create jobs by supporting existing companies in a community. The concept, pioneered in 1987 in Littleton, Colorado, when the state was in a recession, is an alternative to traditional economic development practices. It initially was based on research by MIT's David Birch, who suggested that most new jobs in any local economy were produced by the community's small, local businesses. In Littleton, city leaders observed that only 3 to 5 percent of all companies were "high growth" but determined that those "gazelles" were creating the great majority of new jobs.

Economic gardening connects entrepreneurs to resources, encouraging the development of essential infrastructure and providing entrepreneurs with needed information. The Littleton economic gardening initiative provides local entrepreneurs with access to competitive intelligence on markets, customers, and competitors that is comparable to the resources customarily only available to large firms. Included in the market information category

are database and data mining resources, and geographic information systems.

Since 1989, Littleton (population 41,000), has added 15,000 jobs, with no incentives. Although no formal studies of economic gardening's impact exist, it is widely believed in Littleton that the concept has made an important contribution to this result.

By the late 1990s, a number of communities (including Lake Elsinore, San Bernardino, Chico, and San Luis Obispo in California; Santa Fe, New Mexico; Lancaster County, Pennsylvania; Steamboat Springs, Colorado; the state of Wyoming; and the North Down Borough of Northern Ireland) were beginning to investigate and experiment with economic gardening. Major states like California regularly include economic gardening discussions in their state economic development conferences, and cities including Oakland and Berkeley have small pilot economic gardening projects under way.

The Edward Lowe Foundation is especially interested in the concept and is supporting such programs that assist second-stage companies.

spaces that encourage interaction also may be helpful. New ideas often are created by fusing together two disparate old ideas, which may explain why industrial diversity can be helpful. Mentorship programs and entrepreneurship classes in public schools provide other means of connecting entrepreneurial people.

There also is a case for experimenting with pro-entrepreneurship legal infrastructure. Some researchers have suggested that California's unwillingness to respect non-compete clauses helped create the serial entrepreneurship of Silicon Valley. More states may want to consider following California's example in this area. The costs of not recognizing non-competes is that some firms may fear losing their best workers, but as long as other states don't recognize these clauses, this fear will always exist. Accepting non-compete clauses can't ensure that firms will get to keep their workers; states that recognize those clauses can only make sure that workers who want to leave to start their own firms will move elsewhere.

The goal should not be to attract a few big employers. Instead, the goal should be to attract a large number of smart people and then to get out of their way.

Ultimately, embracing pro-entrepreneurship policies requires a different mindset for local government. The goal should not be to attract a few big employers. Instead, the goal should be to attract a large number of smart people and then to get out of their way. Unplanned creativity will be the most potent driver of urban success. City governments need to put their faith in the ability of smart people to build their own economic futures, rather than in the seemingly safer, but ultimately less robust, strategy of attracting mature industries.



Law and Economics, 2.0: Understanding the Link Between Law, Innovation, and Growth

ROBERT E. LITAN, Ph.D.

Vice President, Research and Policy, Ewing Marion Kauffman Foundation

It is widely understood that the “rule of law” is essential for economies to grow, and thus for living standards of their populations to advance. In turn, it also is widely recognized that growth is best achieved through continued innovation: the development of new products, new services, and new ways of doing things that make a society more productive.

But how much law, and what kinds of law, are essential for innovation and growth? And what laws or legal institutions may inhibit both?

We know some answers to these questions but are far from knowing them all. For example, we do know that certain elements of a legal infrastructure are essential to promote economic activity generally and innovation in particular:

- Individuals will not save and firms will not invest without clear property rights, enforced if necessary by an impartial judicial system, in the interest of profits they earn on these investments.
- Entrepreneurs and their firms must have some rights to—or rewards for—new, commercially useful knowledge they develop. At the same time, any

such rights should not be too broad, or else they will discourage others from coming up with commercially useful ideas on their own.

- Individuals and firms are unlikely to conduct business with third parties they don't know unless an institution or body they trust recognizes and enforces their contracts.
- Banks and other financial institutions will not lend without well-defined rights to the collateral backing their loans.
- Companies cannot attract outside investors—and thus may not be able to grow—unless the liability of shareholders is limited to the size of their stockholdings.
- Similarly, individuals and institutions are more likely to invest in financial instruments that can be easily and are readily traded. Exchanges (once physical, increasingly virtual) must exist to facilitate such trading, as must investor-relevant rules requiring disclosure of accurate and timely information.

These are just a few of the legal propositions that are now widely understood to foster economic progress. But there is still much that we do not know about precisely which laws and legal institutions best promote innovation and growth.

To help find out, the Kauffman Foundation has launched an ambitious, long-term initiative to fund research in this important area by leading legal and economic scholars. We also hope to encourage a new generation of legal scholars to devote their energies and talents to helping us understand what changes in law and legal institutions might accelerate growth.

Fortunately, this initiative is not writing on a blank slate. Thanks to several decades of funding by other foundations and to a growing body of literature on

“law and economics,” a generation of lawyers, judges, and many elected officials with a legal background understand the importance of legal rules maximizing wealth at any point in time for any given society. The insights from this ample body of work—not only legal scholarship, but a broad range of judicial opinions, statutes, and rules—will help us understand how such rules can and should also promote the growth of societies’ wealth over time.

At Kauffman, we expect the “Law, Innovation, and Growth” research initiative to touch on a broad number of legal subjects—contracts, property (including intellectual property), torts (accident law), antitrust, tax, labor, civil (and perhaps criminal) procedure, and even constitutional law, to name a few. Ideally, as we work to understand how law and legal institutions affect each of these specific legal areas, scholars one day may also develop broad or “synthetic” themes that cut across all of them.

Policymakers in all branches and at all levels of government should find this scholarship to be of interest. But it should interest us as citizens, too. Even small annual differences in economies’ growth rates, over time, can dramatically affect future per capita incomes and living standards. Ideally, the research findings and scholarship that emerge from our initiative will help contribute to such a beneficent outcome for U.S. citizens, and hopefully for populations around the world.



Crossing the Divide: Entrepreneurial Law

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In many ways, lawyers and entrepreneurs make strange bedfellows. Lawyers tend to be risk-averse while entrepreneurs often embrace risk. Lawyers look to the past, reading cases and citing precedent, while entrepreneurs try to read the future and do the unprecedented. Law firms are built on predictable billings while entrepreneurial firms are unpredictable.

Such “mismatches” can frustrate successful entrepreneurship. Lawyers are crucial to the entrepreneurial process, but many are neither trained nor inclined to contribute to it as they could, while many entrepreneurs find it difficult to get the legal services they need. Fortunately, there are ways to bridge this gap.

I have spent forty-five years in business law, as a practitioner and an educator. Currently I direct the entrepreneurial law clinic at Northwestern University. The Kauffman Foundation has supported this clinic and others like it, where law students can learn by working directly with small or emerging enterprises. That work is part of the effort to bring lawyers and entrepreneurs together.

But let’s begin by understanding the forces that divide them.

Where the Disconnects Arise

Creating a company is both a business process and a legal process. Every decision, from the form of legal entity chosen to the details of the contracts that are made, can affect the company's ability to succeed. Thus, it makes sense to engage a lawyer early and, yet, that is where the disconnects also begin to show up.

What the entrepreneur typically brings to the table is a mindset grounded in persistence and optimism. What the lawyer often brings is a mind filled, literally, with worst-case scenarios. Lawyers learn their profession by studying court cases, which are stories of disputes over things gone wrong. And so, the lawyer tends to feel that the most urgent issues to be dealt with are legal problems, while the client places them on the list of "things to worry about," but much lower on the list than drafting a business plan, building a management team, and finding the money to move forward. In this context the entrepreneur may soon begin to see the lawyer as the "anti-entrepreneur"—as someone not sufficiently enthusiastic about the venture, more interested in identifying problems than solving them.

The awkward situation is compounded if the lawyer turns out to be under-qualified. Representing an entrepreneur means that one must be familiar with a wide range of legal issues—those relating to contract law, intellectual property law, tax law, regulatory law, and real estate law, to name just a few. The lawyer must know the difference between a "C" corporation, an "S" corporation, and a limited liability corporation and, above all, be able to negotiate and draft simple and understandable

What the entrepreneur typically brings to the table is a mindset grounded in persistence and optimism. What the lawyer often brings is a mind filled, literally, with worst-case scenarios.

contracts with employees, Web site designers, and a host of others. Few sole practitioners or small law firms have all of these skills.

Large law firms have the necessary expertise but are more interested in representing established companies with proven products or services.

Then comes the final dilemma. Even if an ideal law firm is found, its fees may be beyond what the entrepreneur can pay. In Silicon Valley and elsewhere, there are firms willing to work for a share of equity if the client has a record of success with other ventures. But rarely will they take an unproven entrepreneur on that basis, and many law firms will not do it at all. They may have genuine concerns that it is unethical, or imprudent, to invest in the client's business. Or they may simply favor the risk-averse strategy of working for core clients at fixed hourly rates.

Mindsets are shifting, and the system of legal education is beginning to shift, as well.

The overall result has been a wide-ranging series of disconnects in the marketplace for entrepreneurial law, with lawyers variously being unappreciated, unprepared, or just unavailable.

Steps to Bridge the Gap

Fortunately, the situation is now improving on several fronts. Mindsets are shifting, and the system of legal education is beginning to shift, as well.

As entrepreneurial ventures have grown more important to the U.S. economy, lawyers have become more sensitive to entrepreneurs' legal needs and how to serve them. Many entrepreneurs, in turn, have become more understanding of the

roles their lawyers play in guiding them through the thickets of issues they face. Sophisticated clients have learned that it is their responsibility to decide what legal risks can be assumed: They are not brought to a dead stop by a lawyer's cautionary statements, nor do they let those statements go unheeded.

Meanwhile, entrepreneurship programs and "small business" clinics have been started at many of the nation's leading law schools. (One of these is the Business and Entrepreneurship Law Program at the University of Missouri–Kansas City, encouraged and supported by the Kauffman Foundation.) Such programs are a new concept for law schools, which traditionally have placed a higher value on theory than practice, and which always have been more concerned with producing good trial lawyers than good business lawyers. But following in the steps of engineering and business schools, more than forty American law schools, including Chicago, Pennsylvania, Northwestern, and New York University now include entrepreneurship courses in their curricula.

A complete program usually will include a classroom component to introduce students to practical aspects of entrepreneurial law, such as contract drafting and venture capital, along with a live-client clinic in which students provide legal services to small business owners and social entrepreneurs. At some schools, the services are free. In other cases, fees are charged, but always at a fraction of what it would cost to obtain comparable services from a law firm.

These programs are at most ten to twelve years old. In some ways, they are already successful, but in others they are still evolving. From the law schools' perspective, the programs satisfy a demand from students for learning that is more closely related to the work they will do. For the clients, services that were once out of reach now are available.

One limitation, however, is the narrow nature of the clientele. The clinics have typically been geared to serving small business owners, as distinct from innovative entrepreneurs developing new products or services. While the work has been worthwhile, it has done little to assist—or to give students experience with—the kinds of ventures that can be most challenging and most valuable.

The ultimate challenge is re-thinking legal education entirely.

This is changing. At my law school, for example, a growing number of clients are students from our graduate business school who are personally invested in doing something new, and faculty from our engineering and medical schools who are developing new technologies.

These innovative clients raise new issues, as a university-based clinic faces a conflict in taking them on. Providing vigorous representation can put the clinic into an “adversarial” relationship with the university, which claims an ownership interest in the innovations of its faculty and students. Thus the clinicians’ loyalty is, at least theoretically, divided between their client and their employer. Personally, I believe this problem can be solved on a case-by-case basis and should not inhibit a law school clinic from serving clients associated with its own university. If it does, there are still plenty of innovative entrepreneurs who need assistance. A clinic can find them at other colleges and universities, at business incubators, and in the economy at large.

Fundamental Change

The ultimate challenge is re-thinking legal education entirely. Most law school curricula continue to be highly theoretical, and to emphasize litigation as

opposed to business: Law students spend almost all of their first year reading court decisions, as they have since the 1890s.

Substantial revisions, arguably long overdue, are likely in the next few years. My law school has convened a working group to evaluate our curriculum; our pedagogy; and the proper balances between theory and practice, and litigation and business. Other law schools have done the same. In an influential study released in March 2007 titled, *Educating Lawyers: Preparation for the Profession of Law*, the Carnegie Foundation urged every law school to take a fresh look at itself with a view to moving in a similar direction.

Although there is resistance to making law schools look “more like business schools,” this is the way things are headed. The changes will benefit entrepreneurs, as well as law students and firms that hope to represent them. The lawyer’s role in the entrepreneurial process will be enhanced, with the lawyer becoming more of an informed facilitator and less of an outsider who is oft perceived to be at cross-purposes with the entrepreneur. This will be a win-win situation for all.



Entrepreneurship in American Higher Education

WILLIAM SCOTT GREEN, Ph.D.

Senior Vice Provost and Dean of Undergraduate Education, University of Miami; Program Director, Kauffman Campuses Initiative; Chair, Kauffman Panel on Entrepreneurship Curriculum in Higher Education

The Kauffman Foundation is rooted in the belief that entrepreneurial activity is an essential strength of American society. Recent scholarship has underscored the importance of entrepreneurship as a major generator of wealth and source of new enterprises and technological innovation. Through much study and discussion, entrepreneurship increasingly is being seen as the bridge between theory and practice, allowing for integration of various fields of learning. By making entrepreneurship education available to students across all disciplines of study, American college students will become even more aware of entrepreneurial activity and its importance to our economy and society.

To advance this goal further, the Foundation asked a group of distinguished academics to deliberate on the role of entrepreneurship and why this field of study belongs in higher education. The Panel members also explored how entrepreneurship fits in college learning, recognizing that an entrepreneurship curriculum often is best positioned through general education, in the various disciplines, and as co-curricular experiences for students to actively learn about the entrepreneurial process. Finally, the Panel considered how entrepreneurship

can influence the management of universities by infusing a more innovative and entrepreneurial culture on the campuses.

The recommendations in the full Panel report, *Entrepreneurship in American Higher Education*, are the culmination of two years of research and study by some of the nation's most experienced and respected scholars in economics, engineering, and the sciences. The topics discussed in this report are a starting point for further discussion, not a fixed blueprint for every campus. We recognize that entrepreneurial education at its best will be responsive to needs in the local communities universities serve.

Why Entrepreneurship Matters

The values and practices of pure research—discovery, originality, innovation—are the highest expression of American university learning. Entrepreneurship implements innovation. It is the process that transforms discovery and innovation into enterprises that generate value. In so doing, entrepreneurship yields improvement of our goods, services, and institutions that affects large numbers of people. Entrepreneurship's defining trait is the creation of a novel enterprise that the market is willing to adopt.

Their common interest in creativity and originality binds entrepreneurship and higher education to one another. Therefore, entrepreneurship should be both a legitimate subject in American undergraduate education and a pervasive approach to learning and to the management of universities.

Business is part of society and reflects its values. The very ordinariness of entrepreneurship in American commerce suggests that our society prizes

originality and improvement, and the human traits that enable both. Thus, entrepreneurship transcends business practice. It is a distinctive kind of human agency that derives from business but can operate in any realm of human endeavor. Entrepreneurship also is a basic exercise in social responsibility. To suppress or constrain innovation and improvement—and their implementation—ignores a society's needs and wants, holds it back, and diminishes its future.

Entrepreneurship is a field of study that creates its own subject matter and requires the market to be consequential.

Why Entrepreneurship Belongs in College

Four reasons justify a significant role for entrepreneurship in contemporary American higher education. First, entrepreneurship is critical to success in the contemporary global economy. Second, entrepreneurship is already an expanding area of American college learning. Third, through innovation and commercialization, entrepreneurship is becoming a basic part of what universities themselves do. Fourth, entrepreneurship achieves key goals of a quality American undergraduate education. To neglect entrepreneurship distances university learning from the world it is supposed to help students learn to understand.

How it Fits

Entrepreneurship is a field of study that creates its own subject matter and requires the market to be consequential. Therefore, education in entrepreneurship operates along a continuum from the professional to the amateur. At one end, education in entrepreneurship must be about the entrepreneur—the practitioner—and must give students the technical skills to devise and

Panel Members

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sustain new enterprises. At the other end, entrepreneurship education also must be for the amateur, the consumer. Broad education in and about entrepreneurship can help students who are not entrepreneurs understand the skills and intelligence, and the political, cultural, and economic infrastructure that enable new enterprises to emerge.

Because American colleges and universities have discrete histories and purposes, and serve a variety of educational functions with increasingly diverse age groups, entrepreneurship cannot be a “one size fits all” discipline. Therefore, the Panel does not prescribe a single set of educational practices. Rather, it encourages America’s educational communities to develop the kinds of entrepreneurship education—along the

continuum just outlined—appropriate to their goals, stakeholders, and resources. Education in entrepreneurship needs to be as responsive to the concreteness and integrity of its varied markets as is entrepreneurship itself.

Entrepreneurship in General Education and the Disciplines

Entrepreneurship is appropriate for both general education (university-wide, trans-disciplinary education, where students acquire the fundamentals of learning that they can then apply to more specialized areas of study and to the rest of their

lives) and to the major (the collection of courses that constitutes an extended and integrated program of learning in a particular subject).

In general education, entrepreneurship shows concretely how cultural values, social institutions, economic policies, and legal practices interrelate to shape human behavior. In so doing, the broad study of entrepreneurship helps prepare students for informed citizenship.

Entrepreneurship easily can be integrated into discrete subjects—history, education, sociology, music, and politics—but it also can shape the major itself. An entrepreneurial approach to the major would stress both the mastery of basic information and insight into the new ideas that have altered a field over time. This kind of program of learning can help students learn to innovate about what they know and make innovation a basic part of their educational experience and discourse. Students are more likely to practice innovation if their education values it. To change the character of the major likely will require the participation of academic learned societies and accrediting agencies, which often establish the educational requirements for their fields.

The same arguments apply with even greater force to graduate and professional studies. In principle, graduate education need not be inimical to the creation of new enterprises. An entrepreneurial climate can offer an enriched perspective on the consequences of pure research.

Entrepreneurship in the Co-curriculum

By its very nature, entrepreneurship in college cannot be limited to the classroom. For students drawn to business or engaged in addressing persisting social problems, entrepreneurship's emphasis on implementing new enterprises provides

a constructive and practical outlet for their natural idealism and its associated enthusiasm. It can help them see how to solve problems and get things done. Entrepreneurship is among a handful of careers that students can pursue while they are in college. Student entrepreneurs integrate learning with the off-campus world of work, problem solving, and achievement.

Innovative Entrepreneurship Programs at Three Kauffman Campuses

In 2003, the Kauffman Foundation launched its Kauffman CampusesSM Initiative, which now consists of grants totaling \$48 million (and matched at least 2:1) to nineteen American colleges and universities to spur new entrepreneurship programs across the disciplines. Below are examples of how three Kauffman Campuses are making entrepreneurship an important part of higher learning.

Arizona State University InnovationSpace

In this two-semester, trans-disciplinary InnovationSpace program, senior-level students work in teams to create unique, real-world, money-making products that contribute to a better society. The course is taught by faculty from industrial design, visual and communications design, engineering entrepreneurship, industrial engineering, and marketing. Students prepare a comprehensive proposal and also present their products to private sector groups and university researchers to pursue options to see if products can become commercially available to those who need them.

Purdue University Entrepreneurial Leadership Academy

This Academy selects ten Purdue faculty members annually to meet monthly in a series

of workshops, lunches, dinners, and meetings to discuss and brainstorm new ideas about Purdue entrepreneurship curricula. Academy members are tasked with undertaking a high-impact project to foster campus entrepreneurship and entrepreneurial leadership. Those selected for the Academy carry the title of Kauffman Entrepreneurship Fellow for the year, receive an honorarium, and meet with senior Purdue administrators and successful entrepreneur leaders from outside the university.

University of North Carolina at Chapel Hill First-Year Seminars

Freshmen in the College of Arts and Sciences at this university have an opportunity to examine the relationship between entrepreneurship and more than 300 areas of scholarship across all disciplines through the First-Years Seminars program. Students can choose from a variety of topics relating to a wide range of disciplines. For example, in *Biologists as Entrepreneurs*, students learn how to write grant proposals to support research; in another area called *Economic Saints and Villains: The Entrepreneurial Spirit in Early English Literature*, students explore how England—from the sixteenth to the nineteenth centuries—envisioned new economic orders through plays and novels.

For more information about the Foundation's Kauffman CampusesSM Initiative, visit kauffman.org/campuses.

Entrepreneurship and the Management of Universities

A key task of American higher education is to establish innovation and its implementation as core educational goals. An educational culture of “curricular entrepreneurship” would create budgetary practices and incentive structures to reward faculty and departments for curricular innovations, fresh interdisciplinary partnerships, and experiments with new methods of teaching and learning that foster creativity and originality. Similarly, in the areas of research and tenure, universities should treat translational research as basic research, and the “measure of impact” of research should be part of the review for tenure and promotion.

Conclusion

As the world’s natural resources ebb and technology advances, humanity increasingly will live by its wits. Innovation alone will not suffice. We will need people who know how to implement new ideas and make them accessible to large populations. We will have to build and maintain an entrepreneurial society. Because innovation and discovery animate and are the most consequential results of American university learning, entrepreneurship is higher education’s authentic and natural ally.

To download a copy of the Panel’s full report, visit kauffman.org/panelreport.



The Entrepreneurial Landscape: A View from Venture Partners

A Roundtable Interview with:

TOM ALBERG, J.D.

Managing Director and Cofounder, Madrona Venture Group

BILL FORD

Chief Executive Officer, General Atlantic

JEREMY LEVINE

Partner, Bessemer Venture Partners

Moderated by:

HAROLD BRADLEY

Chief Investment Officer, Ewing Marion Kauffman Foundation

In April 2008, Kauffman Foundation Chief Investment Officer Harold Bradley sat down with investment leaders from three established and respected venture capital firms who manage money for the Foundation's endowment. The discussion ranged over a number of issues facing the venture industry. Is there sufficient alignment between venture partnerships and their investors? Do entrepreneurs need the help of venture capitalists to build businesses? Are universities making or breaking new business leaders? The participants represent firms that invest along the entire growth spectrum.

Bradley: What is it that drives the idea culture of an investment firm?

Alberg: I think most people in our business have a passion for what they do, and particularly in my case, a passion for innovation, new technologies, and new ideas. In 1994, at McCaw and Lin Broadcasting, I was having our financial people prepare projections of all the revenues we were going to get from wireless data. Well, those revenues are just becoming meaningful to the carriers—fifteen years later. We were just a little early. Belief in ideas, whether they are our own or someone else's, makes the culture. When we started at Madrona looking for deals in Seattle in 1995, suddenly these entrepreneurs started walking in the door; Jeff Bezos (founder of Amazon.com) walks in with a business plan. We've invested in more than eighty companies since '95 and now we have what Silicon Valley has—serial entrepreneurs. We not only have this innovation coming from bigger places like Microsoft and Amazon and a bunch of others, but also an entire ecosystem of smaller companies. Importantly, Seattle has many entrepreneurs trying to find the next big, new thing.

Levine: I don't think my grandparents were born when Bessemer's roots were first laid into the ground, when Henry Phipps, Andrew Carnegie, and Henry Frick built Carnegie Steel. When they sold the steel business, Phipps decided to take his proceeds and invest into other, new technologies. We have obviously evolved considerably. In the early days, the high-tech companies of the time were manufacturing technologies, and it's hard to name a company from 1920 to 1960 that was a manufacturing startup that still exists. Bessemer encourages people to go out on their own and pursue their individual, creative ideas, even if they're considerably different from what everybody else in the firm is thinking. We use a roadmap process that involves daydreaming about how the world is going to change or may change. It might be a demographic shift. It might

Roundtable Participants

Tom Alberg is managing director and cofounder of thirteen-year-old Madrona Venture Group (*madronagroup.com*) in Seattle. The partnership invests mostly in seed and early-stage companies in the Pacific Northwest. Madrona has helped spin out more than ten companies from the University of Washington Computer Science and Engineering Department and the Electrical Engineering Department. Alberg has served as president of Lin Broadcasting Corp. and as executive vice president of McCaw Cellular Communications. He was an initial investor in Amazon.com and today serves on the board.

Bill Ford is chief executive officer of General Atlantic (*generalatlantic.com*), a twenty-eight-year-old global growth equity firm. General Atlantic manages \$17 billion and invests between \$1 billion and \$2 billion in growth companies globally. For its first decade, the company managed capital provided by Chuck Feeney, founder of Duty Free Shoppers; today, twenty-eight capital partners participate in the firm's evergreen capital structure. General Atlantic has been a major catalyst in the growth of for-profit stock and commodity exchanges around the world. Ford sits on the board of NYMEX Holdings, NYSE Group, and GETCO, and formerly served on the boards of a number of other GA portfolio companies, including E*Trade, Priceline, SSA Global Technologies, Zagat Survey, and Computershare.

Jeremy Levine is a partner at one of the world's oldest venture capital partnerships, Bessemer Venture Partners (*bvp.com*). The firm both seeds and incubates new companies and invests in later-stage companies, as well. In 2007, the partnership welcomed a handful of new limited partners when it raised \$1.3 billion to invest globally, with a focus on India. Levine writes the investment blog, "Nothing Ventured, Nothing Gained." His investments include notable growth companies such as Gerson Lehrman Group, Gracenote (acquired by Sony), Parallels, and Yelp.

be a new technology emerging. It might be something in the very early stages where we're trolling university labs. If you end up getting the roadmaps right, your investments tend to do very well. If you decided to build the roadmap around pen computing in the '80s, you didn't do very well, although a lot of people talked about pen computing. So the second step of the process is to pressure-test the roadmap, in part by speaking with entrepreneurs, executives, and academics. When everyone tells you you're wrong, sometimes it's good to listen to them.

Ford: Chuck Feeney, our first capital partner, was a passionate believer in entrepreneurship and entrepreneurs. He wanted his capital to be directed to the entrepreneurial process of building great companies without confining our investment activities to any particular industry or region. In fact, he espoused a very global view of business opportunities. In our first roughly ten to fifteen years, we were focused on U.S. investing in the software industry where we saw tremendous growth. We zeroed in on mainframe system software, became expert at it, and invested aggressively there. Then I think the exciting

thing for General Atlantic, beginning in the mid-'90s, was to globalize the business. We followed our software roots internationally. We started to identify software companies and entrepreneurs outside the United States who were doing many of the same things as the executives and entrepreneurs here. Our first investment in 1994 was in a software company called Baan, based in The Netherlands. They were one of the first to embrace client-server technology. What I think now seems obvious, but what surprised us then, is that a Dutch company had the same global aspirations as a Silicon Valley venture-backed startup. Now we broadly focus across industries and globally to invest in and actively assist growth companies to expand.

Bradley: We often hear from entrepreneurs: “What do VCs do for me?” How would you answer that?

Alberg: We've helped young companies hire five or six of their top executives through our contacts, and we have provided industry contacts for sales calls and pilot projects. We also concentrate on helping build our regional ecosystem, whether it's the University of Washington, or the entrepreneurial community, or angel investing.

Ford: What's primary is the relationship that gets formed by the individual partner and the entrepreneur. That working relationship, that chemistry, is essential. We also are continuing to build out our global organization so when a company here in the United States needs to outsource to India, for example, I can arrange for the company executives to meet with our partners there, travel to India, and help open up a number of relationships. That's a direct way of adding value to their efforts.

Levine: We have a young company that needs to scale its sales operation. It is great on the product side of things but has no experience building

telesales. Rather than replace the leader of the business, we want to complement the entrepreneur and get him that help. That said, we don't look to invest in companies that need our help. We look to invest in great companies. In fact, the irony is that the less help the company needs, the better the potential investment.

Bradley: Warren Buffet says he would always bet on the horse first and then get new jockeys if he needs to.

Alberg: We bet on the people and their ideas. It is difficult to say which is more important—both are equally important to me. Often, a founder grows into being a great CEO. When a change is necessary, it is usually obvious.

Ford: There's some alchemy that goes on between a great executive entrepreneur/founder and the business that leads to its success. It's sort of the Bible around our place that the riskiest thing you do in this business is change management.

Levine: Certainly one of the biggest challenges many entrepreneurs face, especially as they grow their businesses, is bringing other people on board who will share the passion and the vision, appreciate the magic in the bottle that the entrepreneur has without trying to wreck it and bureaucratize it, and who also bring other skills to the table. If you shake the magic in the bottle too hard, the magic goes away.

Bradley: Can entrepreneurs be created through development and coaching?

Levine: Entrepreneurs get inspired to take the risk and start a company at some point in their career. I think the likelihood of being inspired goes

up significantly when you're in an environment where you see others who got inspired and are successful. A couple of decades ago, almost all venture investments were in the backyard of the venture capitalists. Now, with communications so cheap and prevalent because of the Internet, entrepreneurs in Estonia are being inspired by what's happening in Silicon Valley and starting super-high-growth, exciting companies.

Alberg: Often, our entrepreneurs are young and not experienced. We hold sessions for our CEOs about how to work with a board.

How does a twenty-nine-year-old CEO, dealing with very sophisticated board members, learn how to do this? What's good board interaction? Sometimes there are very explosive issues, and I think we can help.

Some tend to talk about entrepreneurialism as zealous startup guys without recognizing that over the last thirty years, they are major contributors to industry transformation as well as to world GDP.

Bradley: Does the credit crisis threaten macro themes of positive pro-growth regulation and unimpeded capital flows around the world?

Alberg: It is disruptive, but less so for early-stage companies than for more developed companies that are really trying to scale. There are probably not going to be a lot of IPOs in the next twelve months.

Ford: But think about how far we've come in good and bad markets in terms of access to capital. The Apple IPO was in 1980. Doing the Apple IPO was a monumental decision for Morgan Stanley. Now growth companies, at a very early stage in their development, can access significant capital privately, even

when public markets are less robust. Some tend to talk about entrepreneurialism as zealous startup guys without recognizing that over the last thirty years, they are major contributors to industry transformation as well as to world GDP.

Bradley: Do American business schools inspire or destroy entrepreneurial leaders?

Alberg: Most of our entrepreneurs did not go to business school. In fact, I would be surprised if more than 20 percent did.

Ford: I would bet it was below 20 percent. That said, business schools have fed a lot of management talent into these growth companies.

Levine: Occasionally there will be that special sort of melting mix where someone from the engineering school and someone from the business school get together. We've backed some of those companies, and they've been very successful. It's a rare thing, but phenomenal entrepreneurs are a rare thing.

Bradley: What can Kauffman do to help entrepreneurs?

Alberg: Bringing together a group of young CEOs who are now two years into it could be very valuable in and of itself. Kauffman could even do seminars on things like team-building—a lot of these people are not, frankly, good at team-building.

Ford: Entrepreneurs consistently underestimate the importance of building a team around them, evaluating talent, hiring talent, developing talent, because they have been individualists. They have wanted to do things themselves. I think if we could accelerate the understanding of the importance of building great teams, it would be a real contribution to the whole process.

Levine: When I'm trying to explain that there are other ways to succeed that are maybe a little different from how they've succeeded in the past, I'll often try to do it through another entrepreneur, because that person has more credibility than I do in communicating the message. Kauffman could invite lots of entrepreneurs who have gone through the transition of their businesses to tell their stories. That would give more inspiration to the young entrepreneur who sees all the "no's" in front of him. He has to ignore most of that but also know where to veer off a little bit here or there to get help.

Alberg: I wouldn't underestimate Kauffman's abilities to play at the university level. This whole issue of technology transfer departments needs attention.

Bradley: Do tech transfer offices work?

Ford: I think one of the problems is that tech transfer offices tend to separate the entrepreneur from the intellectual property; they take the intellectual property from the individual producer and say, "Now we're going to license it to somebody else." That somebody else has to have the same entrepreneurial zeal, vision, and idea. The offices get in this mode of OK, I've got this thing, and if I can get someone to license it and pay half a million dollars up-front for it, hallelujah. I'm being successful in the context of the university. That's not really going to stimulate the kind of entrepreneurial activity we're talking about.

Levine: I think that gets to this idea that if I can walk away, as a university, with 1 percent or a half percent, of equity in fifty startups, that's a much better university business model than trying to get \$100,000 or \$500,000 payments every time.

Alberg: Our experience is that it's most effective at the departmental level, and even at the professor level. Part of it is cultural. Having a couple of successful examples within a department does wonders to get others thinking along those lines. Many tech transfer offices don't understand the whole process of putting the patents in a company with a professor, and some licensing, and some equity. I think we find considerable barriers to that. To us, if a professor gets motivated enough, he can break down those barriers.

It's the execution of businesses around ideas that creates the real value.

Bradley: So how valuable are patents?

Levine: When I think about our portfolio of companies, it's a relatively small percent whose businesses truly depend on potential intellectual property. It's the execution of businesses around ideas that creates the real value.

Ford: Patent protection is a speed bump, not a barrier. It is the execution of the idea that matters the most. Predatory litigation and predatory activity by the legal system are different ideas. It's not just relevant to the patent area. It's in every part of the business process and has raised the cost of doing business. It's even alienated a lot of entrepreneurs who don't want to do business here. Patent trolling is just one symptom.

Alberg: The very same companies that want to sue to protect their patents also want to be part of patent pools so that they don't get sued. Some of the biggest technology companies are on both sides of these issues. The problem for a small company is it's both very difficult to defend the lawsuit, and they aren't very smart if they bring one (because of the associated expense).



All Human Beings are Entrepreneurs

MUHAMMAD YUNUS, Ph.D.

Managing Director, Grameen Bank; 2006 Nobel Peace Prize Laureate

Muhammad Yunus and his bank won the Nobel Peace Prize in 2006 for successfully implementing a system of microcredit in Bangladesh, extending credit to entrepreneurs too poor to qualify for traditional bank loans. In this essay, he describes how the Grameen Bank arose out of a simple idea and the philosophy behind his successful venture.

Poverty is not created by poor people. The seeds of poverty are embedded in the deficiencies of our institutions, the deficiencies of our policies, and the deficiencies of our concepts. It doesn't have to be. If you can pick out those seeds, no one will have to be poor.

After Bangladesh became independent in 1971, seceding from Pakistan, I went back to Bangladesh to help rebuild the nation. I was teaching economics while I saw famines and desperation right in front of me.

I noticed how people in the village had to borrow from heartless and cruel money lenders. I thought, I cannot do anything for the rest of the country, but I can definitely do something for one individual in the village next door. I made a list of people who were borrowing, along with the amount of money they were borrowing. When my list was complete, I had recorded forty-two names, and the total borrowed was \$27. People were going through so much misery—so much

hardship—for so little money. So, one way I thought I could solve this difficult problem quite easily would be to give back this \$27 myself. I did that: I returned the money to the lenders so the people in the village could be free.

Today, two-thirds of the world's population is deprived of the financial services available from financial institutions. I went to a bank to see if I could link it with the people of the village, but the bank officials said they could not lend money to poor people. They also rejected all women, and not only those who were poor. Even a rich woman would be refused.

Nobody thought the money would ever come back. The bank was waiting for the whole thing to collapse. They said my plan was impossible.

I started making lots of allegations and complaints, and writing about the unfairness. Then I decided to do something about it. I offered myself as a guarantor. I took the money from the bank, gave it to people, and came up with an idea to make it easy for poor people to pay back the loan. Nobody thought the money would ever come back. The bank was waiting for the whole thing to collapse. They said my plan was impossible.

But people paid back. The idea worked. I was excited.

Banking is based on the principle that the more you have, the more you can get. But we reversed the basic principle of banking, saying that if you have absolutely nothing, you are our most prominent client.

The bank we built is called Grameen Bank. Today, thirty-one years later, we have 7.2 million borrowers in Bangladesh—97 percent of whom are women. Grameen Bank is owned by the borrowers, which means women own this bank.

We will not take any collateral. Nobody needs any guarantee from anybody. There is no legal document between the lender and the borrower. It's a handshake loan. It works.

The bank doesn't need any money from outside. We don't go to the government; we don't go to international finance organizations, or to donors, or to anybody. Just like any other bank, we take deposits and lend money. There are plenty of deposits to take, and we never have a shortage of money.

For many of our borrowers, this is their first opportunity to touch money, use money, and learn about money. We dare each customer to discover his or her identity. Human beings are endowed with endless potential. Society simply had not given these individuals the opportunity to scratch the surface of their potential. We concluded right from the beginning that all human beings are entrepreneurs—but only some lucky ones have found out.

The way we do things is known as micro credit. Because, in the beginning, people thought it would not work, the best thing for us was to demonstrate how it works. To prove that everybody is an entrepreneur, we created a special program within the bank, focusing exclusively on beggars. I talked to my colleagues and said, "Let's give loans to the beggars." A typical loan ranges between \$10 and \$15. We talk to these beggars and ask them to consider carrying some merchandise with them when they go from house to house begging—cookies, candies, some toys for the kids—to offer in exchange for money they might receive.

For many of our borrowers, this is their first opportunity to touch money, use money, and learn about money.

Today, we have nearly 100,000 beggars in the program. Nearly 10 percent of the beggars already have stopped begging completely. They are now regular sales

people. It's amazing to see how people come up with their own ideas, if given an opportunity. That's all there is to it, nothing else. This is the story of Grameen Bank.

We also had the idea to give loans to the women of Grameen Bank to buy mobile phones. As a woman travels through the villages of Bangladesh, anyone who needs to use the mobile phone will come to her. She hands them the telephone and gets paid. When I told others about this idea, they laughed at me. They said it was crazy.

Today, throughout Bangladesh, there are more than 300,000 "telephone ladies," as we call them, selling telephone service. GrameenPhone, the mobile phone company that we created, is the largest mobile phone company in the country, with more than 12 million subscribers, and it is the largest taxpayer in the country. We are now trying to gradually convert the telephone ladies into Internet ladies so they can communicate with the rest of the world. It's so easy to come out of poverty. It just takes an idea and someone to believe in it.

It's so easy to come out of poverty. It just takes an idea and someone to believe in it.

We are so lucky to be in the forefront of information technology. We can't even imagine how different the world will be in the next ten years. We can invest our money into creating a world that gets children out of the street, gives us clean drinking water, and provides housing and health insurance.

Poverty is not in the person. It is artificially imposed on the person. Most people never get to unwrap the gift they carry with them. But they can, if given the chance.



On Innovation and Global Integration

SAMUEL J. PALMISANO

Chairman, President, and Chief Executive Officer, IBM

I believe that innovation and global integration are two sides of the same coin. Global integration is the new playing field, and innovation is how you win the game.

The nature of that game today can be summed up in a very simple principle: When everything is connected, work flows. It's like water finding its own level. And success in getting work to flow to you—whether you're a business, a nation, a region, a community, or an individual—increasingly depends on how you differentiate yourself through innovation.

For large companies, this is taking the form of a new corporate architecture—what we call the Globally Integrated Enterprise (GIE). This business model is very different from the “multinational,” which created mini-versions of itself in markets around the world, driven to this by the accretion of trade barriers. The GIE, in contrast, locates work, skills, and operations wherever in the world it makes sense, based on expertise, economics, and openness.

But where does that leave the small business and the entrepreneur? Can they be global players, too? In the past, if you were a small businessperson, you were a local businessperson. You served a local market, had local suppliers, and drew from a local workforce. Your unique asset was your local knowledge—of customers, the regulatory environment, tax policies, and so on.

But this local-to-local model now is being augmented by something entirely new. Thanks to the globally networked infrastructure that was built out during the 1990s, entrepreneurs now can tap into global supply chains and global talent pools, with skills available anytime, and deliverable anywhere. They are able to adopt very new kinds of management systems—networked, real-time, and collaborative. And they can reach out to huge new populations of consumers rising around the world—hundreds of millions of people who are opening their first bank accounts, getting their first cell phones, using their first credit cards, and tens of millions who are buying their first automobiles.

. . . entrepreneurs now can tap into global supply chains and global talent pools, with skills available anytime, and deliverable anywhere.

According to the World Bank, by 2030 there will be 1.2 billion people in developing countries—5 percent of the world population—in the “global middle class.” That’s up from about 400 million today. This group will have a purchasing power of between \$4,000 and \$17,000 per capita and will enjoy access to international travel, cars, and other advanced consumer goods, as well as international levels of education. They will play a major role in shaping policies and institutions in their own countries and the world economy.

The new global small businesses, like the larger global enterprises, have noticed. This is important because, as we know, small businesses and entrepreneurs are the engines of job creation. And the issue of new job creation is at the heart of both the economic and political debate over global integration.

So the most important actor in the unfolding drama of global integration may actually be the smallest and closest to home—not the large organization, but the new global entrepreneur, the new global professional, the new global citizen.

This is enormously exciting. Of all the issues surrounding global integration, perhaps the most emotional and polarizing is the question of how the individual competes and wins in a global economy. Nations and large companies can look out for themselves, but when you think about yourself as an individual on the vast ocean of a new global economy, it seems daunting. And the anxiety that this engenders can have, as we know, major political ramifications.

And yet, in truth, it is individuals who may be the chief beneficiaries of global integration—if they understand their options, choose to seize their opportunities, and are empowered and enabled to do so. This is true for individual entrepreneurs—and I believe it is also true for individual employees of large companies. We are at the dawn of a new kind of relationship between the enterprise and the individual, based on the idea that the individual is in the best position to make decisions about his or her work, learning, and career.

Companies—and the people who lead them—will need to move away from corporate paternalism, which is as much about top-down control as it is about jobs, pay, and benefits. And individuals will need to change, too. They are telling us they want flexibility, more of a voice, more control over their destinies. But in exchange for that, they will need to take on greater levels of responsibility, accountability, and ownership of the consequences of their decisions.

The convergence of the digital network revolution, the reality of global integration, and new kinds of innovation and integration open up vast new possibilities, usher in an unprecedented complexity to societal and economic life, and present us with enormous challenges. Hundreds of millions of “new global citizens” seem eager to make this journey. Will we?



Aiding the Drivers of Economic Growth

CARLOS M. GUTIERREZ

U.S. Secretary of Commerce

In today's highly competitive global economy, new tools are needed to promote the innovation and entrepreneurship critical to dynamic growth and job creation.

Government's role is to create the environment for innovators and entrepreneurs to succeed. This includes developing pro-growth policies. It also includes developing the strategic public-private partnerships that promote the creativity and advances that contribute to our society's safety, health, and prosperity. People are our nation's greatest asset and, by combining the best minds in all sectors, we can advance our economy and our quality of life.

Innovation and entrepreneurship flourish when our nation is open to new people and ideas and engages with the world through commerce. U.S. intellectual property today is worth more than \$5 trillion. Intellectual property industries contribute some 40 percent of U.S. economic growth and represent 18 million well-paid workers. It has been estimated that intellectual property accounts for about one-third of the value of publicly traded companies.

Obviously, innovation matters to our economy. Innovators and the entrepreneurs who develop and market new products and services have an enormous impact on our economy and our standards of living. We have more choices in the marketplace and more efficient processes in our factories and offices.

But how is innovation measured?

Two years ago, I asked economists at the U.S. Department of Commerce to analyze existing statistical measures of innovation. We discovered that traditional innovation measurements, such as the amount spent on research and development, the number of new patents, and the number of engineers, scientists, and technicians currently employed, provide a useful, but incomplete, innovation picture.

Our economy and our society are not static, and our measurements should not be either. To reflect today's 21st century economy, we need new benchmarks for a fuller understanding of the impact of innovation, and to help both government and businesses identify and devise innovation-promoting policies that create value and growth.

To reflect today's 21st century economy, we need new benchmarks for a fuller understanding of the impact of innovation . . .

We invited business leaders and leading academics to participate on the Advisory Committee on Measuring Innovation in the 21st Century Economy. Carl Schramm, president and chief executive officer of the Ewing Marion Kauffman Foundation, agreed to chair the new Committee.

In January 2008, the Committee delivered its report, which will serve as a blueprint for creating a new era in innovation metrics. (To download the committee's full report, visit kauffman.org/innovation_measurement.)

Among the recommendations:

- Integrating the Bureau of Economic Analysis' (BEA) measure of gross domestic product with the Bureau of Labor Statistics' productivity measurements to allow for a comprehensive accounting of the effect of high-tech goods and services on growth and productivity.
- Creating a BEA satellite innovation account for intangibles such as intellectual property capital stocks (including patents, copyrights, and trademarks) and worker training.
- Improving data consistency and accuracy across the various statistical agencies by allowing the agencies to share tax data for statistical purposes.
- Collecting data on a wider range of innovation activities performed by a greater cross-section of industries to provide another piece of the puzzle as to what drives innovation in the U.S. economy.
- Accessing outside expertise to determine the effects of government regulation, taxes, the availability of labor, and other factors driving or inhibiting innovation to give us a better sense of the benefits and costs associated with a given policy.

We know that innovation contributes to the size, growth, and exports of the U.S. economy. Developing the metrics to better measure the impact of innovation will provide an important tool to government policymakers and business decision makers. We are beginning to implement an action plan based on the Committee's recommendations. And our first public forum, which focused on creating workplaces that foster innovation, was hosted by the Kauffman Foundation in Kansas City in March 2008.

The Kauffman Foundation also joined the Commerce Department in a unique public-private partnership to create an “entrepreneurial constituency” for the future by fostering entrepreneurship in the United States and around the world. By creating two Web sites, *entrepreneurship.gov* and *entrepreneurship.org*, we hope to provide a one-stop resource to connect, inform, and give global entrepreneurs a voice in policymaking that advances economic growth, supports the rule of law, and creates new opportunities for U.S. exporters and for people throughout the world. (Read more about this effort on page 182.)

Public-private partnerships such as what we have with the Kauffman Foundation and members of the business and academic communities are helping to provide the tools and synergies needed to keep our nation on the leading edge of innovation and entrepreneurship in the 21st century global economy.



Where Goodness Lies: An Open Letter to College Students

JUDITH CONE

Vice President, Emerging Strategies, Ewing Marion Kauffman Foundation

Dear Students,

Two factors have come together to inspire me to write this letter to you. First, it has been my privilege to promote cross-campus entrepreneurship on college and university campuses, and I have met some amazing young people with great entrepreneurial ideas who want their lives to count for something significant. I also have met many students who have no interest in entrepreneurship because they have a negative perception of business. It is mainly to them that I write this letter.

The second factor is that the world is hungry for what we often take for granted. I have been invited to visit countries around the world to speak with leaders on how to promote entrepreneurship as a way to create opportunity and hope for their young people. These leaders clearly understand that entrepreneurs create the net new jobs by bringing innovative products and services to customers.

The most recent example is a meeting I attended, convened by Her Highness Sheikha Mozad of Qatar, that focused on how to create economic opportunity for young people in the Middle East and Northern Africa. Knowing that hopelessness makes the world a more dangerous place, she has committed \$100 million

to developing economic opportunity. I sat at a table with people from such countries as Syria, Tunisia, and Morocco and heard their leaders make plans to provide entrepreneurship education. A

young Syrian entrepreneur who founded an animation company talked about following his dreams and the thrill of being economically independent through his own efforts. And, in Indonesia, I met a young man who has a doughnut business and is bringing in more money than anyone in his family has ever seen. The common thread in all of this is the belief that entrepreneurship is a powerful avenue for prosperity for an individual, a region, or a country.

I experience the hunger in the world for the privilege of creating jobs through entrepreneurship, and then I return to the United States, where I see something that troubles me.

I experience the hunger in the world for the privilege of creating jobs through entrepreneurship, and then I return to the United States, where I see something that troubles me.

Some students and professors reject business as a morally responsible way to spend one's life. The issue I have is not that some people would rather work in the public sector (government) or the social sector (nonprofit work), but that they assign a higher moral calling to these two sectors than to the private sector (business).

As a college student, you are attempting to gain the knowledge, skills, networks, and inspiration to live a happy, productive, and meaningful life. I like to think of each of you as one unit of creative potential. Looking at it this way means that faculty members are more than dispensers of knowledge. They are guides along your journey, teaching the subjects, passing along beliefs and biases, hopefully inspiring you, and challenging you, to consider the types of people you will become.

Some professors attempt to influence you toward those biases. Some think dismissively of business, for instance, as if society would be better off without it, or they assign pernicious motivations to those who lead businesses. Throughout history, social experiments to this end have failed. Every day, these professors use and benefit from the products and services of business: Google, bookstores, clothing, transportation, and the local coffee shop. They fail to differentiate between business leaders and dismiss the whole sector as greedy, uncaring, and destructive. Yet, even with much evidence of greed and wrongdoing in the public and social sectors, that same categorical condemnation is not present.

Where goodness lies is in the heart of the individual, and the choices that matter are the moral choices made in conducting the work.

In fact, you can make a vital contribution in any of the three sectors, because all three are needed for a society to function well. (If just one sector is weak or absent, the result is usually a failed state. Think of the former communist states that tried doing away with private business, or the chaotic warlord states without effective government.)

More to the point, in each sector there are models of virtue and there are scoundrels. Goodness has nothing to do with the sector. Where goodness lies is in the heart of the individual, and the choices that matter are the moral choices made in conducting the work.

Consider the following examples. Mother Teresa became a symbol of charity to millions around the world, winning the Nobel Peace Prize in 1979. She offered great comfort and help to those in need, starting in the slums of Calcutta,

and then expanded to other countries. If we asked the question, “Where does goodness lie?” it was in the heart of Mother Teresa, whose work falls within the social sector in a religious order. Yet, one can conversely cite examples of abuse in the church or of greedy evangelists taking money from the poor.

Have you heard of Julius Walls, Jr.? Mr. Walls is CEO of Greyston Bakery, a \$6.5 million for-profit enterprise in Yonkers, New York. Greyston bakes gourmet pastries for the New York City market and supplies brownie bits and other baked items for Ben & Jerry’s ice cream worldwide. Greyston delivers high-quality goods while maintaining its policy of hiring and promoting the very people who have the hardest time finding good

All three sectors are equally open to corruption or virtue.

work. Nearly the whole workforce, including supervisors, consists of men and women who once were either in prison, addicted to drugs, on public assistance, or homeless. Some even go on to start their own businesses with help from Greyston, which also has a foundation for community development in Yonkers. The goodness here lies in Mr. Walls and in his colleagues. They work in the private sector.

On the other hand, there is the Enron Corporation, named by *Fortune* magazine for six consecutive years as “America’s Most Innovative Company,” and at the height of its glory employed around 22,000 people claiming revenues at the triple billion dollar level. It now stands as a leading example of corporate corruption. Those who orchestrated the fraud once were masters of the universe who not only broke the law, but destroyed many lives in the process. Where does goodness lie? Not in the hearts of the Enron employees who knowingly led this private sector deceit.

Likewise, there have been many news stories about horrendous wrongdoings in the social and public sectors. Nonprofits of all kinds have been found to be

neglecting or defrauding the people they were meant to serve. This headline in the *San Francisco Chronicle* on May 13, 2007, demonstrates this point: “The Teachers Who Cheat: Some help students during standards test—or fix answers later—and California’s safeguards may leave more breaches unreported.” There have been similar stories around the country. The *St. Petersburg Times* wrote: “A former United Way executive pleaded guilty Thursday to stealing nearly \$1.9 million to buy expensive show horses in what is believed to be the biggest embezzlement case in the agency’s history.” Sadly, it is all too easy to cite examples of corruption in the public sector as well, such as the recent Jack Abramoff lobbying scandal. All three sectors are equally open to corruption or virtue.

For every example of misconduct, one can counter with many more stories of courage and sacrifice, of moral people living out their lives in the private, public, and social sectors. These few brief stories illustrate the error in condemning a segment of society rather than the individuals acting within that segment.

It illustrates the faulty thinking that accompanies raising one sector over others as somehow morally elevated.

Ewing Kauffman, our founder, understood that it was erroneous to think of social good as distinct from the contribution of business.

Ewing Kauffman, our founder, understood that it was erroneous to think of social good as distinct from the contribution of business. He was not thinking in terms of social responsibility of the corporation but of the actual purpose of business. He believed that the purpose is to bring society a product or service, and that an individual running a business ought to treat employees with respect, pay them fairly, engage in responsible business practices, and give to the community. He thought that creating jobs was his greatest social contribution—even greater than the

\$2.5 billion foundation bearing his name. He said that if a person has a good job, and is invested in by the corporation, then that person's family rarely will need social services. That family will pay taxes, send their children to college, and be engaged citizens. Goodness was in the heart of Ewing Kauffman, a businessman.

Morality, ethics, and the ability to make the world a better place are not the domain of any one sector. It is individuals, and how they conduct themselves in the world, that matter. As you complete your college work, I hope you will take at least one course in entrepreneurship to learn how to translate your creative ideas into enterprises that create value for society. I hope you remember the many young people around the world who seek the opportunities afforded by entrepreneurship. And, I hope your story is told one day as an example of how you placed opportunity and choice in the hands of others. I hope people know through your actions that you used your unit of potential for good—whether in the private, public, or social sector.

With Sincerest Best Wishes,
Judith Cone



Breaking Out of the Prison Cycle

CATHERINE ROHR

Founder and Chief Executive Officer, Prison Entrepreneurship Program

T-shirts get printed every day—some in huge warehouses, others in mom-and-pop startups. On this day, A Perfect Print is delivering an order of t-shirts to the headquarters of a large corporation in the Dallas area. Sounds perfectly normal, right? Free enterprise, capitalism, and the pursuit of happiness—so what's the big deal?

The big deal is that the entrepreneur in the driver's seat of this van isn't your typical business owner. In fact, if you look past the ink stains and lacquer, you'll find that, somewhere in the past, James Gorman, entrepreneur, was James Gorman, convicted felon.

For James, going to prison was the least likely track to entrepreneurship. But that ended up being his exact path. Deemed a "career criminal" after returning to prison for the second time for possession of a controlled substance with intent to deliver, James knew something had to change in his life—something in his core. In prison, he began taking steps to create a successful life for himself—attending faith-based classes, picking up skills, and removing himself from the destructive behaviors that plagued many of the men in prison. He was taking action, not waiting for life to cut him a break, and surrounding himself with productive activities.

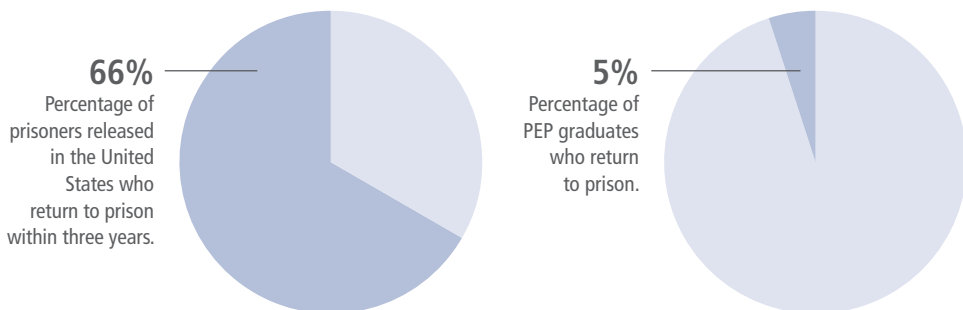
Four years of self-examination behind prison walls went by, but James waited patiently, knowing he was there due to his own actions and that a tough road was ahead of him when he got out. He used this time to prepare himself for his fresh start upon release.

That fresh start came in 2004 and from the most unlikely place, in prison. James happened upon the Prison Entrepreneurship Program (PEP).

What I had seen in the news and movies painted prison as the ultimate bad-news industry. I had completely written off the entire prison population—the one in fifteen Americans who does time in his lifetime—as being in the “bad pile.” At best, my mentality was described as “lock ‘em up and throw away the key;” at worst, I favored mass executions of these people who wasted tax dollars. I was prepared to see wild, caged animals when I was invited inside for the first time. I remember the ugliness I held in my heart—my unforgiving approach, my labels for men I had never met. I was surprised when I met real human beings who challenged my beliefs. I embraced the concept of grace for my own sins, but, with this group, had been unwilling to extend it. It took a prison visit to humble myself and open my eyes to the beauty of imperfection.

As a venture capitalist, I had been trained to recognize opportunity and talent. In that first prison visit, I had conversations with dope dealers and gang leaders, from whom I learned that gangs are run by boards of directors and have commissioned

PEP GRADUATE SUCCESS



sales structures and bookkeepers. They understand distribution channels and risk management. And the men certainly understood concepts like execution! I saw the greatest ROI potential imaginable—a completely untapped pool of great talent.

When I started PEP in May 2004 with my husband, Steve, I knew that accountability was going to be the key to success. I only took men who were already leading transformed lives, men like James, and I equipped them with tools to help them achieve success.

In addition to teaching James every possible skill he would ever need to operate a small business, PEP challenged him to develop the intangible skills required to be a servant-leader: live a good life, give and command respect, and engage in fellowship with accountability.

I realized that providing an education in prison was not enough for these men who face extreme rejection upon release, so we started building out post-release programs. PEP provides job placement, housing, medical care, executive mentoring, continued education, access to financing, weekly social activities, and a large dose of accountability. We “do life” with these men, and we leave them with no excuse to fail.

They mentor each other and are being called upon by their communities to come forward as examples of positive transformation and as mentors to the next generation of young men . . .

Unfortunately, of the 600,000-plus prisoners who are released in the United States each year, two-thirds return to the criminal justice system within two to three years. Since PEP’s inception, less than 5 percent of our graduates have returned to prison. More than forty-three businesses have been started by PEP

graduates—representing nearly 15 percent of the program’s graduates, which is a higher business start rate than either Harvard or Stanford Business School alumni. Ninety-eight percent of PEP graduates are employed within a month of release, and one-third of them go into sales and management positions.

More importantly, though, is that these men, like James, who were once society’s worst “takers,” now give back—75 percent of our graduates give back financially to PEP. They also return to prison frequently to share their experiences with new classes. They mentor each other and are being called upon by their communities to come forward as examples of positive transformation and as mentors to the next generation of young men—the positive role models they never had.

The Kauffman Foundation believed in us before everyone else got on the bandwagon. The Foundation made a generous grant to us in our early days, when we were week-to-week on fundraising. Kauffman’s support brought us credibility and the capital to begin our journey of scale.

We have grown aggressively ever since. Our revenue has grown from \$230,000 in our first year to \$1.7 million last year, our third year. PEP has been, and intends to remain, 100 percent privately funded. This year (2008), we project \$3.2 million as we touch more lives than ever before. In four years, we’ve graduated 370 men in eight classes, but we also get to serve their children and families through our Family Program. We’ve also reached 1,000-plus CEOs and venture capitalists, more than 400 MBA student volunteers from twenty-four programs, and the prison officials and staff. We have twenty-four staff members—eleven of whom are our own graduates.

With the permission of the Texas Department of Criminal Justice, we now exist only at one facility in Cleveland, Texas (forty miles from Houston), but we recruit,

interview, and transfer men from more than sixty prisons throughout Texas to the facility where we operate. This keeps us lean and mean. Within five years, we hope to graduate up to 1,000 men per year, and help them start 500 new businesses upon release. Sixty thousand men are released in Texas each year, so we have our hands full for the foreseeable future.

James was released in August 2005. Today he works sixty to seventy hours a week as a welder and pipe fitter, making \$24 an hour. In his spare time, he is working to grow his t-shirt business, A Perfect Print, into a fully operational print shop. James lives in Houston, where he recently bought his first home. He is now a PEP volunteer and serves as an inspiration to PEP's aspiring entrepreneurs.

Offender, transformed, underdog, success. That's the route James Gorman and his fellow PEP graduates take. Hopefully that inspires you, as it does me every day, to believe in the potential of the imperfect.