2016 THE MAYORS CONFERENCE ON ENTREPRENEURSHIP
Diversifying Entrepreneurial Opportunity

A COMPILATION OF BLOG POSTS FROM GROWTHOLOGY.ORG
Please enjoy these posts that ran on the Kauffman Foundation’s Growthology blog in the weeks preceding the 2016 Mayors Conference on Entrepreneurship. Each post, written by Kauffman Foundation grantees and other partners, explores insights on entrepreneurship diversity and inclusion related to geography, immigration, women, policy, business types and funding. You also can find the posts on www.growthology.org.
Discovering Entrepreneurial Success in Unexpected Places

By Ross Baird, CEO, Village Capital

In 1928, Scottish biologist Sir Alexander Fleming was investigating the properties of the bacteria that create staph infections. Sir Alexander was a legendarily messy scientist, and one weekend, he left without thoroughly cleaning up all of his petri dishes. It was a musty, damp weekend, and in his lab, mildew began to creep into the dishes. When he returned, one of the dishes had a specific mold growing in it that had killed the bacteria. He had discovered penicillin—the most widely used drug in the world.

What I think about every time I hear that story: what happened if Sir Alexander had overlooked the dish? Similarly, what petri dish—or revolutionary advance—are we overlooking today?

In the United States, venture capital investors support startups with $50 billion a year. These investors provide not only needed capital, but also access to mentors, expertise and other guidance that help young firms grow. Yet, nearly 80 percent of that funding and support goes to entrepreneurs in just three U.S. states, less than 5 percent goes to women founders and less than 1 percent goes to people of color.

Alternative ways of investing, however, can lead to discoveries of talented entrepreneurs who live in “fly-over country” or who don’t look like other entrepreneurs.

Take, for example, Emily Morris, an engineer from Georgia Tech in Atlanta. Her company, Emrgy, is essentially a floating pontoon that can be placed in any moving body of water and generate hydroelectric power. Despite a contract with the City of Atlanta, more traction than most energy companies and a major U.S. Department of Energy pilot, Emily struggled to raise funding. A major local angel group expressed interest and spent months alternating between asking for significant amounts of information and returning with radio silence. Emily felt that she had to show up and be a mix of confident, deferential and patient, even though the angel investors were not taking the time to get to know her business.

At our firm, Village Capital, we have thought critically over the past seven years about new ways to identify, support and invest in entrepreneurs. Instead of investment professionals making investment decisions, we enable peer entrepreneurs to select which entrepreneurs are most likely to make a successful investment.

A growing body of research in forecasting, led by Stanford professor Justin Berg and others, suggests that the most able evaluators of an idea’s ability to succeed are not professionals higher-up in the hierarchy, but other innovators in the same sector who are also creating their own ideas. (Based on this research, Cirque du Soleil now selects which acts will go on stage not by manager’s decision, but by peer evaluation.)

ROSS BAIRD

Ross Baird developed the Village Capital concept in 2009 and, as CEO, has led the development of programs worldwide.
In 2015, Village Capital ran a national program in Albuquerque, in partnership with the Kauffman Foundation and the City of Albuquerque, where Emily and other top innovators in water came from across the country to learn from each other and experts as they built their business. We pre-committed $100,000 in investment capital to two entrepreneurs who were selected by their peers—and when the evaluations were in, Emily earned the investment in a landslide.

Beyond the perks of investment, Emily said that the peer review was much more collaborative and productive, and ultimately gave her a much fairer shot than traditional investors. When pitching to venture capitalists, Emily felt pressure to promise the moon and hockey-stick growth. But with her peers, Emily felt that she could under-promise and over-deliver because they understood the same industry. She felt like, for once, she got a fairer shot.

Moreover, using this model, Village Capital has made 90 percent of our investments in states other than Massachusetts, California and New York. We’re also proud that 40 percent of our investments have been in women, and 20 percent have been in people of color.

Fleming famously told newspapers of the time: “One sometimes finds what one is not looking for. When I woke up just after dawn on September 28, 1928, I certainly didn’t plan to revolutionize all medicine by discovering the world’s first antibiotic, or bacteria killer. But I guess that was exactly what I did.”

Entrepreneurs who are under-valued by the market tend to over-perform in peer selection. The more cities seek to expand access to capital, talent and resources to founders who the market is under-valuing, the more potential they have to come up with redefining breakthroughs that revolutionize entrepreneurship. This, in turn, helps create the more prosperous and inclusive economy we are all striving toward.
Mayors are pragmatic. They need to make sure their cities work, and that they work for everyone who lives there. It’s not an easy task. The most successful mayors not only take on the challenges of the day but are always looking forward, considering the trends that are on the horizon and how their city can truly thrive.

Among these critical trends are the changing demographics of communities—which has led to a growing effort by mayors and other local elected officials to tap into the vitality and entrepreneurial spirit of immigrant communities in order to make their cities and towns more livable, vibrant and prosperous places for all.

That’s certainly the story of my hometown: Denver, Colorado. Anyone who is familiar with Denver knows that in the 1970s and 1980s we were a fairly sleepy city, with an economy largely dependent on oil and gas. All of that fell apart with the energy crisis of the 1980s, when suddenly vast numbers of people were out of work. The next generation of mayors worked to put Denver back together again over the coming decades by diversifying our economy, tackling infrastructure projects like our new airport and setting the stage to attract a new generation of people from across the nation—and across the globe—who now call Denver home.

Today Denver is growing—economically, socially and culturally—like never before, as these investments have taken hold. As Denver expands, it also has been intentional about how to ensure new residents from diverse backgrounds truly feel at home and can participate fully in the city’s opportunities. For those reasons, Denver has partnered with Welcoming America to join a growing number of Welcoming Cities.

Three years ago, Welcoming America and a number of local governments started a national dialogue to learn how cities, like Denver, were responding to their changing populations and to articulate the local government’s role in creating a welcoming community that attracts and retains global talent. This included documenting local policies and programs that helped immigrants integrate into the community and helping longer-term residents connect with and appreciate their new neighbors.

Welcoming America created the Welcoming Cities and Counties network in response to the need for U.S. municipalities to learn from and share welcoming approaches with each other. For example, Denver created an innovative micro-grants program that brings together diverse residents at the neighborhood level to foster greater understanding across different backgrounds. They based their idea on similar work in New York City, but tailored it to make it their own, and other cities are learning from Denver and following suit.
The Welcoming Cities network has grown from a handful of 10 early adopters to a vibrant network of 100 welcoming communities, spanning from Anchorage, Alaska, to Gainesville, Florida, and from Houston, Texas, to Salt Lake County, Utah. With support from Welcoming America through annual convenings, webinars with experts, coaching, communication campaigns and other opportunities, they are intensifying their work and tackling issues ranging from workforce development strategies to community policing to language access for immigrant entrepreneurs, among so many others. A sense of friendly competition between the cities—who are competing for global talent—helps keep these efforts energized and robust.

**Connecting Welcoming to Immigrant Entrepreneurship**

As any Welcoming City knows, immigrant entrepreneurs play a particularly critical role in the economic vitality of our communities, though they may not receive the recognition they deserve. Consider these facts:

- Immigrants are nearly twice as likely to start a business as the U.S. born.¹
- Immigrant-owned businesses account for 28 percent of Main Street businesses, though immigrants make up 13 percent of the U.S. population.²
- Between 2000-2013, in the nation’s 50 largest metropolitan areas immigrants accounted for 48 percent of overall growth in business ownership and virtually all growth in the number of Main Street businesses.³
- Immigrants employ one out of every 10 private sector workers in this country.⁴

This entrepreneurial energy is a key element of the talent and vitality that New Americans are injecting into local economic growth. Welcoming Cities recognize the need to capitalize on this energy by reducing the barriers faced by immigrant entrepreneurs, such as by demystifying regulatory and financing structures, and providing assistance to a more diverse set of entrepreneurs through training, technical assistance and lending and micro-lending services, among others. Strategies like these that help immigrant entrepreneurs overcome hurdles to starting new businesses also help entrepreneurs of all backgrounds, leading to more economic opportunity for all of us.

Is your city making the most of immigrant talent? How well is your city connecting immigrants to traditional economic development initiatives?

To help your city answer these questions and support immigrant entrepreneurs, Welcoming America is pleased to be sharing its how-to guide, *Seeds of Growth: Building Your Local Economy by Supporting Immigrant Entrepreneurs* at the Kauffman Foundation’s 2016 Mayors Conference on Entrepreneurship.

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If you would like to join the growing number of leaders who are approaching demographic change pragmatically, and want to do more to leverage the diverse talent that will be key to your city’s future, Welcoming America would like to help support you. We invite your community to join the growing Welcoming Cities and Counties Network and receive support and partnership in leveraging the opportunities that come from creating more inclusive and entrepreneurial cities that benefit from the talents and contributions of their increasingly diverse residents. To find out more, visit www.welcomingamerica.org.
Our Formula for Economically Empowering Women: Research + Solutions = Results

By Wendy Doyle, President & CEO, Women’s Foundation

WENDY DOYLE

Wendy Doyle is the President and CEO of Women’s Foundation, where she promotes equity and opportunity for women and their families, using research, philanthropy and policy solutions to make meaningful change.

At Women’s Foundation, we’re always looking for new solutions to accomplish our mission of eliminating barriers that women face in achieving equity and opportunity. Enabling more women to become entrepreneurs and to open small businesses is one way we can help women succeed economically, helping their families and their communities.

But how do we do make that happen?

1) First, we identify the issues, through research.
   • In 2015, the Women’s Foundation commissioned a research study with the University of Kansas to learn more about women’s attitudes toward civic engagement in order to address the gender gap on boards and commissions. The study showed that women were interested in serving, but they believed they wouldn’t be asked to serve or lacked confidence that they were qualified.

2) Then, we develop solutions.
   • As a solution to lay the groundwork for meaningful change, we set up our Appointments Project to help women become more confident and comfortable with the application process and serving on boards and commissions. The project was launched as a partnership with Kansas City Mayor Sly James, St. Louis Mayor Francis Slay and Missouri Governor Jay Nixon. The project has since expanded to include the State of Kansas and the City of Olathe, KS.

3) Finally, we get results.
   • Since our first pilot launch of the Appointments Project with Mayor James in 2014, the Appointments Project has helped place 29 women on boards and commissions in Missouri and Kansas. It’s truly moving the needle, and we’re continuing to expand into new cities and counties.
Why does this matter?

By helping promote more women to public boards and commissions, we’re not only closing the gender gap on those boards, but we are ensuring women have the opportunity to make a difference on public policy issues.

The Appointments Project is great because it’s a win-win. More women are empowered to serve in public leadership positions, and the public boards and commissions benefit from more diverse perspectives, leading to more representational policy making.*

Helping more women advance through the Appointments Project is just one example of our work for change. But there’s more…

Recently, we have embarked on a new research project regarding women entrepreneurs and occupational licensing in Missouri. As part of this project, we’ve commissioned the University of Missouri’s Institute of Public Policy to conduct research and work with us to develop policy solutions to address issues holding women back.

Although it may seem like a dry subject and overly bureaucratic, some licensing requirements and structures are real impediments for men and—especially—women who want to open their own businesses. Some of these requirements are burdensome. Some simply don’t make sense. Some are outdated.

Initial research has shown that occupational licensing can discourage innovations in licensed industries and hinder economic mobility, especially for low-income potential entrepreneurs. Many occupations require that an individual spend months or even years satisfying educational or apprenticing benchmarks. Don’t get me wrong, we support smart regulation, but some of these processes were created well before computers even existed. Such barriers eliminate ways for individuals to climb the economic ladder and provide their families with the economic security to prosper.

The final research will be completed this fall. I encourage you to continue checking in with Women’s Foundation for updates on how we can empower women and support economic development and innovation. Together, we will create the regions’ next chapter of economic growth.

*P.S. Does your area need an Appointments Project? You can connect with us at www.Womens-Foundation.org to learn more.
How Cities can Become Better Than the Next Silicon Valley

By Courtney Klein, Cofounder and CEO, SEED SPOT

There has been a lot of pressure in recent years for cities to emulate Silicon Valley. If you Google “the next Silicon Valley,” you will find hundreds of articles listing different cities as the next Silicon beach, desert, forest, etc.

Being the mayor of a city is like being the CEO of a startup in a constant cycle of iteration, failure and success. Just like business leaders, mayors have to look at market trends and high impact opportunities while adapting to constant change, stakeholder pressures and unexpected crisis.

Yet, any good startup CEO knows that the only way to ensure long-term success is to align unique assets with market demand. How does that philosophy convert when you are the mayor of a city that aspires to become the next Silicon Valley?

Own what only you can own. Stop trying to become the next Silicon Valley. While Alicia Keys may be the driving voice behind the “do you” mantra these days, there is truth in owning what is uniquely yours. Silicon Valley has a corner on the capital market, but money alone does not build strong companies. A strong business model is key, and more cities should be helping entrepreneurs to find gaps and see them as opportunities. Phoenix has a compelling case to make to solar innovators just as Sacramento does for sustainable agriculture. Attracting and retaining brilliant minds to solve problems with assets that are unique to a region should be a focus for all civic leaders.

Recognize that your success is not riding on white males with tech startups. In 2015, 40 percent of new entrepreneurs were African American, Latino, Asian or non-white, and 36 percent were women. With an aging population, 25 percent of new entrepreneurs last year were individuals aged 55-64. When did you last read about the 60-year-old African American woman who raised a series A? Right.

Last year, companies with at least one female founder received a mere 10 percent of venture capital funding. Many startup competitions, angel network pitch nights and big wins in the local newspaper do not reflect these growing demographics. At SEED SPOT, we have launched several women-only programs, partnered with the International Rescue committee to serve refugee entrepreneurs, and launched “Véndeme tu Sueño” in partnership with Univision to serve more Latino entrepreneurs. Each emerging population is a huge asset for the entrepreneurial ecosystem.

**Democratize education and support entrepreneurs of all types at all stages.** Many cities compete for the relocation of Fortune 500 companies while simultaneously ignoring the small startup that has knocked on the door for support. Stop slamming the door. Big companies start small. Small companies grow big. All companies matter. Whether an idea is on the back of a napkin or generating revenue at scale, companies in the product, service and technology sector need support to better understand their customer, ensure product-market fit and scale a viable revenue model. Incubators and accelerators have played a critical role in providing such education, but more work can be done to democratize the education and training that early-stage entrepreneurs receive at all stages of growth.

**Take problem solvers seriously.** The world does not need another frivolous iPhone app. The world needs more entrepreneurs solving real problems. Operating in the startup ecosystem under the social entrepreneurship banner often incites comments of being “soft”, “naïve” or “cute” for valuing the solution to a problem equal to financial returns. It seems to me that solving the problem of how to feed 11B people and make a financial return with an agricultural technology is a hell of a lot harder, more sophisticated and badass than a face-swapping app. For social entrepreneurs, it is not about an exit or liquidity event, it is about solving a problem in the world. Elevating the stature of social entrepreneurs who are tackling real problems with market driven solutions is what every city should aspire to build density around.

**No sharking allowed - don’t let your community take advantage of startups.** There seems to be a general misperception that if you are an early-stage entrepreneur, it is grounds for people to take advantage of you. A community that maintains an inclusive approach to entrepreneurship must ensure that local attorneys coach entrepreneurs through legal terms; local bankers engage in fair deal-making; and seasoned startup executives help entrepreneurs negotiate fair term sheets for their next raise. At SEED SPOT, we have seen this model work by building a safe space for both entrepreneurs and community members to contribute to the rising tide of entrepreneurship in the nation’s fifth largest city.

Civic leaders empower entrepreneurs from all backgrounds at all stages to solve real problems in your community. Be brave and bold in your pursuit to build startup ecosystems that are inclusive of your city’s greatest assets, and diverse human capital to define a new era of what it means to be a truly great startup city.

Nothing new comes through doing the same thing. Stop trying to become the next Silicon Valley; own a new and better version of what’s possible.

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Mayors Must Be Policy Entrepreneurs

By John Lettieri

JOHN LETTIERI

John Lettieri is the cofounder and senior director for policy and strategy at the Economic Innovation Group, where he leads EIG’s policy development, economic research and legislative affairs efforts.

The United States has a startup problem—one that encompasses the number of new firms being born, where those births take place and the demographics of who gets to participate in the startup economy.

First, the numbers. Recently released data from the Census Bureau show that startups remain hovering near all-time lows when it comes to their share of both the U.S. business community and total employment. And, the total number of new firms launched each year has fallen as well—even as the economy grows larger and larger. Only 404,000 new firms were created in 2014, compared to an annual average of 498,000 from 1977 to 2008. To put that into perspective, in 1977 the U.S. economy generated 95 startups per $1 billion of GDP. By 2014, that ratio had fallen to only 25 startups.

Not only is the rate of new business formation in decline, but the geography of entrepreneurship is contracting too. EIG’s research on the past three economic recoveries found the number of counties generating half of the country’s new business establishments fell from 125 in the 1990s to only 20 in the 2010s. Half of the country’s metro areas saw the number of new firm starts fall from 2013 to 2014, according to the latest Census data. (See page 11)

The United States not only needs more new businesses in more regions, but it also needs to expand access to entrepreneurship as a career path. According to the Census Bureau’s newly-released Annual Survey of Entrepreneurs, African Americans owned only 2 percent of the nation’s companies with employees in 2014, and women owned only 20 percent. Women and minority entrepreneurs have historically received less than 10 percent of the country’s venture
capital. For every nine men that raise equity financing to start and scale their business, only one woman does.

Why do these trends matter? Because a less entrepreneurial economy is one with fewer opportunities to achieve the American Dream. EIG’s Distressed Communities Index found that business openings, job growth and economic well-being are intertwined down to the zip code level.

Mayors must be at the vanguard of making U.S. entrepreneurship more demographically and geographically inclusive. The playbook to get started is clear:

• **Have a strategy.** In the face of national headwinds, every mayor should have a startup strategy—one designed to strengthen the local ecosystem and place entrepreneurship at the center of a city’s economic development agenda. Mayors should support incubator, accelerator, mentorship and apprenticeship programs that aim to expand entrepreneurship’s reach. Programs like Venture for America show how to harness entrepreneurship toward multiple reinforcing ends: fostering economic growth, expanding access to opportunity and revitalizing urban neighborhoods.

• **Advocate.** Mayors can be powerful advocates for their startup communities’ needs at the state and federal level, particularly when it comes to pushing for incentives and regulatory policies that enhance the local entrepreneurial landscape. One such idea is the Investing in Opportunity Act, bipartisan federal legislation aimed at unlocking access to capital in communities starved for new enterprise. Mayors may not have a vote in Congress, but their voices matter to those who do.

• **Make it easier to start a business.** State and local rules often present just as big a hindrance to would-be entrepreneurs as federal ones. One prime example is the growing morass of occupational licensing rules, which can unnecessarily prevent individuals in relatively low-wage sectors from establishing their own independent businesses.

In tackling America’s startup problem, mayors should emulate entrepreneurs themselves: be bold, move quickly and embrace new ideas. The good news is, from Cincinnati to Nashville to Salt Lake City, a new generation of mayors is leading a wave of creative approaches to fostering local entrepreneurship and building the next generation of new industries. As mayors work together to build a new playbook, their efforts will help ensure a more vibrant and inclusive future for U.S. entrepreneurship.
When a venture capital (VC) firm invests in a startup, it doesn’t just provide money, it also dispenses advice and uses its extensive networks to make invaluable connections for the entrepreneurs in which it has invested. VCs strengthen entrepreneurs’ social capital as well as their financial capital.

In so many ways, America’s 25 million microbusinesses, mom and pop shops and “Unsexy Entrepreneurs” are at a perpetual disadvantage compared to larger corporations or the hockey-sticking startups that subsume our attention. (And which are overwhelmingly run by privileged, white entrepreneurs.)

Large and established businesses can access loans at very cheap interest rates. But the “Unsexy Entrepreneurs” that we are proud to fund on the Kiva team are not interesting to conventional lenders because they are seen as high-risk and high-cost-to-serve. Even when they can get loans, they are often at exorbitant APRs.

Tech startups can access huge sums of equity investment, but mom and pop shops don’t have the growth potential to unlock that form of capital. Hyper-cool products can raise a million dollars on Kickstarter, but your average plumber or barber sadly cannot.

Under-capitalized small businesses cannot unlock economies of scale, which puts them at a further financial disadvantage.

And the exacerbated inequity faced by minority entrepreneurs is painfully apparent—for example, while 12 percent of the U.S. population is African-American, only 2 percent of SBA loan volume and less than 1 percent of VC funding goes to African-American entrepreneurs!

But one of the biggest examples of the “un-level” playing field is in the realm of social capital.

I studied at the University of Cambridge, worked at Oliver Wyman for six years, have been leading Kiva’s U.S. program for the last five, and have 4,503 connections on LinkedIn. Out of the biggest 50 companies in America, I have second-degree LinkedIn connections at 49 of them (I just counted. It took a while. If you know anyone at Archer Daniels Midland, let me know). This network that I have built up over my career is incredibly valuable. And it’s a result of my privilege.

But the recent Vietnamese immigrant looking to open a restaurant in inner-city Detroit doesn’t have that network.
And that’s what I mean by the title of this blog post.

It’s (unfortunately) not that I’m optimistic about VC firms investing in that Vietnamese immigrant any time soon. But it’s that, if we want to get entrepreneurial activity going again in America, we have to enhance microbusinesses’ “access to expertise and insights in innovation, executive and technical talent, market intelligence, policy and regulatory affairs, business development, and marketing and brand-building”—as VC firms like Andreessen Horowitz do for the companies they invest in.

At Kiva, we are not only looking to level the “financial capital” playing field—by empowering that aspiring Vietnamese restaurant owner with a 0 percent interest microloan to invest in their business. But, through our unique, truly peer-to-peer lending model, we’re also trying to level the “social capital” playing field—by connecting her to hundreds of individual citizen lenders that are now (Micro Ad)Venture Capital investors in her business.

Over the last few years, we have witnessed countless examples of lenders becoming customers of the borrowers they made loans to, promoting their brands on social media, dispensing business advice, or making valuable connections to potential suppliers, customers or business partners. We are still in the early stages of developing these lender-to-borrower connections, but we are excited about the potential of crowdfunding—whether it be equity-based, perks-based or our debt-based flavor—to significantly strengthen our borrowers’ social capital over time.

“Getting an interest-free loan was wonderful. But it was the connections I made, and the doors that were opened for me that really made me into the biggest cheerleader for Kiva”.

Kiva borrower, Columbus, OH, July 2016

The decline of American entrepreneurship over the last few decades is well-documented; if inequalities of income and wealth continue to widen, and the economic marginalization of huge swaths of this country continues unabated, then not just the financial, but the social capital that the entrepreneurial dreamers and hustlers in these communities need to succeed in starting a small business will be increasingly impoverished. And entrepreneurial startup rates—already at their lowest levels in decades—will decline yet further.

In order to reverse this trend and revitalize microbusiness creation and growth in otherwise-left-behind cities and rural areas throughout America, we don’t just need to get financial capital flowing again—we need to strengthen the connectivity and social capital of entrepreneurs in these communities as well.
The Ewing Marion Kauffman Foundation is a private, nonpartisan foundation that aims to foster economic independence by advancing educational achievement and entrepreneurial success. Founded by late entrepreneur and philanthropist Ewing Marion Kauffman, the Foundation is based in Kansas City, Missouri, and has approximately $2 billion in assets. For more information, visit www.kauffman.org, and follow the Foundation on www.twitter.com/kauffmanfdn and www.facebook.com/kauffmanfdn.