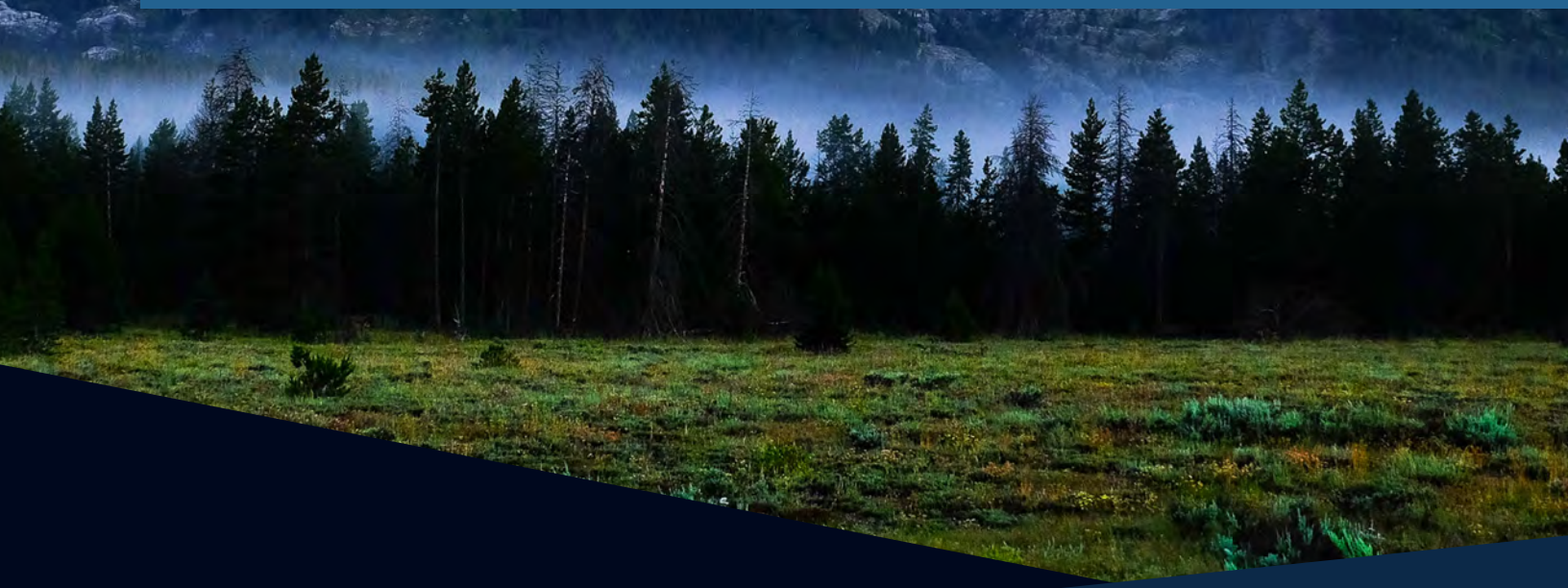
FRANK HAWKINS KENAN INSTITUTE OF PRIVATE ENTERPRISE PROCEEDING

2020 FRONTIERS OF ETREPRENEURSHIP CONFERENCE

January 30-31, 2020



KENAN INSTITUTE of Private Enterprise
UNC KENAN-FLAGLER BUSINESS SCHOOL

Frontiers of Entrepreneurship Conference

This invitation-only event convenes a carefully curated group of thought leaders from academia, industry and government to debate the most challenging current issues in entrepreneurship and set the agenda for future education, research and policy. The interactive workshop format is designed to generate a deeper understanding of how entrepreneurs and the companies they operate can change the world we live in for the better.

PARTNERS

STVP Stanford Technology Ventures Program

POLSKY Center for Entrepreneurship and Innovation THE UNIVERSITY OF CHICAGO

UNC KENAN-FLAGLER BUSINESS SCHOOL Entrepreneurship Center

Duke INNOVATION & ENTREPRENEURSHIP

Wharton ALUMNI UNIVERSITY of PENNSYLVANIA

Yale SCHOOL OF MANAGEMENT

SPONSORS

Deshpande Foundation

KNIGHT FOUNDATION

ripple

SBIA

svb Silicon Valley Bank

VENTUREWELL idea to impact

VISTA EQUITY PARTNERS

On January 30 and 31, 2020, the Frank H. Kenan Institute of Private Enterprise (Kenan Institute) hosted its Frontiers of Entrepreneurship Conference at The Breakers Palm Beach Resort. The conference brought together more than 150 academic research scholars, policy experts and private sector professionals to discuss and debate the most challenging current issues in the field of entrepreneurship in order to set the agenda for future research and policy. The proceeding summary offers highlights from each day's panel discussions

New companies face a perilous path as they shift from demonstrating product viability to building a sustainable business model.

SCALING THROUGH THE 'VALLEY OF DEATH'

Chair: Steve Kaplan, *Neubauer Family Distinguished Service Professor of Entrepreneurship and Finance and Kessenich E.P. Faculty Director, Polsky Center for Entrepreneurship and Innovation*, University of Chicago Booth School of Business

Panelists:

- **Ryan Decker**, *Senior Economist*, Federal Reserve Board of Governors
- **Kristin Nimsger**, *CEO*, Social Solutions
- **Mark Tebbe**, *Entrepreneur-in-Residence*, University of Chicago Polsky Center for Entrepreneurship and Innovation; *Adjunct Professor of Entrepreneurship*, University of Chicago Booth School of Business
- **Chris Wheat**, *Director of Business Research*, JP Morgan Chase Institute

The session objective was to understand how startups should balance growth and survival. New companies face a perilous path as they shift from demonstrating product viability to building a sustainable business model. The transition typically requires additional funding, new management expertise, additional organizational structure and often a shift in culture. Many companies stall or fail at this stage of growth. This session examined what we know, and would like to know, about the scaling of successful startups.

Ryan Decker started off the discussion with a presentation of research from the Federal Reserve. He talked about how young, high-growth (>25% growth) companies are critical to the U.S. economy. They drive almost 60% of job and output creation, even though they only make up 15% of organizations. Decker also pointed out that firms that are a bit more productive than average grow significantly more than average firms. Combined, this means that high growth firms reallocate resources that enhance the aggregate output.

Next, Chris Wheat gave a brief overview of his research at JP Morgan Chase, which includes transaction data from 138,000 small businesses. Wheat's findings show that firms with irregular cash buffers and cash flows are the least likely to survive. Furthermore, he finds that organic growth businesses in aggregate generate the majority of small business revenue and payroll, but are also the most likely to exit.

Decker and Wheat were able to give a macro-level view of growth in startups. After they finished their presentations, the panel switched gears to Kristin Nimsger and Mark Tebbe to discuss the intricacies of scaling an individual company.

Nimsger talked about her experience living through hypergrowth. She said it is just as painful as a failing business, although it is more fun. Assuming you have the right market and customers who are willing to pay, she said, growing ultimately comes down to luck and execution. Specifically, at this stage of the company there are three focus areas: talent, product and business model. For the product, the big question is whether you take big or small steps in its growth. For the business model, it is critical to think about the long-term value of your business, particularly in terms of repeatability and sustainability.

Mark Tebbe discussed how, in today's environment, entrepreneurs have become overly focused on the need to get VC funding. He also said that the ability to grow is based on the ecosystem entrepreneurs are a part of. "If you have a good garden," he said, "things will grow there."

The audience then asked some thought-provoking questions with respect to startup growth. The first that garnered some serious discussion was, "How do you know that it's time to scale?" Nimsger and Tebbe both looked to their past experience for answers. Nimsger compared scaling to a minefield that one has to navigate. She said, "Knowing when to scale is a combination of data and intuition. When we were trying to go from five to 50 (employees), we had so much client demand we couldn't keep up. We added two sales people, then five sales people, and we continued to overperform. Eventually we just decided to scale quickly."

Tebbe said that experience is the best way to determine when growth is needed. He said, "Entrepreneurs are overly optimistic. New entrepreneurs will overextend their cash flow. It's important to have a plan. Businesses that have the discipline to have a board of directors or advisors will not get caught up in the hype and pull back a bit. The management needs to have a clear plan and measure themselves against that plan. It's far more valuable to be cautious and not overextend yourself."

Another question centered around how much of the decision to grow should be based on the desire to outrun the competition. Nimsger talked about how CEOs should have a very clear understanding of their competition. If you see your competitors growing rapidly, then you should know it is a good market. This should motivate you to work harder on your own business and give you confidence that you are in the right market. Along with this, it should reveal more about what customers actually want, allowing you to further refine your product.

Though high-profile "unicorns" and other prominent startups receive great attention, most innovation occurs within existing large companies.

DO ORGANIZATIONS REALLY VALUE AND REWARD INTRAPRENEURSHIP?

Chair: Ted Zoller, *Lewis Clinical Professor of Strategy and Entrepreneurship*, UNC Kenan-Flagler Business School; *Faculty Director*, UNC Entrepreneurship Center

Panelists:

- **Anne Marie Knott**, *Robert and Barbara Frick Professor of Business*, Washington University Olin School of Business
- **Jason Liberty**, *Executive Vice President and CFO*, Royal Caribbean
- **Mike Norona**, *Fortune 500 CFO (retired), Board Member & Audit Committee Chair*, Clarios
- **Sarayu Srinivasan**, *White House Presidential Innovation Fellow*, National Institute of Standards and Technology

Though high-profile "unicorns" and other prominent startups receive great attention, most innovation occurs within existing large companies. Having employees or business units behaving as entrepreneurs within a large organization is often called "intrapreneurship," and can be a business strategy to develop innovative products or upgrade existing business processes. What are the benefits of this approach, and how can organizations looking to foster innovation promote intrapreneurship? How should firms balance investing in innovation with continuing to operate core business areas?

Ted Zoller began the session by asking the panel to explore the definition of intrapreneurship and consider examples in their own careers that fit the criteria for it. He opened with his preferred description of entrepreneurship, attributed to Howard H. Stevenson (Professor Emeritus at Harvard Business School): "Entrepreneurship is the pursuit of opportunity without regard to resources currently controlled." Per this definition, an entrepreneur in an organization is appropriating the resources they need. "They defy the power dynamics, they reach outside the organization and draw resources in," Zoller added. He also highlighted the dearth of recent academic work regarding entrepreneurship within corporations, calling for researchers to rekindle the literature in this area.

Sarayu Srinivasan spoke about an example of intrapreneurship she felt was emblematic, from her days as a brand manager with Pepsi. One of her co-workers developed a bottling "scorecard" to allow bottlers to easily monitor and differentiate the sales performance of different products (e.g., two-liter bottles vs. six-packs). This streamlined workflow, reducing the need for brand managers to spend as much time developing monthly reports to identify sales trends. Srinivasan emphasized that though the scorecard was an otherwise unglamorous process improvement, it affected Pepsi's bottom line in a meaningful way.

"Sometimes we are very quick to think of entrepreneurship, innovation and intrapreneurship as being confined to things that are either big, sexy or enterprise," said Srinivasan, naming Tesla, Theranos and Solar City as examples typically associated with innovation. But in fact, Srinivasan contended, innovation is necessary for any company to survive and succeed: "If you're doing well, you're going to have competitors. Your competitors have to do what you're doing better, faster and more efficiently to take your customer base away. You have to do what you're doing better, faster and more efficiently to bring them back."

"If you're doing well, you're going to have competitors. Your competitors have to do what you're doing better, faster and more efficiently to take your customer base away. You have to do what you're doing better, faster and more efficiently to bring them back."

Sarayu Srinivasan, *White House Presidential Innovation Fellow,* National Institute of Standards and Technology

Mike Norona echoed the idea that "a lot of innovation goes on in big companies," drawing on his experiences as a former executive at Best Buy and Advance Auto Parts. He underscored the importance of management style and firm culture in driving innovation forward. "You can't solve issues if you don't know what the issues are," Norona said, emphasizing that understanding the scope for disruption requires listening carefully to a firm's stakeholders—its employees, customers and suppliers. "If you have microphones on the fringes of your business, it's amazing how much you can learn," he stated. Recalling that "the best ideas came from people close to where the problems were," he described the value of decentralized management in promoting innovation from within an organization. As a concrete example, Norona described the acquisition and development of Geek Squad by

Best Buy, which grew out of conversations within retail store locations.

Jason Liberty spoke to the importance of leading companies being "obsessively" prepared for disruption, as well as how Royal Caribbean thinks about the sources of disruption. Rather than just from the innovations of industry competitors, he spoke about disruption from changes in the regulatory environment and in how consumers interface with technology more broadly. Though Liberty described an intrapreneurship success story (Royal Caribbean opening a theme park to compete directly with Disney, Universal Studios and Las Vegas), he also underscored how the size and inertia of the large Royal Caribbean organization contributed to many missed opportunities. "The big machine doesn't understand how to be nimble and take huge risks," Liberty noted. As a result, successful innovation often requires establishing an entrepreneurial ecosystem within the organization itself. "You have to set up a separate group, with separate people…and attract that type of entrepreneurial talent internally…in order to make it work," he said. Existing brands or product groups often don't know how to execute new business ideas. "They know how to run a big machine, but not how to start something from scratch," Liberty added.

"Failure is the driving force for entrepreneurship."

Mike Norona, *Fortune 500 CFO (retired), Board Member & Audit Committee Chair*, Clarios

Anne Marie Knott grounded the discussion in research findings, disapproving of the pervasive identification of growth and innovation only with startups. A well-cited academic literature documents a secular decline in business dynamism, which has been associated with slowing economic growth and job creation. Knott believes that attributing these trends solely to decreases in new firm foundation is mistaken. She noted that intrapreneurship and entrepreneurship have similar rates of innovation success (commercialization), and that large firms have much higher R&D productivity (with productivity increasing as firms grow larger). As large firms perform the vast majority of R&D in the economy, Knott believes the solution must incorporate supporting corporate innovation. She argued that improving intrapreneurship can lead to increased R&D productivity in the aggregate, promoting both firm growth and greater entrepreneurship.

Some of the themes that emerged from audience questions included the role of firm size in shaping intrapreneurship strategy and the correct balance between a firm's core operations and investments in innovation. Mike Norona argued that "failure is the driving force for entrepreneurship," and that as large firms typically don't tolerate failure, they are biased against innovation. This echoed Jason Liberty's remarks, who focused on corporate governance's role in promoting disruption in large firms. He also suggested that a firm's lifecycle, and not its size, should determine how aggressively to pursue innovation. In his company, an 80/20

rule is used to identify the appropriate balance: 80% of resources to maintain core operations, 10% to disruptions around the core business and 10% to "moonshots."

HOW CAN THE PRIVATE SECTOR PROMOTE MORE DIVERSE ENTREPRENEURS AND INVESTORS?

Chair: David Robinson, *James and Jail Vander Weide Professor of Finance*, Duke Fuqua School of Business

Panelists:

- **Maryam Haque**, *Senior Vice President of Industry Advancement*, National Venture Capital Association (NVCA)
- **Henry McKoy**, *Director of Entrepreneurship*, North Carolina Central University School of Business; *Adjunct Professor*, UNC Kenan-Flagler Business School
- **Alicia Robb**, *Founder and CEO*, Next Wave Impact
- **Tiantian Yang**, *Assistant Professor of Sociology*, Duke University

A recent report documents that only 14 percent of U.S. venture partners are women and only six percent are black or Hispanic. Data for VC portfolio companies and other startups reveals similar statistics. While these percentages are a slight improvement over prior years, they still document substantial under-representation. As more importance is placed on the topic of representation, how can the private sector develop, adopt and implement strategies, as well as official policies, to promote more diverse entrepreneurs and investors?

A recent report documents that only 14 percent of U.S. venture partners are women and only six percent are black or Hispanic.

David Robinson started the session by asking each panelist what they believe to be the "biggest bottleneck for entrepreneurs."

Maryam Haque highlighted key statistics showing the lack of diversity in both entrepreneurs and investors. More than 77% of founders are white, while less than 2% of founders are black. Ivy-educated individuals comprise 27% of founders, and 50% of founders received their education from other schools in the U.S. Further, Haque examined the continued increase in deal count and investment size for female founders, but also pointed out that both continue to represent an extremely low percentage of women-owned businesses. As of 2018, deal count for females equated to only 4.4% of total deals. Only 14% of investors are female.

Haque said the greatest bottleneck for entrepreneurs is the barrier to access,

primarily caused by the lack in diversity. Whether it be access to capital, connections or networks, the lack of diversity hinders entrepreneurs' ability to succeed. For investors, Haque believes the biggest bottleneck correlates to the difficulties of starting a company. She stated, "Venture firms are small and usually stay small. If you want to go raise a fund, it's hard to get to that place. And even when there are opportunities, people look to the ones who surround them and do not branch out."

Henry McKoy shared many similar thoughts. McKoy focused on the lack of ethic diversity and current macroeconomic trends. Black households are projected to lose wealth, while white households are projected to increase their wealth. If the trend continues, McKoy highlighted that by 2053, the black population will reach $0 in median wealth. Due to this drastic difference between white and black wealth, McKoy believes the biggest bottleneck entrepreneurs face is access to capital, especially risk capital. The accumulation of capital which is not collateralized is extremely hard for diverse populations to obtain.

"Of the $69.1 trillion global financial assets under management across mutual funds, hedge funds, real estate and private equity, fewer than 1.3% are managed by women and people of color."

Alicia Robb, *Founder and CEO,* Next Wave Impact

Alicia Robb spoke to homophily as a main cause for gender gaps within the entrepreneurial ecosystem. Robb called attention to some shocking statistics, saying "Of the $69.1 trillion global financial assets under management across mutual funds, hedge funds, real estate and private equity, fewer than 1.3% are managed by women and people of color." Furthermore, she said, "Among Fortune 500 companies, there are more CEOs named John than all female CEOs combined."

In order to help close the gap, Robb has created a "learning-by-doing fund" called New Wave Impact to increase the ranks of female entrepreneurs by increasing the number of female angel investors. Its goal is to drive diversity and inclusion in early-stage investments. Robb believes that if more women and people of color are involved in early-stage investment, more diverse entrepreneurs will surface. Robb identified the biggest bottleneck of entrepreneurs as the lack of diversity among investors.

Tiantian Yang focused on the gender funding gap, highlighting two main reasons for the discrepancy. The first reason, she said, is "the pipeline problem in wage employment." Within the U.S., she said, women are underrepresented in money-making fields, showing different intrinsic preferences in fields of study and jobs. Further, the gender roles in families create the idea that business is "Plan B" for women, with their main responsibility being the care of their children. Yan said the second reason for the funding gap is discrimination in entrepreneurship. She

highlighted the response of women vs. men to rejection. Rejection leads women to not apply to as many jobs, she said, because they believe their rejection was a result of discrimination. Men, on the other hand, respond to rejection by applying for even more jobs, believing that their rejection was a result of insufficient effort on their part.

Overall, the main takeaway of the panel is that making inroads for diversity in entrepreneurship must begin with investors. To decrease the gender funding gap, an increase in female investors needs to occur. To increase diverse entrepreneurs' ability to access capital, more diverse investors need to surface. Now the question becomes, "How do we increase the number of diverse investors?" The problem goes deep and needs more research and investigation.

HAS PATENT POLICY KEPT PACE WITH INNOVATION?

Chair: Alan Marco, *Former Chief Economist*, U.S. Patent and Trademark Office; *Associate Professor of Public Policy*, Georgia Tech

Panelists:

- **Anne Glover**, *Chief Executive and Co-founder*, Amadeus Capital Partners
- **Mary Moore Hamrick**, *Chief Public Policy Officer*, Grant Thornton
- **Kyle Jensen**, *Associate Dean and Director of Entrepreneurship*, Yale School of Management
- **Jeff Kuhn**, *Assistant Professor of Strategy and Entrepreneurship*, UNC Kenan-Flagler Business School

Panel chair Alan Marco began the session by providing examples of recent changes to the U.S. patent system that have important potential ramifications for the entrepreneurial landscape. In particular, he mentioned the America Invents Act, signed by President Obama in 2011, which switched the patent system from "first to invent" to "first to file." The law became effective in March of 2013. Marco continued to lay out a list of other issues for the panelists to discuss, including recent Supreme Court decisions that have brought into question the subject matter eligible for patenting, potentially weakening patent protection. Marco then proceeded to place these developments in the context of recent economic and technological changes which present additional challenges for innovation and entrepreneurship. Specific examples that he brought up included innovation in artificial intelligence, trade policies and the push for lower prescription drug prices.

Each panelist proceeded to discuss issues that they believe are important questions for the space. Anne Glover, a U.K.-based venture capitalist, asked how these changes will impact foreign investment in U.S. companies, in particular through export trade restrictions and technology ownership.

Panelist Mary Moore Hamrick pointed out that, despite the current dysfunction in Washington, D.C., one of the few issues still being addressed in a bipartisan manner is patent reform. Given the recent developments in global security, data privacy and cybersecurity, Hamrick brought up the need to modernize the legal language surrounding patenting and copyright policies in current trade deals like the USMCA.

Kyle Jensen picked up the discussion of Supreme Court cases and the issue of practical application for previously unpatentable things. The issue of gene patenting was offered as a specific example in which Supreme Court decisions changed what can be patented and invalidated thousands of gene patents. Following such rulings, judicial challenges jumped more than tenfold, which raises questions about the efficacy of patent laws. On the other hand, judicial rulings that clarify the boundaries of what can and cannot be patented are a necessary adjustment to patent laws that are at times too broad. Thus, it's not obvious that Supreme Court decisions regarding patent disputes are harmful to entrepreneurs across the board.

Moving to "first to file" has benefited large companies at the expense of the small, and while copyright laws have been strengthened over time, patent laws seem to have taken a different path.

Jeff Kuhn brought up the concept of intellectual property as a strategic asset. In his view, some of the Supreme Court decisions discussed by the panelists have smoothed out edges in the patent system because practically, it is large firms who build up patent bases. Additionally, Kuhn discussed how patent policies affect different industries differently. For example, the software and technology space has not been as affected by the recent changes in patent policy as industries like biotechnology.

Generally, patent rights seem to have been weakened. Anti-joinder laws that allow firms to sue many patent violators at once have been removed. Moving to "first to file" has benefited large companies at the expense of the small, and while copyright laws have been strengthened over time, patent laws seem to have taken a different path. Throughout the discussion, other questions and reforms were raised and discussed. For example, how do entrepreneurs protect their ideas? Large companies are very good at strategically using the patent system. However, maintenance fees may have the potential to disincentivize the building of large patent portfolios. For panelists like Kuhn, the bigger problem is not the ability to file

patents, but large strategic portfolios of patents. Other issues discussed included the role of patenting in slowing down the monopoly of large firms with access to large amounts of data. Can their innovation in how they use this data be patented?

Finally, a number of potential reforms were discussed. Should the U.S. return to "first to invent?" Can escalating fees for resubmission of rejected patent filings eliminate some of the strategic behavior by firms? Would it also burden smaller firms? Would a provisional patent system be beneficial to entrepreneurs? How do policymakers clarify the patentable subject matter laws to make the system work for small firms, without further encouraging strategic behavior by large firms?

IS THE STARTUP COMPENSATION MODEL BROKEN?

Chair: Rebecca Zarutskie, *Assistant Director of Monetary Affairs*, Federal Reserve Board of Governors

Panelists:

- **Amy Nelson**, Venture for America
- **DeLisa Alexander**, *EVP and Chief People Officer*, Red Hat
- **Sangeeta Badal**, ***Principal Scientist, Entrepreneurship and Job Creation***, Gallup, Inc.
- **L.J. Brock**, Coinbase

Compared to more established firms, startups are more likely to compensate through equity rather than salary compensation. But is this model working, with companies staying private longer? Startups have to work harder to hire top talent. With unemployment at a record low, it's tough for businesses – especially young, small firms – to hire. What else besides equity is in the mix when recruiting talent? This session explored these questions.

DeLisa Alexander explained how Red Hat is growing fast, and so talent is top of mind. Red Hat competes with firms like Google and Apple for talent, but they also compete with younger organizations. When they were smaller (i.e., 500 people), they compensated much less through cash and much more through equity. Now, as a major company, they still give equity to about 50% of their employees, but at much smaller amounts, using salary as the main compensation. But Alexander said it's getting harder to hire and retain employees, because bigger players can take top talent from Red Hat and double their salary. Alexander said, though, that some

employees lured away by other companies eventually "boomerang back" to Red Hat, because of its culture.

Sangeeta Badal has studied the psychology, or human side, of entrepreneurship. What can high-growth ventures do in an environment where the model that has been working is no longer working? She offered six tips:

1. Hiring and retaining talent is about more than compensation – it's about meeting psychological needs. The new workforce is less concerned with compensation, and more concerned about purpose. They want to derive meaning from work. When they do get meaning from work, they are more likely to stay in a job. Badal said that companies that have a more articulated purpose have stock prices 12 times those of comparable companies.
2. Companies should strive less for employee satisfaction and more for engagement. Engagement equates to psychological safety, with employees' welfare and opportunities to develop foremost.
3. Executives and managers should move from "boss" to "coach." Employees who receive daily feedback from their manager are three times more likely to be engaged, which then leads to better outcomes.
4. Companies need to find ways to move staff from an employee mentality to an ownership mentality. With an employee mentality, employees perform only the minimum requirements of their jobs. With ownership mentality, employees are empowered to make decisions. Transparency about current company health and future plans is also key.
5. Employees need to be encouraged to view their job as creating value. When employees don't see how their contributions contribute to bigger picture, they are not as productive, and don't grow with the company. Founders can help their employees understand how their contributions affect the whole firm.
6. Weigh the pros and cons of work predictability versus flexibility in thinking. In bigger companies, there is a routinized work that is predictable. Employees know the expectations, goals, and daily tasks. This is efficient, but the standardization makes it less emotionally connecting to the individual. Here, young firms have an advantage, where something new might be thrown at employees every day, and they need to be ready to tackle any problem that comes their way.

L.J. Brock said that his company, Coinbase, an $8 billion private company, is in no hurry to go public. At Coinbase, there is a lot of dialogue around the missionary

versus mercenary mentality in the company, since companies like Google are frequently poaching their employees. Brock said that culture and mission are thus very important, as is competitive compensation. All are critical to competing successfully with larger players in your industry.

Amy Nelson leads Venture for America, whose goal is to train the next wave of startup employees. Venture for America places fellows in mostly tech or tech-enabled startups in 14 cities throughout the U.S. They select companies with a strong leadership team that is able and willing to mentor the fellow and provide a growth trajectory. The 14 cities Venture for America works in are all emerging entrepreneurial ecosystems that typically struggle with hiring and retaining talent. Nelson said it's a win-win situation – the companies get good, trainable talent, and the fellows get an opportunity to gain experience and move up in the company more quickly than they might in a larger market.

The question-and-answer session prompted many ideas for further research on the topic. The questions participants raised included:

- What can companies offer to differentiate themselves from the competition?
- How do companies select talent? How do you select and evaluate candidates?
- How is it best to structure equity-based compensation given private companies are staying private longer?
- How do companies address the wealth gap?
- What effect has a more geographically mobile workforce have on companies' ability to hire and retain talent?
- Is it better to acquire talent or build it? And how do you build it?
- Do employees put too much pressure or expectations on companies for a mission or purpose?
- There is a scarcity of talent. What key things can the private and public sectors do to address that?

ARE EMERGING TECHNOLOGIES A THREAT OR AN OPPORTUNITY FOR ENTREPRENEURS?

Chair: Davis Hsu, *Richard A. Sapp Professor of Management*, The Wharton School, University of Pennsylvania

Panelists:

- **Jean Camp**, *Professor of Informatics and Director of Center for Security and Privacy in Informatics*, Computing, and Engineering, University of Indiana
- **Sameeksha Desai**, *Director of Knowledge Creation & Research in Entrepreneurship*, Ewing Marion Kauffman Foundation
- **Deepak Gopalakrishna**, *Principal*, Boston Consulting Group
- **Sanjay Gupta**, *Chief Technology Officer*, SBA
- **Matthew Rhodes-Kropf**, *Associate Professor of Finance*, MIT Sloan School; *Managing Partner*,Tectonic Ventures

New technologies continue to reshape and disrupt the competitive landscape for new entrepreneurial firms.

New technologies continue to reshape and disrupt the competitive landscape for new entrepreneurial firms. But how can new firms leverage technological innovation to gain a competitive advantage?

David Hsu kicked off the session by introducing the panel, a diverse mix of academics and practitioners, and asking them to think of the goals for the session. "We want to drive towards an open question about emerging technologies and how entrepreneurial firms fit in," said Hsu, "and next year bring back that question and update the audience." The panel members then moved into introductions on the topic and spoke about what in the research question was most salient to them.

Jean Camp framed the conversation around the collision between artificial intelligence and security. One significant problem Camp sees for entrepreneurs dealing with emerging technologies is the ownership of data. Important questions arise over who owns data and the security that is attached to it. "Data is the new oil," Camp said, "If you own the oil, you shouldn't necessarily be paying others to mine the oil for you – there are risks of having another company mine the oil." Entrepreneurs must address the trade-offs of security versus privacy, and whether it is worthwhile to give up privacy with the promise of more security.

Sameeksha Desai added that privacy and security concerns have a number of implications for policy, data and entrepreneurs. At the industry level, there is a question bubbling up about data fairness and governance. In an environment

where data is becoming more and more valuable, what does it mean for firms to be able to access data fairly so they can do business? Questions around fairness, access, logistics and the ethics of data are important questions the industry must address for startups.

Deepak Gopalakrishna expressed interest in how startups create and capture value through the use of data extraction and by creating data pools. "How do we take what we learned that worked and what doesn't work and apply these best practices to startups to launch and scale changing businesses?" he asked.

Matthew Rhodes-Kropf ran with a similar idea by asking how new firms can compete with incumbents. Rhodes-Kropf thinks it is important to ask if startups have access not only to data but to what they need to innovate around. He believes that the market is making it possible for new firms to enter because the market is becoming modularized. He believes AI is a good example of how the market is modularizing itself. Startups can rent AI and other algorithms from the market in pieces, which makes it possible for them to compete. "Everywhere, the market is stepping forward to allow startups to compete, and it is easier to compete because the market is breaking up pieces of the market," said Rhodes-Kropf.

Sanjay Gupta turned back to the discussion of data and how it links to the entrepreneurial world. "Data is the digital currency of our world," said Gupta, "but data does not matter if you do not have the context around it." Gupta went on to explain that by itself, data does not mean much. Once data is given context, it begins to make sense, and you can pull information, see trends and make forecasts, which is useful for entrepreneurs.

> Data is the digital currency of our world, but data does not matter if you do not have the context around it.
>
> **Sanjay Gupta**, *Chief Technology Officer*, SBA

Gupta views public-private data partnerships as an important frontier. He believes there is a lot of power in bringing together the data and information of private enterprise and government. Open data provided by the government is waiting for a startup to monetize it and unlock its power to benefit society.

"One big thing I heard across speakers," concluded David Hsu, "is that access, particularly concerning its scarcity, will lead to power." Academics and practitioners have to assess the bottlenecks for the entrepreneur and how they're affected by changes in technology. Thinking about the bottlenecks and what is scarce can help entrepreneurs gain traction in an industry and disrupt it because technology and technological advance by themselves are not sufficient to overturn an incumbent, Hsu added.

ENTREPRENEURSHIP IN EMERGING ECONOMIES: PROMOTING FORMAL BUSINESS CREATION AND GROWTH

Chair: Leora Klapper, *Lead Economist, Development Research Group*, World Bank

Panelists:

- **Wilmot Allen**, *CEO*, VentureLift Africa
- **Chuck Eesley**, *Associate Professor*, Stanford School of Engineering; *W.M. Keck Foundation Faculty Scholar*, Stanford Technology Ventures Program
- **Randall Kempner**, *Executive Director*, Aspen Network of Development Entrepreneurs
- **Samuel Mathey**, *President and Founder*, African Foundation for Entrepreneurship and Economic Development (AFFEED)

Although entrepreneurial firms and small-to-midsize enterprises (SMEs) are often expected to be job creators and economic engines in developing countries, many of them fail to survive or to scale up.

The rising number of entrepreneurial activities in emerging economies arouses increasing attention from investors, scholars and policymakers. Although entrepreneurial firms and small-to-midsize enterprises (SMEs) are often expected to be job creators and economic engines in developing countries, many of them fail to survive or to scale up. So what are the main challenges facing entrepreneurs in emerging economies? How can we help these entrepreneurs develop the needed talents and skills? How can the global supply chain be leveraged for entrepreneurial activities? And what are the roles of governments in the process?

Leora Klapper opened the session by initiating a discussion of the main challenges of entrepreneurship in emerging markets. The resistance to formalization, a lack of financial access, and the prevalence of necessity-based entrepreneurship over opportunity-based entrepreneurship were all mentioned. Yet the majority of the panelists agreed that talent is the shortest board. How to help entrepreneurs in emerging economies develop necessary business skills thus became the first topic of the session.

As the Executive Director of the Aspen Network of Development Entrepreneurs, Randall Kempner shared many of his observations from the Global Accelerator Learning Initiative (GALI) program. Kempner said that, in general, business accelerators are helpful for opportunity-based entrepreneurs. Training on financing, accounting, marketing, and management can help small growing businesses increase their sales and revenue.

Yet, there is a huge heterogeneity in the effects of accelerators, Charles Eesley argued. "We should be aware that other than the access to accelerators, the structure, context and form of training programs are also critical."

Moreover, considering the dynamic nature of development and differences across countries, no one model can fit everywhere and every time. Samuel Mathey outlined the challenges in Africa as an example. "People living there speak more than 2,000 languages, have various religious beliefs and are mixed in races. It is also an evolving continent, so that any static model has little chance to succeed," said Mathey.

Wilmot Allen agreed. As a venture capitalist backing entrepreneurial companies in Africa, Allen argued that "a good accelerator must be localized with respect to differences in culture, political regimes, and social and economic circumstances."

"We should also take into account resources put into the training programs," added Eesley. This, he said, includes not only financial resources, but also opportunity costs for emerging entrepreneurs to join the program. "We need to think about how to delivery trainings in a more economically efficient way. For example, by leveraging recent technological developments in cellphones, platforms, e-commerce, etc." Eesley suggested.

Mathey shared his field experience in Africa. While most training programs were free, most small- and medium-sized business owners failed to finish the program because they had urgent subsistence needs to feed their families.

Another issue for emerging entrepreneurs is the lack of access to markets. "Can global supply chain help to address the problem?" Klapper asked.

Eesley said that the global supply chain does not only open markets to SMEs in developing countries, but also helps them address information asymmetry in the local financial market. Preorders from large multinationals can be seen as proof of the SME's productivity, helping to convince banks to issue loans to such firms.

Still, Kempner argued intermediaries are needed to build connections between small and medium local suppliers and large multinational companies.

As a follow-up, Klapper raised the question of what government can do to accelerate entrepreneurship in developing countries.

"In fact, I hold conservative opinions about the role of government," said Mathey. "Intentionally good policies may backfire in the end. For example, some governments encourage entrepreneurship by providing access to markets. However, this may induce political corruption with limited economic improvement. Another example comes from easy access to credit. Without a good screening mechanism, the policy may over-encourage people to start their own businesses without thoroughly considering the risks. Even the most talented entrepreneurs may fail in the first few trials. When loans are assured by entrepreneurs' families, failure in their businesses will drag the whole family into deep poverty."

Eesley took up the discussion by arguing that different stages of development require different institutional reforms. He said that non-market strategies and training to help entrepreneurs cope with current systems are more practical than establishing perfect institutions.

FINANCING START-UPS: WHO ARE THE BEST PROVIDERS OF START-UP AND EARLY STAGE CAPITAL?

Chair: Alice Fulwood, *Finance Correspondent*, The Economist

Panelists:

- **Bill Aulet**, *Managing Director, Martin Trust Center; Clinical Professor*, MIT
- **Peter Cornelius**, *Managing Director*, AlpInvest
- **Patrick Gouhin**, *CEO*, Angel Capital Association
- **Ben Hallen**, *Longbrake Endowed Professor in Innovation and Associate Professor of Strategy and Entrepreneurship*, University of Washington Foster School of Business

From angel investors to accelerators, the profile of startup investors has changed dramatically over the past 15 years. Startups face a variety of funding sources, each with different incentives and varying levels of mentorship and inputs provided to the portfolio ventures. How should entrepreneurs strategically choose the best funding option for their ventures? How can each type of investor contribute to the entrepreneurship ecosystem?

Ben Hallen kicked off the session by sharing insights from his recent research on accelerators, now a prominent resource provider for early-stage startups. Hallen found that accelerator programs do improve a number of venture outcomes and that the positive effect is driven by the learning opportunities and key practices

accelerators can provide. In terms of new research opportunities related to this topic, Hallen noted many interesting insights can be gained from looking into startups in the "mighty middle" stage, those in between the lifecycle-stage businesses and venture capital scale ventures. "We talk a lot about lifecycle-stage businesses and venture capital-backed companies, but most startups end up in the mighty middle," said Hallen.

Peter Cornelius touched on the interesting trends in the startup financing landscape from the perspective of an institutional investor. Cornelius noted that there has been a significant increase in the supply of capital for startups, with institutional investors taking over the growth capital market. "There has been an explosion of investment activities with nontraditional institutional investors entering the space," he said. "A huge supply of investment capital has prolonged exit activities among startups. Entrepreneurs do not feel the need to go public or seek out strategic investors." Another important trend, said Cornelius, is that "with venture capitalists focusing on later-stage deals, angel investors have filled in the vacuum, investing in early-stage startups."

"We talk a lot about lifecycle-stage businesses and venture capital-backed companies, but most startups end up in the mighty middle."

Ben Hallen, *Longbrake Endowed Professor in Innovation and Associate Professor of Strategy and Entrepreneurship*, University of Washington Foster School of Business

Pat Gouhin expanded on the growing role of angel investors. "The majority of angel investors have experienced successful entrepreneurship experience," said Gouhin. "Entrepreneur angels want to actively engage with their portfolio companies." Since angels often co-invest with other angel groups or venture capitalists (VCs), the syndication helps startups meet their funding needs as well as brings additional social capital to entrepreneurs. "Angels play both sides, balancing psychological support and financial support," he added.

Bill Aulet challenged the notion of who should be the best provider of early-stage capital. Rather than focusing on raising capital from different investors, he says entrepreneurs should look out for customers. "Financing strategy should not be the core strategy of the business," he said. "Financing supports business strategy. VCs will be knocking on your door if you get enough customers." While not against VCs, Aulet thinks entrepreneurs should seek more support and mentorship from other entrepreneurs than from investors, adding that "the interests of VCs and entrepreneurs are not always aligned."

Synthesizing the insights from the panelists, Hallen commented that to the extent that entrepreneurs can take advantage of acquiring customers and leveraging connections, they can think about the financing landscape and balance tradeoffs by considering what type of resources they would find the most valuable.

While there has been an oversupply of growth capital, the audience addressed gender and racial gaps in access to capital. Minority entrepreneurs still lack financial and social capital for entry and growth. Aulet mentioned that entrepreneurship education is pivotal in providing opportunities to a diverse group of individuals. Together, the panelists called for more research on devising policy interventions that can reduce bias towards underrepresented groups in entrepreneurship.

IS SOCIAL ENTREPRENEURSHIP SUSTAINABLE?

Chair: Brian Trelstad, *Partner, U.S. Sustainable Growth Fund*, Bridges Fund Management; *Senior Lecturer*, Harvard Business School

Panelists:

- **Elizabeth Chou**, *Growth Initiatives*, Leeds Equity Partners, LLC
- **Mike Elio**, *Partner*, StepStone Group
- **Philip Gaskin**, *Senior Director*, Kauffman Foundation
- **Olga Hawn**, *Faculty Director*, UNC Center for Sustainable Enterprise; *Assistant Professor of Strategy and Entrepreneurship, Sustainability Distinguished Fellow*, UNC Kenan-Flagler Business School

As more investors begin to use environmental, social, and governance (ESG) criteria for investment decisions, tensions have developed in the space.

As more investors begin to use environmental, social, and governance (ESG) criteria for investment decisions, tensions have developed in the space. Is impact investing concessionary capital? What are the relevant mechanisms for delivering impact? What is responsible for the shifting priorities of investors in this space? What are challenges to scaling social entrepreneurship? This session brought together four panelists from different parts of the chain of capital to discuss these issues.

Brian Trelstad began the session by arguing that impact investing can be modeled using a "Spectrum of Capital" that spans investing with purely a fiduciary interest in one "pocket" to philanthropic activity in the other "pocket." In between these two axes are thematic investing, which focuses on delivering impact as well as a market return, and impact-first investing, which identifies opportunities that may require a financial trade-off.

The neoclassical view in academic circles has been that the two "pockets" necessarily involve trade-offs. Investors must sacrifice financial return to achieve impact and vice versa along what Trelstad described as the "Milton Friedman line." Trelstad

questioned how strict the trade-offs implied by the Friedman line are: fiduciary-oriented investing may generate negative externalities and it may not be the case that philanthropy can deliver the same level of impact as thematic or impact-first.

Professor Olga Hawn discussed challenges to delivering impact, including inconsistent ESG metrics and weak mechanisms for implementing impact at the investor level. While the field has made progress on the former by working toward harmonizing ESG ratings, there is still a sizable gap in delivering transformational change. The United Nations estimates that we still need $2.5 trillion USD per year in additional investments until 2030 in order to meet the Sustainable Development Goals. Hawn, citing the paper "Can Sustainable Investing Save the World?," discussed why this gap still exists despite large amounts of sustainable investments. There are three mechanisms that investors use to impact the world through investments (presented in order of decreasing effectiveness):

The United Nations estimates that we still need $2.5 trillion USD per year in additional investments until 2030 in order to meet the Sustainable Development Goals.

1. Growing business that provides solutions to world problems.
2. Promoting best practices for existing companies.
3. Signaling new values in society.

Most sustainable investing capital is invested in signaling and the least amount of sustainable investing capital is invested in providing solutions. Hawn concluded that future ESG ratings should incorporate these three mechanisms and promote growing solutions.

Mike Elio then provided context for LP interest in impact strategy, arguing that millennial investors have adopted responsible investing norms that have historically been the provenance of European investors. The most important shift is that these investors insist on investing with a rising "responsible floor." Millennial investors in particular are moving toward philanthropy on the Spectrum of Capital. Elio argued that with institutional support from LPs, GPs are more willing to accept and adopt sustainable investing practices.

These developments do not come without challenges. Elio detailed how investments used to be assessed on whether they would fit in the portfolio of a client. Now, this assessment includes an evaluation of whether funds and companies are practicing what they preach. In Elio's words, "Is it LPA or DNA?"

Elizabeth Chou says the answer for her is "DNA." She has been actively involved in both early stage and late stage investing in the knowledge industry. She stated that at the early stage there is often a disconnect in expectations: What is this company

realistically able to produce? As metrics are rolled up across a set of companies targeting different outcomes, there is also a tension between appropriately summarizing impact without losing the true depth of outcomes. One of Chou's roles has been to help companies develop and track appropriate KPIs, in addition to helping deliver financial returns. Chou said Leeds believes that investing in companies targeting impact is a profitable venture; if you are investing in a great educational service and consumers demand more efficacious products, the company's success will follow.

Kauffman's survey of entrepreneurs found that 83% do not access loans or VC funding; 27% of those who receive VC funding attended Ivy League universities; 1% of VC funding goes to African-American founders; and 2% of VC funding goes to women-led firms.

Philip Gaskin then discussed his own history connecting entrepreneurs and the Kauffman Foundation's approach to inclusive entrepreneurship. In his experience, the biggest challenges facing social impact-minded entrepreneurs are access to capital and finding a connected entrepreneurial community. Kauffman seeks to connect entrepreneurs to communities so that entrepreneurs, particularly underestimated and rural founders, face fewer barriers. These barriers are substantial. Kauffman's survey of entrepreneurs found that 83% do not access loans or VC funding; 27% of those who receive VC funding attended Ivy League universities; 1% of VC funding goes to African-American founders; and 2% of VC funding goes to women-led firms.

Importantly, the Kauffman approach is that connectedness has to happen and improve at the community level. So long as current systems are unaddressed, these capital gaps will continue to be perpetuated. One way that Kauffman has tested how to be an active part of a solution is by developing alternative funding structures to reach underrepresented communities. Incorporating these communities is a necessary step for creating a sustainable economy.

The panelists reiterated the importance of a consistent impact metric, but believe that the floor is rising for sustainable investing.

HAS THE JOBS ACT OF 2012 HELPED START-UPS?

Chair: Marc Paul, *Partner*, Baker McKenzie LLP

Panelists:

- **David R. Knop**, *Executive Director, Process Development*, Applied Genetic Technologies Corporation
- **Kevin Laws**, *CEO*, AngelList
- **Martha Legg Miller**, *Advocate for Small Business Capital Formation*, U.S. Securities and Exchange Commission
- **Michael Piwowar**, *Executive Director*, Milken Institute Center for Financial Markets; *Former Commissioner*, U.S. Securities and Exchange Commission

The Jumpstart Our Business Startups (JOBS) Act of 2012 created unprecedented opportunities for small businesses to raise capital. Among other things, the act lifted the ban on general solicitation, enabled equity crowdfunding and increased limits on the shareholders of record in private companies. Yet we know little about whether these changes have resulted in job creation, innovation and increased entrepreneurship. Additionally, what changes could be made to the JOBS Act that would augment its effectiveness?

The Jumpstart Our Business Startups (JOBS) Act of 2012 created unprecedented opportunities for small businesses to raise capital.

Marc Paul led off the discussion by giving an overview of the provisions of the JOBS Act of 2012 and how later revisions address some of the shortcomings of the initial act. Now, $1.07 million can be raised through equity crowdfunding every 12 months, general solicitation can occur through TV, the internet and other means, and emerging growth companies (EGCs) have relaxed requirements for IPOs, such as no longer having to provide auditor attestation under Sarbanes Oxley (SOX).

Greg Weaver gave a clear example of how the changes in the JOBS Act influenced his company, Eloxx Pharmaceuticals. He explained that most biotech companies are pre-revenue, and thus must raise significant capital in order to develop drugs over a 10-15 year period. The exemption from SOX 404(b) auditor attestation requirements enabled Eloxx to save approximately $800,000 a year in compliance costs. Weaver explained that since biotech EGCs increase employment by 178% during the five years after an IPO on average, the smaller regulatory burden created by the JOBS Act resulted in a large boon for job growth.

Kevin Laws, CEO of AngelList, experienced benefits from the JOBS Act in a different way. Before the JOBS Act, companies were not allowed to conduct general

solicitation, so AngelList was created to bring investors to companies directly. Yet in order to operate at a profit and grow to reach more entrepreneurs, AngelList would have had to be registered with the Financial Industry Regulatory Authority (FINRA), a burdensome requirement. Combining the online platform rule 201(c) with a No Action letter from the Securities and Exchange Commission enabled AngelList to operate as a venture capital firm and write much larger checks to entrepreneurs. AngelList now has more than $1.8 billion under management and reached over 1,500 startups in 2019, indicating that the reduced regulation has made a big impact on funding early stage startups.

However, Laws believes that the JOBS Act still needs further revisions. "One of the things I want to see changed is to allow more secondary options for early angel investors." Successful angel investors still have their capital locked up for decades. Since 50% of their investors' returns go back into new startups, enabling more liquidity would result in further entrepreneurial investment.

While the regulatory changes that arose from the JOBS Act have made a direct impact on funding entrepreneurs, Michael Piwowar, former SEC commissioner, explained that the act resulted in another type of impact: refocusing the SEC on enabling the capital formation process. The mission of the SEC is to protect investors, regulate the market and promote a fair capital formation process.

Piwowar believes that the JOBS Act helped the SEC refocus on the capital formation part of the mission. The act made Congress "wake up" and see that a "cheerleader within the SEC was needed to promote this mission." The result was the creation of the position of Advocate for Small Business Capital Formation, currently held by panelist Martha Legg Miller. In a nod to his fellow panelist, Piwowar said, "So, in terms of 'What are some of the positive outcomes of the jobs act?' Well, she is sitting right there."

While appreciative of the introduction, Legg Miller shared that she was aware of hesitation that small businesses might feel when thinking of the SEC working to promote capital formation. She cited a quote from Ronald Regan, saying, "The most terrifying words in the English language are 'I'm from the government and I'm here to help.'"

Despite reservations, Legg Miller explained that her office tries to help "small" businesses – startups to small public companies and everything in between. She and her colleagues reach out to businesses that wouldn't otherwise be heard from in Washington. Legg Miller shared that, while the JOBS Act has enabled

crowdfunding through Regulation CF, the most common private placement still occurs through Rule 506(b).

Legg Miller said that the SEC is working to help smaller businesses for many reasons, not the least of which is the changing nature of publicly traded companies. The number of traded companies has dropped over time, from 8,090 in 1996 to 4,397 in 2018. Yet the market cap of these companies has grown, from roughly $5 trillion in 1996 to more than $30 trillion in 2018. So, fewer companies are publicly traded, but they are much larger on average.

After each panelist was given a chance to share, the question was raised to the group: How has the JOBS Act of 2012 influenced job creation? Piwowar acknowledged that we are still missing data on this. He encouraged academics to research the question in order to inform policymakers of the efficacy of this significant piece of legislation.

ENTREPRENEURSHIP IN REGULATED MARKETS: BURDEN OR BOON?

Chair: Vickie Gibbs, *Executive Director, Entrepreneurship Center*, UNC Kenan-Flagler Business School

Panelists:

- **Susan Cates**, *Partner*, Leeds Equity Partners, LLC
- **Chris Elmore**, *Community Evangelist*, AvidXchange
- **Eric Ghysels**, *Faculty Director*, Rethinc. Labs; *Edward Bernstein Distinguished Professor of Economics*, UNC-Chapel Hill; *Professor of Finance*, UNC Kenan-Flagler Business School
- **Bill Starling**, *CEO*, Synecor

Regulatory barriers to entry can distort markets and limit innovation, but also result in breakthrough business models facing less competition. Examples include fintech, medtech and edtech. This session examined the challenges specific to entrepreneurship and innovation in regulated industries.

Regulatory barriers to entry can distort markets and limit innovation, but also result in breakthrough business models facing less competition.

Bill Starling started the session by describing the regulatory complexities of the medtech market. Food and Drug Administration (FDA) approval for medical device products can sometimes take more than a decade. For example, approval for the TAVR heart valve replacement device took 17 years and $2 billion in funding. One

strategy for ventures is to minimize the number of approvals required to bring a product to market. For example, iRhythm focused on the unmet customer need for an affordable way to detect heart conditions. The company created a simple, bandage-like device that collected data about the heart, which allowed them to avoid regulatory scrutiny. Even so, the product required $100 million to complete the clinical trials. Starling closed by noting that regulated markets are difficult to enter, but once a venture successfully enters the market, it can do very well and find protected positions.

Susan Cates provided perspective as both a business operator and as an investor within education. Cates believes that success in regulated markets often requires "nontraditional thinking inside traditional institutions." Cates described the "stroke of the pen" risks and tailwinds that can occur when policymakers pass new laws or provide regulatory guidance. For example, regulators slowed the rapid growth of some for-profit online colleges and sent their profits tumbling. On the other hand, the introduction of the No Child Left Behind Act resulted in $6 billion of grants for literacy efforts. The cost of doing business in a regulated market adds a level of uncertainty, said Cates. Operating in such a market sometimes requires persistence and sometimes a pivot, and sometimes alliances with strong partners help to provide stability. Despite the challenges of a regulated market, Cates suggested that entrepreneurs can find success, as long as they are ready to embrace its complexities.

Eric Ghysels offered a perspective on regulated markets based on rigorous research across numerous settings. Ghysels pointed out that following the U.S. Civil War, the banking sector decided it could self-regulate. Eventually, the banking system failed and required regulation. A similar industry pattern happened prior to the Great Depression, and banking regulation once again followed to protect consumers and markets. In the last 20 years, the Sarbanes-Oxley Act (2002) and the Dodd-Frank Act (2010) responded to additional financial crises. Ghysels argued that the technology sector is likely the next major industry to experience strong regulation. Social media and artificial intelligence will face increased scrutiny from lawmakers. Technology entrepreneurs must be ready to work within a new regulatory environment. For example, the "right to be forgotten" flies in the face of blockchain technology that is designed to be permanent. Entrepreneurs face both technology and regulatory ambiguity and must be ready to adopt new levels of ethical responsibility and creativity.

Chris Elmore shared his own experiences working within financially regulated markets. Elmore built businesses within the regulated fintech market, but focused

on services outside of regulated activities. For example, he found that businesses had unmet needs for accounts payable processes and built products to fill those needs. In this way, Elmore's businesses operated within the regulated environment, but focused on unregulated services. As another strategy for entrepreneurs in regulated markets, Elmore recommended partnering with companies that have already achieved regulatory approval. In this way, the entrepreneur can fall under the umbrella of the larger firm, while delivering unique value-added activities to the larger product.

Are regulated markets a burden or a boom? Collectively, the panelists agreed that entrepreneurs face immense opportunities and challenges in regulated markets. Regulation can both shut down businesses and create opportunities. Entrepreneurs need to be ready for unexpected events in a regulated market. One strategy for business leaders is to focus on unregulated opportunities within the regulated markets. Another strategy is to form partnerships with businesses that have already received regulatory approval. Starling, Cates, Ghysels and Elmore demonstrated that success in a regulated market requires intimate attention to detail of both business activities and regulatory activities. Entrepreneurs who are familiar with the regulatory details of their market's landscape will be best equipped to handle the opportunities and challenges they face.

Entrepreneurs face immense opportunities and challenges in regulated markets. Regulation can both shut down businesses and create opportunities. Entrepreneurs need to be ready for unexpected events in a regulated market.

ENTREPRENEURSHIP IN UNDERINVESTED AREAS

Chair: **Brett Palmer**, *President*, Small Business Investor Alliance

Panelists:

- **Aron Betru**, *Managing Director, Center for Financial Markets*, Milken Institute
- **John Dearie**, *Founder and President*, Center for American Entrepreneurship
- **Maryann Feldman**, *Faculty Director*, CREATE; *Professor of Finance*, UNC Kenan-Flagler Business School; *Heninger Distinguished Professor in Public Policy*, UNC Chapel-Hill

Brett Palmer opened the session by recognizing that within the discussion surrounding entrepreneurship, there are some sectors that are being left out of the conversation. Aron Betru explained how Milken institute has been addressing this issue under the larger umbrella of wealth inequality in the U.S., specifically bringing to attention disproportional growth opportunities among different communities. In particular, Betru explained that despite the consecutive months of job growth within the U.S., there has actually been a 91 percent drop in access to

capital for the African American community during the same period. Betru added that the flow of capital is not the end goal, but rather a means to achieve the vision of economic security for individuals and communities.

John Dearie joined in the conversation by pointing out the geographic concentration of economic growth since the great recession. Dearie explained that startups are important to economic growth, as they are disproportionately responsible for innovation, which drives gains in productivity. However, new business formation has mostly been clustered around four cities and also has not been a major concern for policymakers in Washington, D.C. in the past. However, with the new entrepreneurship caucus founded by the House of Representatives and Senate in 2019, Dearie suggested that we can "now move the needle to get at the two issues facing the country."

Maryann Feldman also questioned, as an academic, what the system of innovation looks like. "Only six cities have experienced growth in employment and wages," said Feldman, "and this prosperity is seen in college towns." Feldman particularly brought to attention how academic discoveries were not coming to fruition, unlike the abundant commercialization of products of academic labs in the past. This is a problem we must address, said Feldman, and the problem is systematic. Feldman also referenced a recent paper of hers that analyzes the closure of banks and the availability of financing to minority entrepreneurs, emphasizing that such issues have affected minority entrepreneurs, as well as local industries that are not in the realm of venture capital investments.

Palmer then asked the panelists if there would be some insight from other countries. Dearie spoke about the success of the Yozma initiative in Israel, where a lot of entrepreneurship was happening, but with zero venture capital. The government provided one-to-one matched funding to private investment that came into Israel, which created a vibrant venture capital environment. Dearie suggested that there could be a way to borrow this idea, to incentivize diversification of venture capital more equitably among geographic regions.

Palmer then followed up with an inquiry about the appropriate size and structure of funds that could also touch upon the issue of inequality. Betru responded by bringing in the consolidation of banks post-2008, explaining that consolidation will increase fund sizes, leading to deal sizes that are not appropriate to serve the smaller entrepreneurs that are actually the most innovative. He emphasized that we need to find a better balance between compliance and growth. Feldman also questioned whether using ROI as the criteria to judge these small businesses

was appropriate, given the nature of the businesses. Feldman explained that the companies are not yet attractive based on ROI, but the government does not understand the unique opportunity for it to seed these companies.

Dearie agreed with the other panelists, adding that the Dodd-Frank Wall Street Reform and Consumer Protection Act "overreached." The rule was written so broadly, said Dearie, that it shut down banks involved in venture capital investments. However, the banks that were participating in VC, Dearie explained, were actually the ones providing capital into the middle section of the country.

Palmer brought the conversation to an end by asking the final question: "What are some of the myths about underserved communities?" Betru answered that there is a myth that businesses within opportunity zones are not worth investing in. Most opportunity zone funds are flowing into real estate, he said, but this is merely because the opportunity cost of investing in businesses in these zones is higher compared to investing in real estate, not because the companies are not investable. Dearie suggested that entrepreneurs cannot ignore policies and that entrepreneurs and policymakers need to get together to solve problems. Feldman concluded by saying there is so much dissatisfaction regarding regulations, but what is really important for the community to understand is that this is a fragile system, and "we want to tune it, not destroy it."

This conference proceeding was made possible thanks to the generous insights of its contributors:

Melody Chang, *Yale School of Management*

Vera Chau, *University of Chicago Booth School of Business*

Qingqing Chen, *Wharton School of Business*

Robert Hill, *UNC Kenan-Flagler Business School*

Travis Howell, *UNC Kenan-Flagler Business School*

Doris Kwon, *Yale School of Management*

Kelly Posenau, *University of Chicago Booth School of Business*

Prabhava Upadrashta, *Duke University - Fuqua School of Business*

Eric Volmar, *Stanford University - Management Science and Engineering*

Tyler Whittle, *Stanford University - Management Science and Engineering*

We put knowledge to work.

Established in 1985 by Frank Hawkins Kenan, the Kenan Institute of Private Enterprise is a nonpartisan business policy think tank affiliated with the UNC Kenan-Flagler Business School. The nonprofit institute and its affiliated centers convene leaders from the private sector, academic community and government to build a greater understanding of how entrepreneurship, economic development and global commerce can work for the public good. The institute leverages best-in-class research to develop market-based solutions to today's most complex economic challenges. In doing so, the institute aims to support businesses and policies that better the lives of people in North Carolina, across the country and around the world. Learn more at kenaninstitute.unc.edu.

kenaninstitute.unc.edu/in **@kenaninstitute** **/UNCKenanInstitute**