THE POWER OF ENTREPRENEURSHIP

Presented by CSG’s State Pathways to Prosperity Initiative
The Power of Entrepreneurship, 
And How To Promote IT

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Why Entrepreneurship?

Source: Haltiwanger (2012)
Share of gross job changes, cumulative, 1992–2006

<table>
<thead>
<tr>
<th></th>
<th>All states (%)</th>
<th>California (%)</th>
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<tbody>
<tr>
<td><strong>Job gains</strong></td>
<td></td>
<td></td>
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<tr>
<td>Expansions</td>
<td>41.8</td>
<td>40.6</td>
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<tr>
<td>Births</td>
<td>56.3</td>
<td>58.4</td>
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<tr>
<td>Moves into state</td>
<td>1.9</td>
<td>1.0</td>
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<tr>
<td><strong>Job losses</strong></td>
<td></td>
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<tr>
<td>Contractions</td>
<td>35.6</td>
<td>33.3</td>
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<tr>
<td>Deaths</td>
<td>62.3</td>
<td>65.1</td>
</tr>
<tr>
<td>Moves out of state</td>
<td>2.0</td>
<td>1.7</td>
</tr>
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Source: Kolko (2010)
Do’s and Don’ts of Supporting Entrepreneurship

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Typical Entrepreneurship Support?

1. Money
   - Venture funds

2. Place/Infrastructure
   - Incubation centers (accelerators?)

3. Univ. technology
   - Technology transfer office
1. Failure of (Public) Venture Funds

**Reasons for failure (Lerner, 2009)**
- Hard to pick winners
- 50% out within 5 years
- Politics overtake investment decisions

**Failure of private venture funds**
- 80% of VCs unable to return 3%/year (Bradley et al., 2012)
Alternatives to Money Problem

• The power of self-savings & bootstrapping (Motoyama et al., 2013)

• VC $ ≠ startups or high-growth firms (Motoyama & Bell-Masterson, 2014)

• Chicken or egg problem?
  o VCs invest in growing firms
2. Failure of Incubation Centers

Reality of incubation centers

• Over 1,400 incubation centers (NBIA, 2011)
• Average incubator: 1.8 full-time staff & 25 client firms
• Support services?
  o Accounting       Legal services
  o Management advice Intellectual property assistance
• Description of incubator staff:
  o “A computer expert, social worker, trusted counselor, front of all knowledge, endless source of contacts, fundraiser, and rent collector”
• Only prolonging dying firms (Amezcua, 2010)
2.5 Accelerators?

- Accelerator bubble?
- Different from incubators?
  - Highly competitive application process
  - Pre-seed investment, with equity exchange
  - Create a cohort of entrepreneurs, and focus on teams
  - Connect to mentors
- 1,436 companies accelerated; $1.18 billion raised (Konczal, 2012)
- No data available; No evaluation research yet
  - Outliers (Y-Combinator & Foundry)
  - What happened after funded?
3. Failure of Technology Transfer Office

• **Rationale**
  - Bridge professors and companies
  - Formalize university’s intellectual property

• **Reality: Proprietary office**

• **University startups? (426-703 / year by AUTM)**
  - They remain small (Harrison and Leitch, 2008)

• **World-class university, poor entrepreneurship:**
  - Baltimore

• **No world-class university, good economic development:**
  - Portland, Seattle, Boise (Mayer, 2011)
Challenges Faced by Entrepreneurs

• An entrepreneur faces a number of problems
• Entrepreneurs cannot solve by themselves
• Entrepreneurs are not born, but must acquire various skills through learning & experience

• Less about money, but more about knowledge
• Not univ/scientific knowledge, but practice knowledge

• Local connections
• Peer-to-peer learning
• Nascent & experienced entrepreneurs
Example 1: Startup Weekend

- “54-hour events where developers, designers, marketers, product managers and startup enthusiasts come together to share ideas, form teams, build products, and launch startups!”

- The final business plan is only means
- Where people get inspired and connected
Upcoming Events in Startup Weekend
Example 2: 1MC

- Weekly meeting of two entrepreneurs to present their startups to other entrepreneurs (Konczal & Motoyama, 2013)
- 6 min presentation, 20 min Q&A
Example 3: Pipeline Program

- “regional fellowship program designed to both equip high-growth entrepreneurs with the training, networks, resources and mentors to assist them over their entire career”
- To scale up: Company CEOs of $1 mil sales
- 3-month mentorship with bimonthly events (modules)
- To connect with peers, mentors, and supporters
Example 4: Inc Firms

- 75% of them had mentors in the past (Motoyama et al., 2013)
- Many of them are willing to give back
- Connect Inc entrepreneurs and startup entrepreneurs
Different Stages, One Ecosystem

Startup Weekend  
Before startup

Viable startups

1MC

Growing firms

Connecting w/ Inc firms

Pipeline

Big Companies

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Reorganize Incubators & Venture Funds

• Old Model

GOVERNMENT

INCUBATORS

VENTURE FUNDS

ENTREPRENEURS

• New Model

GOVERNMENT

INCUBATORS

VENTURE FUNDS

ENTREPRENEURS

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Making Twists with Incubators & Venture Funds

• Provide a shared space for entrepreneurs to interact
• Inject catalytic events
• Hire managers with business experience
• Connect with local mentors, lawyers, accountants, etc.

• Avoid one big prize, but distribute smaller prizes
• Create a cohort of peer entrepreneurs
• Coordinate with local entrepreneurship groups
From Tech Transfer to Human Transfer

- Another role of university: To produce human capital

- Higher startups & higher HS & college graduates (Motoyama and Bell-Masterson, 2014)

- Connect students and local startups

- Higher education was the most pathway for immigrants (Saxenian et al., 2002)
Data Collection

• No standard data on entrepreneurship & innovation
• Confidentiality issue with firm information

• Use publicly available information
• Disclose without violating confidential information
• Coordinate with local researchers

• Decide and track data about state & local programs
  o Beyond what was done: # of companies supported, # of jobs
  o Ask what kind of jobs, how many survived how long, then what happened to those entrepreneurs?
  o Benchmark between programs
Startups by Colorado Governor’s Office
Startups in Phoenix by NETS Data

- Source: Elizabeth Mack, Arizona State Univ.
References

• Amezcua, Alejandro S. 2010. Boon or Boondoggle?: Business Incubation as Entrepreneurship Policy, Doctoral Dissertation in Public Administration, Syracuse University, Syracuse, NY.
• Bradley, Harold S., Diane Mulcahy, and Bill Weeks. 2012. We have met the enemy ... and he is us. In Kauffman Foundation Research Series. Kansas City, MO: Kauffman Foundation.
• Harrison, R.T. and C. Leitch. 2010. "Voodoo institution or entrepreneurial university? Spin-off companies, the entrepreneurial system and regional development in the UK." Regional Studies no. 44 (9):1241-1262.