The background features a stylized American flag with a blue field of white stars and red and white stripes. A large, semi-transparent portrait of Benjamin Franklin's face is overlaid on the right side. A thick red curved line sweeps across the page from the top left to the bottom right.

2010

# STATE OF ENTREPRENEURSHIP

ADDRESS

January 19, 2010

KAUFFMAN

The Foundation of Entrepreneurship



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# State Of Entrepreneurship Address

National Press Club, Washington, DC  
January 19, 2010

By Carl J. Schramm,  
President and CEO, Ewing Marion Kauffman Foundation

**W**e are meeting here today at a grave moment in our national economic life. The recession that began just over two years ago has taken a horrific toll on this country. Despite so-called “green shoots” that economists claim to see sprouting up around every corner, the recession continues to be all too real for fifteen million unemployed Americans, a number that worsened last month despite this incipient recovery. While there is no magic solution to this, I want to talk today about a possible answer.

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Now, in the time it took for me to say those few sentences, one new company was founded in the United States, creating four new jobs. By the time I finish this speech, 20 new firms will have been started, creating roughly 80 new jobs. This is the hope and power of entrepreneurship—and while entrepreneurs are not the sought-after silver bullet, economic recovery will not happen without them.

I approach this as an economist, a class of thinkers now notorious for their failure to foresee the financial crisis and recession, yet insistent on their ability to bring us out of it. But I also stand here as the president of a foundation, whose donor, Ewing Kauffman, appreciated the contributions entrepreneurs make to our economy and society.

And yet, entrepreneurs are too often lost in glib economic policy discussions that center exclusively on interest rates, large-scale banks and federal programs. These are indisputably important issues. But these policy instruments or institutions are not the primary engines of economic growth and advances in human welfare. Only new companies bring forth new innovations and new jobs.

Increasingly, I am pleased to report, economists and policymakers are beginning to recognize the vital role of entrepreneurs. Happily, their heightened interest is due, in part, to the Kauffman Foundation’s significant funding of economic research. But even when policymakers do speak of entrepreneurship, it is most often in abstract terms—how much entrepreneurs contribute to this or that indicator, as if they were more a statistic than a living, human phenomenon.

And even that perspective can’t be taken for granted. The dominant schools of economic thought in the 20th century downplayed or ignored the role of entrepreneurs, preferring instead to see all economic activity as the creature of three fundamental forces: big business, big labor, and big government. Forgotten in this equation was the fundamental fact that every big company had to start small. There are no Athenas in business, no companies that spring fully formed from the mind of their founder. They all begin with one person and an idea.

That person is an entrepreneur ... and the idea is what sets him or her apart from the crowd, what compels him to

leave a job, strike out on her own, and take a big risk. When that risk pans out, the result is a fast growing company, hundreds and possibly thousands of new jobs, new wealth invested in every sector of the economy and spent in every corner of society, and—most fundamentally—a new product, service, or business model. Nearly everything we take for granted in our daily lives today began its own life in this way, as the creation of an entrepreneur. Think about automobiles, air conditioning and, more recently, software and search engines.

Given that entrepreneurs are vital to our nation's economic success and social health, how are they doing? What is the state of entrepreneurship today?

I have both the proverbial good news and bad news to report.

First, we know that in spite of everything, entrepreneurs are still active. Entrepreneurs are still the primary engine of job creation in the United States (Figure 1). In the last thirty years, literally all net job creation in this country has taken place in firms less than five years old.

To illustrate this point better, consider that eBay, in its first five years of existence, hired 640 people—an average of 128 new people per year. The eBays of the future are out there doing the same thing right now. A more recent example is Mary Naylor, founder and CEO of VIPdesk (based in Northern Virginia), who is here today and who will be joining our panel discussion later. Mary started her company with only \$2,000 and now runs the nation's largest corporate Concierge service.

This, ladies and gentlemen, is how recoveries are made.

Figure 1. The First Source of Job Creation: Startups

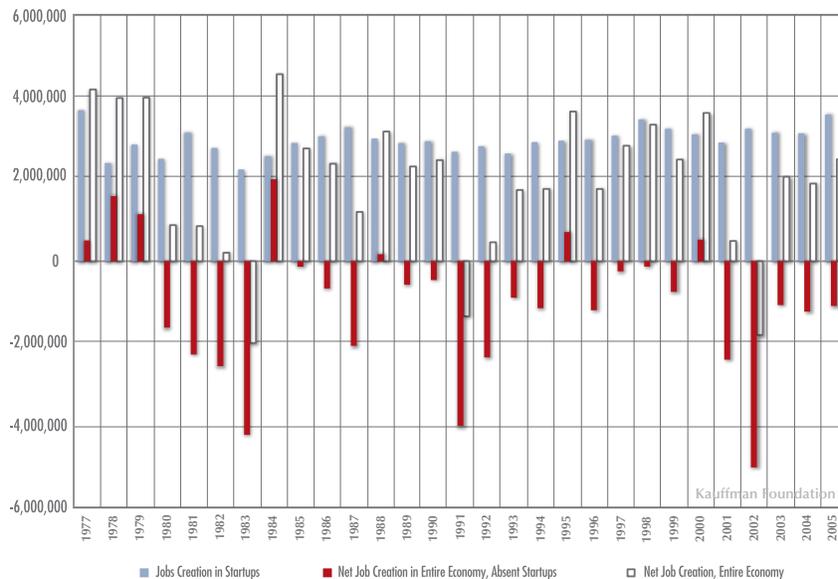


Figure 1. Source: U.S. Census Bureau, Business Dynamics Statistics, at <http://www.ces.census.gov/index.php/bds>.

New and young companies and the entrepreneurs that create them are the engines of job creation and eventual economic recovery.

## Mary Naylor, Founder and CEO of VIPdesk

The past eighteen months have been difficult for Mary Naylor, founder and CEO of VIPdesk, a business-to-business firm that provides customer service and concierge support. While the recession temporarily drained her pipeline of new clients, she was re-organizing her business structure to make sure that her employees could keep their jobs—all 400 of them.

“We made every cut imaginable—trade shows, sodas—but we didn’t cut a single person,” Naylor said. In fact, VIPdesk managed to increase its workforce, hiring almost 400 temporary employees from October through February to accommodate the company’s busy season.

A career entrepreneur, Naylor has been running a company and creating jobs since she was twenty-four years old. Her first venture was a Washington, DC-based concierge service, funded with \$2,000 she borrowed from her mother. In the first few years, the company grew so quickly that Naylor decided to spin off VIPdesk as a virtual version of her service.

Naylor had potential clients and was able to raise startup capital from the beginning. Her challenge was to build a staff quickly enough to keep up with the growth. “In the first three years, we went from zero to 100 employees. By year five, we had 300,” she said.

Her solution was to set up a system of home-based agents who would work remotely. “We were among the first to do this and everything had to be created: how do you connect with employees, how do you train them,” Naylor said. “It allowed us to tap into a whole new workforce and create professional positions.”

During those early days of growth, VIPdesk invested so much in training its employees that every penny saved in taxes mattered, and she sought out incentives for developing skilled workers. “Businesses are what create the tax bases for everything else,” she said. **“Additional dollars that have to go out the door are crucial for a small business.”**

Second, entrepreneurs are not easily discouraged. We know from our own research at Kauffman that past recessions have not prevented the formation and growth of great companies: half of today’s *Fortune* 500 companies were founded in a recession or bear market. In boom times and in tough times, roughly 600,000 new firms are formed every year in America: about one per minute (Figure 2). That number is surprisingly constant. One might expect to see it fall in recessions, but it doesn’t—in part because laid-off and underemployed workers often take the entrepreneurial leap, a step they perhaps avoid in more stable times.

Figure 2: Annual Number of Startups

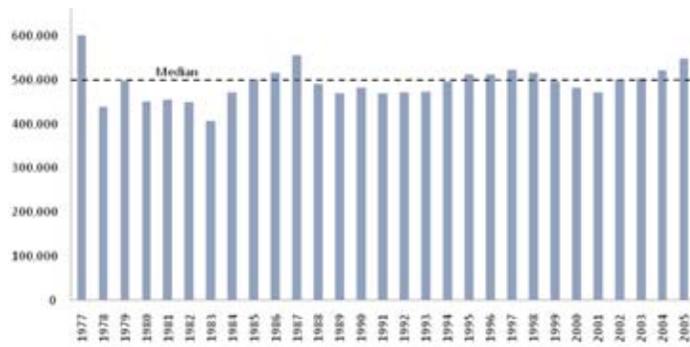


Figure 2. Startups, 1977–2005. Source: Business Dynamics Statistics, at [http://www.ces.census.gov/index.php/bds/bds\\_overview](http://www.ces.census.gov/index.php/bds/bds_overview).

**Roughly 600,000 new firms are formed every year in America:  
about one per minute.**

Third, as America ages, the pool of potential entrepreneurs only increases. Contrary to popular belief, entrepreneurs by and large aren't kids working in their parents' garages. The average age of company founders in this country is forty! Moreover, there are more people aged fifty-five to sixty-four starting businesses than there are people aged twenty to twenty-four (Figure 3). These are seasoned professionals, bringing the benefits of their expertise and activity to the communities and institutions that nurtured their talents and careers.

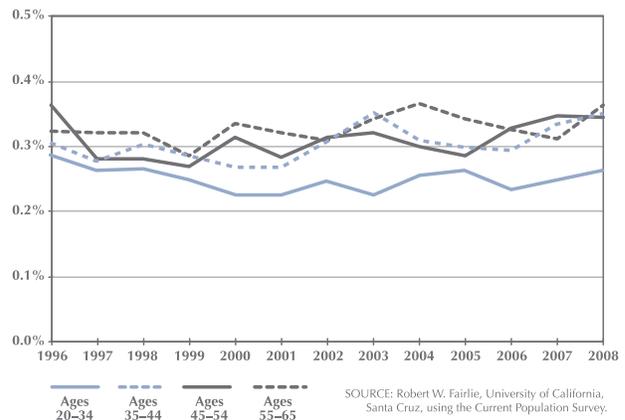
### So, what's the bad news?

In a new poll we just completed, entrepreneurs paint a pretty grim picture. One-third of entrepreneurs tell us they have had to reduce their head counts in the past year, and close to two-thirds have seen their sales volume decrease. Two-thirds have seen their profitability decline as well. Additionally, and this is very worrisome, over 70 percent of entrepreneurs say that they don't expect to add additional employees this year.

Worse, with this continuing unemployment, consumers are understandably nervous about spending. In such an environment, it won't just be more government spending that will get consumers to open their wallets—responsibly, I might add, we don't want consumers overdoing it, as too many were pre-crisis by using their houses as ATMs. But this responsible spending, both here and abroad, won't happen until consumers are once again excited to spend—not on the things that were around before the housing bubble popped, but on novel products and services. Once these are developed and widely commercialized, a virtuous cycle can begin. As consumers spend more, businesses have reason to invest and hire. And the more hiring that occurs, the higher incomes and spending will be. And then we will have the recovery we all want and are waiting for.

But to get this virtuous ball rolling we need—guess who—entrepreneurs, who are responsible for most of the breakthrough products that have changed our lives for the better. We need entrepreneurs for today's breakthroughs in energy generation—only they will develop and commercialize the successor to petroleum. We need breakthroughs in health and medicine—and only entrepreneurs will bend the cost curve and continue to extend life expectancy. Entrepreneurs also will continue to provide services we need and want, such as Rosetta Stone, Zappos, and Mint.com.

**Figure 3. Kauffman Index of Entrepreneurial Activity by Age (1996–2008)**



**In every single year from 1996 to 2008, Americans between the ages of fifty-five and sixty-four had a higher rate of entrepreneurial activity than those aged twenty to thirty-four.**

We could wait for history to repeat itself, to generate the future *Fortune* 500, as entrepreneurs have done in previous downturns. But with another 85,000 jobs lost last month, I, for one, would be much more comfortable if we had some policies to help history along. Here, then, are some big ideas in that spirit.

First, let's rationalize our immigration system. Over the last decade and a half, fully one-quarter of all technology firms founded in the United States were started by immigrants. Factor in first-generation Americans—the children of immigrants—and the percentage rises. Reggie Aggarwal, founder and CEO of Cvent, has created some 500 jobs in the Washington area. Reggie is here today and will share his perspective during our panel discussion.

Our immigration policy needs to be friendlier to people like Reggie and his parents. We could start by offering instant citizenship to any of the thousands of bright young people from foreign countries who graduate from our universities. We also should change the provisions of the EB-5 visa, the so-called "entrepreneur's visa." Rather than requiring prospective immigrants to bring cash into the country—the current rule requires \$1,000,000 (or \$500,000 if the company is in a

## Reggie Aggarwal, Founder and CEO of Cvent

As the son of Indian immigrants, Reggie Aggarwal grew up hearing stories about his Indian father putting himself through engineering school by working at a restaurant. Just thirty years later, Aggarwal is now founder and CEO of a company with 500 employees.

Aggarwal had just finished law school in 1996 when he started the Indian CEO Tech Council, an organization that grew to hundreds of CEO members, most of them first-generation immigrants. Talking with these CEOs, he realized that immigrants to the United States might actually have a leg-up when starting a business. “These CEOs were foreign and many of them weren’t articulate enough to compete in the corporate world. But they thrived in their own companies.”

Aggarwal was inspired to try entrepreneurship. In 1999, he opened nine credit cards in one hour and used the cash to start Cvent, an event management software company. Cvent raised \$18 million in venture capital and grew to 125 employees in less than a year. But as the dot-com bubble burst, Cvent struggled with the same issues many entrepreneurs do: how to make payroll, trim costs, and avoid layoffs as much as possible. The company laid off people to survive, but with a committed executive team, they survived the recession and began to grow.

In the startup phase, a few thousand dollars each month meant the difference between continued growth and layoffs. Revenue that came in went straight to pay employees, but Aggarwal and his executive team remained committed, outperformed competitors, and expanded Cvent’s product lines. **The company now boasts eighty-six consecutive months of profit, has 24,000 users in twenty countries, and has plans to hire an additional 120 employees in 2010** in addition to the 100 new staffers it employed in 2009.

Aggarwal believes that an open immigration policy will lead to more stories like his. “You are taking the cream of the crop of a country when you take immigrants,” he said. “They must be pretty driven people to leave their homeland looking for more opportunity. They have chutzpa. They take risks and are by nature very entrepreneurial.”

distressed area)—we should favor those who plan to come and start companies, and extend their visas once they begin hiring American residents. Countries such as Singapore already allow in new immigrant entrepreneurs who bring in far less, \$50,000, than we require. The United States simply cannot afford to lose the emerging global race for entrepreneurial talent.

Another high-impact, low-cost reform would be to make some of the more onerous Sarbanes-Oxley requirements optional. SOX was enacted, after all, to protect shareholders. So why not allow shareholders to vote on whether their companies will fulfill certain SOX requirements? This would permit companies whose shareholders don’t feel the benefits of SOX outweigh the costs to access public capital more quickly and less expensively than is the case now.

Our third idea won’t be cheap, but it would be effective. Let’s exempt firms less than five years old, the ones that historically are responsible for virtually all net new jobs, from payroll taxes. Doing this on a temporary basis—say, two years—would strengthen the incentive to hire while limiting the impact on the deficit. In this spirit we might also consider

measures that encourage local banks to steer money into new companies.

The final three ideas all concern education. Let’s start from the top—the faculty. It’s time to implement a model of choice for academic entrepreneurs. Currently, professors can choose where to publish the results of federally funded research but can’t choose what might even be more important to our economy—the appropriate expert to commercialize and license their technology. Professors are required to follow one path, the one defined by their university. Let’s instead find multiple avenues to commercialize our federally funded research and use the right people to focus on economic outcomes. We are not talking about changing the Bayh-Dole legislation—it was the correct decision to have the university “own” federally funded inventions, but that does not mean universities have to control the licensing of these innovations. Rather, let’s allow a free market in the licensing of technology developed by university faculty to flourish, which would bring consumers the benefits of new technologies much more quickly. Frank Douglas, another of our panelists, a former pharmaceutical industry leader, and now the president and CEO of the Austen BioInnovation Institute in Akron, Ohio,

has dealt with many university scientists attempting to commercialize their technologies. He'll have more to say about all this shortly.

Our universities also are teeming with very smart graduate and post-doctoral students in the hard sciences, engineering, and other fields. A great many of them also have ideas that can be commercialized, but no idea how to go about the process. The post-doctoral fellowship, to enable students to continue their research, perhaps as a route to an academic career, has become a part of the academic landscape. We have 47,000 postdocs in the U.S.—highly educated and potentially underutilized talent. It's time for the federal government to pay for commercialization fellowships, along with special training and mentoring to allow the right ones to become scientific founders. Our new initiative, Kauffman Labs for Enterprise Creation, is doing pioneering work in this area.

Finally, we have to make much better efforts to capture the imagination of the young. The earlier we can interest students in entrepreneurship the better. Programs that introduce undergraduates to the possibilities of business creation can open up new horizons for talented kids and

unleash an entrepreneurial drive that hitherto had lain dormant. The Network for Teaching Entrepreneurship, or NFTE, does great work in this area with high school students, primarily in the urban core. At the collegiate level, there's a promising new model at the University of Miami called LaunchPad that is housed in the school's career counseling center. In just a year of putting a sign on the door, nearly 1,000 students from all fields of study got involved—proof that the entrepreneurial spirit is alive everywhere and often just needs a bit of nurturing.

This list of suggested policy steps is hardly complete. I offer these ideas merely to jump-start a much-needed conversation—at a time when our nation is bleeding jobs and needs some fresh solutions. Happily, 85 percent of the entrepreneurs in our new poll still believe this is a great country in which to start a business. And close to three-quarters of Americans want policies that will support entrepreneurship.

Unleashing these innovators...these risk-takers...these *job-creators* is the best way to assure a sustained recovery, and to assure that the state of our union is strong.

## Frank L. Douglas President and CEO of Austen BioInnovation Institute in Akron

An award-winning industry veteran with more than twenty-four years of experience in health care, pharmaceutical research, and entrepreneurship, Frank Douglas serves as day-to-day chief strategist for the Austen BioInnovation Institute in Akron, Ohio, a new biomaterials institute built on a unique collaboration of five leading medical and educational institutions.

A proven biomedical thought leader, Douglas founded Massachusetts Institute of Technology's Center for Biomedical Innovation, a program designed to bring industry heavyweights—medical researchers, federal regulators, and philanthropists—together to solve critical real-world problems related to health care innovation and delivery.

According to Douglas, the problem with much of today's academic research is that it is often unfocused and disconnected from the real-life needs of the patient. **Scientists and engineers at universities and hospitals need to be provided with the knowledge and skills necessary to advance their discoveries beyond the laboratory.**

"There are countless academics who are interested in application, but many don't have the time or the inclination to be entrepreneurs," noted Douglas. "Whether the topic is neuropathic pain or obesity, taking science to market requires commercialization skills and a knowledge base not typically taught in our universities. Ultimately, it requires partnerships with entrepreneurs and/or industry veterans with both skills and resources. We must break down university and industry barriers and build new models of collaboration if we are going to foster the economic outcomes of university-funded innovation."

Douglas has served as senior fellow of the Ewing Marion Kauffman Foundation, senior partner of Boston-based Puretech Ventures and chief scientific advisor for Bayer Healthcare, AG.

## Poll on Entrepreneurship

**A** new poll, commissioned by the Ewing Marion Kauffman Foundation and conducted by Douglas E. Schoen, LLC, finds that entrepreneurs and prospective entrepreneurs—the primary job creators in our economy—are by and large not playing the role we need them to play to get our economy moving again.

These people are pessimistic in the short-term about the economy, but optimistic about the prospects for their business. Prospective entrepreneurs are more optimistic about their personal economic situation and about our country's economic future, as they hope to start a business, than are actual entrepreneurs, who are on the front lines and struggling in this current economy. But there is a clear consensus in both groups about what needs to be done to create jobs: tax credits for investing in research and development, payroll tax cuts, expanding lending and access to credit, and removing red tape.

Many entrepreneurs are sitting on the sidelines. They are worried about economic prospects, reluctant to hire and spend, watching their own businesses shrink, and believe that many policies either currently enacted or expected to be enacted will make conditions worse.

Potential entrepreneurs—people who would like to start a business—are not prepared to take that risk at this time, for most of the same reasons. Both groups reported that their own personal economic situation was one key cause of their reluctance to hire and invest, but potential entrepreneurs were more confident in their own finances than active entrepreneurs.

More specifically, 61 percent of entrepreneurs say that the economy is on the “wrong track.” A solid majority say that the recession is not over, and will not end for at least another year. Two-thirds or more report that their own businesses have shrunk, that profitability is down, and that they don't expect to hire in the coming year. More than one-third say that they have had to lay off employees in the past twelve months.

Current entrepreneurs' assessment of the economic problem facing the country that worries them most varies. They site adverse policies, from bailouts to deficits, but also broad external events such as the financial crisis. None is cited with anything close to a clear majority, with the fiscal crisis—in the number one position—being mentioned by just 17 percent of this group. However, 42 percent of potential entrepreneurs—the highest response for any category by either group—say that the ability to generate jobs is the country's most worrisome economic problem.

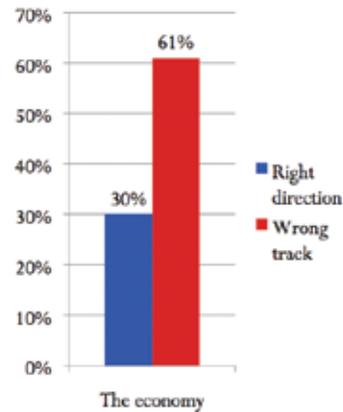
Entrepreneurs are clearer about what they believe needs to be done. Above all, they believe that real tax relief would help jumpstart the ailing economy. Three-quarters want to see more tax credits for research and development and an elimination of the payroll tax, a move that would greatly spur hiring. Additionally, two-thirds said they would like to see more lending from the Small Business Administration, and state aid to help prevent layoffs. Potential entrepreneurs responded even more favorably to these ideas, supporting them in some cases by more than 80 percent.

Both active and potential entrepreneurs remain optimistic about the near-term prospects for the American economy, but are more troubled about the long term. Eighty-five percent say that now is a great time to start a business, but only two-thirds believe that will still be true in ten years, a figure that shrinks to 62 percent when asked about the prospects for business two decades from now.

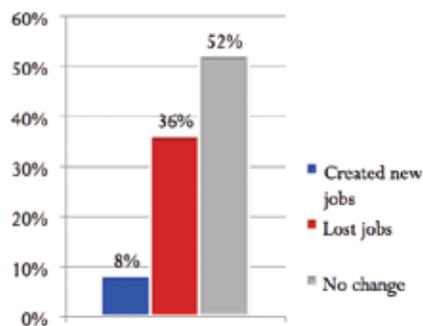
The poll was conducted between January 4 and January 8, 2010. A representative sample of 1,200 Americans was interviewed, among which about 350 entrepreneurs and 215 potential entrepreneurs were identified.

## Entrepreneurs – Mood of the Country

- There is a clear sense that the economy is heading in the wrong direction.
- 61% of entrepreneurs say that the economy is on the wrong track.
- 30% say it is headed in the right direction.



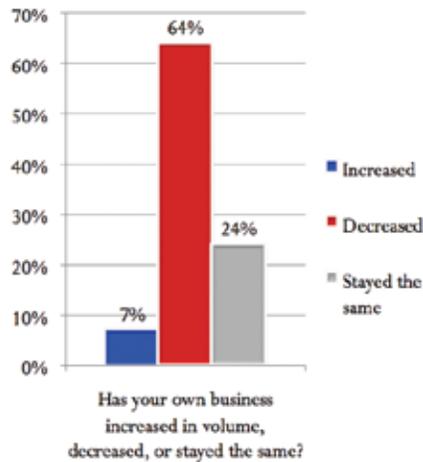
## Entrepreneurs – Job Creation



As entrepreneurs, have you created new jobs in the past year, lost jobs within your business, or has there been no change?

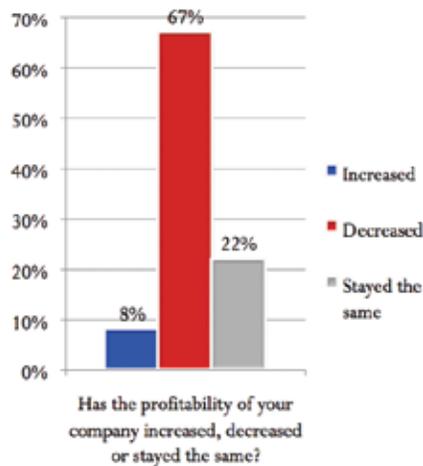
- 36% of entrepreneurs say that they have lost jobs within their business in the past year.
- 8% say that they have created jobs in the past year.
- 52% say there has been no change.

## Entrepreneurs – Size of Business



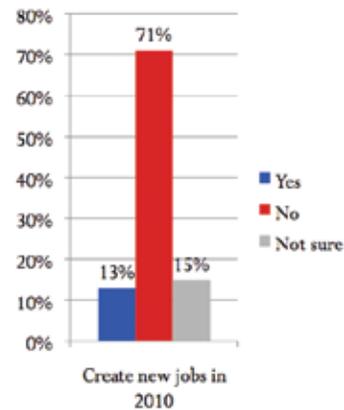
- 64% of entrepreneurs say that their own business has decreased in volume.
- 7% say it has increased in volume.
- 24% say it has stayed the same.

## Entrepreneurs – Profitability of Business



- Two-thirds of entrepreneurs say that the profitability of their company has decreased.
- 8% say it has increased.
- 22% say it has stayed the same.

## Entrepreneurs – Create New Jobs in 2010



- 71% do not expect to create new jobs in 2010.
- 13% of entrepreneurs say that they expect to create new jobs in 2010.
- 15% are not sure.

## Entrepreneurs – Create New Jobs in 2010

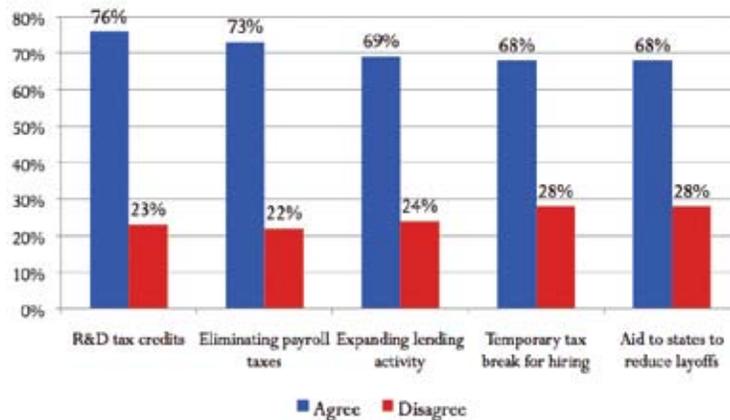
Among entrepreneurs who say that they do not expect to create jobs in 2010, over one-third say it is because the economy has taken a toll on their business.

Why don't you expect to create new jobs in 2010?	Percentage
The economy has taken a toll on my business	34%
My business is not growing	20%
I don't need more employees	17%
I don't have the revenue to pay for more employees	12%
Some other reason	14%

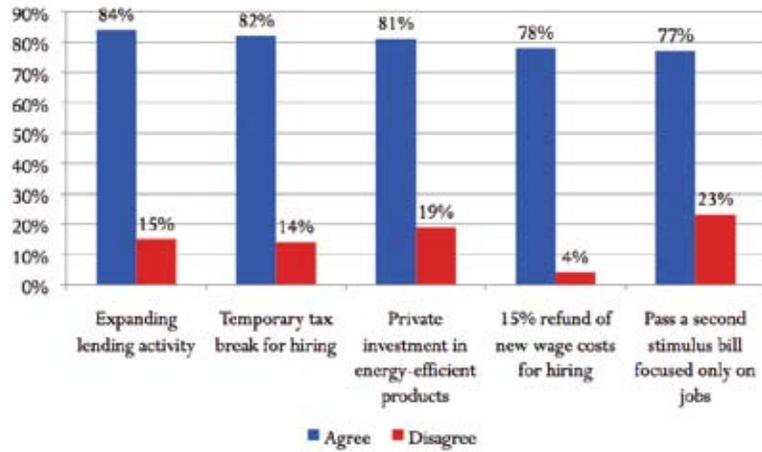
## Economic Problems Facing the Country

What economic problem facing the country worries you most?	Entrepreneurs	Potential entrepreneurs
Another financial crisis	17%	9%
The ability to generate jobs	15%	42%
Too many bailouts	14%	7%
The deficit	13%	18%
Affordable health care	10%	17%
Unemployment	9%	2%
Inflation	7%	4%
Taxes increasing	7%	2%
Environmental problems	7%	0%

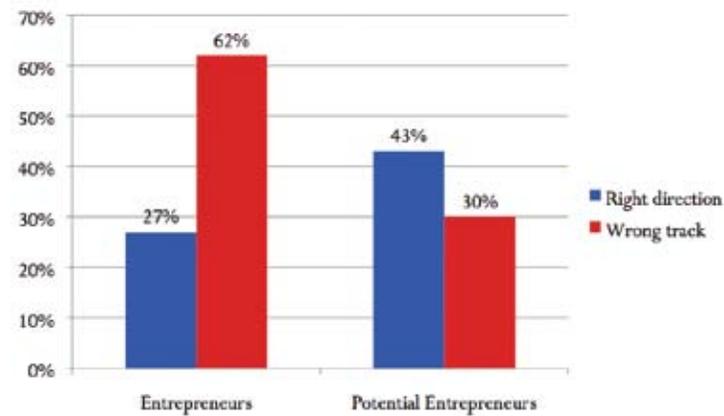
## Job Creation Policies



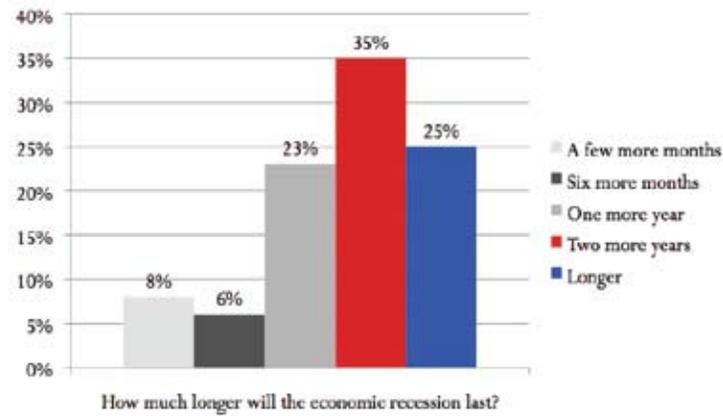
## Job Creation Policies



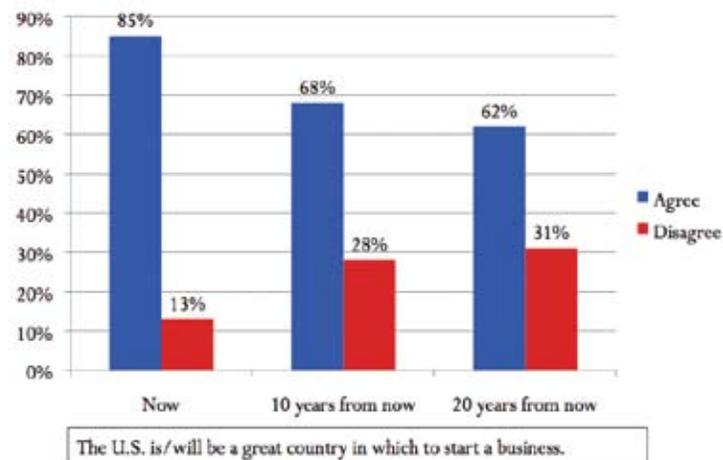
## Personal Economic Situation



## Entrepreneurs – Length of Economic Recession



## Starting a Business in the U.S.



To join the Entrepreneurs' Movement, and to view a video of the full State Of Entrepreneurship Address, including the panel discussion, go to [www.BuildAStrongerAmerica.com](http://www.BuildAStrongerAmerica.com).

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