THE "NEW LEARNING" IN ENTREPRENEURSHIP
Ninth Anniversary Address

April 15, 2011

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Anniversaries compel reflections on the past and resolutions about what is to come. The future of the Kauffman Foundation will reflect what we have accomplished—yet, we must diverge from it. While this observation may seem obvious, forming each year's program initiatives by examining our past efforts and trying to improve on them is not as easy as it might seem. Self-criticism is not something humans eagerly embrace. This is especially true in an organization that doesn't face a market test. To be effective in expanding human welfare through programming in entrepreneurship and education requires periodically asking uncomfortable questions.

The most important, of course, is: Why weren't we smarter when we started out? Put another way, we constantly find ourselves asking, "If we knew then what we know now, would we have even made that grant?" This is typically followed by, "Given what we have learned, what should we do differently?" One reason these questions occur is because the transparency with which we make grant decisions requires that we ask, and answer, them together.

Considering what we and our partners have accomplished so far, we have much to be proud of—the innovations on many fronts, the human capital we have helped to build, the new institutions we have engineered into being, and the new knowledge we have contributed to humanity's storehouse. Along the way, our reflective culture has taught us the importance of developing the skill of intellectual synthesis. Without it, we would be at risk of what besets many philanthropies—uncertainty that they have made any real difference in "expanding human welfare"—which is, as we publicly state on our website's homepage, the goal of this Foundation.

Also, unlike many nonprofit organizations, we do not measure impact merely by counting the numbers of people "touched" or "served" in some way by grant dollars. We extend our reach by leveraging a force more powerful than dollars: ideas. What is arguably our greatest contribution so far has come from this form of leverage. We are reshaping economic thinking in this country (and, increasingly, in other countries) by having established a basic intellectual connection—by showing that economic growth, and thus human well-being, depends upon entrepreneurs.

It is our Foundation that has built out the conceptual links and the empirics to prove what Mr. Kauffman's directive presaged so clearly. "Every individual that we can inspire, that we can guide, that we can help to start a new company, is vital to the future of our economic welfare." The statement may appear to be self-evident. As with many profound insights, one is tempted to ask, "But, doesn't everyone know this?" The simple answer is no. Indeed, as our senior advisor Will Baumol reminds us, if we were to see economics and business theory as products of the mind akin to Shakespeare's "Hamlet," it is fair to say that many of our smartest thinkers have forgotten to write the prince into the play.

From my personal experience in the circles where public policy is made, I know firsthand that our having connected the entrepreneur to economic growth is now influencing policy. One of the more visible signs has been the White House embracing our idea to establish the Startup America Partnership, which already is being copied in the United Kingdom with the Startup Britain initiative under Prime Minister David Cameron. But, as suggested, Kauffman is also contributing at the level of fundamental economic theory. We have gained important new insights through our data-based research, our demonstration projects, and our experimental grants. Much of this was made possible by Kauffman determining that a longitudinal data series on firm formation was needed if we were ever to overcome the "everybody knows how it's done" mindset that prevails in thinking about how businesses start and grow. This work has touched on every aspect of the creation of new firms, including their human capital needs, their importance as creators of technology, how investment capital is allocated to them, and their life cycles.

On the teaching front, though, a major challenge remains. It has to do with the teaching of entrepreneurship itself. While the conundrum of whether entrepreneurs are "born or made" cannot be settled, the process of starting successful businesses involves skills and principles that seem to be learnable, and thus should be systematically teachable. The Kauffman Foundation has done a great deal to help propagate this view. Thanks in no small part to our work over the years, entrepreneurship is taught today at nearly every American university and college.

Here, however, is a case where simple "impact" metrics do not tell the real story. If we were to do nothing but total up the numbers of courses offered and students "served," it might lead us to declare our mission is accomplished. Instead, we are confronting one of those uncomfortable moments when we must ask: What has gone wrong? What can we do differently? For the reality is that much of what is being taught, and is assumed to be true, is largely incorrect.

Despite years of Kauffman-led inquiry into how businesses start and grow and what their founders must do to succeed, the fruits of this learning have had little influence on how the theory and practice of entrepreneurship is taught at most campuses. Students who aim to create companies (as distinct from studying entrepreneurship) are being misled on multiple counts. They are getting an overview of the entrepreneurial process that is mostly mythical. They are learning precepts that are unlikely to help them start successful businesses and may often be detrimental. The students are being served poorly, as is the future welfare of the nation. Clearly what's been done in the past will no longer do.

It is time to think about a new initiative based on what has been a gradually growing realization both here at the Foundation and in our partner network. I believe the moment is at hand to build out what we might call the "New Learning in Entrepreneurship." This task will entail re-thinking and re-making nearly every element of practical learning—from what is taught to how it is taught, and to whom, when, and where. At present I can offer only some exemplary glimpses of the forms that the New Learning might take. The best way to start is by briefly recounting how the current state of learning fails us in our nation's task of bringing forth more new and successful businesses.

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About four years ago we began to notice that what was being taught in our universities about startups was inconsistent with the findings from our empirical work. One example makes the point. Introductory courses in entrepreneurship, almost without exception, revolve around the creation of a business plan. It has become universally prescribed and has evolved to be a nearly hallowed document. Its components and their ordering are uniform, and its structure and forecasts must conform to the methods by which venture investors judge new opportunities, under the presumption that every business must be owned in part by parties other than the entrepreneur. But business plans aren't important to a majority of successful new companies. Nor is venture capital (which most new firms do not seek at all, and which many others receive only once they have launched and are ready to grow larger).

Looking at our nation's past, we find that many great companies never had an initial business plan—not DuPont, Ford, General Motors, J&J, Procter & Gamble, IBM or, for that matter, Microsoft. Intel's famous "business plan" has been preserved for posterity. Robert Noyce typed it up himself, in 1968, in order to have something to show to investors. It is a summary of the new firm's proposed operations, products, and target markets, in three paragraphs, on a single sheet of paper.

Over the years, business plans became ubiquitous. The new waves of technology startups that captured the public's attention in the 1980s were accompanied by, and in many cases funded by, a boom in venture capital. The business plan came to be seen as a necessary document with which a new idea could be judged by investors who, presumably, knew what they were doing.

Yet, even when the founders of a firm begin by writing the most carefully researched and detailed plan, seldom is it prudent or even possible for the firm to develop and operate in any way that is in the least faithful to the plan. How could this be? Part of the answer lies in the source of the notion of "planning." Business plans originated within existing large companies as strategy documents. These efforts reflected the very essence of top-down management. The company is assumed to have the resources and clout to follow through on the steps outlined in the plan, making some adjustments but not needing to change course radically or frequently. The plan, much like other ways of thinking in big businesses, holds the comfort of military orders. Mid-level managers, charged with making the strategic changes, can reference the business plan that comes from "headquarters." The communications chain is clear. In the world that startup entrepreneurs inhabit, none of these conditions or cultural antecedents ever made much sense. Among other things, they do not have an existing business!

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The entrepreneurial process is stochastic. It does not accommodate linearity in thinking. New firms begin to change objectives while having to deal with the dissonance between what they are becoming and what their plans say they intend to become. Entrepreneurs face a particular asymmetry problem—many times there is no existing market for their idea! They have to create a demand curve even as their product is still conceptual. The startup process, when done right, also tends to be highly iterative. In a book I co-authored, *Inside Real Innovation*, my fellow authors, Gene Fitzgerald and Andreas Wankerl, and I described how the founders of new firms have had to go on iterating all of the major variables in relation to one another—the product, the business model, the target markets—before arriving at a winning combination.

Thus, entrepreneurs and new companies are engaged in an ongoing series of learning moments, the likes of which are hard to imagine in a large, well capitalized, and certainly bureaucratized firm. Their environment is dynamic; their work is discovery.

In the face of these facts, why don't we see a dynamic spirit in the teaching of entrepreneurship? Why is the teaching so centered on the development of a written, static plan? Why, further, does conventional teaching emphasize the importance of decisive vision and clear objectives, when in fact the typical entrepreneur starts with an idea floating in a field of possibilities, where it is more important to be able to learn and improvise, to respond and adapt? In short, why in such a new field, where so little is known, do we find what is being taught so fixed and so doctrinal?

Having been a professor, I can venture some answers. Academics in a young field seek a consensus that can be commonly shared. They want to agree on a set of concepts and methodologies that could make up a canon and a core curriculum, thereby turning the field into a true academic "discipline." The business plan provides a framework for articulating the key parameters involved in a business, so it lends itself to being adopted as a way to structure thinking about new enterprises.

Besides, as one academic in the field wryly told me, when business schools began to offer entrepreneurship courses they "had to invent work that could be graded for credit." The business plan meets that need serving the same purpose as a term paper or a capstone thesis. One can then proceed to teach to the test, as it were, teaching students how to write these things—which is not the same as teaching them how to actually build a new company. I recall the plaintive observation of a bright student I met some years ago at a renowned school on the west coast. He said that business plan grades appeared to reflect the professor's assessment of whether the document could win one of the ubiquitous business plan competitions, not whether the business described could ever be made to work in real life.

With no consequential content on which to rely, entrepreneurship educators have adopted the methods of anthropology. Professors tell their students: "This is how entrepreneurs behave. How do we know? We lived among them and watched them, and they told us so." We can see the influence of anthropology in the primary method of teaching entrepreneurship, namely, the case study.

The case study as a teaching tool has three classic problems. First, the observer brings a powerful bias to what he or she sees. Business cases are profoundly different from law school cases. The latter are simply court decisions written by judges who explain the decisions they make in their rulings. In a business case, we have an outside party interpreting how and why a business judgment was made. There is always a point to be made (otherwise, why choose that particular case?), and the case writer sets out to make the point. Usually there is a preexisting perspective that amounts to the "accepted" narrative of the type of phenomenon or process being studied, and therefore the case winds up reinforcing the way business decisions are thought to be made.

Second, business cases contain little record of the failures and also-rans in a given field. This is especially so with startups that fail and disperse before ever making it to market. Just as in anthropology, the inevitable focus is on "winners." The "beta dogs" go unstudied.

Third, it is very difficult for case writers to capture the true history of events. Not only do they concentrate on winners, the winners recite their histories in ways that they hope will please or impress the observer. In operations research, this is called the Hawthorne effect. In physics, it's the Heisenberg uncertainty principle. As a practical matter, it is called vanity. One need only to think about all the entrepreneurs' stories one has heard. The similarities are uncanny, more likely influenced by the hearing of others than by any reference to a diary or personal journal, which very few entrepreneurs are likely to keep while in the midst of building a company.

In an ideal world, scholarly theory evolves through rigorous debate and the discovery of new facts, but the ideal is not always realized. People grow comfortable with what they know. They become invested in seeing things the way everyone else does. Theory is determined by what is presumed to be reality until it morphs into "truth." And so it has been with entrepreneurship in academia. Of course professors are not out to intentionally mislead students. Rather, they embrace a widely accepted curriculum of commonly held views about who entrepreneurs are and how they built their businesses, which seem to be valid as long as they are not inspected too critically. I am reminded of John F. Kennedy's words, "The great enemy of truth is very often not the lie—deliberate, contrived, and dishonest—but the myth—persistent, persuasive, and unrealistic. Too often we enjoy the comfort of opinion without the discomfort of thought."

But when it comes to the teaching of entrepreneurship, we have to do more than bust a few myths. Just riding through Dodge with our intellectual six-guns blazing won't rebuild the town. We must pursue the much harder task of nudging the myths into obsolescence by replacing them with a new and more fruitful reality—the New Learning.

How will we go about assembling this New Learning? And, how can we gain a foothold to begin displacing established norms within academia? For one model, we might look at what large corporations did in the past when they wished to operate entrepreneurially, beyond the confines of their own bureaucracies. These firms launched "discovery shops" at the edges of their corporate boundaries, such as Lockheed's famed Skunk Works, or AT&T's Bell Labs. The hallmark of these operations was their specific charge to invent the future without too much attachment to the company's past. Ours is a similar task. We must invent new insight as a means to pull the world to a better way of thinking about new firms and how they are made.

We should first lay the proper intellectual foundation by defining what entrepreneurs do. The current business-plan model implicitly defines it as drawing up a template for a company, along with a recipe for putting the ingredients together. In fact, the entrepreneurial event might better be conceptualized as follows:

> "The creation of a new social/economic price-taking organization—
> a firm—which is formed and initially managed as if its sole initial purpose
> is to search, commonly by trial and error, for a scalable idea that can be
> embodied in a new product or service valued by the market."

The words are mine but the thinking behind them comes from many. This perspective has emerged from our research on how successful firms seem to form, and from our seeking the input of particularly thoughtful students of new firm formation such as, in this case, Steven Blank. It suggests a different utility and perhaps format that business plan documents might take. Perhaps they should become obsolete, displaced by a document that describes the business model of the new firm.

The conceptualization above would also make it clear to students that they are about to learn a process (and a way of life) that is highly stochastic and iterative. Other than this, the teaching behind the New Learning should tread lightly in terms of conceptualizing. Overarching concepts and theories should be imparted only if they are both solidly grounded in real-world evidence, and necessary to the formation of a real firm. Although we have learned some about the "science of startups" (the reason we created Labs), we are still far from having a unified field theory from which anyone could derive a surefire formula for success, and I doubt that we'll ever have one.

At the risk of sounding redundant: the practice of entrepreneurship is a practical field. Most good practitioners do not apply grand theories very much. They are guided more by learning from experience, and by inference from the facts of the particular case—along with a healthy sense of adaptability, and an aptitude for the kind of trial-and-error experimentation that progressively de-risks the venture while honing in on the optimum form it could take in the marketplace. If there are universals to be taught in the New Learning, the foregoing should certainly be on the list. They are practical skills for the eminently practical purpose of starting a company.

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To drive the point home, we might even consider using the e-word less than we do. In this I am following the lead of Ted Zoller, our new vice president of entrepreneurship and head of Kauffman Labs, whose course at the University of North Carolina does not have "entrepreneurship" in the title. His course is called, "Launching the Venture." And that's what the New Learning has to be all about—helping people do it, rather than introducing them to the study of a polysyllabic academic discipline.

As for how to teach, we are now at work on finding the best ways to teach and support entrepreneurs in the stochastic, iterative construction of new businesses. Our goal is to develop a newly systematic approach to helping people build ventures the old-fashioned way: brick by brick, erecting and correcting business models and growth strategies while assembling a team of people who bring their own insights to the game, then managing them so as to draw the most from their intellectual gifts and experience.

A crucial factor in how to teach all of the skills, by the way, is when to teach. Here it seems we are already on the right track. Our web properties have been moving to an implicit understanding that entrepreneurs are the ultimate "just in time" learners. I shudder to think of how much time has been spent in college courses on subjects such as equity distribution and capitalization tables. Entrepreneurs only really begin to understand these things at the moment they need to know them. Moreover, content and concepts have to be immediately available when they're needed. (Not so incidentally, this is likely true in all applied fields. A wonderful new book, *Unschooling Rules* by Clark Aldrich, makes this point relating to most education.)

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The web is a natural medium for just-in-time delivery. Our Resource Center at entrepreneurship.org, which we have been loading with content to assist entrepreneurs on a wide range of topics, receives thousands of hits every day—49 percent of them from outside the United States. As we integrate our work in research and policy, program development and communication, we will build an ever more powerful web platform to serve entrepreneurs in each status and phase of their businesses. "Kauffman = just-in-time, appropriate knowledge for the world's entrepreneurs" is what we must come to be valued for.

Because our web platform is open to anyone, it also aligns with the New Learning by removing the limits on who we can teach. This is important given that it may not have been wise to focus so much attention, in the past, on teaching entrepreneurship at colleges and universities. The entrepreneurs who start our nation's fastest growing firms, the Inc. 500, are on average forty years old when they create their companies. Successful entrepreneurs come from all demographics and walks of life; by no means are they all the brilliant college-aged wizards that the prevailing meme suggests.

Of course this is not to say that we should abandon academia. But many of the lessons we learned from our experiences with Kauffman Campuses, and the lessons we will draw from our experience in Labs, will have to inform our engagement with higher education.

In general, I would expect our future engagements to focus on delivering the New Learning through two channels. First is simply through the ongoing production of new insights. Although our research and experimentation have not yet had the impact on teaching that we would like to see, momentum is building. The Foundation is truly coming to be recognized as the epicenter of new thinking on firm formation. And, we are best known and most valued for research that is orthogonal to much of the received wisdom. The books in our Princeton imprint, in particular, are making this case. Given time, works like Dan Spulber's *The Theory of the Firm* will significantly change the content in economics and business curricula.

Second, research of this type sheds new light on how the entire "firm" part of the economy works, in every aspect from firm formation to the innovative capacity of firms. Much of this is valuable for college students to learn whether they become entrepreneurs or not, as nearly 90 percent of them will work for profit-making firms in their first jobs. The new book Bob and I have been writing, *Better Capitalism*, builds out one of the insights for which *Good Capitalism, Bad Capitalism* became known, namely, the importance of big firms to new firms, or what's come to be called "big firm-small firm capitalism." (This is a topic that Ramon de Oliveira, our Trustee, has helped us understand. He uses the notion of negative productivity to contrast the contributions and the problems of both big and small firms—and to point to why symbiosis between the two may be the necessary ingredient in improving the big firm part of the economy.)

Meanwhile the reality is that many students, more than 60 percent of undergraduates, want to start businesses of their own. The entrepreneurial fire that Kauffman has sparked and fanned is burning in those students right now. We have no choice but to reach out to them directly, with learning that can help them channel their energies effectively into building companies. We will do this in part through our ongoing web presence. But our future should be about providing a suite of services that engage students in personal and sustained experiential learning.

The New Learning and the ways of propagating it are likely to be incompatible with formal classroom instruction around entrepreneurship. Our approach may require us to develop methods of going directly to students, either bypassing the university or working around the fringes of academic institutions. In this regard, we already have at least one prototype in place—The Launch Pad at the University of Miami. This program is not a classroom effort seated in the business school. Rather, Miami concentrates its resources on helping students to start businesses through its outplacement office—the place where graduating students go to get jobs! Along with individual and group coaching for entrepreneurs, The Launch Pad offers a slate of just-in-time learning resources, including one-day workshops and "crash courses" on topics that range from business law to customer retention to Android app development. It seems to be surviving a market test—it is being replicated at other universities! In places like these, as well as at Kauffman Labs, the New Learning in Entrepreneurship is being born. Its time has come. I look forward most eagerly to seeing where we can take it next.

In closing I want to say, as I do every year, that I am so proud to work with you. Our little group, working hard, has had a significant impact on the world. I believe one reason is that we've avoided, for the most part, dead ends. I think it is because long ago we borrowed the most important rule of medicine, "first do no harm." I am always worried about this, but I think the record so far is clear that we are helping the whole society see the importance of entrepreneurship and its ties to education. None of us would be doing this work if we didn't have the sense, validated by objective evidence, that we are making a difference for the good. This stems from the treaty we have made with our founder, Ewing Kauffman. His passion for doing good, in real ways, is ours only because it was *his* first.

When I came to work here, which seems like only yesterday, my first struggle was to figure out how to reshape this organization into an entrepreneurial entity, a hard task when there is no revenue constraint, no real market feedback, and nothing that looks like a legitimate shareholder—or, as the nonprofit world likes to say, a stakeholder. So I said that our quest for excellence had to be driven from within. And at the time, I set out four precepts that might help us operate as entrepreneurially as possible.

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The first was the watchword *festina lente*—we would "make haste slowly." We would invest in research so as to be well informed in our grant making and programmatic experiments. Second, we had to suppress a powerful tendency to bureaucracy because "culture eats strategy for lunch." Third, our new culture would require precision in thinking—we had to drive out ambiguity. The tool would be written communications that would permit precise critiques of each other's thinking. And we would use precise vocabulary as part of our efforts to bring about transformation in the fields in which we work. Finally, we would operate transparently, with a constant quarrel going on about how to most effectively and efficiently place our bets on various efforts. The Grants Committee was born precisely to let emerging ideas contest for funds out in the open. You have all seen the pet ideas of some of our most senior leaders, including me, bite the dust ignominiously. I happen to love this aspect of our culture—it enforces everyone's view that we are all subject to prejudice and that our open, dialogic culture makes friends appreciate the counsel and wisdom of the group, especially a group that has grown together by considering the valued input of secretaries, research assistants, and Ph.D.-level colleagues.

Over the last nine years, this organization has truly been formed by all of us. I am grateful for the education you have given me in a way I can't even verbalize. I remain committed to the notion that we each serve each other as we serve the Foundation. So thank you again for your inspiring commitment, and for recommitting to our mission every day. We know our work is bigger than any one of us. We know it is of critical importance to our community and nation. This is why we honor Mr. Kauffman and his burning passion to make a difference, to expand human welfare through improving education and advancing entrepreneurship.

Carl J. Schramm, Ph.D., Carl Schramm is recognized internationally as a leading authority on innovation, job creation, and economic growth. He is president and CEO of the Ewing Marion Kauffman Foundation, the world's premier organization dedicated to creating new firms that grow the economy and expand human welfare.

Schramm's insight regarding the role of new high-growth firms in fueling economic expansion has been coined "Schramm's Law." He is a founding board member of the Startup America Partnership, a White House-initiated private-sector effort. He played a prominent role in the December 2009 White House jobs summit and has served on two U.S. Department of Commerce innovation committees during both the Bush and Obama administrations. Schramm is credited with opening a new field of economic inquiry—expeditionary economics—which focuses on rebuilding economies in post-conflict nations.

Previously, Schramm was a professor at The Johns Hopkins University, headed the nation's premier health care industry association, founded several companies that manage health care finance and information technologies, served as executive vice president of Fortis, and created his own merchant banking firm.

A prolific writer, Schramm's commentary often appears in *The Wall Street Journal* and *The Financial Times*, and his two books, *Good Capitalism, Bad Capitalism* (available in nine languages) and *The Entrepreneurial Imperative*, are considered international classics for their insights into economic growth. He is a member of the Council on Foreign Relations and a Batten Fellow in the Darden Graduate School of Business at the University of Virginia. He earned degrees in economics and law and has several honorary doctorates.

The **Ewing Marion Kauffman Foundation** is a private nonpartisan foundation that works to harness the power of entrepreneurship and innovation to grow economies and improve human welfare. Through its research and other initiatives, the Kauffman Foundation aims to open young people's eyes to the possibility of entrepreneurship, promote entrepreneurship education, raise awareness of entrepreneurship-friendly policies, and find alternative pathways for the commercialization of new knowledge and technologies. In addition, the Foundation focuses on initiatives in the Kansas City region to advance students' math and science skills, and improve the educational achievement of urban students, including the Ewing Marion Kauffman School, a college preparatory charter school for middle and high school students set to open in 2011. Founded by late entrepreneur and philanthropist Ewing Marion Kauffman, the Foundation is based in Kansas City, Mo. and has approximately $2 billion in assets. For more information, visit www.kauffman.org.

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