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Lessons learned from Entrepreneurial Hot-spots and Academic Entrepreneurship in North America

The American Entrepreneurial environment seen with the eyes of a Danish PhD fellow

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Abstract—American entrepreneurs have long been leading the race to innovate products and services for the growing global market economy. Led by innovation hotspots Silicon Valley and the Route 128 in Boston, American technological companies are spearheading the creation of knowledge, technologies, products and brands like no other. These areas are also home to some of the best academic institutions in the world and hold a high density of venture capital investment organizations.

What is it that makes American entrepreneurial culture so successful and what can be learned about the American approach?

This paper will highlight what can be learned from participation in the IDEA-Kauffman scholarship and the exposure to the entrepreneurial environment around Silicon Valley and San Francisco. Relating the leading academic theory about American Entrepreneurship to the empirical observations through the IDEA-Kauffman global scholars program, the success factors of the American entrepreneurial economy will become apparent and we will be able to establish what makes America the leading entrepreneurial society. When comparing American entrepreneurship culture to a European culture, we will be able to identify elements from American entrepreneurial culture that can be utilized to make opportunities, create companies and establish markets in other economical-, cultural- and social environments.

1 Introduction

The following represents a concentrate of observations and finding I have made through participation in the IDEA-Kauffman Scholarship. My basis for comparison to European context is a yearlong affiliation with the Technical University of Denmark as graduate student, some years of working experience at the product development agency IPU in Lyngby Denmark, years spend at various IT-companies and the competition of a three-year apprenticeship at the largest manufacturing firm i Denmark. I have a general interest in innovation and entrepreneurship both on a national and global context and enjoy discussing these subjects when opportunity comes along.

My primary interest in innovation and entrepreneurship is related to the actual effectuation, contrary to the *study*, of these subjects. I believe the the entrepreneurial discipline can only be mastered through clever leverage of several ingredients; among which the mainstay is the effectuation of the venture.

1.1 The IDEA-Kauffman scholarship

The IDEA-Kauffman scholarship was created to allow selected engineering, science, and technology scholars from other countries to study entrepreneurship in America. The program consists of 6 months in the U.S. where the scholars are exposed to the researchers, business founders and policymakers who share their insight, knowledge and business stories. The scholars get to visit leading American universities to exchange ideas with faculty and students engaged in innovation and entrepreneurial work. Upon completion of the lectures series and visits to universities and companies in Boston and Silicon Valley, the scholars are place in individually select internships in American companies.

1.2 Setting out from home

I left Copenhagen in January of 2008, setting out to spend the next six month in North America as a part of at group of 12 scholars, two Danes and 10 scholars from the United Kingdom. Each of the scholars have been individually selected based on their background, motivation and business idea.

The first months was spend at the Kauffman Foundation in Kansas City, Missouri where we received training and lectures equivalent to what you might find in a MBA-programm. The Kauffman Foundation is the single largest sponsor of research in entrepreneurship in North America and employs an impressive portfolio of individuals with achievements in the arena of subjects relating directly or indirectly to entrepreneurship.

During that first month we spend time going through basic subjects related to starting a new venture. How to create a value proposition?, how the pitch to investors?, how to extract key figures from you economical accounts where some of the subjects? We also covered the aspiration and motivation part of entrepreneurship, trying to understand what personal incentives that might spur one to starting a venture. How to set a team where interests are aligned in a way to benefit the individual as well as the venture. We had classes on angle- and venture capital and reviewed the typical clauses of a investor term sheet. Finally, we also discusses why entrepreneurship is interesting in a global context and how it can influence societies and markets on a global scale.

The second month of the programme was spend traveling to the entrepreneurial hot-spots Boston, Massachusetts and the Bay-area in California. Here we had a long series of meetings with leading universities, investors, law firms and business leaders in a range of private and public companies. In theses session we had the opportunity gain insight in the different elements that must come together in a venture. Most of the individuals we talked to during these sessions where more than happy to share their insights about their speciality. Also we had the opportunity to ask questions about every aspect of business as well as personal motivation and gaols for the company.

The crash course in the practical aspects of business start-up in combination with the living tales of real-life people and companies formed the basis for understanding what elements come into play when thinking about founding a company. We might have been able to acquire the theoretical knowledge about accounting or how venture capital works, but to opportunity to match this with stories and insight from entrepreneurs, who have actually acted on their ideas ,was invaluable.

1.3 The internship

For the next three months, each of the scholars was placed in individually selected internships. I was placed at a medical startup company in San Francisco. The company was still in stealth mode, meaning that the company was working to develop its products and was not actually trading with customers. The idea for the product that the company was going to commercialize had spun out of the Stanford Biodesign programme, a programme created to help promising graduates found companies based on their innovations.

The company was a typical new age californian startup, meaning that the company have raised a large sum of capital, hired the best people it could get and was working to get the product to market as fast a possible. The company was working to prototype, produce and market a novel device for diagnosis of heart rhythms, something that would *make* a new market.

It was a great experience for me to work in a startup company with people with impressive CVs and achievements and to be able to contribute in getting a new product to the marked. During my time there I had good conversations with the management, venture capitalists and all of my colleagues about the venture they where embarking on as well as entrepreneurship in general. During my time there it became apparent for me what is special about the entrepreneurial culture in Silicon Valley and what can be learned about it.

2 Why be an entrepreneur?

When established economies are debating how to maintain growth in a ever more globalized world, they turn their heads to entrepreneurship. Entrepreneurs does not only bring new products and personal wealth, they also bring employment, taxpayers, trade and many other properties that benefit society in general. Some even claim that entrepreneurs are going to solve many of the problems we are struggling with today such as global warming, cancer and poverty [1]. These days almost every organization, university or country are looking for ways to enhance innovation and entrepreneurship, hoping that they will win the race to success in the global marketplace of tomorrow.

For a minute I would like you to consider things from the perspective of the potential entrepreneur. What elements are important for the average individual when choosing whether to be an entrepreneur or a traditional wage-earner? I would argue that this is somewhat correlated with one's contemporaries recognize and value as a career option.

For example, you would be less likely to choose a career as a black smith if you come from a family of doctors. A number of other personal aspects also come into play when choosing a future career, but generally we humans seeks acceptance and respect in the society they are a part of.

Reflecting in the typical conditions for an employee in Europe and in North America, a few things differ. The American model seems to be more directed towards status, hard work and a liberal approach while the European labour market model is focusing on more social-economical values as security, flexibility and social welfare.

It is easy to see which of these model is best in agreement with the workday of an entrepreneur. I found that it is much more respected and commonly understood if someone is working on an entrepreneurial project in North America. This adds social value to the profession and opens up doors amongst peers, family and friends but also amongst investors, advisors or potential partners. It is well regarded to be an entrepreneur and it is recognized that a successful entrepreneur brings more to society than personal fame and wealth. I believe this is part of the explanation for existence of entrepreneurial hot-spots like Silicon Valley and Boston.

Comparing this to the average European work culture, where the worker is well protected, well payed, unionized and have right to half a year of parental leave pr. child, it is less understandable why someone would suffer the risk and personal sacrifices it takes to be an entrepreneur. The individual might even be regarded as an oddball, rejecting the obvious career path and imposing unnecessary stress on his or her family and friends. The British writer and philosopher Alain de Botton have his book "Status Anxiety" discusses the desire of people to climb the social ladder and the anxiety that results from a focus on how one is perceived by others [2]. Even though entrepreneurs are generally independent individuals with the drive to execute on their ideas, they can not tear themselves away from the basic human needs for social acceptance.

The general view on entrepreneurship as a career option might be slowly changing in Europe but I think it will take decades before entrepreneurship is fully recognized and becomes a fully social acceptable career path.

3 Taking risk

It takes willingness to take risks to be an entrepreneur. You set out with nothing but an idea and a plan for execution. You need to prove that your business plan is worth more than the paper it is written on.

Even though risk can be measure in currency, working hours or lost opportunity, risk is also a relative matter. You graduates in Europe have more to risk by becoming an entrepreneur compared the graduates from North America. Apart from the social value mentioned earlier, the labour market is tuned towards a wage-earner culture. This is reflected in the tax systems, pension schemes, mortgage options, among other things. The progressive tax system dictates that for earn the a entrepreneur, who spend maybe 5 years on reduced wage, will have to

earn three times as much for the remaining of their work life, in order to match the lifetime income as a employed person.

Looking at the North American labour market, risk is more an inherit part of being employed and it is generally more accepted that you have to take chances to be successful. Apart for the different mind set, the flat rate tax system the liberal business rules and the presence of venture capital makes the choice easier for graduates considering entrepreneurship as a professional career.

4 Being competent, proud and taking an interest

What is a PhD degree? You are a researcher you say, are you also a geek? What is the use of the work your are doing? when can it be used? Entrepreneur; Will that make you rich? These are questions are as characteristic as they are valid. However these are questions you would be most likely to be asked on the European side of the Atlantic, where personal status and elite is less important.

If we look at the Danish system, where education is free for everyone and you even receive a small monthly stipend during the years you attend University, the educational system is tuned towards the average student. This is in contrast to the North American system where Universities seek to challenge and grow students to their best and where the elite is cherished. It would be wrong of me to praise one system over the other but I would claim that it is easier to be competent, proud and proactive student in the American education system compared to the European system.

I see this reflected in the working culture of young university graduates like myself. My peers her in Europe seems to more interested in the salary, corporate benefits or bonuses they can achieve than how they can contribute professionally to their field or how they can change the market place. In North America I found it much more common to regard the existence of the company as the primary, justifying the employment rather than the other way round. You could state the the average European wage earner have been spoiled for too long and have forgotten the basic premiss of business, which is to justify you existence through the creation of value for the customer.

Part of what it take to be an entrepreneur is to be in aware of this fact and ensure that you and your partners are working towards a common goal. But how do you do that if your partner is mostly thinking about the annual bonus rather than the actual problem at hand?

5 Professional networks

Part of what I found inspiring by spending time with at startup in the Bay area was the existence of a range of professional networks. Everyone form Entrepreneurs, CEOs, Founders of IT-technologies to philanthropists, Venture capitalists or patent attorneys would arrange afternoon seminars where they would share knowledge, vision or give lectures. Apart from the apparent agenda, these sessions formed the hub of professional networks where business cards would change hands and jobs would be offered. Part of the reason for the existence of vibrant professional networks in hot-spots like Silicon Valley is of course the presence of a high density of devoted professionals within a geographically confined area. A other part of the reason is the type of professionals that are drawn to these places. Professionals that

are willing to contribute the professional networks and share their passion, knowledge and insight with peers, in their spare time, for benefit of the network.

This culture is different from the European working culture where you leave your professionalism at your desk when you check out around 5 o'clock and head home.

The presence of professional networks is critical for entrepreneurs to be successful. Not only does these sessions and networks form a forum for discussion of trends or developments within a certain field, they are also a place to go look for your new partner, a place to bounce ideas off someone or just a place to hang out and have a beer.

Finally I would claim the professional networks that are driven at grassroots level have an inherit selective function. The kind of people that show up for a talk by the founder of Visual Basic or an expert in search technology are often very devoted people that take an interest in their work. These are often some of the same individuals that a driving the field and know what is coming next.

Professional networks exists all over the globe but many of them are more like clubs or closed circles. Unlike the seminars or sessions found where entrepreneurs thrive, the traditional networks are hard to get into societies with fancy addressee and membership fees. Needles to say that this is not the first place a young entrepreneur would go to find likeminded.

6 Fail Often To Succeed Sooner

Possibly the most pronounced difference between the being an entrepreneur in North America and in Europe is the tolerance for failure. Failure here is understood as when the venture fails and goes out of business.

In Europe failure of a company is regarded as a serious thing and founders are often kept personal liable for the failure, both economically and socially. The general understanding is that if at venture fails there is only founder is to blame. Either the founder came up with a too ambitious plan to begin with or the venture failed along to way due to laziness, ignorance or stupidity. Even though the founder or founding team might have worked hard and had a good business plan, they will be somewhat socially stigmatized after the failure of the venture and investors will be reluctant to try their luck with them again.

This is in direct contrast with what can be seen i North America. Here entrepreneurial failure is widely accepted and some investors event thinks that a record of failures for an asset for a founder, the notion being that the person have learned some important lessons. Tom Kelly, the founder of the most well know product development company in the world "IDEO" is known for encouraging his employees to fail. With the rationale that you must "Fail Often To Succeed Sooner", he claims that failure is a fast way to success [3]. He even keeps the failed products on display for employees and customers to see, arguing that the failed products might direct the creative minds of IDEO to the next great innovation.

The acceptance of failure is not only confined to the mind of Tom Kelly and venture capitalist. From my time as an intern in the startup company in San Francisco and the numerous talks and interviews we have had with the management of various high tech companies, it seems like it is better to fail than to not have tried. Part of the explanation for this acceptance of failure is coupled to the acceptance of wild and disruptive ventures. "The Innovator's Dilemma", by Harvard Professor Clayton M. Christensen, describes how important it is to allow for wild ideas and fucus on disruptive technologies in order to stay in the marked[4]. It is evident that venture based on new and untested technology inherently holds a big risk,

but also bears great potential.

This liberal prospective on wild, innovative, unproven, disruptive ventures is unique to North America and especially the entrepreneurial hot spots around San Francisco and Boston. Failures are not kept secret and people seems to focus on what they have learned from a failed venture rather than trying to place the blame on someone. Somehow it might seem like the entrepreneurial culture of North America is further ahead, recognizing and challenging the fact that risk and reward are mutually dependent and that external factors and luck is part of the entrepreneurial game.

7 What can be learned Entrepreneurial Hot-spots in USA?

European policymakers, universities and the general public all have stakes in making entrepreneurship a possible and viable career for young graduates. Without new services, innovative products and enterprising individuals it will be hard to maintain the current living standard in the future. Everyone will have to compete in the ever more globalized market place, a race that will be won by those that are best at innovating and executing on wild new ideas.

Somehow we will have to find a way of incorporating the DNA of entrepreneurship into the well established wage-earner system, ensuring tolerance, service and security for those that who have a dream of becoming an entrepreneur.

Tolerance for failure is an other important aspect. European investors, business angels, University seed funds and the rest of the business society will have to grow up quickly and acknowledge those who test drive unproven technologies and fail on the way. Having failed with a venture should rightfully be regarded as being better than not having tried at all. Information campaigns and education of the business- and investor community might be a starting point. But we also need to make it generally socially acceptable to fail with a venture. Things are changing for the better in the European educational system. Primary schools are embracing differentiated learning, where every student is challenged at their individual level, and students are engaged in project work early on. Universities are creating courses in entrepreneurship education to raise the awareness of the alternative choice to traditional career as a wage-earner. The Technical University of Denmark have proclaimed that it is going to be an elite institution, fully measuring up to the worlds best polytechnical institutions.

However, Universities and established professional networks have an important task to fulfil: To raise the awareness of the existence of professional networks and to encourage the graduates to form their own. Universities, companies and professional organizations should have an interest in supporting professional initiatives like these and view their business and human resources on a global scale.

Finally I feel that graduates and professionals could be better at opening up. It is much easier to bump into someone and have an interesting professional conversation if you are at a seminar in San Francisco than if you are in Copenhagen. It might be a cultural phenomenon but without interaction and discussion, what is the point of spending time participating in professional networks?

8 What are European Entrepreneurs good at?

First of all, I would claim that European graduates receive a very good education, an education that is comparable with the best. This has been acknowledged by some of my peers who have traveled the world with studies or research and by Universities like Cornell, Stanford, NYC and MIT who are generally glad to receive European exchange students and who have acknowledged that European exchange students generally contribute positively to the academic environment.

Another thing that is worth upholding in the European academic environment is the breadth of the education given at bachelor level, where students learn to relate to problems rather than to a specific subject. This abstraction from professional demarcation is unique and very powerful in the context of starting a venture. The reasoning being that most development and innovation happens between professional boundaries and technologies, rewarding the individuals that dare and are capable of reaching further than what their formal training dictates. Finally I would mention the social-liberal economical system, also dubbed Flexicurity, that is the dominating model in large parts of Europe. The combination of flexibility of the labour market, in combination with security for the individual worker, have proven to be a viable model for economical growth and welfare. If this model could be extended to include independent workers and entrepreneurs in general, that would lay the groundwork for a new wave of European entrepreneurs. These would be the individuals who have the potential to start a business on their own, but is unwilling to bear the risk and long working-hours it takes to get started as an entrepreneur.

9 Conclusion

Concluding on the six months I spent touring North America immersing my professional and social life in a start-up experience in Silicon Valley, I have found some distinct differences between the entrepreneurial culture in Denmark and in North America.

I have benefitted from having been given a first class education in my home country allowing me to work together or compete with other skilled professionals on a global scale.

I have also been made aware of some of the cultural heritage I bear as part of my baggage: How Europeans celebrate the average professionally, how we lack global perspective in business and entrepreneurship, our culture and welfare system have made us forget about risk and how we leave our professionalism at the desk when we have work between 4 and 5 in the afternoon.

That being said I see great potential for Europe as the next hot-spot of innovation and entrepreneurship. We certainly have the educational- economical- and social resources to make the vision come true. Question is if we can succeed in breaking the cultural wage-earner heritage and include entrepreneurs into our well-tuned social system.

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