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# The Importance of Entrepreneurship to Economic Growth, Job Creation and Wealth Creation

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present Douglas Barber, again here, for this conference, and we look forward to what you have to say.

## CANADIAN SPEAKER

*Dr. H. Douglas Barber\**

DR. BARBER: Thank you, Henry. And thank you, David, for really painting an impressive picture that really gives a great base for me to launch out on something that may be a little bit more academic. I may even wade into the world of law, which I know almost nothing about; what I have learned from a few fights in the courts is that legal fights can be very, very expensive!

Because I am in an academic institution these days, I can take a little bit more academic approach to things. Economic growth, wealth, and job creation come from specialization and trade.<sup>158</sup> Self-sufficiency, which is the opposite of specialization, has real limits, both in terms of what one person can do and what they have to do it with.<sup>159</sup>

I grew up on a pioneer farm in Saskatchewan, a province in Canada immediately north of Montana and North Dakota, where it gets cold in the winter and hot in the summer.<sup>160</sup> It was in the depression and drought of the 1930s.<sup>161</sup> Farms were less specialized then than they were in the 1920s

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Governors, the Senate and the Directors College. He is Chair of the Engineering Dean's Advisory Board. He is a Director of Micralyne Inc., NetAccess Systems Inc., DALSA Corporation, and AllerGen NCE Inc. He is a member of the Conference Board of Canada Leader's Roundtable on Commercialization, the Ontario Ministry of Economic Development and Trade's Commercialization Advisory Council, the Institute of Quantum Computing and the Ontario Research and Innovation Council. Dr. Barber and his wife, June, have raised a family of four whose families now include eight grandchildren. He is a man of faith with over 30 years of active involvement in their church.

<sup>158</sup> USAID Guidebook: Foreign Aid in the National Interest, Ch. 2 Driving Economic Growth (2003), available at <http://www.usaid.gov/fani/ch02/newthinking.htm> ("Economists have conceptualized the process of economic growth around three basic models: specialization and trade, investment in machines, and increasing returns to knowledge.").

<sup>159</sup> See generally, Pedestrians Guide to the Economy, [http://www.amosweb.com/cgi-bin/awb\\_nav.pl?s=pdg&c=dsp&k=24](http://www.amosweb.com/cgi-bin/awb_nav.pl?s=pdg&c=dsp&k=24) (last visited, Oct. 13, 2007) (giving why an economy should forgo self sufficiency in favor of trade specialization).

<sup>160</sup> See The Weather Channel Monthly Averages for Saskatoon, Canada, <http://www.weather.com/outlook/travel/businesstraveler/wxclimatology/monthly/graph/CAXX0442?from=search> (last visited Oct. 15, 2007).

<sup>161</sup> See 1930s Drought, CBC News Online, In Depth: Agriculture, <http://www.cbc.ca/news/background/agriculture/drought1930s.html> (last visited Oct. 15, 2007) (discussing Canada in the 1930s and stating "1930 was the start of a 10-year period of drought").

because farmers in those conditions had little to trade.<sup>162</sup> They had to do everything they could for themselves to survive.

I learned that moving from self-sufficiency to more specialization is a move towards prosperity.<sup>163</sup> Prosperity is not an outcome of doing everything yourself. So you specialize to produce things of value for others, who have also specialized because they can't do everything for themselves either.<sup>164</sup> It is success in that choice of specialization and trade that changes the economy, creates wealth, and engages more people in specialized enterprises.<sup>165</sup>

To grow, you either have to create more value or expand your area of trade. Sustainable wealth and job creation must do both of those all the time.<sup>166</sup> You can see this at play in the developed world. Large economies like the United States can be more self-sufficient and very prosperous while trading less than ten percent of their economy outside of the nation.<sup>167</sup>

There is a lot of trade within the nation.<sup>168</sup> Canada and the other 11 or 12 countries that are above us today in the wealth of nations typically trade between 35 and 45 percent of our economies to prosper.<sup>169</sup> Each one has to

<sup>162</sup> See generally *id.*

<sup>163</sup> *Supra* note 159 ("Specialization makes us a lot better off than self-sufficiency.").

<sup>164</sup> See *id.* ("[A]s a general rule, that each of us specializes in producing some stuff then exchanging for other.").

<sup>165</sup> See generally *id.* ("When everyone in the economy specializes, we have a larger economic pie which (depending on how it's divided) can make everyone better off."); see also, e.g., A Life Science Strategy for Saskatchewan, SUCCESS Spring 2007, Ag-West Bio Inc., available at <http://www.agwest.sk.ca/publications/success/SUCCESS%20Spring%2007-web.pdf> ("[A] small workforce makes it important for Saskatchewan to focus on a few priority areas to ensure a competitive advantage.").

<sup>166</sup> See generally James K. Jackson, Trade Agreements: Impact on US Economy, CRS Report RL31932, at 9 n.17 (2007), available at <http://italy.usembassy.gov/pdf/other/RL31932.pdf> ("By specializing in the production of those goods and services in which it is most efficient, or in which it has a comparative advantage, a nation maximizes its total productive capability and national income.").

<sup>167</sup> See generally Ben Wattenberg, *Get Over It, Folks*, JEWISH WORLD REV., Sept. 3, 1998, available at <http://www.jewishworldreview.com/cols/wattenberg090398.html> ("Imports and exports made up 10 percent of the economy in 1954.").

<sup>168</sup> See generally Christopher Sands, *Canada's Problem: Domestic Trade Barriers*, THE AMERICAN, May 22, 2007, available at <http://www.american.com/archive/2007/may-0507/canada2019s-problem-domestic-trade-barriers> (article compares and contrasts differences between U.S. and Canadian domestic trade).

<sup>169</sup> See generally Trade as a Percentage of GDP, [http://wps.aw.com/aw\\_krgmnobstf\\_interecon\\_7/0,10540,2078562-content,00.html](http://wps.aw.com/aw_krgmnobstf_interecon_7/0,10540,2078562-content,00.html) (last visited Oct. 29, 2007) (follow "Data" hyperlink); see also Michael Spence, *The Economy: Engines of Growth*, WALL ST. J., Jan. 23-24, 2007, available at <http://www.hoover.org/publications/digest/8093682.html> (speaking generally about the factors that make economies successful).

focus on areas of value creation for the world where they can do that competitively.<sup>170</sup>

Of course, they trade in order to buy the things that they don't make and that they can't do competitively for themselves.<sup>171</sup> They generally work to live within their means. That means that their balance of trade, exports minus imports,<sup>172</sup> should be quite small. It is typically less than one percent of their GDP<sup>173</sup> and, to be sustainable, it needs to be positive over time.<sup>174</sup>

Over the last 30 years, most of those 11 or 12 countries that are today doing better than Canada have grown their economies and moved ahead of Canada in the prosperity of nations as we have slipped in that ranking.<sup>175</sup> Jobs in these prospering developed countries are typically about 75 percent in the services sector, about 20 percent in the goods production sector, and about five percent in primary industries.<sup>176</sup> They don't vary much on that.

<sup>170</sup> See generally Spence, *supra* note 169; see also OECD, *Moving Up the Value Chain: Staying Competitive in the Global Economy* (Main Findings, 2007), available at <http://www.oecd.org/dataoecd/24/35/38558080.pdf>; see, e.g., Why do Countries Trade? The Advantages of International Trade, TUTOR2U, [http://www.tutor2u.net/economics/content/topics/trade/free\\_trade.htm](http://www.tutor2u.net/economics/content/topics/trade/free_trade.htm) (last visited Oct. 29, 2007) ("Japan can produce camcorders at lower costs - its supply curve is lower than the UK. This means that Japan has a comparative advantage in producing camcorders.").

<sup>171</sup> See Why do Countries Trade?, *supra* note 170 ("Britain needs to export goods and services to finance imports of those products we cannot produce in this country."); see generally Spence, *supra* note 169 (discussing principals of sustaining economic growth).

<sup>172</sup> The Central Bank of the Republic of Armenia, Yerevan 10 V. Sargsyan 6, 53-54, available at <http://www.cba.am/publications/prog/annex.pdf> (explaining "balance of trade (written as imports minus exports)" and "balance of trade, or the proportion by which imports can exceed exports").

<sup>173</sup> See generally U.S. Balance of Trade, TRADING ECONOMICS, <http://www.tradingeconomics.com/Economics/Balance-of-Trade.aspx?Symbol=USD> (last visited Oct. 26, 2007) (follow "compare with" hyperlinks); see also The Library of Economics and Liberty, *Balance of Trade and Balance of Payments*, <http://www.econlib.org/LIBRARY/Topics/HighSchool/BalanceofTradeandBalanceofPayment.html> (last visited Oct. 13, 2007) (defining the concept of balance of trade).

<sup>174</sup> See Gabor Steingart, *America and the Dollar Illusion*, SPIEGEL ONLINE, Oct. 25, 2006, available at <http://www.spiegel.de/international/0,1518,440054,00.html> (explaining how a negative balance of trade could produce a crisis); see also Balance of Trade and Balance of Payments, *supra* note 173 (infers that balance of trade would have to be sustained to have an impact).

<sup>175</sup> Heather Scofield, *Canada's Slipping on the World Stage*, THE GLOBE & MAIL, Sept. 27, 2006, available at [http://www.competeprosper.ca/index.php/about/in\\_the\\_news/canadas\\_slipping\\_on\\_the\\_world\\_stage\\_wef\\_study\\_shows\\_switzerland\\_tops\\_compet/](http://www.competeprosper.ca/index.php/about/in_the_news/canadas_slipping_on_the_world_stage_wef_study_shows_switzerland_tops_compet/).

<sup>176</sup> See Steve Lohr, *Academia Dissects the Service Sector, but Is It a Science?*, N.Y. TIMES, Apr. 18, 2006, available at <http://www.nytimes.com/2006/04/18/business/18services.html?ex=1145678400&en=4175e9133eddc40&ei=5087> (discussing the importance of the service sector which "now employ more than 75 percent of American workers").

In countries with a small work force, prosperity depends on being able to export in all of those areas. However, because most exports come from the goods producing enterprises that don't employ many people,<sup>177</sup> all of these countries have the challenge to act strategically. It is very easy to believe that your internal services are the basis of your economy and to not be sufficiently strategic about trade.

There is always competition. Trade is a value exchange. To sustain trade in the face of aggressive competition it is necessary to create better value at lower cost. That's the nature of productivity.<sup>178</sup> Productivity always has to be a concern in regard to prosperity.<sup>179</sup> Trade barriers are introduced to protect home enterprises.<sup>180</sup> These are acts of power, defense, and mistrust that impact the value exchange. I am going to talk more about that later. However, it remains true that economic growth, wealth, and job creation comes from specialization and trade – the value exchange.<sup>181</sup>

Now, let's consider the economy. The economy is the system through which we get our needs, and perhaps, some of our wants met.<sup>182</sup> Wants that get met regularly for some time do tend to evolve into needs.<sup>183</sup> So prosperity is always somewhat elusive.<sup>184</sup>

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<sup>177</sup> See generally Congressional Budget Office, Economic and Budget Issue Brief, *What Accounts for the Decline in Manufacturing Employment?*, Feb. 18, 2004, available at <http://www.cbo.gov/ftpdoc.cfm?index=5078&type=0>.

<sup>178</sup> See Jim Pinto, *Cheaper, Better, Faster – The Productivity Race*, <http://www.automation.com/sitepages/pid1939.php> (last visited Oct. 16, 2007).

<sup>179</sup> Productivity and Prosperity Project, ARIZ. ST. U., <http://www.asu.edu/president/p3/> (last visited Oct. 27, 2007) (“Enhancing productivity is the primary means of raising prosperity.”).

<sup>180</sup> David P. Bianco, *Trade Barriers*, <http://www.referenceforbusiness.com/encyclopedia/Thir-Val/Trade-Barriers.html> (last visited Oct. 15, 2007) (stating the protection of domestic producers is a reason for trade barriers).

<sup>181</sup> Jaime Ros, *Trade Specialization and Economic Growth*, IDRC, [http://www.idrc.ca/fr/ev-93559-201-1-DO\\_TOPIC.html#enh1](http://www.idrc.ca/fr/ev-93559-201-1-DO_TOPIC.html#enh1) (last visited Oct. 29, 2007) (analyzing how trade specialization can affect long-term economic growth performance); see also Pinto, *supra* note 178.

<sup>182</sup> See, Dr. Donald Schunk, *Ask an Economist*, <http://www.sces.org/LMI/data/trends/economist/quest2.asp> (last visited Oct. 13, 2007) (“[L]et us think about what an economy is. In any economic system, there must be a way for resources to be put to use to produce goods and services.”); see also ELLIOT ETTENBERG, *THE NEXT ECONOMY* (2001) (explaining the economy driven by customer wants).

<sup>183</sup> ETTENBERG, *supra* note 182; Kevin Sims, *Needs Must*, SALVATION ARMY, Apr. 1, 2004, [http://www1.salvationarmy.org/ihq%5Cwww\\_sa.nsf/vw-issue/2FD585720C4FD03380256EDC007FBF42?opendocument&id=46FE538284C7F60980256EDC007F2F6B](http://www1.salvationarmy.org/ihq%5Cwww_sa.nsf/vw-issue/2FD585720C4FD03380256EDC007FBF42?opendocument&id=46FE538284C7F60980256EDC007F2F6B) (“[W]ants turn into needs.”).

<sup>184</sup> Ralph Massey, *Speech to the Nassau City Rotary: Prosperity, The Elusive Goal*, Oct. 7, 2002, available at <http://www.nassauinstitute.org/wmview.php?ArtID=337> (discussing the difficulty in achieving national economic success and stating “prosperity is so elusive”).

The value exchange is a very human process, and I want to emphasize that.<sup>185</sup> I remember well the expression of Peter Drucker, who said at one point in his long life, “You know, in my whole life I have never seen a market place a purchase order.”<sup>186</sup> Guess what? Purchase orders are actually very human things. When you are getting one or giving one, it is people facing each other that determine whether that happens or not.<sup>187</sup>

The value exchange is a *very* human process.<sup>188</sup> Both what is valuable is determined by people, and their choices determine whether the exchange will occur or not.<sup>189</sup> What is valued is what people need or want on any level – physical, emotional, psychological, or spiritual.<sup>190</sup> Economic activity can occur on all of those levels.<sup>191</sup>

In the value exchange, there is always a competitive drive to provide value in a better way and to win the value away from other suppliers in the exchange. That is the nature of any business. We are actually all in a value exchange if we are getting paid.

This creates a continuous dynamic in commerce. There are always opportunities, both to offer better value and to offer new value. These are opportunities that can generate economic growth, wealth, and job creation. There are enterprises that arise to take those opportunities and there are those that disappear in this dynamic. It is the entrepreneurs that keep this dynamic moving.

In Canada, with a work force of 17 million people,<sup>192</sup> we have about 1 million business enterprises of all kinds<sup>193</sup> that employ about 13 and-a-half

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<sup>185</sup> Stakeholder Value, CSR QUEST, <http://www.csrquest.net/default.aspx?articleID=13347&heading=The%204CR%20Framework> (last visited Oct. 28, 2007) (discussing “the human process of value creation”).

<sup>186</sup> H. D. Barber, Speech at The BEDC Mayor’s Luncheon: Succeeding in the Global Economy – A Canadian Perspective, Sept. 8, 2005, available at [http://www.careeradvancement.on.ca/news\\_detail.aspx?page\\_id=0&news\\_id=17](http://www.careeradvancement.on.ca/news_detail.aspx?page_id=0&news_id=17).

<sup>187</sup> See generally, e.g., Institute for Business Integrity, Wright St. U., *Private Sector Consulting Firm Ethics Case Analysis and Proposed Resolution*, available at [http://www.wright.edu/rscob/ibi/ibi\\_consulting\\_firm\\_ethics\\_sample\\_analysis\\_and\\_resolution.doc](http://www.wright.edu/rscob/ibi/ibi_consulting_firm_ethics_sample_analysis_and_resolution.doc) (case study discussing ethics in client sales transactions).

<sup>188</sup> Stakeholder Value, *supra* note 185; see also Charles Hall, Cutler J. Cleveland & Robert Kaufmann, *Use and Exchange Value*, [http://www.coeearth.org/article/Value\\_theory](http://www.coeearth.org/article/Value_theory) (last visited Oct. 14, 2007) (discussing the development of various competing theories of value exchange and how those theories are based on societal values).

<sup>189</sup> Hall, *supra* note 188 (“In a general sense an entity. . . has value if it can be exchanged for another good. . . and/or if it is in some way deemed useful or important by its possessor.”).

<sup>190</sup> See *id.* (“[V]alue assumes that individual and societal tastes, preferences, and economic decisions are influenced and often directed by environmental factors . . .”).

<sup>191</sup> See generally *id.*

<sup>192</sup> Statistics Canada, *Labour Force Characteristics, Unadjusted, By Province (Monthly)*, <http://www40.statcan.ca/l01/cst01/lfs02a.htm> (last visited Oct. 18, 2007) (Sept. 2007 Canada Labour Force: 17.9 million).

million of those 17 million workers.<sup>194</sup> The public sector employs the remainder.<sup>195</sup> The public sector employees are funded from treasuries and, therefore, are somewhat isolated from the value exchange, and that can create misunderstandings. In the business enterprises, the dynamic is clearer. About 13 percent disappear every year,<sup>196</sup> and that includes one percent that disappear because they go bankrupt.<sup>197</sup> So there are 12 percent that disappear for a whole variety of other reasons.<sup>198</sup> However, every year in Canada about 14 percent appear as new enterprises on the scene, giving rise to about a one percent per year growth in the enterprises of Canada.<sup>199</sup> Enterprises with less than 100 employees account for over 40 percent of the employment in Canada.<sup>200</sup> This dynamic and this churn require a lot of entrepreneurial skill to support it.

The churn does raise a good question: Couldn't we improve the success rate and decrease the amount of energy and talent needed in the churn? It is worthwhile here to ask another question: What is an entrepreneur? It is a word rooted in the French word *entreprendre*, which means to undertake.<sup>201</sup>

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<sup>193</sup> Sri Kanagarajah, *Business Dynamics in Canada*, STATISTICS CANADA, <http://www.statcan.ca/english/freepub/61-534-XIE/61-534-XIE2006001.htm> (last visited Oct 26, 2007) ("[T]here were just over one million businesses in Canada in 2003."); see also Canadian Industry Statistics, *Establishments Canadian Economy*, INDUSTRY CANADA, [http://strategis.ic.gc.ca/sc\\_ecnmy/sio/ciseste.html](http://strategis.ic.gc.ca/sc_ecnmy/sio/ciseste.html) (last visited Oct. 15, 2007) (estimating less than 1.1 million Canadian employer establishments).

<sup>194</sup> See generally *id.*; see also Public Sector Statistics, STATISTICS CANADA, [http://www.statcan.ca/english/freepub/68-213-XIE/2006000/t005\\_en.htm](http://www.statcan.ca/english/freepub/68-213-XIE/2006000/t005_en.htm) (last visited Oct. 25, 2007).

<sup>195</sup> See generally *id.*

<sup>196</sup> See generally Canadian Market Research Made Fast and Easy, GDSOURCING, <http://www.gdsourcing.com/gdstart.htm> (last visited Oct 22, 2007); see also Key Small Business Statistics: How long do small businesses survive?, INDUSTRY CANADA, Apr. 2004, <http://www.ic.gc.ca/epic/site/sbrp-rppe.nsf/en/rd00865e.html>; Moya K. Mason, *Small Businesses*, nts. 1, 7, 14, <http://www.moyak.com/researcher/resume/papers/businesses2.html> (last visited Oct. 15, 2007) (discussing the average number Canadian businesses that start and fail annually).

<sup>197</sup> But see Mason, *supra* note 196 ("[A]bout 145,000 new businesses start up each year in this country, and about 137,000 businesses declare bankruptcy each year.").

<sup>198</sup> See generally *id.* (discussing reasons businesses fail in many industrialized nations).

<sup>199</sup> See generally *id.*

<sup>200</sup> Industry Canada, *Small Business Quarterly*, Vol. 5, No. 2, Aug. 2003, available at [http://www.ic.gc.ca/epic/site/sbrp-rppe.nsf/vwapj/3367\\_SBQ\\_eng.pdf/\\$FILE/3367\\_SBQ\\_eng.pdf](http://www.ic.gc.ca/epic/site/sbrp-rppe.nsf/vwapj/3367_SBQ_eng.pdf/$FILE/3367_SBQ_eng.pdf) (describing small businesses creating 39% of net new jobs in Canada).

<sup>201</sup> See Enterprise, WEBSTER'S NEW INTERNATIONAL DICTIONARY 853 (2nd ed. 1959) ("[E]nterprise from the French *entreprendre*, meaning. . . an important undertaking"); see also Jeff Bailey, *Can You Teach Someone How To Grow a Business?*, WALL STREET J. ONLINE, available at <http://www.collegejournal.com/mbacenter/newstrends/20030819-bailey.html> (last visited Oct 29, 2007) ("The word entrepreneur [Webster's: from French *entreprendre*, to undertake: one who organizes, manages and assumes the risks of a business or enterprise]").

In fact, enterprise is a word from the same root.<sup>202</sup> An entrepreneur then is one who initiates and undertakes a commercial enterprise.<sup>203</sup> That is a value exchange enterprise with all the associated organizational management and financial challenges and risks. A successful entrepreneur can't be weak in relation to any of those challenges.

The Entrepreneur of the Year Program<sup>204</sup> defines the entrepreneur as one who: firstly, undertakes a new business venture, as the founder of a business;<sup>205</sup> secondly, takes great risk, both personal and on behalf of others;<sup>206</sup> thirdly, succeeds in the business but may have failed a number of times before;<sup>207</sup> fourthly, demonstrates innovation,<sup>208</sup> where innovation is competitively meeting needs and desires in the value exchange;<sup>209</sup> fifthly, is a deliberate and capable planner;<sup>210</sup> and sixthly, manages people effectively;<sup>211</sup> and seventhly, leads and establishes an effective culture and values and gives direction and vision.<sup>212</sup> That's quite a list, but that's the one used to select the entrepreneur of the year.<sup>213</sup>

DR. KING: Which you were.

DR. BARBER: I was the Technology Entrepreneur of the Year, in Canada.<sup>214</sup>

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<sup>202</sup> *Id.*

<sup>203</sup> See Jeff Bailey, *supra* note 201.

<sup>204</sup> Celebrating Entrepreneurial Achievement: Entrepreneur of the Year Awards, ERNST & YOUNG, [http://www.ey.com/global/content.nsf/US/EGCS\\_-\\_Entrepreneur\\_of\\_the\\_Year\\_Awards\\_-\\_Overview](http://www.ey.com/global/content.nsf/US/EGCS_-_Entrepreneur_of_the_Year_Awards_-_Overview) (last visited October 16, 2007).

<sup>205</sup> Entrepreneur of the Year Nominations, ERNST & YOUNG, [http://www.ey.com/GLOBAL/content.nsf/Canada/Entrepreneur\\_Of\\_The\\_Year\\_-\\_Awards\\_Process\\_-\\_Nominations](http://www.ey.com/GLOBAL/content.nsf/Canada/Entrepreneur_Of_The_Year_-_Awards_Process_-_Nominations) (last visited Oct. 19, 2007).

<sup>206</sup> See generally Entrepreneur of the Year Award: Recognizing the Best, ERNST & YOUNG, [http://www.ey.com/GLOBAL/content.nsf/Canada/Entrepreneur\\_Of\\_The\\_Year\\_-\\_Awards\\_Process\\_-\\_Post-Nominations](http://www.ey.com/GLOBAL/content.nsf/Canada/Entrepreneur_Of_The_Year_-_Awards_Process_-_Post-Nominations) (last visited Oct. 19, 2007).

<sup>207</sup> See generally *id.* ("Entrepreneurial Spirit/Corporate Culture: The nominee demonstrates perseverance in the face of adversity and overcoming obstacles, learns from experience, fosters teamwork and builds loyalty.").

<sup>208</sup> *Id.* ("Innovation: What new approaches or technologies have been implemented? What investment has been made in R&D? How well does the nominee adapt to change and develop products/services ahead of the market?").

<sup>209</sup> See generally Innovation, WEBSTER'S NEW INTERNATIONAL DICTIONARY 1282 (2nd ed. 1959) (stating it is the "introduction of something new").

<sup>210</sup> See generally *supra* note 206 ("Strategic Direction/Market Position/Industry Impact").

<sup>211</sup> See generally *id.* ("The nominee has earned respect from staff, competitors and advisers, is a strong communicator, influences others").

<sup>212</sup> See generally *id.* ("Personal Integrity/Influence").

<sup>213</sup> *Id.* (answering "What do the judges look for?").

<sup>214</sup> Entrepreneur of the Year Award: Regional Award Recipients 1999, ERNST & YOUNG, [http://www.ey.com/global/Content.nsf/Canada/Entrepreneur\\_Of\\_The\\_Year\\_-\\_Recipients\\_-\\_Regional\\_-\\_1999](http://www.ey.com/global/Content.nsf/Canada/Entrepreneur_Of_The_Year_-_Recipients_-_Regional_-_1999) (last visited Oct. 19, 2007).



Clearly, the commercial competitive dynamic requires high quality entrepreneurs to collectively achieve the success that fuels economic growth, wealth, and job creation. There are several important factors that are determinates of sustainable success for these entrepreneurs.

The first is the scope of trade in their entrepreneurial vision. There are many enterprises obviously that operate very locally, and they do create wealth and prosperity, but that limits their scope for growth and increases substantially the risk that competition from outside their locality will wipe them out. For many enterprises, the customer world must be aggressively global.<sup>215</sup>

The second factor is the motivation or the purpose for the enterprise. It can be simply to make the entrepreneurs wealthy, and there probably has to be some aspect of that in the entrepreneurial drive, but that's not a sustainable enterprise if that is the vision or the motivation. A sustainable enterprise must focus on creating value for all its stakeholders and especially for its customers.

The book "Built to Last"<sup>216</sup> describes 18 visionary companies,<sup>217</sup> who today average about \$75 billion in revenues<sup>218</sup> with 175 thousand employees each.<sup>219</sup> They are, on average, just about 100 years old.<sup>220</sup> The only common elements the book found amongst them was that they all had highly articulated purposes and values,<sup>221</sup> where cultivating and sustaining these was a very important aspect of the leadership.<sup>222</sup>

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<sup>215</sup> Cf. Anne Gaw & Steve Liu, *Corporate Entrepreneurship: Beyond Two Guys in a Garage* 4, Fall 2004, U. S. CAL. MARSHALL, available at [http://www.marshall.usc.edu/media/pressroom/pdf\\_short/STRAT\\_CorpEntrepreneur.pdf](http://www.marshall.usc.edu/media/pressroom/pdf_short/STRAT_CorpEntrepreneur.pdf) (stating Johnson and Johnson and 3M "have built a competitive advantage by focusing on innovation and the ability to develop products and services in a broad market scope."); see generally, e.g., CRM Today, *ClientLogic Bolsters Global Customer Care Outsourcing Leadership* during 2004, Jan. 12, 2005, <http://www.crm2day.com/news/crm/EEpVVEAuyArOuSfRlq.php> (customer care industry outsourcer discusses strategy: "we continued to aggressively execute our global business strategy-expanding our right-shore service options and developing new processes that help our clients reduce their operating costs and improve the overall customer experience").

<sup>216</sup> JAMES C. COLLINS & JERRY I. PORRAS, *BUILT TO LAST: SUCCESSFUL HABITS OF VISIONARY COMPANIES* (HARPER BUSINESS 2002) (1994).

<sup>217</sup> See *id.* at 3 (listing the companies studied as 3M, American Express, Boeing, Citicorp, Ford, General Electric, Hewlett-Packard, IBM, Johnson & Johnson, Marriott, Merck, Motorola, Nordstrom, Philip Morris, Proctor and Gamble, Sony, Wal-Mart, & Walt Disney).

<sup>218</sup> See generally *id.*

<sup>219</sup> See generally *id.*

<sup>220</sup> *Id.* at 13 ("The companies in our study averaged ninety-two years of age, with an average founding date of 1897.").

<sup>221</sup> *Id.* at 54 ("In nearly all cases, we found evidence of a core ideology that existed not merely as words but as a vital shaping force.").

<sup>222</sup> *Id.*

These 18 companies<sup>223</sup> have gone through five generations of people.<sup>224</sup> They are all in different businesses today, but they are all successful.<sup>225</sup> That says something. A successful enterprise has many different value exchanges occurring together, and all must be integrated for success. We have considered some of them.

The third factor is that innovation and continuous improvement are essential to sustainability. The competitors who are actively seeking a way to win away your customers or your employees or your shareholders are always present. That is a significant driver of the enterprise dynamic. Sustainable enterprises must be continually renewing and reinventing themselves,<sup>226</sup> and that requires entrepreneurial people.

The fourth factor is that successful entrepreneurs need broad learning. That is true even though the enterprise has to specialize. It is not sufficient just to know what you are going to do and how you are going to do it. Those are largely product or service and technology issues. The successful entrepreneur must also know who will do it and whom it will be done for. In the end, the commercial enterprise is a very human enterprise. It takes wisdom to succeed. Successful entrepreneurs have often gained wisdom through experience, perhaps in a good business or perhaps through their own failures.

Are entrepreneurs born or are they made? I always say the answer is yes. They are born and made.<sup>227</sup> There is opportunity to develop them better and sooner. They are significant shapers of our future. Commerce is a very human activity.<sup>228</sup> The value exchange occurs best where there is trust and freedom.<sup>229</sup>

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<sup>223</sup> COLLINS, *supra* note 216.

<sup>224</sup> *See id.* at 13 (“The youngest companies in our study were founded in 1945”).

<sup>225</sup> *See id.* at 24-27 (confronting the misconception that successful companies start out with a great idea, where Merck started merely as an importer of chemicals, 3M started as a failed corundum mine, and Boeing’s first airplane failed, stating, “In all, *only three* of the visionary companies began life with the benefit of a specific, innovative, and highly successful initial product or service.”).

<sup>226</sup> *See id.* at 187 (“Visionary companies install powerful mechanisms to create *discomfort* – to obliterate complacency – and thereby stimulate change and improvement *before* the external world demands it.”).

<sup>227</sup> *Entrepreneurs Are Both Born and Made*, BUS. WEEK ONLINE, Oct. 10, 2000, [http://www.businessweek.com/smallbiz/content/oct2000/sb20001010\\_202.htm](http://www.businessweek.com/smallbiz/content/oct2000/sb20001010_202.htm) (interview with Bob Baum, professor of new program at University of Maryland, stating “I think that entrepreneurs are both born and made.”).

<sup>228</sup> Cf. Theodore W. Schultz, *The Value of the Ability to Deal with Disequilibria*, 13 J. ECON. LITERATURE 827, 827 (Sept. 1975) (“Behavior of human beings is governed by the criterion of optimization under constraints that are specific to circumstances confronting each person”).

<sup>229</sup> Stephen Knack & Paul J. Zak, *Building Trust: Public Policy, Interpersonal Trust, and Economic Development*, 10 S. CT. ECON. REV. 91, 92 (2002) (“[I]f trust is sufficiently low, so

We know free trade is good,<sup>230</sup> but not all humans, human organizations, communities, or countries can be trusted to be honest and ethical.<sup>231</sup> While entrepreneurs who can create value competitively are essential to economic growth, wealth, and job creation, they are not all honest and ethical.<sup>232</sup>

Philosophically, we interpret self-interest to be the best driver of competition and value creation.<sup>233</sup> Now, that's a belief that can easily be associated with free enterprise and private enterprise and words like that, which are roots for us.<sup>234</sup> While self-interest is part of ethical behavior, it can become the principal driver of unethical behavior.<sup>235</sup>

Ethics is about acting for the good of all who are affected by the act, including the entrepreneur.<sup>236</sup> All human activities are affected by the ethical tone and spirit present in the people. The challenge for each of us is how do

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little investment will be undertaken that economic growth is unachievable," and that "interpersonal trust is a powerful economic stimulant"); see also Frank L. Jefferies & Richard Reed, *Trust and Adaptation in Relational Contracting*, 25 ACAD. MGMT. REV. 873, 879 (Oct. 2000) ("When there is high-affect based trust in the form of a belief that his or her opposites are concerned for the negotiator's well-being, there is a freedom to quickly share information and ideas.").

<sup>230</sup> MILTON FRIEDMAN & ROSE D. FRIEDMAN, *FREE TO CHOOSE: A PERSONAL STATEMENT* (HARCOURT BRACE JOVANOVIH 1980) available at <http://www.hoover.org/publications/digest/3550727.html> (adapted from "The Tyranny of Controls") ("Ever since Adam Smith there has been virtual unanimity among economists, whatever their ideological position on other issues, that international free trade is in the best interests of trading countries and of the world.").

<sup>231</sup> See Kurt Eichenwald, *In Enron Case, a Verdict on an Era*, N.Y. TIMES, May 26, 2006, available at <http://www.nytimes.com/2006/05/26/business/businessspecial3/26verdict.html>; Laurie Goodstein & Stephanie Strom, *Embezzlement is Found in Many Catholic Dioceses*, N.Y. TIMES, Jan. 5, 2007, available at <http://www.nytimes.com/2007/01/05/us/05church.html>.

<sup>232</sup> E.g. Eichenwald, *supra* note 231.

<sup>233</sup> Frederick C. Hicks, *Competition as a Basis of Economic Theory*, 10 PUBLIC AFF. AM. ECON. ASS'N 82, 83 (Mar. 1895) ("Competition and combination, representing equally normal manifestations of self-interest, are equally necessary to economic science.").

<sup>234</sup> See William D. Grampp, *What Did Smith Mean by the Invisible Hand?*, 108 J. POL. ECON. 441, 455 (Jun. 2002) (discussing Smith's "invisible hand" theory, stating "The riches of the nation, then, are the product of self-conscious, self-interested effort," and "The merchant, when in competition with others, will place his capital where it adds most to the nation's wealth, and he does not have to be told where that is.").

<sup>235</sup> See James C. Wimbush & Jon M. Shepard, *Toward an Understanding of Ethical Climate: Its Relationship to Ethical Behavior and Supervisory Influence*, 13 J. BUS. ETHICS 637, 641 (1994), reprinted in Lynne L. Dallas, *A Preliminary Inquiry Into the Responsibility of Corporations and Their Officers and Directors for Corporate Climate: The Psychology of Enron's Demise*, 35 RUTGERS L. J. 1, 29-30 (Fall 2003) ("This [unethical behavior] is expected to occur because only in an ethical climate based on an egoistic decision-making criterion would persons most likely act in ways to promote their own exclusive self-interest regardless of law, rules, or the impact their decisions have on others.").

<sup>236</sup> See John Cottingham, *The Ethics of Self-Concern*, ETHICS 101, 798, 812 (July 1991) ("For Aristotle, ethics is about the good, or the good for man, or the "supreme good.").

we know what is good? And how do we act for the good of others and ourselves? That's a tough question.

Economic growth, good jobs, and wealth creation describes a situation of prosperity.<sup>237</sup> Prosperity is present where people thrive. People thrive where they are productive, healthy, and committed to the good of their community.<sup>238</sup> Prosperity means that their needs on all levels – physical, emotional, psychological, and spiritual – are being abundantly met.<sup>239</sup> It means people are balanced in their lives, and safe and confident in their environments.<sup>240</sup>

My reading of history and my experience of successful enterprise have convinced me that prosperity and ethical behavior are very strongly linked, certainly sustainable prosperity requires that.<sup>241</sup> Those 18 companies described in “Built to Last” have cultivated this kind of milieu.<sup>242</sup> Visit their websites;<sup>243</sup> you will sense that there is a difference about them.

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<sup>237</sup> See generally Stephen L. Carter, *A Symposium Commemorating the Bicentennial of the United States Constitution: The Constitution, the Uniqueness Puzzle, and the Economic Conditions of Democracy*, 56 GEO. WASH. L. REV. 136, 140 (Nov. 1987) (“The Theory of Democratic Prosperity explains the success of constitutional government in the United States by pointing to the growth over time of the economy, the generally improving standard of living, the existence of independent economic power as counterweight to government, and the continued flourishing of the middle class.”).

<sup>238</sup> See generally William Damon, *What is Positive Youth Development?*, 591 ANNALS AM. ACAD. POL. & SOC. SCI. 202, 207 (Christopher Peterson, ed., Jan. 2004) (“[Y]oung people thrive when we listen to them, respect them, and engage with them in meaningful investments in the community.”).

<sup>239</sup> Cf. Quentin Wray, *Prosperity Involves More than Just Economic Growth*, BUS. REPORT, Jul. 16, 2007, <http://www.busrep.co.za/index.php?fSectionId=3267&fArticleId=3935499> (arguing prosperity is about more than money and “company profits and the ongoing economic boom” alone cannot make “a truly prosperous society” when violence and instability plague South Africa).

<sup>240</sup> See *id.*; see also Ronald Bailey, *Peace and Prosperity Through Productivity*, REASON ONLINE, Aug. 1, 2007, <http://www.reason.com/news/printer/121697.html> (“[P]roductivity flourishes when people are free, safe, and justly treated”).

<sup>241</sup> See *Id.*

<sup>242</sup> See generally COLLINS, *supra* note 216.

<sup>243</sup> See 3M, <http://www.3m.com/>; American Express, [https://home.americanexpress.com/home/mt\\_personal.shtml?us\\_nu=globalbar](https://home.americanexpress.com/home/mt_personal.shtml?us_nu=globalbar); Boeing, <http://www.boeing.com/>; Citicorp, <http://www.citibank.com/us/index.htm>; Ford, <http://www.ford.com/>; General Electric, <http://www.ge.com/index.htm>; Hewlett-Packard, <http://www.hp.com/>; IBM, <http://www.ibm.com/us/>; Johnson & Johnson, <http://www.jnj.com/home.htm>; Marriott, <http://www.marriott.com/default.mi>; Merck, <http://www.merck.com/>; Motorola, <http://www.motorola.com/>; Nordstrom, <http://shop.nordstrom.com/C/2375500/0~2375500>; Philip Morris, <http://www.philipmorrisusa.com/en/home.asp>; Procter & Gamble, [http://www.pg.com/en\\_US/index.jhtml](http://www.pg.com/en_US/index.jhtml); Sony, <http://www.sony.com/index.php>; Wal-mart, <http://www.walmart.com/>; Walt Disney, <http://disney.go.com/index>.

How does unethical behavior appear, and what do we do to control it? In its most generic sense, unethical behavior exhibits itself in power and in greed.<sup>244</sup> Power gives the capability to control the choice of others. That has potential to limit freedom, which is an essential component of thriving commerce.<sup>245</sup> Power does corrupt commerce.<sup>246</sup> Power makes it possible to direct the value exchange unfairly in order to maintain power and to prosper at the expense of weaker trading partners.<sup>247</sup> That is a greedy and unethical stance.

What do we do about this? Well, we do two things: we introduce governance in government,<sup>248</sup> and we introduce rules and laws.<sup>249</sup> This brings it right into our conference. Both governance and law are created to circumscribe behavior in such a way as to ensure a prospering and sustainable society in the presence of corrupting elements.<sup>250</sup>

But there is an irony to this, and the irony is that governing involves essential powers, and so does law enforcement.<sup>251</sup> Thus, the corrupting potential exists in the mechanisms intended to ensure minimal corruption.<sup>252</sup> In democracies, we believe that the people should be given significant power

<sup>244</sup> See Andrei Shleifer, *Does Competition Destroy Ethical Behavior?*, 94 AM. ECON. REV. 414, 414 (May 2004) (“[C]onduct described as unethical and blamed on ‘greed’ is sometimes a consequence of market competition.”).

<sup>245</sup> See FREIDMAN, *supra* note 230; see also Ronald Bailey, *supra* note 240.

<sup>246</sup> See generally Bryan W. Husted, *Wealth, Culture, and Corruption*, 30 J. INT’L BUS. STUD. 339, 344 (1999) (hypothesizing that “the higher the power distance in a country, the higher the level of corruption in a country,” where “power distance” means that less powerful members accept that power is distributed unequally).

<sup>247</sup> See generally *id.*; Cf. Ethan B. Kapstein, *The Political Economy of International Cooperation: a View from Fairness Economics* 7, INSEAD & CENTER FOR GLOBAL DEV., Dec. 2005, available at [www.ethankapstein.com/Art/peicrev.doc](http://www.ethankapstein.com/Art/peicrev.doc) (“Recognizing that the governments of smaller countries might fear that they would eventually be ‘held up’ at the bargaining table, the governments of powerful countries [i.e. the U.S. and Great Britain] effectively committed with a rules-based system not to exploit their weaker trading partners.”)

<sup>248</sup> See generally Carter, *supra* note 237, at 142 (“The provisions of the 1787 Constitution, together with the Bill of Rights, suggest a government designed to put into practice the Theory of Democratic Prosperity.”).

<sup>249</sup> See, e.g., REVISED UNIFORM PARTNERSHIP ACT §404 (General standards of a partner’s conduct).

<sup>250</sup> See JAMES SVARA, *THE ETHICS PRIMER: FOR PUBLIC ADMINISTRATORS IN GOVERNMENT AND NONPROFIT ORGANIZATIONS* 145 (Jones and Bartlett Publishers 2006) (“Structural features and legal requirements have been established in national, state, and local government to promote ethics and reduce unethical behavior.”).

<sup>251</sup> Cf. SUSAN ROSE-ACKERMAN, *INTERNATIONAL HANDBOOK ON THE ECONOMICS OF CORRUPTION* 4 (Edward Elgar Publishing 2006) (“Research on corruption is difficult because many causes of corruption also seem to be consequences of corruption.”).

<sup>252</sup> See generally *id.*

over the governors, maybe not so much over the law enforcers, but over the governors.<sup>253</sup>

To date, this seems to have been more successful than other attempts, because we may have the possibility to change the governors who misuse their power.<sup>254</sup> However, we do have our moments of harmful behavior, and we are all aware of Enron,<sup>255</sup> Watergate,<sup>256</sup> and recently the activities associated with options.<sup>257</sup> In Canada we have had the sponsorship scandal,<sup>258</sup> the Nortel experience,<sup>259</sup> and the same kind of options world. Our entrepreneurs need, first of all, to be ethical. What do we do to prepare them for that?

Secondly, they need to be prepared to lead their ventures to success in the presence of barriers, of the barriers of governance and law that are intended to minimize the corruption that destroys value.<sup>260</sup> Unfortunately, these barriers are often heavy burdens to the honest ethical enterprises and not fully effective in deterring the exploitive actions of the self-serving enterprises.<sup>261</sup> How do we prepare our entrepreneurs to work in that

<sup>253</sup> See generally Carter, *supra* note 237 (“[E]xistence of independent economic power as counterweight to government”).

<sup>254</sup> U.S. CONST. art. II, §4 (“The President, Vice President and all civil officers of the United States, shall be removed from office on impeachment for, and conviction of, treason, bribery, or other high crimes and misdemeanors.”).

<sup>255</sup> See generally Eichenwald, *supra* note 231 (a scandal revealed in 2001 where Enron, a leading energy company, was charged with fraudulent activities, particularly with its accounting practices).

<sup>256</sup> See generally J. Anthony Lukas, *A New Explanation of Watergate*, N.Y. TIMES, Nov. 11, 1984, available at <http://query.nytimes.com/gst/fullpage.html?res=9D0DE4DC1139F932A25752C1A962948260> (a political scandal in 1972 where a break-in to the Democratic National Committee’s headquarters at the Watergate Office/Apartment Complex was eventually connected to President Nixon leading to his resignation).

<sup>257</sup> See generally Eric Dash, *Report Estimates the Costs of a Stock Options Scandal*, N.Y. TIMES, Sept. 6, 2006 (scandal where the discovery of backdating, the practice of marking a document with a date that precedes the actual date, led to a large decline in the stock market).

<sup>258</sup> See generally Clifford Krauss, *Canada’s Ex-Premier Denies Role in Quebec Fund Scandal*, N.Y. TIMES, Feb. 9, 2005, available at <http://www.nytimes.com/2005/02/09/international/americas/09canada.html?pagewanted=print&position=> (scandal involving the Liberal Party, where funds were illegally used as incentives to keep separatist forces at bay in Quebec).

<sup>259</sup> See generally Peter Brieger, *Nortel Scandal Deepens*, CANADA.COM, Sept. 13, 2007, <http://www.canada.com/nationalpost/financialpost/story.html?id=b63e74ea-87b1-438f-a3bf-9ff30ea0bf7&k=26724> (Nortel Network Corp. executives were charged by the Securities and Exchange Commission for manipulating the company’s accounting).

<sup>260</sup> See, e.g., Ann Bednarz, *Execs Tell Regulators Sarbanes-Oxley Costs Exceed Benefits*, NETWORKWORLD, May 11, 2006, <http://www.networkworld.com/news/2006/051106-sox-costs.html>.

<sup>261</sup> See generally *id.*

environment and to encourage them? This is not going to go away, and we do have to work with it.

Finally, what do we do about entrepreneurial enterprises that are designed to take value from the economy and deliver no value in return? Some of them exist in the world of intellectual property.<sup>262</sup> That's a world where proceedings are often very tough and costly. Some of these are the most hazardous to the young risking entrepreneurs whose competitive and confidence winning challenges are always pushing them to the limit. Here, the challenges often end up in the courts where the standards of ethics, justice, and rightness for the community or nation are to be maintained.

The responsibilities of governance and law are extremely important for entrepreneurs and for prosperity.<sup>263</sup> I am actually hoping during the hours of this conference that we gain some new insights and confidence about how we develop ethical entrepreneurs and ethical systems of governance and law in which they will function. I hope this conference is going to give me some new insights. Our prosperity, economic growth, job creation, and wealth creation depend upon how well we do this.

Thank you.

#### DISCUSSION FOLLOWING THE REMARKS OF DAVID T. MORGENTHALER AND DR. H. DOUGLAS BARBER

DR. KING: I had a few questions, which I wanted to start the session off with. I was intrigued by this point – that we have to have a sense of ethics. We have heard from David Morgenthaller and from Douglas Barber that entrepreneurship is the lifeblood of our two economies, and I want to speak, firstly, on this.

I was party to an entrepreneurship making disposable hypodermic needles. I had to get out when I went to the top government job because we were selling to the government, but my partner sold out to Pfizer, and he made a barrel of money, and what he did was he bought everybody in the company Cadillacs. He bought a plane and a place in Cape Cod and joined a fraternity, which was known for excessive drinking.

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<sup>262</sup> See, e.g., Morag Macdonald, *Beware of the Troll*, THELAWYER.COM, 26 Sept., 2005, available at <http://www.thelawyer.com/cgi-bin/item.cgi?id=116783&d=122&h=24&f=46> (explaining the “patent troll” as a company “that holds a portfolio of patents where the only business is . . . [legally] enforcing them against those who [have not] paid them for a licence [sic].”).

<sup>263</sup> See Bailey, *supra* note 240 (“[J]ustice is incredibly important to prosperity”); see also Steve Strauss, *Government's Role in Encouraging Small Business*, E-JOURNAL USA, <http://usinfo.state.gov/journals/ites/0106/ijee/strauss.htm> (last visited Oct. 29, 2007) (“Any government that wants to encourage small business needs to produce laws that protect the innovations of entrepreneurs.”).