February 15, 2019

Related Practices

Fund
Grow
Sell
Start

Building High-Impact Entrepreneurship and Investing Communities in Flyover Country | Part VI: Embracing Prosperity

When I arrived in the Southeast in the early 90's, it was for the purpose of negotiating a spin-out of a venture-backed startup from a major academic institution. The process, which started a year before my arrival, would take the better part of a year or more to complete. For a point of reference, during my legal career in California, I had once been involved in the conception, spin-out from two universities, and $6 million venture round closing for a startup – all in the space of just six weeks.

There were several reasons why the early-90's deal took so long, including that it was one of the first such spin-outs the institution had done. One of the biggest problems was the prevailing cultural notion that, while supporting the regional economy was all well and good for a university, facilitating a process that might result in someone getting rich was not. Prosperity is fine – so long as no one gets too prosperous. I've run by that kind of thinking in the New North, too. When I asked a local university professor to join a startup's board of directors a few years back, I was told, rather abruptly, that making a profit was not part of an academic's mission.

The rich, as a class if not individually (who amongst us begrudges their favorite entertainers or athletes' wealth?), are generally not the most popular people in the world – even as so many folks would like to count themselves members of the club. And so, when I argue that creating wealth is at the heart of the high-impact entrepreneurship and investing ethos, I often get some pushback. Perhaps the most common pushback goes something like this: "I don't want to get rich, I just want to change the world."

Fair enough, I suppose. But how many successful entrepreneurs, defining success as changing the world, can you name who did not in the process accumulate a hefty boatload of money for themselves, their investors, and usually many of their employees? I'm sure there are some. But not many. There are, in fact, a lot more who had very little influence on the world – but still created a lot of wealth for a lot of people. Often for whole communities.

Truth be told, wealth creation is at the heart of successful high-impact entrepreneurship. Indeed, it's something that distinguishes it from both large established businesses and traditional small businesses. For big, established companies, protecting what they already have is usually job number one (too often way past when they should have started thinking about their next act, but that's a tale for another day). For most small business entrepreneurs, having a regular income, and not having any bosses, usually share pride of place. Only the high-impact entrepreneur values creating new wealth ahead of protecting old wealth; a climactic payday ahead of a regular paycheck.

So, wealth happens. What is so important about that?

One of the virtues of wealth creation via high-impact entrepreneurship and investing is that a large part of the wealth is usually put right back into the system, supporting other high-impact startups, directly or through venture funds. Recycled Silicon Valley wealth provides a good portion of the fuel for the greatest innovation engine in the history of the world – and the prosperity it generates. (Human capital, in the form of recycled entrepreneurs, plays a big part in that virtuous cycle, as well.)

Consider as well how sharing the wealth is one of the most defining features of the Silicon Valley landscape. Most venture-backed companies have equity incentive plans that cover most – often every – employee. Thus, some 10,000 Microsoft employees, including a plethora of folks at the bottom of the org chart, became millionaires when they cashed in their stock options. That's a pretty fair sized community. Today, dozens of so-called "Unicorns" (still-private venture-backed companies) have made more than two-dozen entrepreneurs billionaires, and tens of thousands of their employees millionaires (if, for now, mostly on paper).

Renowned economist Joseph Schumpeter famously taught us that the essence of capitalism is creative destruction. (A fancy name for what Apple did to Blackberry – after Blackberry did to Nokia.) I guess that's the dismal perspective you'd expect from a practitioner of the dismal science. I prefer a rosier perspective: the essence of capitalism is wealth creation. And creating wealth isn't done any better – for the benefit of the principles and the bystanders – than it is in Silicon Valley. Here in the New North we need a little more appreciation, if not sympathy, for those who risk all to make their fortune: creating, when they succeed, new wealth to capitalize a more prosperous future for everyone.

Related People

Paul Jones
Of Counsel
pajones@michaelbest.com
T 608.283.0125