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On entrepreneurship: A conversation with Steve Case

The chairman and CEO of Revolution and cofounder of America Online explains why small, high-growth companies are the secret to economic vitality and job creation, and why large companies would benefit from greater collaboration with them.



Secret sauce

It's really quite amazing the role entrepreneurs have played in driving our economic growth and vitality and job creation. The Kauffman Foundation's data shows that all the net jobs—about 40 million jobs—have been created by young, high-growth companies in the last 30 years.

So if you're concerned about our rate of unemployment, the place to focus is entrepreneurship. If you're concerned that we're not seeing enough economic growth, the place to focus is entrepreneurship. If you're focused on what's happening globally as other nations more vigorously put in place their own entrepreneurship policies, the place to focus here is on entrepreneurship.

All roads lead to entrepreneurship as a key driver—the core driver, I think, in terms of economic vitality, job creation, and global competitiveness. So it's not something on the side. It really is the core of making sure our nation remains a strong, vibrant, economically powerful nation.

We didn't become the leading economy in the world by accident. It was the work of entrepreneurs creating entire industries that propelled the United States into a leadership position. Other nations that are trying to do the same thing recognize that the secret sauce that's driven the American economy and the American success story is entrepreneurship, and they're trying to replicate that. So we really do need to focus on it and make sure we're all doing what we can to double down on entrepreneurship.

Small businesses are not all created equal

I understand why people, particularly in politics, focus on small business, because it's something everybody understands. It's sort of the heart of America. It's Main Street with the restaurants and the dry cleaners that are part of the fabric of every community and an important source, in aggregate, of jobs.

But there is a big difference between small business and high-growth entrepreneurial companies, and they sometimes get mushed together in a way that's not really helpful. While these small, Main Street businesses are important, they aren't really innovators and job creators, for the most part.

There's a different mind-set for somebody who wants to basically open that restaurant and be in business for 10 or 20 or 30 years, which is fabulous. It's just that not many of those businesses really want to create a chain of a hundred or a thousand restaurants. So we need to focus more, as a nation, on high-growth companies, because that really is where the job growth comes from. That's really where the economic growth comes from.

And so, we can recognize that small business is a core foundation, or maybe the fabric of our nation, and certainly an important part of our communities. But we need to recognize the real leverage in terms of job creation, economic growth, and vitality that comes from these high-growth companies aspiring to go from a few people to dozens of people to hundreds of people to thousands of people. That's really where the significant job creation comes from.

In my experience, there are different tracks that entrepreneurs take. Some entrepreneurs are really focused on a small business, and maybe that business is always going to be small. Other people take a different path—they have an interesting idea and they want to quickly create momentum around it and then sell it. They don't really want to build a lasting company. They're trying to build a product that they can get somebody else or some larger company to acquire. It's almost a built-to-flip mentality.

The third path, which is the one I'm most enthusiastic about, is the built-to-last companies created by entrepreneurs that really have a big idea. How do you change education? How do you change health care? How do you do a better job of delivering something to consumers and build a large, durable, sustainable company over 10, 20, 30 years?

So it's the mentality of thinking about this as a long-term journey, and having not just the passion to get started, but the perseverance to persist despite all the ups and downs. It seems to me that those are the companies that really do change the world. Those are the companies that really do drive economic growth and job creation in a more sustainable way.

Building 'connective tissue'

The good news is there are constructive things that we can do, mostly in the private sector. Some things like crowd funding require policy and government action, but most things can be done by the private sector.

I think an important role for a large company is to not just focus on their own business in a traditional way, but to figure out ways to supplement that approach with knowledge gained by working with entrepreneurs. I think people in most companies now recognize that no matter how hard they try, a lot of smart people are not going to work for the company.

How do you create a more open approach to dealing with others who have interesting ideas, technologies, and perspectives and develop a networked model surrounding your company? I think that would be good for your company, and so is making sure you understand where the future's going and you're well-positioned for that future. It also helps support the entrepreneurial community trying to grow in your community or in your industry sectors.

Some of that is just making it easier for these entrepreneurs to understand what your corporate priorities are and to know who to talk to. It's amazing, when you talk to entrepreneurs, how opaque it is. Some of these big companies, particularly the Fortune 500 companies, actually want to have access to good ideas and good perspectives but haven't really created the connective tissue or made it clear in terms of what their priorities are. So people don't really know where to start and they get frustrated. As a result, the big company doesn't get the benefit of this young company, and the young company doesn't get the benefit of a potential relationship with a larger company.

Better policy

My experience over the last couple of years has been mostly positive, in terms of the role that government can play. And I start with a bit of skepticism, maybe cynicism, as an entrepreneur, about the role of government. Entrepreneurs generally figure that the optimal solution is for government to just stay out of the way.

But in my experience, government is going to play a role. You might as well figure out a way to tilt it so that it's a positive, constructive role as opposed to a negative role. In the last couple of years, we've seen some progress, some momentum, and some bipartisanship around entrepreneurship. Ultimately, the JOBS Act, "Jumpstarting Our Business Startups," came into fruition.

It focused mostly on access to capital, because that was a key finding, making it easier for companies getting started to raise money through crowd funding and for companies growing fast to consider IPOs and access the public markets to be able to grow. Those were some of the key ingredients of the act.

I think the JOBS Act was an important step in the right direction, sort of a down payment, if you will, from the folks in Washington to make sure that we really do remain the world's most entrepreneurial nation. But there's still work to do. More recently, a Startup Act was introduced by four senators—two Republicans and two Democrats—that adds to that agenda, focusing on things like high-skilled immigration.

Ultimately, our success as an entrepreneurial nation is going to be driven largely by our ability to attract and retain the best and brightest talent who really are the entrepreneurs and the engineers who are going to have these great ideas. Right now, for a variety of reasons, we're still able to attract some of those people to our universities —about half of the people getting PhDs and master's degrees at our terrific research universities here in this country. That's the good news. They come here for those educations.

The bad news is many of them leave and go back to their countries, including many who want to stay here but aren't allowed to stay here. That's crazy. So the Startup Act

is designed to create an entrepreneurship visa and a STEM¹ visa so we can keep the entrepreneurs and the people with these engineering degrees here. This way, we can get them to start companies or join growing companies here, as opposed to giving them these great educations and kicking them out, forcing them to essentially start companies in other countries that will compete with our companies here. So that's important.

The Startup Act also takes a fresh look at the commercialization of university research, takes a fresh look at some regulations, and tries to put some incentives in place around capital. There are different things that the Startup Act would do to add to the work that's been done in a bipartisan way with the JOBS Act. So hopefully, we can build on the JOBS Act momentum and build bipartisan support for the Startup Act. \circ

¹Science, technology, engineering, and mathematics.

This is an edited transcript of the interview, which was conducted by **John Horn,** a senior expert in McKinsey's Washington, DC, office. Copyright © 2012 McKinsey & Company. All rights reserved.