**Knowledge, Power, and Entrepreneurs:**

**A First Pass at the Politics of Entrepreneurship Policy**

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The politics of entrepreneurship policy are underdeveloped. Entrepreneurs have their hands full building businesses and typically ignore, if not disdain, collective action aimed at the public good. Yet, entrepreneurial success depends critically on good governance, which can only emerge through collective action of some sort. Policy-makers, on the other hand, are acutely aware that their terms in office depend heavily on the vitality of the economy and the industries that drive its growth. Yet, they often lack the knowledge and power to devise and implement policies that would enhance economic growth by fostering entrepreneurship.

The entrepreneurial and policy communities have much to offer one another. The involvement of entrepreneurs in designing and supporting entrepreneurship policy could make the efforts of policy-makers more politically viable and economically effective. Yet, the links between them are thin at best, and sometimes non-existent. Skeptics on both sides of the entrepreneur/policy-maker divide have reasonable grounds for their doubts. Entrepreneurship policy advocates must build institutions and change ingrained beliefs if they want to construct durable coalitions that bridge the divide and produce good policy outcomes.

This chapter explores the problems and promise of coalition-building between entrepreneurs and policy-makers. The argument is largely theoretical and hypothesis-framing, since little empirical work has been done in this area. I begin by making the case for the importance of this coalition, arguing that there is no adequate substitute for the power and knowledge that a politically engaged entrepreneurial community can bring to the policy process. I then turn to the barriers that impede such engagement and mechanisms that might overcome them. The last major section of the chapter addresses the concerns of policy-makers, particularly the fear that entrepreneurs will attempt to use their involvement in the policy process to secure public resources for private gain.

## Knowledge and Power in the Entrepreneurship Policy Process

As other chapters of this volume argue in considerable detail, public policy has emerged as an increasingly significant element in the context for entrepreneurship in the contemporary U.S. The development of the knowledge economy is one of the key factors behind this trend. Knowledge-based businesses are more dependent on public goods and on regulatory systems, broadly construed, than their counterparts in earlier economic epochs. Governance processes at all levels, from local to national (and even beyond), determine, for instance, whether educated people are available to start up and work in knowledged-based businesses and whether suppliers, producers, and customers can exchange confidential information securely and inexpensively. Research on the appropriate content of entrepreneurship policy, that is, what governments and other partners in governance ought to do to facilitate the start-up and scale-up of firms, has grown rapidly in recent years, although there is still much work left to do.

Much less attention has been paid by scholars to the process of developing and implementing entrepreneurship policy. This gap in our understanding matters because the policy process always influences the content of policy. No matter how good their intentions, participants in the policy process inevitably have limited time and information. And, no matter how hard they try to be objective, they cannot fully shed preconceptions built over a lifetime of experience and training. Knowledge about and conceptions of the public interest inherited from the past, filtered through the confusion of the present, inevitably shape the future. (March and Olsen, 1984; Simon, 1957)

Moreover, many participants in the policy process will be pursuing specific interests, rather than the public interest. Bargains must usually be made to gain support from some of these interests. Such bargains not only shape the distribution of immediate gains from policy implementation, but also the politics of any future rounds of policy-making. They may establish, for instance, which interests have a voice in implementing or modifying the policy. The structure of power today may therefore be reproduced in tomorrow's decision-making, even if it has changed in the meantime. (Lowi, 1964)

The knowledge and power linkages between policy process and policy content are likely to be particularly strong in the making of entrepreneurship policy. Entrepreneurship policy-makers must be knowledgeable about an extremely complex environment. A close understanding of market conditions in particular sectors of the economy, for instance, is likely to be relevant to their efforts. In many knowledge-intensive sectors, an accurate assessment of technological opportunities is equally essential. Moreover, both markets and technologies are changing, sometimes quickly, and policy-makers must try to look forward to gauge trends. More than a modicum of knowledge about markets, technologies, and trends is required even if the minimal objective of doing no harm is adopted by policy-makers, and much more is required if creative interventions in the environment for entrepreneurship are envisioned.

Effective entrepreneurship policy-making makes heavy demands on power resources as well as knowledge resources. Entrepreneurial firms are by definition doing something new and different. Customers, these firms hope, will find these activities valuable, but competitors might not. If these competitors are in the same jurisdiction as their potential rivals, they may attempt to block policies that facilitate entrepreneurship. This form of protectionism is less familiar and visible than protectionism in international trade, but quite widespread, particularly at the state level in the U.S. (Atkinson, 2001) In addition, entrepreneurship policy should be constantly shifting toward ever-emerging opportunities. Current beneficiaries may be tempted to try to lock in any advantages they gain from a policy regime and prevent it from evolving. Finally, in many cases, entrepreneurship policy presents an ideological challenge to the status quo. The application of power may be the only way to break through the cognitive filters and political resistance tied to ideology.

In a nutshell, "creative destruction," as Joseph Schumpeter would have it, makes for challenging politics. Entrepreneurship policy-makers need a lot of knowledge and a lot of power to do their jobs right. In the American context, with its weak civil service and decentralized institutions, such policy-makers are constitutionally denied ready access to these resources. In any case, even if a “strong” government solution to the challenges of entrepreneurship policy-making could be tried, it would not work. Too much vital knowledge, and perhaps some essential forms of power as well, reside only in the private sector. That is not to say that government should be “weak.” (Katznelson,

1992) Indeed, as I discuss below, government agencies need substantial capacity to analyze and implement entrepreneurship policy. But they simply cannot govern effectively without partners.

## The Political Resources of Entrepreneurs

Just whose knowledge and power, beyond those of government, ought to be drawn upon in making entrepreneurship policy is not a question with a simple answer. The specific members of any support coalition will depend upon many factors, including the level of governance, the composition of the economy, and the political situation. At the local level, for instance, the classic participants in the "urban growth machine," such as real estate developers, bankers, and retailers, may have important roles to play in adding an entrepreneurship thrust to the economic development policy portfolio. (Logan and Molotch, 1987; Logan, Whaley, and Crowder, 1997; Miranda and Rosdil, 1995) Universities, which are increasingly relied upon by state and local governments to be catalysts of economic growth, in part by fostering start-ups, might bring valuable insights as well as clout to the process. (Feller, 1990) Entrepreneurs, however, possess a unique set of political resources that makes their presence more necessary in entrepreneurship policy-making than any other potential participant. Their knowledge and their power may not be enough to ensure a winning coalition, but their absence raises the probability of failed initiatives and flawed policies.

Knowledge about markets and technologies, and about opportunities where the two come together, is the most vital asset that entrepreneurs possess. Indeed, at the outset of the entrepreneurial process, before any investments are made, it is the only asset they have. The only other actors who might possess the relevant knowledge are the incumbent businesses who are potential targets for entrepreneurial entry. Other potential participants in the policy process are likely to lack either the interest to discover what entrepreneurs know or the expertise to interpret that information. Knowledge of both the status quo and opportunities for change permits the identification of points of leverage where policy can play a constructive role. Such knowledge is necessary but not sufficient for policy-making. It must be verified in some fashion and linked to a realistic understanding of the capacity of government and other entities that may be carrying out public policy, issues that are addressed below.

The political power of entrepreneurs is less evident and less essential for policy-making than their knowledge, but nonetheless potentially very valuable. It is important to note that entrepreneurs typically do not possess many of the political resources that are often associated with business, especially big business. For instance, they cannot effectively wield "structural power," the implicit threat to invest elsewhere or not at all in exchange for concessions, a form of power that is sometimes attributed to large firms, especially those that dominate a jurisdiction's economy. (Lindblom, 1977) Entrepreneurs usually do not have much "instrumental power," either, that is, conventional political assets like lobbyists and campaign contributions that can be dedicated to pushing a specific agenda, although such assets can be developed over time.

What entrepreneurs do have, though, is credibility and legitimacy in the eyes of the public and its elected representatives. Entrepreneurs are respected more than most other groups in American society. They capture media attention, particularly in political contexts, where their presence is usually unexpected. The high status of entrepreneurs is deeply inscribed in American political culture and will survive even the punctured dreams of the Internet boom era.

The knowledge and power of the entrepreneurial community have not often been brought to bear in the policy-making process. Firm size remains one of the most powerful determinants of measurable involvement in national politics. Entrepreneurial firms may be found in the membership of some national trade associations, but such participation is more likely to signify interest in non-political activities like standard-setting and trade shows than in associations' public policy efforts, which tend to be dominated by larger members. At the state and local level, too, non-participation in policy-making is the norm. IBM, for example, is far more likely to be represented in the membership and leadership of policy-relevant business organizations at these levels than its entrepreneurial rivals. (Rae 1994; Hart, 2001) This norm is one plausible explanation for the "shallow foundations" (as Peter Eisinger, 1995, puts it) of entrepreneurship policy, as it has emerged to date.

## Mobilizing Entrepreneurs

The absence of entrepreneurs from the policy process is not a moral failing on their part. They have no particular duty to participate in policy-making above and beyond that of other citizens. However, entrepreneurs may have a special *interest* in shaping governance -- improvement in the environment for entrepreneurship -- that they fail to recognize or are unable to act upon. The barriers to participation are diverse.

Perhaps the biggest and most intractable barrier is lack of time and energy. Entrepreneurship is, by all accounts, an exhausting and all-consuming process. (See Ferguson, 1999, for one such account.) Entrepreneurs plunge into business -- body, mind, and bank account -- and block out all distractions, sometimes including family, all the more so public policy. A sort of tunnel vision often sets in, drastically limiting the scope of information to which entrepreneurs pay attention and activities in which they take part.

Lack of information compounds time pressure. Even if an entrepreneur will consider whether it would be worthwhile to get involved in policy-making, she will need to be convinced that the required investment of time and energy will yield a commensurate payoff. Such information is not usually readily available and may not even exist. Although broad relationships between certain forms of governance and the entrepreneurial vigor of places and societies can be established (as other chapters in this volume attest), specific benefits to specific firms or individuals are much more difficult to demonstrate. At best, public policies may slightly better the long odds for all entrepreneurial ventures. An entrepreneur who has to supply a bottom-line justification for spending time at policy-related meetings to an investor (or spouse) may reasonably choose to skip them on the principle of "better safe than sorry" in the face of ignorance.

The politically rational entrepreneur has other reasons to abstain from participation as well. This person may simply choose to let others do the work of the community. If those others fail to devise a good policy, at least the entrepreneur has not wasted her time and energy in the effort. If they succeed, she shares in the benefits anyway. (Olson, 1965) In addition, she may reasonably doubt whether any policy can be enacted and implemented quickly enough to make a difference to the fate of her business. And she may doubt whether such a policy will be sustained through multiple election cycles and changes of government.

Of course, entrepreneurs aren't necessarily rational; if they were, they probably wouldn't be entrepreneurs, since the odds of a start-up succeeding are so low. However, the type of person who is drawn to the entrepreneurial gamble is not very likely to be drawn to the challenge of governance, which is a different kind of gamble. The entrepreneurial calling, particularly in the U.S., selects for those who have faith in the efficacy of individual action. This faith may translate into ideological conservatism or political apathy, neither of which is conducive to participating in an entrepreneurship policy coalition. The famous "cyber-libertarianism" of many in the information technology industry illustrates the point. Any cognitive dissonance created by acknowledgement of the Federal government's important role in establishing and sustaining the industry (Flamm, 1988; Langlois and Mowery, 1996) is rarely sufficient to undermine the cyber-libertarian belief that government can play anything but a constructive role in the economy. (Borsook, 2000)

These barriers to the mobilization of entrepreneurs are formidable. They encompass good reasons and bad ones and no reason at all. Given their scale and scope, the participation of a large fraction of entrepreneurs in policy-making is not a realistic objective. Such a mobilization would not be desirable, in any case, if it took much time and energy away from the entrepreneurial process itself. Fortunately, an effective entrepreneurship policy coalition does not necessarily need more than a few entrepreneurs.

Institutions may be imagined that would lower some of the barriers somewhat. Institutions, particularly formal organizations, can serve to legitimate previous deviant norms, build trust among suspicious parties, and routinize activities that were once expensive. Representative groups of entrepreneurs mobilized through new institutions have the potential to bring relevant knowledge and requisite power to bear on the making of entrepreneurship policy.

One sort of institution for mobilizing entrepreneurs concentrates on changing their cultural milieu. The appeal made in this context is oriented to a sense of duty, perhaps, or the promise of fame, rather than to a rational calculation of costs and benefits. Some entrepreneurs may find engagement in policy-making psychologically gratifying, if not financially remunerative, especially if they receive recognition for their investment of time and energy.

The Technology Network (TechNet) is an example, albeit imperfect, of this kind of institution. TechNet's signature activity has been bringing CEOs of Silicon Valley start-ups together with leading politicians. The CEOs enjoy the excitement of rubbing shoulders with their visitors from Washington, D.C. and savor the appreciation of TechNet's organizers, who include some of the most well-regarded venture capitalists in the Valley. At the peak of the Internet boom, TechNet events drew enthusiastic crowds and credulous notices in the political press. (Miles, 2001) How much of a cultural change TechNet has achieved and whether its momentum can be sustained are open questions, now that the boom is over. The organization has endured substantial turnover in its staff, and its membership is not as much of a magnet for politicians as it was a couple of years ago when members' capital gains were very large.

A second approach to mobilizing entrepreneurs focuses on cutting the costs of involvement. Although entrepreneurship policy advocates cannot add hours to the entrepreneur's day, they may be able to reduce the time commitment of involvement in public policy and enhance the sense of efficacy felt by those who choose to get involved. The public-private partnership is a popular vehicle for pursuing this approach. Such partnerships come in many forms and have many objectives, but all seek to reduce bureaucratic impediments in policy design and implementation, in part by taking advantage of the capacities of the private partners instead of red tape-encumbered public agencies.

The Arizona Governor's Strategic Partnership for Economic Development demonstrates this process at work. As Mary Jo Waits (2000) describes it, this partnership has been a particularly effective mechanism for engaging representatives of such emerging industries as environmental technology, software, and optics in policy-making. "Many [optics industry executives] began to firmly believe that, by contributing time to developing the state's capacity to support optics companies, they could turn Arizona into an international center of excellence…" (45) Effective public-private partnerships, however, are not easy to build and maintain, especially when the partners are unequal. They often degenerate into – or are designed to be – merely symbolic entities.

Improving the quality and credibility of information about entrepreneurship policy and facilitating access by entrepreneurs to it constitutes a third mechanism for mobilizing entrepreneurs. Information will not overcome cultural and ideological barriers, since these beliefs and values will tend to filter out anything that might contradict them. On the other hand, for entrepreneurs who are less set in their views, the findings of research that relates policy outcomes to entrepreneurial outcomes may provide sufficient motivation to spur involvement.

The National Commission on Entrepreneurship (NCOE) is one organization that takes this approach.[i] Based in Washington, D.C., and sponsored by the Kauffman Center for Entrepreneurial Leadership (KCEL), the NCOE bills itself as a resource for anyone interested in entrepreneurship and public policy. NCOE staff, for instance, ran a series of focus groups of entrepreneurs around the country in 2000. The meetings served the dual purposes of gathering policy-relevant knowledge and building a constituency for NCOE's advocacy. KCEL's patronage (an arrangement not uncommon among public interest groups (Walker, 1991)) and the Commission's membership of successful entrepreneurs and venture capitalists add credibility to the effort, but do not ensure a positive reception. Crafting messages that break out of the noise in Washington, D.C. and translate effectively on both sides of the entrepreneur/policy-maker divide remains a major challenge for the organization.

Any approach to mobilization, including the three outlined above, can at best draw in only a few entrepreneurs who are predisposed, for some reason or other, to get involved in policy-making. The newly mobilized may have a taste for fame or public service or be those who are most likely to benefit individually from a change in policy. The mobilizing institutions have strong incentives to make such selection biases even more powerful, possibly to the point of undermining their claims to represent entrepreneurs and their capacity to bring to bear the entrepreneurial community's unique political resources. TechNet, for instance, depends on its members to sustain itself and has been inevitably drawn to admit executives of mature and stable (and thus less entrepreneurial) firms, like Microsoft and Intel, into its leadership ranks. NCOE's commissioners have strong track records, but many are no longer active entrepreneurs; one worries whether they have the most relevant knowledge to contribute to entrepreneurship policy-making.

Such concerns, while legitimate, ought not necessarily lead to the conclusion that mobilizing entrepreneurs is a hopeless endeavor. The mobilization cannot be perfectly representative, but it might be good enough. Judging whether it meets this standard, and thus whether groups and individuals claiming to represent entrepreneurs bring the right kind of knowledge and power to the policy process, is the responsibility of policy-makers.

## Checks and Balances

Andrew Grove's famous dictum, "only the paranoid survive," applies equally well to policy-makers as to the entrepreneurs to whom it was originally directed. Suspicion is the natural condition of both groups, despite the optimistic face they present to the outside world. Policy-makers are particularly suspicious of those who equate their special interest with the public interest. Although this equation is sometimes valid, specious claims to the public purse and public authority are the norm. Entrepreneurs interested in entrepreneurship policy, like farmers interested in agricultural policy or defense contractors interested in national security policy, will inevitably try to make the equation and must endure close scrutiny of their claims.

Entrepreneurial motivation is an important basis for this suspicion. Entrepreneurs usually want to get rich (although they may also have other motivations, such as self-fulfillment). Some entrepreneurs will say or do virtually anything to achieve their goal, as any venture capitalist or loan officer will attest. Policy-makers will want to feel confident that any policies that aim to help entrepreneurs make money also contribute to the well-being of the larger society, rather than merely redistribute revenue from the public to a few well-placed private beneficiaries. They may even want to be assured that helping entrepreneurs get rich is a better way to advance societal goals than the available alternatives.

Even if one assumes that the desire to get rich does not lead entrepreneurs to intentionally mislead policy-makers, there are grounds for concern about the quality of information that they bring into the policy process. Most start-ups fail, a fact that implies that many entrepreneurs make incorrect judgments or rely on inaccurate information. Transference of even the best-intended "irrational exuberance" from private decision-making to the policy process is a recipe for failure. Not every region can become the next Silicon Valley, no matter how dearly its local boosters may desire it. (Leslie, 2001) Policy-makers need to be able to sort the wheat from the chaff.

To these worries about the knowledge provided by entrepreneurs who are drawn into policy deliberations must be added a concern about their claim to their legitimacy, which is a key source of their power, as I argued above. This legitimacy stems in part from popular enthusiasm for the underdog. While executives from large firms may seek (and sometimes even deserve) to be labeled "entrepreneurial," that image is difficult for them to maintain in the fishbowl of public attention. At least some of the business participants in entrepreneurship policy-making must be genuine small fry. Paradoxically, though, some measure of success also contributes to the political legitimacy of entrepreneurs. The most politically desirable entrepreneurs, then, are those who are successful, but not too successful. The "serial" entrepreneur, who has a track record of building companies but regularly renews her underdog credentials by starting new ones, may be the most desirable participant of all.

A well-structured entrepreneurship policy process ought to have the capacity to weed out lies, misrepresentations, and unintentionally distorted information, whether pertaining to entrepreneurs, markets, or technologies. This capacity might be vested, at least in part, in government agencies. While civil servants may be unable to generate knowledge about entrepreneurial opportunities, they can check out information provided by private sector participants in policy-making. These efforts cannot eliminate risk and should not try to do so; risk is inherent in entrepreneurship and thus in entrepreneurship policy as well. Instead, this kind of check should eliminate the most foolhardy ideas on the one hand and the safest bets on the other, while providing an unvarnished assessment of those in between.

Technical competence, rooted in formal education, is an essential element of the capacity to assess the claims of entrepreneurs. But this capacity is also something that cumulates over time through learning by doing among both individuals and organizations. Research suggests that an organization's experience with entrepreneurship policy improves the quality of outcomes and raises the likelihood that the policy will be maintained and expanded (Clarke and Gail, 1989). The emergence of entrepreneurship policy, then, does not mean that the state should be hollowed out nor become a virtual organization, assembled on a task-by-task basis (Porter, 1990). The public partners in policy-making must be robust and stable to play their roles effectively.

Another obvious way to enhance the entrepreneurship policy process is to encompass within it multiple private viewpoints. If there were not differing assessments of opportunities among private actors, there would be no entrepreneurship. By bringing these differences out and debating them, policy-makers can understand the factors that underlie them. The purpose of these debates is not necessarily to produce a policy that is a compromise among the views expressed. Markets often show that one assessment was right, and another was wrong, and policy-makers should not shy from concluding that such is the case.

The development of substantial bureaucratic capacity and the inclusion of multiple perspectives are commonsense checks and balances in the entrepreneurship policy process. They reduce the chances that the process will be captured by special interests whose betterment contributes little to the society around them. They help to prevent the starry-eyed leader from chasing every new new thing that catches his fancy. These checks and balances make the process more deliberate, but also more sustainable over the long term.

## Conclusion

In the entrepreneurship policy process, as in any other policy process, both knowledge and power are important. This chapter argues that entrepreneurs themselves can provide these political resources and that they should be mobilized to participate in policy-making, subject to a set of checks and balances. There are many pitfalls along the path to creating an effective coalition between entrepreneurs and policy-makers, many opportunities for the process to be captured, led astray, or torpedoed. The process requires patience, which unlike suspicion, is not a quality usually associated with either partner in the coalition (Eisinger, 1995).

This analysis is admittedly provisional. The study of the politics of entrepreneurship policy, a sprawling and complex domain of governance, has only just begun. Empirical research on support coalitions is sorely lacking. Further distinctions must be made among the levels of governance, which are blurred together here. The particularities of regions, states, and localities must be borne in mind. Yet, if the reader takes seriously the linkages between process and content discussed early in this chapter, then he must conclude that such research merits as much effort as conventional policy analysis and evaluation.

Notes to Chapter 12

[1] Full disclosure:  the National Commission on Entrepreneurship and Kauffman Center for Entrepreneurial Leadership sponsored the conference that led to this volume.  This volume itself, to the extent that it reaches entrepreneurs as well as academics and policy-makers, might be considered an element in the informational approach to mobilization.