

How and Why of Promoting Entrepreneurship Abroad
Hoover Institution
Stanford University

**Richard Boly: Case Study - Partnership for Growth in Italy:
Promoting Entrepreneurship as U.S. Foreign Policy**

Boly: My name is Richard Boly and I am currently a Foreign Service Officer spending a year at the Hoover Institution and the focus of my work this year has been to take a program that we did at U.S. Embassy-Rome, under the leadership of Ambassador Spogli, to grow the entrepreneurial ecosystem in Italy. Now there are some obvious questions that we will leave for the panel and Ambassador Spogli to develop, like the questions of why we would want to do this and the process that we went through as part of Ambassador Spogli's initiative.

I will get down into the nitty-gritty; the question of can you grow an entrepreneurial ecosystem. There are a lot of countries that have tried this, countries such as Singapore. And I think some of the challenges have been inconsistent approaches. Form follows function. If you are going to promote entrepreneurship, you do not do it through a command-and-control approach, so a bottoms up approach is what we focused on. And we focused on some of the elements of the previous panel: research to market, how do you improve commercialization of research.

The second, broader and deeper risk capital markets: having venture capital might not be the answer, but having access to some risk capital, especially early stage risk capital is important to be able to generate demand for people to leave steady jobs in a country where it is hard to get a job.

The third area is intellectual property rights protection. This is something the U.S. government talks about around the world, but we turned it on its head and said this is not IP protection so that Microsoft and "big pharma" can get paid for their patents and their products. That is important, too, but it is so your innovative entrepreneurs, the dozens of people we can identify, some of whom are in this room, who have left Italy to innovate (there is Pierre Luigi Zapacosta, one of the co-founders of Logitech in the back) in Switzerland, the UK, the United States and create billions of dollars in market capitalization, tens of thousands of jobs, but just not in Italy. And finally, and far and away the most important thing we did, was to identify and promote entrepreneurial role-models. And I will get into some of the details, some of the granularity of what we did, and there are a couple of points that might be obvious, but I want to state them upfront.

First of all, we were talking about scaleable entrepreneurship. When you are in Europe, you talk about SME's. When we talk about gazelles and scalable entrepreneurship, they talk about SME's, and we think we are talking about the same thing, but really we are not. An SME is a corner shopkeeper or a corner bar. It will never be scaleable. It has five employees this year; it will have five employees twenty years from now. It is an important part of the economy but it is not part of the economic growth of the country. It is not part of what we are talking about. Another thing, we are not talking about micro-credit. The places where micro-credit is indicated are probably places where scaleable entrepreneurship is counter-indicated. It means that none of

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the institutions are working, so that means that the only way to get access to credit is to borrow from someone who you have a very strong personal relationship with. So there are zero arms-length transactions. So those are things which we are talking about and not talking about.

So I will get quickly into my presentation. This is a slide that was pretty much covered by the previous panel, but basically the difference between entrepreneurial capitalism and what I would call bureaucratic capitalism, which is what you see in a lot of in Europe, is that entrepreneurial capitalism is Schumpeter's creative destruction: incarnate, it is messy, bottom's up, private and unplanned. Private actors create the new venture ecosystem; it is not command-and-control from the top, and government creates the policy framework that allows this to happen. I agree, the government should not be the principle driver or actor in this. In bureaucratic capitalism, as we see in much of Europe, we have national champions; we have centralized, negotiated, top-down industrial policies between labor, government and big business. We also have job-preservation, not job-creation. This is trading fewer bumps for less growth and maybe higher systemic unemployment, as well as trading growth for stability. And you can take a look at the failure of [the EU's Lisbon agenda](#), which was to make Europe into a leading innovation economy, and it is about ten years old right now and it did not achieve its goals.

I will reiterate those four areas. We focused on research to market, growing risk capital markets, spurring innovation by strengthening intellectual property rights and creating and promoting entrepreneurial role models. We literally did hundreds of discreet activities in this area and we did not have a nickel budget. We did all of this with our partners; it did not cost the U.S. taxpayer much more than my salary. We had our partners pay and this was much easier in a G7, EU founding member state, but I think the same is true for our litmus test: if we could not get a partner who would fund it, we were not going to do it because there was not a demand for it.

So in bringing research to market, we did a number of things, hundreds of activities. These are just a handful. We had a two day visit by Stanford president, John Hennessey, who we ran ragged over those two days. We had him on a national television talk show (I have a screen shot of that), had him meet with leading policymakers, leading educators, innovators and politicians, and really focused on what is the key to how an innovation economy works and how universities play a key role in preparing and spinning off some of those ideas, and that it is market driven, not top-down driven.

The Italian Academics for Entrepreneurship is something that [Tom Byers has been doing with Tina Seelig](#) and many of you in the room: promoting entrepreneurship among people who are studying, not business, but engineering, medicine, solid-state physics and really trying to get that out further. That is a novel concept in Europe and so what we did was hand-pick professors who were either teaching entrepreneurship in business schools and said, "Why don't you get more people with the technical skills in on this?" The other thing we did was to find professors who had started scalable businesses and paired them with the people who were actually teaching entrepreneurship to build a nationwide team and network of people who could help do in Italy the things we were doing here for a decade.

We had a National Science Foundation Fellow for several months who came in and really helped do an in depth diagnosis of the challenges of technology transfer and we brought a number of

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technology transfer officers from universities in Italy to universities in the United States to learn best practices.

Here is a screenshot from the television show. Many millions of people watch this show; it is one of the most widely-watched national television shows. The next day if you walked into a coffee bar, people were talking about this; the taxi driver was talking about it. It had a broad impact on how innovation is done, and how it can be done in Italy.

These are the Italian Academics for Entrepreneurship; they are from some of the best universities in the country, well known professors. There was about an even split between professors who were entrepreneurs themselves, who had done scalable businesses, not consulting businesses, but tech companies, and professors who are teaching entrepreneurship.

So now to the next point. Broader and deeper risk capital markets. Again Italy has one of the highest savings rates in the West, but unfortunately very little goes into risk capital, most of it goes into *matones*, bricks and mortar, and our goal was to try to find a way to provide more incentives to get people on the margin to invest in early stage ventures. So, one of the things we did was to help grow an angel investor network. We hand-picked and identified twenty people who fit the role-model profile of an angel investor: someone with a high net-worth who has started and run businesses and we invited them, again all on their own dime, to go, not to Silicon Valley, we thought that would be a bridge too far, but to Milwaukee.

And we are very lucky to have Tim Keane here, who was phenomenal, and you can get the inside story for how well this worked. But these twenty individuals, who did not know each other before, were able to go to the [Golden Angel Network](#) and participate from the ground up. They were able to ask questions of a company that was pitching, and then they were able to go into a closed door session with the angels and see how the process worked. This was worth a full year of training. A light bulb went off over their heads; they saw it happen; they realized that it was not rocket science, it was pretty straight forward. It was pretty amazing.

And I will just give an anecdote. They walked in, and you could see the Italians seeing in their mind a process that would take several months to analyze the investment and the lead angel stood up and said, "Look. The CEO has got to go, he provides zero value add. We got to make sure we get the intellectual property from Johns Hopkins under the same terms, we don't want to get into a bidding war. There was some other third point. Let's put it on a term sheet, we'll send it over to the start up. If they sign it, we'll do our due diligence. If they don't sign it, we'll move onto the next company."

And twenty Italian jaws hit the table. They said, "Wow. We thought about that; we just did not think it was that easy." And the Golden Angel investors said, "Hey. It's our money. No one sets the rules except us and we are being fair, we are being honest." After that we spent a weekend watching baseball games in Kansas City. Fortunately, we were at Kauffman Stadium watching the Yankees; we bonded over that and really the next two days at Kauffmann, really seeing the big picture on angel investing.

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At the end, they went back and founded “[Italian Angels for Growth](#).” Now they have more than forty members, and their committed capital increases early stage private sector investment in Italy by ten percent. So we moved the needle. And this was from an admittedly small base, but we made a difference, and again without a nickel of U.S. government money.

We also did “Entrepreneurs in Residence”, and frankly it was one of the things that I felt was a little bit of a failure. I would have liked to have that institutionalized with a dozen people a year coming over from the United States to Italy, and actually doing the same things EIR’s do at venture funds, but doing it at innovation centers in Italy. We had a couple of ad hoc programs but nothing that was institutionalized.

And we also looked at the regulatory regimes. So we did video conferences with Silicon Valley with “BAIA”, the [Business Association Italy America](#), between regulators and practitioners here and there to look at how that could be improved. We also did something with parliamentarians.

Here is the Italian Angels for Growth website.

Innovation. Again, working with Kauffman we did a number of things. We worked to get [iBridge](#) into one of the Italian universities. iBridge, I like to simplify it by saying that it is eBay for technology transfer. We did a conference on the Baye-Dole Act, and we actually had former Congressman Baye there, and we talked about the good and bad of U.S. tech transfer, warts and all. Baye-Dole is not a panacea. It sometimes can serve to block the channel if universities are too aggressive about trying to get the last nickel out of the IP. And we did many high level events as well with ministers and judges. Here is a screenshot of iBridge.

And this is, for me, the most important. This is part of the [Pew Global Attitudes Survey](#), and they ask the same question, “Does success depend on sources outside our control?” Now this is the basic question for an entrepreneur. The entrepreneur says, “Hell no. Succeed or fail, it depends on me.” People who are highly risk averse, or feel that they do not drive their future are more likely to say, “Yeah, it is outside of my control.” Well as you see in Italy, it was seventy-one percent of the people said it was outside of our control. Now a part of that is perception, and part of that is reality. It is more difficult to do business in Italy than other places. But part of it that people don’t see role models, they don’t know the people that have succeeded, they don’t know the people that have succeeded, and this is why identifying and promoting entrepreneurial role models was such a crucial part of our program. What we found is that there were indeed people like Marco Palombi, a serial entrepreneur, who had done scalable business which was the equivalent of blogger in Italy, and was not that well known, or not as well known had he done what Evan Williams did in the United States. So that became a crucial program.

Some of the things that we did. [Face2Face: Capturing Creativity](#). This is a video web chat where one young Italian (Marco here was one of the early participants in this), would interview another on the embassy website. A one-hour interview, every two weeks, just like clockwork. And the questions actually came from people in the audience, from people watching online. It was a webinar, so they could type their questions in, they would be woven into the interview and it would feel very interactive. We’ve done forty hours of those, and there was a person at Google in content acquisition who said that this was the best content on entrepreneurship, on the

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web, in Italian, full stop, done by the United States government. Something to be proud of. And what we did was we promoted this among universities, so we tried to get a person at a university, and I will show you a slide later indicating the leverage we got on that.

Marco and those fellow first generation entrepreneurs formed a group that really served as a place for first generation entrepreneurs to identify with and join, and to really serve as a counterpoint to the old-school [Confindustria](#). They have a young entrepreneur group, but it is usually the sons or great-grandsons of the founders, and they really are not entrepreneurs. They are managers at best.

[Mind the Bridge](#) was a business plan competition. Again, there are many business plan competitions in Europe, but they focus on people already in the university. Vivek's work has shown that the average entrepreneurs are not two kids in a dorm, it is somebody that has been out in the workforce for a dozen years, has an idea, has competence. But in the United States they have plenty of role models of people that have done that. But in Italy, it is pretty rare that someone steps out of a good job at Telecom Italia or Pirelli or Finmeccanica and starts their own company. So again, we needed to identify people who had done that and share their stories. And through the Mind the Bridge business competition, the winners get to come over pitch a plug and play, meetings with VC's, they get a great opportunity to really mingle with the entrepreneurial culture here.

And finally, the [Fulbright BEST Program](#), this was a stellar program which would not have happened without the drive of Ambassador Spogli. It was taking the Fulbright Program, which I think you all know, and putting an entrepreneurial twist on it. So what we did was we identified people with PhD.'s in hard sciences: engineering, physics and medicine, etc., who were interested in entrepreneurship. So they had deep technical knowledge but they didn't have as much entrepreneurial experience, and they come over and get a crash course in entrepreneurship here in the Valley. They then get an internship in a high-growth company in their area of expertise and then they get a mentor while they are here, and they get a mentor when they get back to Italy.

We are in our third cycle, and we are proud to say that we beat Kaufmann out of the gate on this one by about a month. [Kaufmann has a similar program](#) with the UK and the Denmark. And so, we hope in just a few years we hope to have a cadre of one hundred people with PhD's in hard sciences, with an understanding of innovation, and that they will then pervade the Italian bureaucracy and from the bottoms up make the change.

Here is a screenshot from the webinar. You can see [Marco Palombi with Gianluca Dettori](#) the youngest CEO of a publicly traded company. He did iTunes about eight years before Apple. Sometimes being early is not the best. Or as they say, sometimes it's the second mouse that gets the cheese. Here is a list of all the universities that promote Face2Face: Capturing Creativity. As you can see, it is in thirty-one universities covering the entire country. Here is a screenshot again from the Fulbright Best program.

This is an important slide. I don't care what your politics are, a meeting with the President of the United States is a stunning event. And you actually see Marco Palombi there so you can get it

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from him. To have the President spend the better part of a morning sitting around a table with first-generation entrepreneurs and Fulbright BEST scholars and talking about innovation and entrepreneurship, is an unforgettable event. This happened a little less than a year ago, in June of last year. What you do not see in this picture, and please, talk to Marco about this, because it is essential, is there is an audience. The audience is sitting where you are. Do you know who the audience was? It was the economic elite of Italy. You had the head of Confindustria, the national federation of employers, you had the Minister of Innovation, you had the head of the largest technical university. Forty of the economic elite. And they were watching. They were the audience. The message was clear: the future matters. The kids at the table are going to drive the economy. We see it and we hope that you see it. A huge impact.

Now, the other thing is a question about sustainability. And we knew that this program would largely be driven by Ambassador Spogli and I, and we knew that when we left, there would not necessarily be the same driver behind it. So exactly a year ago, on May 20, we had a [Partnership for Growth Summit](#), where we brought together fifteen organizations that were key partners. Five of the fifteen did not exist before we started the program and we basically had a spin-out. We said, “Look, it’s no longer a hub and spoke. It’s no longer, if you have read the book “The Starfish and the Spider”, a spider with a single head, or a hub and spoke controlled by the embassy. It’s going to be point to point. You guys organize yourself as a virtual organization and organize around your interests.

Quickly I want to get to the policy recommendation. The question is, “Is this replicable?” and I think that definitely it is. The question is also, “is the idea of bureaucrats and diplomats and entrepreneurship strange bedfellows?” and I would argue no it is not. Half of our ambassadors to the top fifty economies are people like Ambassador Spogli, people like Tom Stevenson from Sequoia, people who know how innovation and entrepreneurship work. And increasingly, there are people for whom the Foreign Service is a second or third career. So I worked for Regis McKenna and helped launch the Macintosh, I started a shrimp hatchery down in Ecuador, so I have been an entrepreneur myself. Danny Stoian is actually working on the seventh floor at the State Department, he did two software startups in Silicon Valley before joining the Foreign Service. So it’s not uncommon to get this serendipitous mix of an ambassador who gets it, and an officer who gets it, and my contention is with that, that’s all you need.

So let me get to my simple proposal. The President announces his intention to nominate someone to an ambassadorship. The State Department Country Desk Officer will now have that person on their hands all the time, and that person is going to want to do meetings. They don’t want to do anything that is public that could interfere with the confirmation process with the Senate. So the time between those two is roughly ten weeks, it varies alot. During those ten weeks, the desk officer is setting up meetings for the ambassador. Why not set up a meeting to discuss Kaufmann, TIE, Endeavor, SEAF, and other organizations that are promoting entrepreneurship and explain how it is done. By explaining how they can work together how to do something, not cook-cutter, but find the low-hanging fruit in the country and develop it. So after that two hour meeting, the ambassador will arrive at the post and determine if it makes sense, look at his team, see if there is somebody who can run a program like this. If so, his team could have a video conference and say “let’s brainstorm, let’s see what we can do.” Dead simple. I think it could happen.

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Here are some countries, windows of opportunity. There are probably five or six countries that could be taken off of here or some that could be moved on. But the really interesting thing is that Endeavor, TIE, SEAF are present in the vast majority, and twenty-three of these forty countries either now do not have an ambassador, or we have a political appointee from the previous administration who, if past history is indicative of anything, will be turning over soon. So, we have a window of opportunity in the next few months to nail this, and I am hoping that Kaufmann, TIE, SEAF, Endeavor, and Alec Ross will have a chance to talk before the end of the day. Thank you.

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