INVISIBLE

CAPITAL

How Unseen Forces Shape Entrepreneurial Opportunity

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An Excerpt From

Invisible Capital: How Unseen Forces Shape Entrepreneurial Opportunity

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Introduction

We Americans today dream a very powerful and exciting dream. In this dream, a young man with a good attitude, a great idea, and a willingness to work hard starts a little business. That business grows and grows until the still-young founder is able to leave the day-to-day operations to his paid staff while he enjoys the good life: big mansions, Caribbean beachside villas, luxury cars, and beautiful companions. We call this story a "dream" because we know in our guts that it's not real. Very few entrepreneurs will create businesses that are profitable, let alone businesses that will be able to hire employees. Most businesses have no employees, and most of them will never have employees. Many businesses are "side hustles," glorified hobbies that will never grow. Just over one in four businesses actually brings in enough revenue to hire paid staff,[1] which explains why the average number of employees per U.S. firm—with or without a payroll—is just four![2] Just 2 percent of all businesses have employees, with large corporations being overrepresented as private employers of our nation's massive workforce.

Even among those businesses that do hire employees, only about one in ten hire twenty or more workers. And the average employee count per "employer-firm"? Around twenty.

Depending on what survey you read, at least half of all businesses are home based, and over 70 percent are sole proprietorships. Most of these business owners are working hard every day, often seven days a week. They *are* their business. Or, to put it another way, they are not out driving around in their Ferraris, as the late-night infomercials would have us believe.

We Don't Need More Entrepreneurs, We Need Better Entrepreneurs

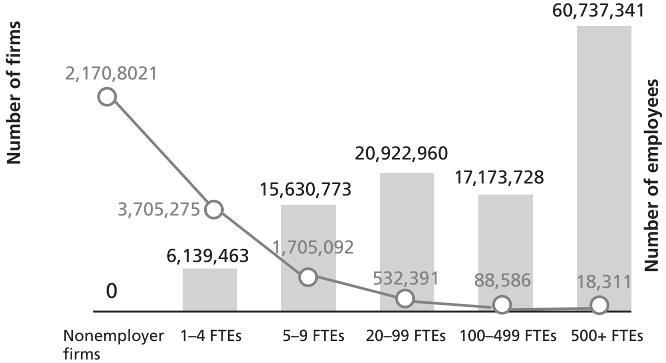
Too often our media and politicians divide our economic world into "big business" and "small business." In our culture, we tend to think that the dividing line is drawn between massive businesses like Citicorp or General Motors and little "mom and pop" businesses. The Small Business Administration (SBA), however, generally defines small businesses as any U.S. "nonfarm, for-profit" firm with fewer than 500 employees.[3] That means that TiVo, until recently, was a small business, since it fell below this arbitrary employee threshold.

When you close your eyes and think of a small business, does TiVo come to mind? Not likely, yet the company whose name has become an indispensable verb in millions of homes across the country was until recently a "small business" when applying the most generic SBA standard of proof. In fact, by this definition, 99 percent of all businesses in America are technically small businesses. The definition is so large as to be pointless. The real line of demarcation shouldn't distinguish between big and small, but between those that are sustainable and produce a broad net impact on our society and those that do not. After all, we may operate in an economy composed of markets, but we live in a society made up of communities.

This book is about building those real businesses, businesses that will grow to hire employees but may never have more than twenty paid staff. What matters about these businesses is that they become sustainable and bolster local economies and the communities they operate in.

When pundits say that we need new businesses to create jobs, they are rarely telling the whole story. Creating new businesses is a good idea, but the jobs they create have been historically fleeting

Figure 1
Employment by Firm Size



FTE = full-time employees

Source: 2007 County Business Patterns and 2007 Economic Census.

and contribute to "job churn"—that all-too-cyclical phenomenon in the workforce where our economy sheds jobs as quickly as it creates them. And the evidence shows that what really creates jobs that last is investing in *mature* businesses—firms whose management has found ways to keep them afloat—if not thriving—for over twenty-five years.[4] That point is profoundly unsexy, I know. But that doesn't make it any less true. It is equally true, though unpopular to state, that our nation doesn't need more entrepreneurs: we simply need better-prepared entrepreneurs.

What those of us who care about helping entrepreneurs must do is teach them not just how to start a business, but how to start a business that will be sustainable. It's sustainable businesses that help create broad value beyond the return to their own shareholders and consumer base and create good jobs that last beyond a quarterly job report from the Department of Labor, or longer than an election cycle.

We don't often dream about being a mom-and-pop outfit, but these small-scale, community-centered businesses are as key to the sustained vitality of our local economies as are the multinational corporations whose tentacles reach into virtually every neighborhood across the fruited plain.

Many entrepreneurs who have a good attitude, a great idea, and a willingness to work diligently will build businesses that do not survive long. Most may never get beyond the incubation stage, and therefore never generate enough revenues to allow the founders to leave their day jobs, let alone hire employees. Of the millions of businesses that exist in the U.S., most do just that: exist. They neither expand nor contract; they stagnate.

Certainly, I recommend having and maintaining a constructive outlook based on reality. I daresay a good attitude, a great idea, and a willingness to work hard are important things to have, particularly if the entrepreneurial road you have taken is a lonely and a daunting one. That said, a good attitude has not been proven to cause business success. And when one's optimism is based on wishful thinking that denies the unavoidable negativity entrepreneurs must repeatedly confront, such "positivity" is not only of dubious value, it is noticeably absent from the top predictors of entrepreneurial viability, as is revealed in chapter 4.

Rosalene Glickman makes this point well in her counterintuitive but compelling argument in her book *Optimal Thinking*:

> Many positive thinkers believe that their dreams will be realized by a magical, divine process that is triggered by the intensity of their hopes, wishes, and faith. They approach life with a false sense of security, and are ill prepared for negative consequences. Their positive thinking is often no more than wishful thinking and can be extremely dangerous.
>
> [Instead] acknowledge and respect negativity as an authentic expression of reality. When we notice ourselves finding fault and worrying, we accept our negative viewpoints, seek to understand them, and immediately ask the most constructive questions in order to find the best solution.[5]

By understanding invisible capital, how it works, and how best to leverage it, we may very well have to accept the inherent negativity in a system that has produced and distributed it so unequally. However, we can choose to be "positive" and ignorant, or realistic and solutions oriented with regard to improving entrepreneurial opportunity for ourselves and others despite the very long odds detailed in this book.

Some research suggests that certain individuals pursuing different forms of entrepreneurship exhibit a particular personality trait that includes a strong "internal locus of control." In other words, some entrepreneurs believe that much of what positively impacts business outcomes for their new venture is well within their own power to influence. However, while there may be a significant link between entrepreneurs who think this way and their likelihood of starting a new venture, there appears to be no meaningful correlation between the prevalence of this attitude among start-ups and the ultimate viability of those start-ups.

Despite ample research debunking the singular value of mind-set on business viability, whole cottage industries have been created to contradict this evidence in order to better market "secrets to business success" supported by neither research nor reality. (This unsavory phenomenon will be explored in chapter 4 as well.)

In defiance of the long odds of success in business, every year roughly 2 million start-up ventures are founded in the U.S.— slightly fewer than the number of marriages. Generally, most marriages fare better than most businesses. And even in light of the sorry state of matrimony these days, marriages still last longer than businesses.

Those who have not prospered in business—or, as is the case for most would-be entrepreneurs, those who never fully made it out of the starting gate—are not necessarily the people who lacked the psychological resolve, the creativity, or the "sweat equity" (that is, the work hours invested in the venture). They are often the individuals who lacked what I have coined "invisible capital."

What Is Invisible Capital?

If capital is that form of wealth that when exchanged for a specific purpose produces more wealth,[6] then invisible capital is the collection of largely intangible assets that improve the probability that your venture will grow and thrive.

Invisible capital is the toolkit of our skills, knowledge, language, networks, and experiences, along with the set of assets we were born with: our race and gender, our family's wealth and status, the type of community in which we were raised, and the education we had as children. Some of these assets are fixed—we cannot change who our parents are. Others are in our power to modify. What makes all of them "invisible" is that our society does not acknowledge that entrepreneurial opportunities—and thus entrepreneurial outcomes—are greatly influenced by these assets.

Some of the assets in our invisible capital portfolio are quantifiable, such as work experience and the concrete skills, knowledge, and relationships that come from that job history. For example, we know from the 2008 Kauffman Firm Survey that the businesses that lasted the longest—up to 12 percent longer than their counterparts—were the ones run by people who had started two to three prior businesses.[7]

Entrepreneurs who have worked in family-owned businesses have an even better chance of success. Those who have wealth or meaningful access to it—through family or other networks—have a leg up, as do those who have managed to obtain a college degree. Choice of industry matters, as do race and gender, though perhaps not in the way we might assume—being a man may prove a disadvantage if you want to start a day care center.

Jocelyn's parents run a laundry, where she helped out as a child. In college, she created a venture doing laundry for other students. After college, she worked at a bank. When a friend wanted help setting up a dog-grooming business, she asked Jocelyn to be a partner. Jocelyn invested her small savings and helped her friend get a bank loan. Once the business was launched, her friend bought out Jocelyn's share. With the money, Jocelyn decided to leave her banking job for good and pursue her real passion: flower design. She set up her own business, serving weddings, special events, and flower shops that needed expert advice. Her business now supports Jocelyn and an assistant.

Jocelyn had invisible capital. She was able to use her experience with the family business to set up her own laundry business in college. She then used her college degree to get a job in banking, which helped her learn more about getting loans and also allowed her to save up a little nest egg. She used her newfound knowledge of banking, and her nest egg, to help launch the dog-grooming business, and then used the money she made from that to launch her own successful business. Jocelyn worked hard, but she also had the advantage of invisible capital—some of which she inherited at birth and some of which she acquired through the choices she made. It didn't matter that Jocelyn didn't even know what invisible capital was or how it worked to her advantage.

Invisible capital is critical to entrepreneurial success. How many people are stopped in their pursuit of business success just because they have no idea how to apply for a loan? If no one in your family or in your circle of friends has ever applied for a business loan, you may not know that banks offer them, you may not know how to distinguish a good rate from a bad one, and you may not know how to create the kinds of financial statements bankers like to see. There is a whole set of tools that go into the toolkit of getting a bank loan that are readily available to some people—and absolutely invisible to others.

Invisible Capital Shifts the Entrepreneurial Paradigm

It would be nice if all an entrepreneur needed to succeed were to get those missing tools. I'd love to be able to say, "Buy this book, and I will give you all the elements you need for success!" But this book is not about handing you the proverbial keys to the secret kingdom of entrepreneurial fabulousness. Instead, it's about changing our mind-set about entrepreneurship—and learning what makes entrepreneurs more (or less) viable in this often high-stakes pursuit.

It's a paradigm shift from making a shallow call for increased investment in entrepreneurs and innovation to calling for innovative investment in comprehensive entrepreneurial literacy, and for building a toolkit that fosters broad opportunity for sustainable entrepreneurship toward shared prosperity.

President John F. Kennedy didn't lay out a detailed plan for exactly how we should send a man to the moon and return him safely back to Earth. Instead, he simply but powerfully extolled the virtues of—and commitment to—doing it because it was well within our collective ability and would yield great results if done in an aggressive, highly collaborative, and timely fashion. In a speech made to a joint session of Congress on May 25, 1961, President Kennedy proclaimed:

> I believe we possess all the resources and talents necessary. But the facts of the matter are that we have never made the national decisions or marshaled the national resources required for such leadership. We have never specified long-range goals on an urgent time schedule, or managed our resources and our time so as to insure their fulfillment.
>
> Let it be clear, . . . I am asking the Congress and the country to accept a firm commitment to a new course of action, a course which will last for many years and carry very heavy costs. . . . If we are to go only halfway, or reduce our sights in the face of difficulty, in my judgment it would be better not to go at all.
>
> . . . It is a most important decision that we make as a nation.
>
> This decision demands a major national commitment of scientific and technical manpower . . ., and the possibility of their diversion from other important activities where they are already thinly spread. It means a degree of dedication, organization and discipline which have not always characterized our research and development efforts.

> ... New objectives and new money cannot solve these problems. They could, in fact, aggravate them further—unless every scientist, every engineer, every serviceman, every technician, contractor, and civil servant gives his personal pledge that this nation will move forward, with the full speed of freedom, in the exciting adventure of space.[8]

Until that moment, most Americans believed that the stars were the realm of heaven, not of humankind. JFK changed all of that with this one bold and visionary speech to a restless nation desperately wanting to spread its wings and fulfill its promise in a fast-changing world. Kennedy's vision in pursuit of space travel was a paradigm shift of the highest order. It was an otherworldly goal for which we had little point of reference. A half-century later, we have not yet committed to taking such a bold step in a far more earthly and seemingly familiar endeavor of no less consequence than extraterrestrial exploration: entrepreneurship.

We are mired in an ignorance cloaked in a confident, yet unhealthy, view of material success that with each passing generation betrays any collective notion of equality of opportunity, social equity, and shared prosperity—at a time when our most vulnerable communities are in greatest crisis and our middle class is shrinking and increasingly beleaguered. In fact, according to Brandeis University's Institute on Assets and Social Policy (IASP), the wealth gap between White Americans and African Americans more than quadrupled in the twenty-three years from 1984 to 2007.[9]

According to acclaimed wealth guru Edward Wolff,

> Most people think of family income as a measure of well-being, but family wealth is also a source of well-being, independent of the direct income it provides. There are both narrowly economic and broader reasons for the importance of wealth. Some assets, particularly owner-occupied housing, provide services directly to the owner. This is also true for consumer durables, such as auto-

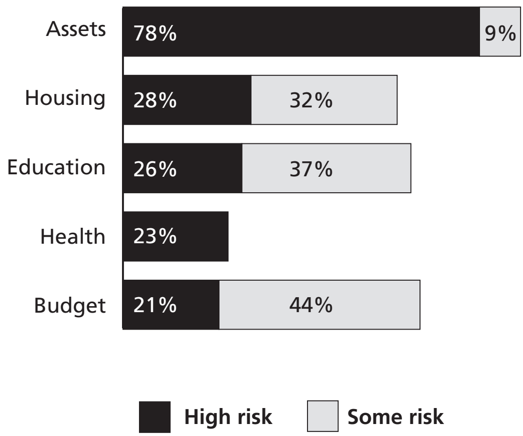
> mobiles. Such assets can substitute for financial income in satisfying economic needs.
>
> . . . More important, perhaps, than its role as a source of income is the security that wealth brings to its owners, who know that their consumption can be sustained even if income fluctuates. Most assets can be sold for cash or used as collateral for loans, thus providing for unanticipated consumption needs. In times of economic stress, occasioned by such crises as unemployment, sickness, or family breakup, wealth is an important cushion. The very knowledge that wealth is at hand is a source of comfort for many families.[10]

This book seeks to raise the value of increased knowledge and insight around the modern entrepreneurial landscape and the forces that shape it. It is as much about addressing the cultural phenomenon of American entrepreneurship as it is a primer for how to improve one's viability in this perplexing and complex endeavor. While this book can help new and prospective entrepreneurs, its value extends far beyond practitioners to engage the far larger audience of supporters and advocates of entrepreneurship who see in its pursuit economic and social opportunities they themselves may never create, yet are no less stakeholders in helping facilitate.

Many of the things that can build our invisible capital are neither surprising nor unattainable. In fact, some of the things you may read about here are efforts you have already made (or suggested to others) without previously understanding the specific dynamics of invisible capital as it influences entrepreneurial viability.

In certain circumstances, we can help entrepreneurs gain skills and knowledge they did not have before. Would-be entrepreneurs can be taught to know what EBITDA stands for,[11] how to dress to meet with a loan officer, and how to act at a cocktail party. You can pursue more formal training, increase your digital literacy, and seek out mentors who already are in the field you aspire to join. In this book, I discuss some of the skills that can be taught and which resources can be ac-

Figure 2
Percentage of Middle-Class Households at High Risk of Financial Insecurity, by Category of Risk



Source: *By a Thread: The New Experience of America's Middle Class* (Washington, D.C.: Demos/IASP, 2007).

cessed. I talk about how you can identify what knowledge you lack and how you can build your personal networks.

However, there are sets of assets that cannot be acquired—we cannot change our race or gender, our native language, our families, or the communities in which we were raised. Nor should we. Certainly, whiteness and maleness are undeniable assets in our culture—and that's one reason that only about 29 percent of all businesses are female owned, and that Blacks and Latinos own roughly 7 percent and 8 percent of all businesses, respectively.[12] And it remains the case that there are male-oriented and female-oriented business pursuits (auto repair versus day care, say). However, invisible capital is not just a proxy for racism, sexism, classism, or heterosexism despite their enduring impact on our society, our democracy, and our economy.

People who are on the receiving end of these "isms" are not powerless, nor are they devoid of invisible capital. The playing field is not level, but each of us can do something to help level it, using the toolkit of our own skills, knowledge, networks, and experiences.

Invisible Capital: A Zero-Sum Game

Invisible capital is a zero-sum game. We can “zero” out the unearned advantages others have by understanding what advantages we ourselves possess. We can learn to play the cards we have been dealt—whether we are White, Latina, or Chinese American, male or female—to develop our own entrepreneurial opportunities. We can level the playing field as entrepreneurs when we understand that invisible capital exists, when we learn what kinds of invisible capital we already have, and when we discover how to use it.

Assuming that you did not grow up in a bubble, you have a network of connections, a family or community that knows you, a set of experiences and skills you bring to the table. You may have a personal connection who would prove critical to setting up your business—but if you don’t know how to network, if you don’t understand what that person could offer, you can’t take advantage of the connection. Understanding what you have—and what you lack—is the key to entrepreneurial opportunity and entrepreneurial success.

Invisible Capital Creates Entrepreneurial Opportunity

Entrepreneurs who succeed leverage invisible capital to create opportunity. Every business, no matter how small, relies on a set of stakeholders who supply start-up capital, skills, and knowledge. Businesses that survive more than five years are not built by just one person, but by a team of people.

Entrepreneurs tend to bring into their projects people who look like themselves, have the same class status, and have the same type of invisible capital. If you happen to be a high-status, wealthy, college-educated man who has experience in a family business, your tendency to bring others like you to your team will probably be an asset. You have the kind of invisible capital that will instantly create opportunities for you.

Edward comes from a well-to-do family. His parents are doctors, but his uncle runs a small manufacturing business where Edward worked every summer. Edward went to the University of Illinois at Urbana-Champaign, where he joined a fraternity. After he graduated with a degree in mechanical engineering, he developed a new type of refrigerator latch. His uncle helped him manufacture a sample part, and he was able to raise $500,000 in start-up funds from his frat buddies. Edward's business was positioned to take off.

Edward did not need to understand his invisible capital—for him, the invisibility of his capital made his trajectory seem effortless. When Edward needed to take the next step on his entrepreneurial journey, opportunities appeared. Most people who want to manufacture a part would have a very hard time even figuring out whom to call first. Most people who need to raise $500,000 would not be able to raise that money by making fifteen phone calls. That is what I mean by the playing field not being level.

Disparate outcomes often suggest disparate opportunities.

Carlos comes from a poor family. His first language was Spanish, and his education was poor. He basically had to teach himself English by watching English-language TV. He worked his way through two years of community college, took two years off to work at Radio Shack to save up some money, then was able to get a BA in electrical engineering at the state university. While working at Radio Shack Carlos got an idea for an extension cord that would work better with new digital devices. He has made a prototype himself, but he doesn't know what his next step would be. Now working as the quality control engineer at the local electric company, Carlos has decided to focus on paying off his debts. He never becomes an entrepreneur.

Carlos has far fewer opportunities than Edward. He has almost none of the invisible capital he needs for the kind of enterprise he imagines. What's more, Carlos does not know what he lacks. Feeling as if he has hit a brick wall, Carlos gives up on his dream.

Most of us are like Carlos. Our playing field is not level. There's an old axiom that says, "Luck is when preparation meets opportunity."

Some people come well prepared. The rest of us need to acquire the skills, knowledge, resources, and networks we will need to take advantage of the opportunities that come our way.

Not everyone has the willpower to be an entrepreneur. We know that. What we don't always recognize is that even if someone has the drive and the will to be an entrepreneur, their lack of invisible capital might prove an impossible barrier. Entrepreneurial success depends upon learning to leverage and develop invisible capital to create opportunity.

Entrepreneurial Success Arises from Opportunity

As an entrepreneur myself, as the director of a business incubator, and as a new-venture advisor, I have had the pleasure of teaching entrepreneurs how to access their invisible capital and create opportunity.

Have the people I worked with achieved the American Dream? Have they been able to build companies with hundreds of employees, leaving themselves the leisure to cruise around the world? No. That's because, for 99 percent of entrepreneurs, the American Dream never comes true. It's more likely, in fact, that the American Dream has actually prevented many people from going into business because it sets the bar so intolerably high.

Millions of Americans dream about going into business, but most Americans, like Carlos, don't start up their enterprises. They don't incorporate, don't acquire a federal tax identification number, don't start generating income. They have an idea, they may even have enough invisible capital to develop that idea into an opportunity, but they can't imagine that they will be able to achieve multimillionaire success. I believe in dreaming big, but believing that the only measure of success is becoming Donald Trump is going to be a barrier to your personal success.

Even business schools don't use the Trump model of success. The traditional business school definition of business success is whether a company has revenue, makes a recurring profit, has a highly productive and growing workforce, and operates profitably long enough to satisfy its stockholders' financial interest (read: maximize shareholder value). For most business schools, success equals viability. More to the point, if your company can make enough money to stay in business and return a profit in sustainable fashion, it's a success.

Implicitly, our government's standard for business success skews toward growth over profits because growth is often a proxy for economic prosperity and often correlates highly with low unemployment. In other words, growth equals job creation. And jobs equal happy politicians. So, by this lower standard, new ventures can be deemed successful simply by the fact that they exist and are at least a nominal representation of economic growth. If they hire one or two employees—be they full-time or part-time workers (with or without employee benefits)—it's worthy of celebration.

Suppose you run a day care center that employs yourself and one child care worker, generates modest revenue, and lasts several years. Even if your venture has never made a profit, you've hit three of the four criteria used to measure narrowly defined success. If you run a small construction firm that employs five to ten part-time day laborers, brings in money, and makes a small profit, even if your company is just a year old and cash flow is tight, you are also well within the realm of "success."

Support a payroll of just two people, and you've already beaten the odds—since only one out of four businesses have paid employees (including the "owner").[13] Employ twenty workers and you've made it into that rarefied top 3 percent of businesses with payrolls![14]

Every entrepreneur wants to beat the odds and create a viable business. But the American Dream tells us that viability isn't enough—we also need to acquire wealth to be successful. The American Dream tells us that the odds we need to beat are not four to one (the number of businesses with employees), but four hundred to one (the number of businesses that create real wealth for their owners).

Are those the odds you want to book? Is that your idea of success? Any entrepreneur about to embark on what is going to be the hardest work they have ever done in their lives should first ask, How do I measure success? What does success mean for me?

The Richest Success Centers on Community

As Bill McKibben frames it, the richness of community is founded on civic engagement deeply rooted in companionship. He writes:

> Increased companionship "yields more happiness in individualistic societies, where it is scarce, than in collectivist societies, where it is abundant." What this means is: … if you live in a suburban American home, buying another coffeemaker adds very little to your quantity of happiness. … But since you live two people to an acre, a new friend, a new connection, is a big deal indeed. We have a surplus of individualism and a deficit of companionship, and so the second becomes more valuable.
>
> … The math of the various quality-of-life indexes is daunting, but the results are clear: in the rich world, … "feelings about people contribute more to subjective well-being than feelings about money, whether spent or saved."[15]

Few expressions are more trite than "giving back to the community." Yet in the best of times and the worst of times, most of us want to give ourselves to—and in turn be accepted by—a community: something that transcends place and centers on shared values, resources, goals, and experiences.

Sure, we may desire fast cars or bigger houses, but the most exhaustive research shows that consumption beyond a certain point has no positive impact on one's quality of life (in rich nations, anyway).[16] I know you may be tempted to say, "Well, let me be the first to disprove that research by trying to pull it off myself!" But sociologists generally agree that one of the biggest contributors to happiness is one's connection to community.[17]

Mom-and-pop establishments are most often associated not only with small business but with community-based enterprise. But while "community" has a nice ring to it, the word—like "entrepreneurship"—has become an empty vessel that means whatever any of us want it to mean to suit our purposes at the time.

There's no better example of this, in the wake of the Great Recession and the public antipathy toward big banks, than the lobbyist-created term "community bank," which is a misleading term of art for virtually every bank in the United States that's not among the top nineteen largest financial institutions that Americans just happen to hate the most. So-called community banks are just banks that happen to be located in your community. But that doesn't make them inherently good (or significantly better) than those big banks whose brands are household names. Call them what you will: if a small, local bank treats you as shoddily as the big boys do, who really cares about its size or location? Or as the Southernism goes, "Kittens in the oven don't make 'em biscuits!"

Just as we must challenge our assumptions about success, it is no less important to do so about the language we use that may affirm faulty reasoning. When we use the term "family owned and operated," we feel this label conveys a wholesome sensibility. Most of the time this feeling may be warranted. However, some of the most predatory funeral homes are family owned and community based. It is more an indictment of the "deathcare industry" (as it is known by its practitioners and industry insiders and analysts) than it is about individual families. So, "community based" and "community centered" may overlap, but they are certainly not the same thing. As a positive example, Craigslist is both a community-based enterprise (whose community is virtual) and largely community centered. (It is also worth noting that this industry-changing, multimillion-dollar company employs fewer than fifty people.)

Am I suggesting, with all this discussion about community, that you have to "do good" to succeed? No. But if it's a genuine interest of yours and can be of strategic benefit to the enterprise, then community-centered entrepreneurship—a subset of what I call "commonwealth enterprise" in chapter 6—can be a viable economic path to a kind of success most business schools, economists, and public officials too often dismiss or unduly marginalize.

Community-centered enterprises highly overlap with and are outgrowths of social entrepreneurship, which Jeffrey Robinson defines as "a process that includes: the identification of a specific social problem and a specific solution (or set of solutions) to address it; the evaluation of the social impact, the business model and the sustainability of the venture; and the creation of a social mission-oriented for-profit or a business-oriented nonprofit entity that pursues the double (or triple) bottom line."[18]

Those more open-minded entrepreneurship boosters have of late been advocating what they call a "triple bottom line," or the "3 Ps," by which they mean that all businesses should measure success by how much profit they make, how many people they help, and how their business betters the planet. For example, an ice cream store owner would create a triple bottom line by making money on her ice cream (profit), offering employees a living wage and health benefits (people), and using only organic milk, potato starch spoons, and recyclable cups (planet).

I'm all in favor of businesses that can pull off the triple bottom line, but doing so is not necessarily the same as building commonwealth enterprises whose missions are inherently community centered. Triple-bottom-line businesses are rarely easy to set up and often expensive to operate. They often require entrepreneurs to be highly educated, especially about environmental issues; connected to suppliers who can supply organic and recyclable goods at reasonable prices; skilled at marketing to the small percentage of Americans who are willing to spend more for triple-bottom-line products; and be located or able to relocate in a community of such people. In short, entrepreneurs need a tremendous amount of a very specific type of invisible capital to pull off this kind of business.

An entrepreneur who wants to start an ice cream shop in an inner-city community to serve kids near the local high school may not be able to create a viable business if she tries to make her ice cream "ecologically correct" or tries to pay her employees significantly above the minimum wage. Her product may be too expensive for her intended customers to buy. Yet that ice cream shop owner is creating an immediate, direct benefit for her community. She's creating jobs for local youth; she's improving the area with a thriving business; she's probably creating a safe hangout spot for teens. Her homemade and affordable ice cream has broader impact than the fancy organic ice cream purveyed by the shop with the impressively small eco-footprint that employs people in a more economically stable neighborhood. And the inner-city shop has as its founding stakeholders the local school district, the PTA, the local community development corporation (CDC), and Small Business Development Center (SBDC), all invested in community in concrete ways that not only contribute to that local population, but may very well increase its chances of surviving and thriving.

There is a clear distinction to be made between doing a kind of good that leads to increased business viability and the more popular and no less easy task of doing good while doing well—though these two tasks are not necessarily independent of each other. Indeed, I'm advocating that entrepreneurs define success as building a viable, community-centered business, because being community centered is good for the entrepreneur as well as good for the community. Building a sustainable network within your own community increases your invisible capital while helping your community grow stronger.

Why Invisible Capital Matters to All of Us

Good people with great vision, tenacity, and ingenuity can start businesses that never get off the ground. Millions, in fact. (I like to think that I've been among this large contingent once or twice.)

Too often, we see entrepreneurial stumblings as a sign of personal failings rather than the logical result of a lack of the right mix of resources (and a dose of good timing). Such resources are encapsulated in part by invisible capital, which takes into account those things that correlate to the increased preparedness and openness to opportunity that many believe are the key ingredients in luck. Without understanding which tacit assets a particular business requires, would-be entrepreneurs are bound to fail. The high price for this ignorance is paid not only by entrepreneurs themselves, but also by the households and communities that depend on those businesses' survival. More broadly, America as a whole suffers when each successive generation of entrepreneurs enters this maze without understanding the invisible barriers to their chances of long-term survival.

Understanding the role of invisible capital will enable more Americans to create new business ventures; build wealth; create more jobs; innovate new products, services, technologies, business methods, and processes; increase the tax base; and, ideally, bolster communities—from historic neighborhoods to new digital constituencies.

Invisibility masks and protects certain advantages that should not remain whether or not we know they exist. The conscious act of democratizing entrepreneurial opportunity will help dissolve these disparities, aid those at a disadvantage to flourish, and strengthen the social fabric of our society.

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Dreaming a Difficult Dream

This book was born out of passion, history, and, yes, failure (or so I thought at the time). After the one-two punch of the spring 2000 tech-stock slide and the September 11, 2001, attacks, my brother and I finally agreed to suspend operations of the technology-based product design firm we had launched five years prior. This venture had been dying a slow death in perennial start-up mode due to lack of working capital (among a host of other factors).

I thought I had entered that project with my eyes wide open. After all, I had worked on Capitol Hill dealing with business development and federal procurement issues. I had worked for a federal commission on entrepreneurship. I had been surrounded by and strongly influenced by entrepreneurs throughout my life—had even researched them as a genealogist in my own family tree. And I had built a small-scale, modestly profitable business when I was in college, selling T-shirts, hats, and such to my fellow collegians and eventually customers in various locales in Chicago and other markets along the Eastern Seaboard.

Like most entrepreneurs, I had ignored the statistics and assumed that I would be the one to defy the odds. What I didn't realize then is that the deck was stacked against me despite the various traits and resources I brought to the table. In fact, they just were not enough. I didn't understand what the odds were, or how to play them. I read innumerable how-to books about business plans, but none of them taught me how to prepare for the rough-and-tumble entrepreneurial world.

Running the Numbers

Based on statistics drawn from the most recent Kauffman Firm Survey, which followed nearly 5,000 U.S. start-up ventures from 2004 to 2008,[1] the odds of starting a business that lasts at least four years, generates revenues greater than $25,000, and goes on to hire at least one employee by its fourth year are about one in eight. To put these numbers in context, the average acceptance rate at an Ivy League college in 2009 was just under 16 percent.[2]

Generally speaking, as a nation, we encourage young folks (and not-so-young folks) to start their own businesses, but we rarely tell them *how* to prepare to become successful business owners—often implying or even declaring outright that you don't need a college education to thrive as an entrepreneur: "Look at Bill Gates; he was a college dropout!" But of those who hold up Bill Gates as an example, how many fill in the blanks? After all, Bill Gates dropped out of Harvard College, not MetroTech Community College. (He was also born rich.)

While Harvard was less selective in the 1970s than it is in the present era, it still was no cakewalk to get into—but it was much easier to get into and graduate from Harvard than to build the company that would become Microsoft. In fact, it's fair to say that it's probably vastly easier to get into Harvard than to build a business that will employ 20,000 people, 2,000 people, 200 people—or even 20 people, which happens to be the number of employees that the average "employer-firm" has on its payroll. In 2009, Harvard accepted only 7 percent of applicants into the Class of 2012. But fewer than 3 percent of all firms employ twenty or more people. (If any of these statistics surprise you, you now know why I wrote this book!)

Employer-firms, as the SBA calls them, are the one-fifth of all businesses that have a payroll—those that employ salaried or hourly workers. Of that one-fifth of firms with employees, almost 11 percent employ twenty or more people.[3]

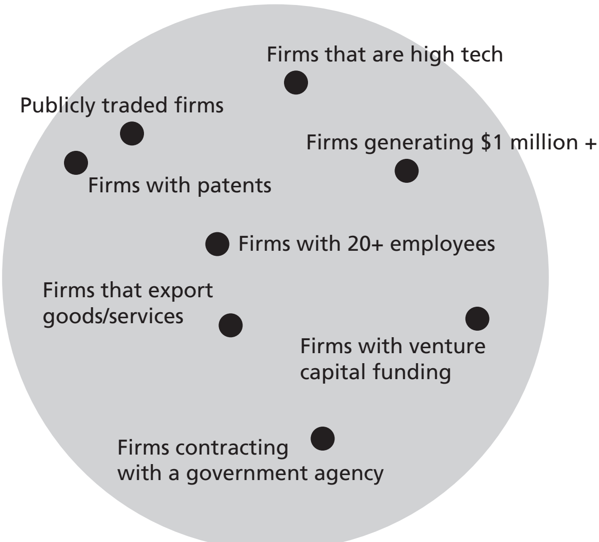
In many respects, building a business is like entering a triathlon. Both pursuits seem very ambitious from the perspective of less adventurous souls—but they're not nearly as impressive as *growing* that business or actually *finishing* that race. It's fairly easy to sign up for a triathlon; the challenge, of course, is *doing* it—let alone being competitive in it!

Now, the likelihood of ascending to Bill Gates's stature in business and the likelihood of being accepted by and graduating from Harvard are two very different things. It's like comparing apples to oranges, or, as is the case with Gates, windows to doors. But whatever metaphor is most appropriate here, you get the point: starting a business that lasts and grows—let alone one that earns a consistent profit—is ridiculously hard.

If you've ever been asked to speak to a class of high schoolers, you probably know that you don't encourage students to apply to Harvard without knowing their scholastic aptitude. To do so would be reckless at best, and cruel at worst. Yet every day people tell folks to start a business based on little more than hearing someone's "great idea." Would you tell a senior in high school who has mediocre grades, no extracurriculars, and skipped taking the SAT to apply to Harvard just because she really, really wanted to go there?

When we encourage young people to go to college, it is because we know that doing so opens up more professional and other career opportunities and the likelihood of securing better-paying jobs. That's been the traditional thinking, anyway—certainly before the Great Recession. We also know that there are thousands of schools to choose from that can help students receive a good education, stimulate their intellectual development, expand their skills and life experiences, and improve their chances of joining the workforce after graduation. Few people claim that setting your sights on an elite, highly selective college is the *only* way to obtain an excellent education and good prospects of economic uplift. Yet when we tell people

Figure 3
Elite Subgroups of Total U.S. Firm Population



that they should go into business for themselves, particularly starting a company that will eventually require employees, we are essentially saying "Go to Harvard" to people whose scholastic track record may not be that competitive.

Why do we do it? Because we don't know any better. But I suspect when you're done reading this book, you'll resist the urge to tell someone who likes eating cake to open up his own bakery.

The good news is that in the United States, starting a business is pretty darn easy. All you have to do is figure out what you want to do, come up with a catchy name, print out a bunch of business cards on your printer, and get a business license at city hall, and you're technically in business. And if you report even the pittance you may have made in the previous tax year, the IRS will label your activity—whether it's babysitting or getting paid to speak at an event—as a business enterprise that must file a Schedule C, the tax form that documents the nonemployee income and expenses of sole proprietorships, entities totaling over 21 million in 2007.[4] Of course, this means that of the millions of firms that the IRS—and as a consequence, the U.S. Census Bureau—recognizes as businesses, only a fraction actually consider themselves "in business," which explains in part why their enterprises' annual earnings represent on average less than 10 percent of the revenues of their counterparts with payrolls.[5]

But what if you want to start the next Netflix or Cold Stone Creamery? What if you want to start a business that will grow to hundreds (or thousands) of employees in a nice office building—the kind of business that will net you enough take-home pay to retire to a life of leisure?

People planning to start new businesses often imagine that their businesses will grow big enough to employ hundreds of workers simply because most of us work at those kinds of large companies. Firms with over 2,500 employees account for 64 percent of the American workforce, even though they make up less than 1 percent of all U.S. firms.[6]

Let's sum up. Three out of four businesses have no employees. Nine out of ten employer-firms have fewer than twenty employees. So just getting to the point where you have done well enough to hire a few people is a nontrivial feat—only about 2 in 100 companies make it to that point. Hiring employees is not usually a business owner's first concern, however. Their first concern is usually *staying* in business one way or another.

No one wants to run a business that just barely makes ends meet, whether or not it has employees. Entrepreneurs start businesses to make a profit—even tree-hugging, Birkenstock-wearing entrepreneurs. And just as a highly relevant point of reference, the average business without employees brings in just over $45,000 a year.[7] (Given how many hours that business owner's probably working to make this amount, his hourly wage would make a low-paying, semiskilled job look pretty appealing!) Of course, staying in business is a reasonable concern and a necessary goal. But there's a big difference between surviving in business and thriving in business. It's the difference between wanting not to die and choosing to live well.

For some entrepreneurs, though, the dream is not to just "make it," but to "make it big," which for many entrepreneurial aspirants means building a highly scalable business. This higher threshold therefore requires that the dreamer's business not only generate recurring profits, but generate enough operating cash flow for the business owner to retain the funds (personally) to buy that vacation villa in the Caribbean, that Italian sports car, and an exclusive country club membership.

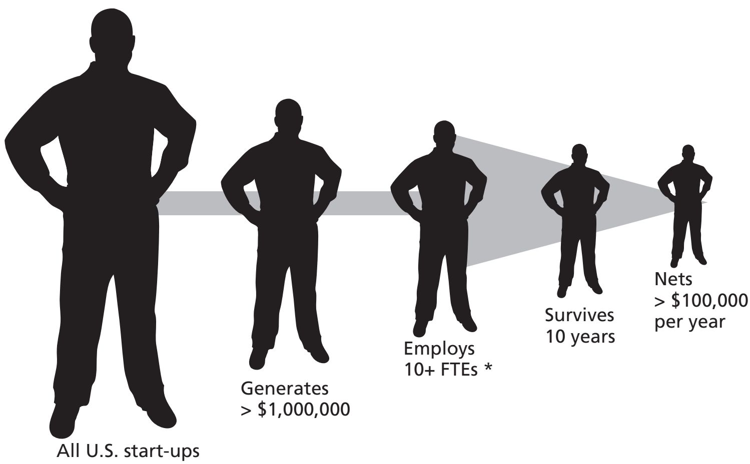
Remember: according to the Kauffman Firm Survey, only about 13 out of every 100 newly minted business owners surveyed survived four years, made over $25,000 in annual revenues, and hired employees. Surely, these milestones are nothing to sneeze at, but they are far from what is necessary to buy that Ferrari or oceanfront property in Antigua.

According to the Kauffman Foundation's *Anatomy of an Entrepreneur* study, the average entrepreneur is a White, middle-aged, well-educated man with a wife and kids and considerable experience in the industry in which he established his new venture.[8] Does this sound like you? Odds are it doesn't.

So what does this average entrepreneur have to do with you? Nothing—unless you want to know how close to average you are in terms of the probability you will establish a viable business. After all, if the example presented in the previous paragraph represents conventional business success (on a fairly modest scale), it's a fair question to pose whether you are more or less likely to achieve this success than "the average guy."

How do we arrive at averages, anyway? Simply put, in order to find an average (or what in statistics is called the *mean*), we add the sum of the total numbers and divide by the amount of those numbers we've added up. So let's assign the value zero to represent an average person's chances of being among the 12 out of every 100 new business owners who go on to modest success. Of course, some people

Figure 4
What Are the Diminishing Odds of Building a Business That Lasts?



* FTEs = Full-time employees.
Note: These representations are symbolic only and based on informed assumptions. Even the SBA does not know the answer to the question above.

are going to be in a better-than-average position to achieve success; we can represent their chances by assigning them values above zero. Others may be ill equipped to survive, and we can represent their chances with values below zero.

For example, we could rate two entrepreneurs at –2 and two at +2. The average—or the mean—for these four enterprising souls would equal zero. So, too, would four individuals rated –50 and +50, –75 and +75. But, as shown in Figure 4, just as likely would be four people rated –79, +92, +8, and –21. In this scenario, which number best represents you? If you're modest, you might surmise you're at +8, if par is zero. But how would you know for sure? Could you really be –21? Or even worse, that dismal –79?

But the statistics tell a more sobering story, which means that some large percentage of new entrepreneurs are not just overly optimistic, they're absolutely clueless, and thus inordinately ill-prepared for their journey. They *literally* don't have a clue because few people in the average entrepreneur's sphere are in a position to alert them to the unseen forces that shape entrepreneurial opportunity—in particular, those things that will significantly boost their chances of achieving even modest success in business.

Not breaking out the champagne, are you? For good reason. Running a viable business that lasts is not for the faint of heart or the easily dissuaded. Running one that generates serious wealth for its owner is highly unlikely when you give the aforementioned statistics some serious thought. Granted, you have a better chance of succeeding in business than of winning the Powerball jackpot, but playing the lottery is much less work (and a lot less taxing on your bank account, your credit card balances, your personal relationships, and your stomach lining).

Unknowns Worth Knowing

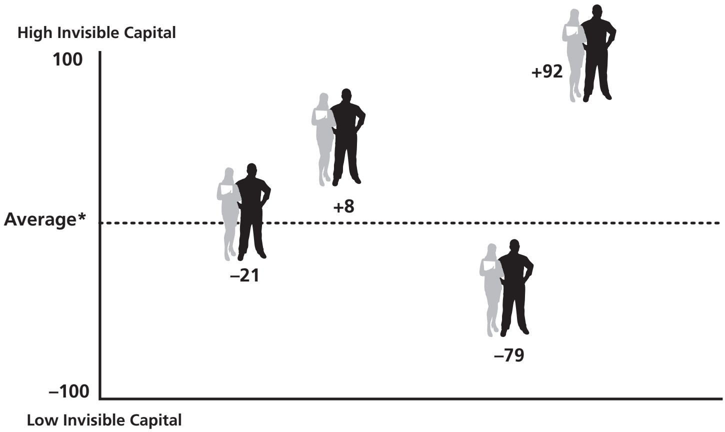
In a country so obsessed with starting up one's own business, inventing, pioneering, and becoming one's own boss, you might imagine that we know quite a bit about the landscape of modern American enterprise.

We don't.

In fact, generally speaking, Americans are entrepreneurial illiterates. We know very little about the inputs, outputs, and outcomes related to our vibrant entrepreneurial sector. We don't know much about its composition, productivity, or impact, let alone its history. This sad reality is not a consequence of low intelligence, however, just sparse knowledge. We think we are well informed because we watch a lot of television. We also know a lot of people who have started businesses (or at least are always talking about starting one). And, of course, we patronize innumerable businesses in our neighborhoods, near where we work, wherever we travel, and wherever we surf online.

Wordsmith extraordinaire Donald Rumsfeld, President George W. Bush's first secretary of defense, offered as clear a statement as I've

Figure 5
How Close to Average Is Your Chance of Success in Business?



Note: These hypothetical examples represent an entrepreneur's predicted viability in business based on invisible capital.

found on the state of entrepreneurship (he was, of course, talking about the state of the war in Iraq):

> Reports that say that something hasn't happened are always interesting to me, because as we know, there are *known* knowns; there are things we *know* we know. We also know there are known *unknowns*; that is to say, we *know* there are some things we do not know. But there are also *unknown* unknowns—the ones we don't *know* we don't know. And if one looks throughout the history of our country and other free countries, it is the latter category that tends to be the difficult ones.[9]

We think we know, generally, what entrepreneurship is. We may realize we don't know *everything* about starting our own enterprise. But there is a whole host of significant facts about entrepreneurship that we don't even know that we don't know.

How are most new businesses started? Almost half of all new enterprises were seeded with their founders' personal funds. Fewer than 4 percent of start-ups run by family members raise money from friends. Related co-founders of new ventures are 15 times less likely to raise funds from friends than are their nonfamily counterparts. Yet about 80 percent of all U.S. businesses are family owned. Roughly half of all new businesses are started out of their founders' homes.

On a related note, firms started by business owners who have run two or three previous businesses have higher survival rates than those started by first-timers.[10] Most family-owned businesses rarely survive past the second generation of owners. Venture capital–backed firms accounted for 11 percent—or about 12 million—of the 115 million private sector jobs in 2008.[11]

Perhaps the single most useful fact for politicians during economic downturns and campaign seasons is that firms operating for over twenty-five years, irrespective of size, create more net jobs than new firms. In fact, according to the U.S. Department of Labor, no category of younger firms creates net jobs.[12] This single, woefully underreported fact suggests that the *real* engine of sustained economic growth is U.S. firms that have mature, time-tested management and long track records—firms that may also be entrepreneurial even though they are not necessarily young or small-scale ventures. Too often, politicians and uncritical entrepreneurship boosters purposely or unintentionally equate "small businesses" with entrepreneurial ventures, innovation with advanced technology, new with better, and family owned with small.

The truth of the matter is that entrepreneurship is a *process*—a way of thinking—more than a firm's size, age, industry, or organizational setup. Apple Inc. is the world's highest-valued publicly traded technology company, recently outpacing Microsoft—and, arguably, a highly entrepreneurial entity, despite having over 17,000 employees. Ford Motor Company is family owned in that the Ford family still owns about a 40 percent stake in the business and until recently the company was run by a descendant of the founder. So too are

Motorola, Rupert Murdoch's News Corp., Johnson & Johnson, Walmart, and Tyson Foods—none of which can be mistaken for small on any level.[13] General Electric prides itself on innovation, yet it is no spring chicken, having been founded by the iconic American inventor Thomas Alva Edison in 1890.

What we learn from these facts—besides understanding just how difficult it is to build a business—is that it's a good idea to ask what kinds of businesses are most viable and how they got started.

Business in America: An Overview

As of 2007, there were nearly 30 million documented businesses in the United States.[14] Firms with paid employees accounted for 5.5 million of all U.S.-based businesses. Sectors that were overrepresented among these businesses included construction; professional, scientific, and technical services; health care and social assistance; and other uncategorized services. Together, the firms within these four sectors represented nearly half of all the businesses the U.S. Census lists as part of the nation's economy. Interestingly, businesses with 500 or more employees within these four sectors combined account for less than 2 percent of all such firms.

Over half of U.S. firms are home based: 58 percent of nonemployer businesses are home based versus 22 percent of businesses with paid employees. There is a noticeable correlation between business revenues and being home based. Nearly 65 percent of businesses making less than $5,000 are home based compared to less than 6 percent of firms with revenues of $1 million or more. Not surprisingly, the data show that as business workforce size increases, the likelihood of having a home base drastically decreases: the largest percentage of employer-firms that are home based, at 29 percent, are businesses with 1–4 employees.

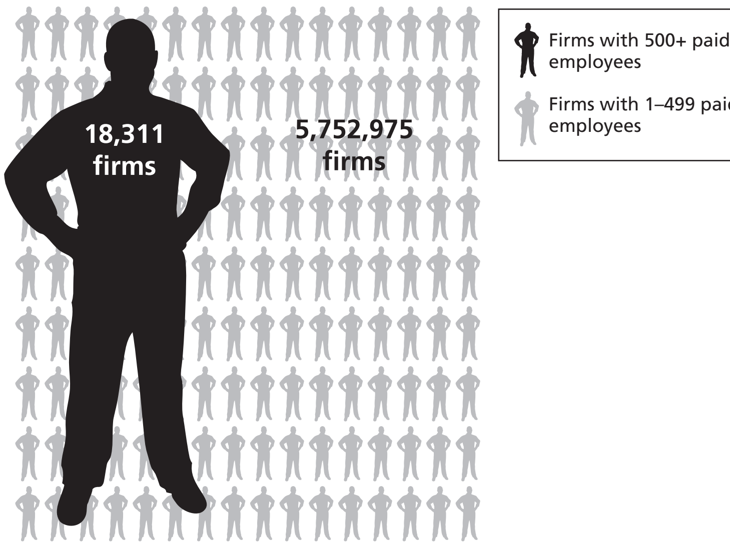
Those who hang out a shingle to leverage their own skills, expertise, and experience often represent what are commonly referred to as the self-employed. These individuals may prefer "being their own boss," despise bureaucracy, or seek greater flexibility to honor that nebulous equilibrium known as "work–life balance." Some subset of the self-employed are professionals such as lawyers, accountants, and consultants, people who often do not plan to grow their businesses in terms of hiring employees or becoming a highly scalable enterprise.

The self-employed who operate in the service economy by leveraging their skills, credentials, experiences, and networks—their invisible capital—are also known as independent knowledge workers or "entreprofessionals." Even though they are not necessarily innovating in their business, they may be taking career risks by choosing to end their search for employment, as noted in a recent *New York Times* op-ed piece by former Clinton-era secretary of labor Robert Reich. Reich alluded to the fact that in the span of just three years, from 2001 to 2003, the number of individuals who pursued self-employment by forming subchapter S corporations ("S-corps") and limited liability companies (LLCs) increased by over 12 percent. Appropriately, his column was entitled "Entrepreneur or Unemployed?"[15]

The self-employed also include business owners who are franchisees or multilevel marketing associates. Franchisees are individuals (or groups of individuals) who essentially buy a business model in a box. Based on a 2002 U.S. Census Bureau survey of business owners, they represent fewer than 4 percent of all firms with employees.[16] Running a franchise is neither cheap nor easy to do well. In fact, despite the seemingly obvious advantages of buying into an already market-tested business, some research shows that the odds of success in franchising may be lower than for business owners who create their enterprises from scratch.[17]

Even so, franchise survival rates are surely higher than those for multilevel marketing (MLM) businesses—enterprises also known as *network marketing organizations* or *direct sales organizations*, including well-known companies such as Mary Kay, Avon, and Amway. MLMs have earned a poor reputation for having an unethical business model, some being little more than pyramid or Ponzi schemes. That said, according to the Direct Selling Association website, over 15 million

Figure 6
U.S. Employer-Firm Population by Size



Source: U.S. Census Bureau, 2007 County Business Patterns and 2007 Economic Census.

people are involved in direct selling, reaching 74 percent of all Americans and accounting for over $114 billion in sales worldwide.[18]

Indeed, there exist at least a few socially conscious multilevel marketing companies,[19] just as there exist highly unscrupulous nonprofit organizations. Ultimately, though, an enterprise's business model will shed the most light on its organizational values. The MLMs that profit by design from their members' failure to sell mediocre (or worse) products or services after they have bought an expensive initiation fee are sadly the norm, with only a few notable exceptions. An MLM's products and services are rarely what generates the most profits for it; that would instead be the initial fees that systematically provide the continuous infusion of cash extracted from each successive wave of often underemployed, unemployed, retired, or otherwise cash-strapped new sales associates (also known in the industry as "independent business owners").[20]

It's a Family Affair

To most folks, the term "small business" is synonymous with the mom-and-pop businesses we have all patronized, worked in, talked about nostalgically with family members, or seen depicted on TV, in the movies, or in books. Eighty percent of U.S. firms are family owned and operated. Most are run as sole proprietorships that have no formal legal or business structure, while the largest are structured as private or publicly traded corporations.

We envision the corner store, the neighborhood diner, the barber shop, the dentist's office, or the auto repair shop. *These* are small businesses, not the ones closing in on 500 employees, right?

Even if the employment threshold for small businesses were drastically lowered to fewer than 100 employees, there would still only be about 2 percent of U.S. firms *not* categorized as "small." So we need not use the term "small businesses," since they are the rule and not the exception. We should really just say "businesses" and "big businesses." After all, we don't say, "I'm an under-seven-feet-tall person." We simply say, "I'm a person." Why? Because over 99 percent of people walking the planet are *significantly* shorter than seven feet tall! We call these exceptionally tall people "seven-footers." The point is, we compare these human skyscrapers to the majority of the population, not the other way around.

As a result, how we reframe size itself shifts not only what we consider to be "big," but what is realistically achievable for the average American. "Big" when it comes to business is indeed the exception, and we should lower the bar significantly, if only to better correlate our worldview with the actual business landscape and the likelihood of entrepreneurs growing ventures of scale.

Still Want to Start a Business?

We're told that starting a business is the secret to financial success (if you watch infomercials and venture into your email account's bulging spam folder, anyway). We've also been told that variable-rate mortgages never go up and that credit card interest rates will stay low. Sure. *Some* people can make the numbers work, and their businesses grow. Most businesses, however, die on the vine.

The data reveal that most U.S. firms do not even sprout. Many folks may have great business ideas, but they don't plant the right seeds in the right season or in the proper soil. They don't acquire a federal tax identification number. They don't apply for a business license, or vendor permits. They don't build the right teams, let alone retain a lawyer, an accountant, or a bookkeeper. They don't dedicate enough time to the business (which explains the high correlation between the extremely low average gross revenues for U.S. firms and the number of firms that are essentially run as glorified hobbies). They don't start generating income, and as a practical result they do not and cannot hire employees. As the IRS likes to put it, the business owner "has not materially worked on the business."

Most businesses are sideline enterprises run by otherwise employed, unemployed, chronically underemployed, or retired individuals. The lion's share of these informal ventures will linger indefinitely or outright die. Only a small percentage of new ventures will experience steady or significant growth in terms of revenue.

The deck is stacked against most nascent entrepreneurs. Yet some folks beat the odds and prevail. Our task is to understand how and why entrepreneurship appears to be so much more viable a path for some, but not others.

In the meantime, though, let's have a moratorium on using the term "small business" until polls show that most Americans have learned the difference between what we generally perceive as small and how economists and our government actually define it.

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