Stanford eCorner

Dealmaker Networks and Social Capital

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February 01, 2012

Video URL: http://ecorner.stanford.edu/videos/2886/Dealmaker-Networks-and-Social-Capital

Kauffman Foundation Senior Fellow Ted Zoller believes the concentration of individuals engaged in multiple entrepreneurial activities is a key indicator of the strength of an entrepreneurial ecosystem. Based on Zoller's research in this area, the greater density of these "dealmakers" in a community also helps to activate a region's entrepreneurial growth.

Transcript

So I've done a little work on looking at dealmakers and I wanted to understand kind of the nature of networking and the new frontiers that I think are coming between applying network theory and understanding the structure of social capital and understanding innovation from the standpoint of how firms ultimately take route. And I did little work on this and it occurred to me in the academic literature there was a real clear distinction between entrepreneurs and investors. Never understood that distinction because the successful entrepreneurs I knew were investors, right. There is no clear bright line between those two. So I always wondered there was these other people up there that kind of fuse those two concepts and they tended to be the people that made more and more things happen. You might have started as an entrepreneur, might have started as an investor but you become something else. I don't know, for the lack of a better word, I am looking for a better word for those of you trying to think about this. The dealmakers, the people that actually make things happen. And I tried to understand that. They broker resources, they shape your networks and they syndicate and interconnect, right.

It occurs to me that there are these people in the center that activate the rest of the network, when it works, right. And these are the people that I was starting to get interested in. I remember about five years ago when the economy was starting to climb to a halt, it was grinding to a halt, I wanted to get something going. And I was thinking to myself who do we need. We need the people who have done it repeatedly. We might call them serial entrepreneurs, you might call them the people who ultimately broker deals or what have you. These are the individuals that are going to help us make a heaven. For some reason, they're frozen. They are not doing it anymore. Why is that? They're living in kind of a fear.

So I said, let's figure out something, so I developed this algorithm, I guess, it's for lack of - it's a vaunted term to call it an algorithm. The truth of the matter is, I'm looking for people who have multiple positions in entrepreneurial firms, I'm actually stacking them up, and then I relate them socially to try to understand how they're connected to one another. Because I want you as young entrepreneurs to be able to access them, right, because that's how you're going to be successful. So finding out who the who is. The way I do that is I try to understand the entrepreneurs and investors and generally there are distinctions bringing those two types of people. But as they move up in their career, they have two equity positions, three equity positions, four equity positions in firms, they become more and more important in seeing the network kind of come to life, right. So I'm looking at actors within firms, within regions using interlocks, very interested in this. It occurred to me, I looked at all the tech hotspots and back in the '80s we actually had a whole set of theories where if we brought all the technologies together, entrepreneurship would happen, right. And this is a chart that shows the number of firms born and it was fascinating to me that when I looked at it, Silicon Valley created almost 5,000 firms over a 20 year period whereas Boston created about half that even though in most cases you're equating Silicon Valley and Boston as equal parties in entrepreneurship. All these other technology regions including my region, Research Triangle Park, created less than 1,000, right.

Ironically where I come from Research Triangle Park has the highest density of PhDs over total employees of anywhere in the world. Yet, they're not creating that many companies. So I was trying to figure that out. When I looked at these patterns, these are the number of equity positions held and you see the numbers on the left, 1 all the way to 30, these are the equity positions by each of these regions. And I noticed there was a big fat base wherever there was nice economies, where Silicon Valley was performing so well in creating great companies, had a lot of entrepreneurs and investors engaged in it. Okay, we already kind of knew that, but the other pattern I saw on the data that I thought was really interesting was there was a really nice fat long tail. There were a lot of people who did a lot of things, right. Whereas these other regions you never saw those people, right. So I started to look at the relationship of dealmakers to the performance of regions by way of creating new companies. And I founded as a matter of fact, statistically the presence of dealmakers was actually more correlated to firm birth than the frequency of the availability of entrepreneurs and investors.

So what does it tell you? It occurs to me, that these people are usually in the elite, the top 2.7%, these are people who have three or more equity positions in entrepreneurial firms. And in places like the Bay Area, it's 4.5% of the population, whereas places like Austin, Texas or Denver, it's around 1%, right. So something is in the water here, right. It occurs to me, these are the people. Well I wanted to map the networks and these are the networks of these 12 technology hotspots, as a matter of fact they're organized by population, so the most populous is Boston, the least populous is Austin, the lower right hand side. If it varied by population, you would expect to see the most dense to the least dense, correct? What do you see in the pattern of this data? You see the most dense or the most intense entrepreneurial network in Silicon Valley. The third greatest - largest metropolitan area up here Phoenix has the weakest entrepreneurial network. I was talking to Michael Crow, the Chancellor of Arizona State University, shown this data, and he said Zoller, how many people are up there? And I said about 150 and he said, I'll just have them over the house. I want to talk to these guys. Well, in places like RTP or Austin or places like that, they hang in there even though they're small places.

Please, question? Okay, the data comes ultimately from private transaction data. It comes from public databases, like Standard &Poor's. And I came up with the software to actually put all the data together and then socially relate it. Well, what was fascinating is, this is the aggregate network of entrepreneurs in each of these regions. What does that tell you? What two regions other than Silicon Valley and Boston would you say are starting to look like hot entrepreneurial networks? San Diego. San Diego and Seattle, right. Now I'm leaving out some obvious cities because these are technology hotspots, right? Leaving out some of the key metropolitan areas like Los Angeles or New York or Chicago, starting to study those. What's ironic is many of those cities because they're financial headquarters tend not to be entrepreneurial. But you know the stories that are evolving. The Groupon founders are really driving an entrepreneurial revolution in Chicago.

Have you all noticed what's happening in New York lately, across the bridge in Brooklyn? It's unbelievable, there's an entrepreneurial revolution going on there. But the aggregate networks are just one story. I want to know where the dealmakers are? Well, check this out. When you screen the aggregate network for three or more equity positions, this is the picture you get. Silicon Valley, you would still need the Stanford Football Stadium to have everybody there, right. Boston, you could probably fit them in the Stanford Basketball Arena. Whereas in Austin, you could probably get them in this room, right. In Phoenix, you could probably get them in the classroom we're going next, right. When you go to four plus dealmakers look at this. You would still need the basketball stadium here in time for Silicon Valley, whereas in Boston you could probably get them in this room.

And the people in Phoenix, you could probably get them in the front row, pretty interesting, isn't it? Things aren't all equal when we are looking at the performance of regions.