

We're talking today about the role that entrepreneurs play in shaping the future of work. We're talking with Professor Scott Stern, the Chair of our Sloan School's Technological Innovation, Entrepreneurship and Strategy Group, and with Barbara Dyer, the President of Hitachi Foundation. The foundation works with entrepreneurs to build both good companies that are financially successful, as well as ones that provide good job opportunities.

Can entrepreneurs build a good job strategy creating good opportunities for the full workforce in from the beginning?

So I think one of the greatest misconceptions is that being a good entrepreneur and building a company that really scales is actually in opposition to building a company that creates great jobs. In fact, I'd claim that exactly the reverse is true.

To attract the really best people, to really create meaningful, innovative value for consumers, to really be in a situation where ultimately you are able to charge a price well above your cost and create that kind of value, means that you need to be attracting, nurturing, investing in employees in meaningful ways.

If everyone who shows up to your company is simply, all it is about cost, well, then, there's not much of a company at all. There's not much of an organization there.

What we've observed at the nearly 100 companies that we've looked at across health care and manufacturing is at the businesses that create great quality jobs don't begin with the premise that this is a good HR strategy. They start with, what is excellence?

And they very quickly figure out that the workforce piece of it is a critical part of operations. They have to invest in their people, and they have to create systems that provide ongoing support, ongoing learning, ongoing incentives so that their people are really delivering in the best possible way.

We hear that many investors have a mindset that labor is a cost and it ought to be minimized, and put a lot of pressure on entrepreneurs. How can we overcome that resistance?

We have to do the hard work of persuading investors that it's not a choice between lower profits, but a better workforce versus higher profits and a cheaper workforce. Instead, the choice is for equally viable businesses, we get to choose the kind of organizations we build.

Successful venture capitalists who have built successful companies, they meaningfully talk about the great organizations they've built.

Entrepreneurs are uncomfortable talking to investors about a workforce strategy. They are concerned that investors will view this as excess, as having too high a burn rate. They don't have fully at their grasp the economics of it. They can't really make the business case as well as they might like to as to why it is that building a strategy like this will end up achieving the numbers in the next two, five, ten years.

There is a tendency to expect that at the startup phase, the founders will certainly work for below market rates, and that the people that are hired will work for below market rates. They'll work around the clock. There should be no expectation of salary increases or benefits because the company hasn't started generating a profit.

Now you're a scholar. You know that the research tells us that if you build into the DNA of a company from the very start this kind of commitment, this kind of strategy, it'll be the driving framework for the company over time.

And so that's where all the evidence from other organizations plays in. If you can help them to make that business case, to understand the potential, then there's some hope. And so we have to find ways to deal with that.

Could you give us an example of an organization or two that has really invested in this way?

Take for example, Beepi. Beepi is an online car marketplace that's really kind of fixing the lemons problem for used cars. Basically, right now you can think of the used car industry as definitely not associated with a good job strategy, not even a good service.

One of the key choices that Ale Resnik, one of the founders of this firm, had to make was whether or not the technicians, the people who would be inspecting the cars, was going to be hiring a series of contractor inspectors, or whether or not he'd be investing in long-term employees.

He got different advice from different investors about that choice. He ultimately decided that the strength and the quality and the innovations of his company could best be made by investing in employees. All those employees get extensive training. They're upping their skill level. They get some equity in the company.

And as that company has grown, all of a sudden they are the single most visible and single most memorable and single best advocates for the company as it scaled across the United States.

Jessamyn Rodriguez, who is the founder of Hot Bread Kitchens started with a long-term vision. The idea was to enable primarily immigrant, but other women and men, who have an ethnic bread to take that to the market, to create real economic opportunity through baking bread, and to enable them to build their own businesses around their particular craft.

And so Hot Bread Kitchen, now a very successful operation in Harlem, is incubating bread businesses throughout

New York and beyond. So it's a bakery, yes, but it's far more than that. And to help individuals to kind of build math skills while they're creating breads, to build business skills while they're creating breads, to build marketing skills while they're creating breads, was a brilliant touch.

The bakery is a great example, a place I should clearly visit. How about other examples?

Recently we were supporting a sector of energy entrepreneurs looking to address issues of climate change. And one company, Rebound, is a remarkable refrigeration company that has the potential of saving supermarkets enormous amount of money in refrigeration costs and dramatically reducing the amount of CO2. The founder of that company is eager to build a business that is focused on good people, great jobs, pathways of upward mobility. It's who he is, it's where he wants to take his company.

Entrepreneurship can be used to provide good jobs. How do we get this to become the norm?

People need to vote with their feet. When you think about joining a company, when you think about-- say you're in a big company thinking about which kind of companies to partner with-- when you think about, even as an investor, make sure you're having that conversation, and understanding as you're selecting among different groups to work with, different firms to work with, even different portfolio companies to invest in, go one layer beyond the simple value creation, value capture logic, and get to the organization and the team.

You are more likely to be investing in a long-term play that really delivers fundamental value and really delivers strong returns if you're investing in the kind of company that people are going to be attracted to and allows people to nurture and grow.

Well Scott, I think this is an important message for entrepreneurs, for investors, and for young people who really do want to build great companies that address big problems in society, that are successful, and that provide good jobs and career opportunities to their peers. So thank you very much.

Thank you very much as well. Thank you so much.

Thank you for your time today.

You're welcome.