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That
Matter



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Brain power, initiative and vision are the backbone of entrepreneurship and entrepreneurship is the backbone of the economy.

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The challenge to realizing entrepreneurial potential and impact is government. It has a habit of standing in the way, especially during the startup stage. Rules, regulations and taxes

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handcuff entrepreneur's desire to create new markets and businesses. Governments love to talk about the value of small business and then collectively introduce overly burdensome processes that prevent experimentation and reduce risk tolerances because there's no wiggle room left. Add in the cost of living and Vancouver is a difficult place to launch an innovation company.

We invited venture capitalist, Sean Bromley to join us for a Conversation That Matters about the remarkable potential that is waiting to be unleashed in Vancouver if only the business development climate was warmer.

- [Narrator] Conversations That Matter is a partner program for the Centre For Dialogue at Simon Fraser University. The production of this program is made possible thanks to the support of the following and viewers like you.

- Welcome.

- Thank you for having me.

- You know, we're living in a time of interesting challenges and opportunities for businesses, businesses that can shape the way we live, that can create employment and create a better future for people. Technology also becomes a great leveling leveler. It means that there's access to opportunity for everyone. It's as though we all understand that but let's talk about are we an innovative city? Are we an innovative country? Are we moving in the right direction? And then what are we doing to help that or are we hindering it?

- Right, I think there's a lot of great points in there and to start out on kind of the first topic you touched on, are we an innovative city? I think we're certainly on our way to getting there. We've had a number of large companies from the startup sector, whether that's Hootsuite or Avigilon that recently got bought out. You've had a number of homegrown successes.

- Plenty Of Fish are one, isn't it? Yeah.

- Plenty Of Fish as well. Plenty of fish as well and that's an even more remarkable story because they didn't raise any outside capital. That was truly an organic, one shareholder, grew the entire company, lot of blood, sweat and tears in that and a profitable company at that that got bought out. But on the other hand if you look at even Toronto or of course down south in Silicon Valley, a lot more innovation is developed there and they're light years ahead of us. It's very difficult in this city particularly to raise capital for early stage companies as well, especially compared to the United States of America.

- So is that because we're risk adverse?

- Yeah, I think it's for a number of reasons. So Silicon Valley obviously has kind of a historic

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situation where they started there with the HPs of the world. And in any city what generally happens is as you have a successful company come out, like a Plenty Of Fish, then that entrepreneur makes money in a sector that he understands and they kind of feed it back into the economy.

- But one of the other things that we understand about Silicon Valley, for instance, is you go back to the late 1950s, early 1960s and the government of California recognized that they were going to create that environment that ultimately became, and they supported it. They put special programs in place. This is going back to the 1960s.

- Absolutely.

- We weren't doing any of that and I don't even know that we're doing it yet. We start talk about the super clusters but who is that actually benefiting?

- Absolutely, absolutely. I mean, the B.C. Government said they were going to start a \$100 million venture capital fund. I don't know exactly where that's at. I don't know any companies that have been funded from it. And having government support for these companies as you mentioned is incredibly essential. There isn't really a city that I can think of that hasn't had support from their government that has become an innovative hub of the world. What you need to have is protections in place, whether that's property rights or Silicon Valley, and California in particular, actually has legislation that makes it easy for startups to work with lawyers to raise capital.

- And there's a tax structure in place as well that is

- Yeah, absolutely.

- beneficial to them.

- Yeah, absolutely.

- It's as though it understands and anticipates the needs of startup companies.

- Yeah, totally. I mean, these are risky investments and so the investor needs to have some sort of incentive there as well. And then the entrepreneur needs to be able to start up cheaply, because of course as we know, with innovation a lot of these things don't actually work out in the end. And most innovation is actually driven by a few people or a few companies that have a disproportionate effect on everything else.

- As you say that I think about Norm Foster who created Pivotal. So in Pivotal, I mean the name is representative of the fact that they were creating an entirely different product concept and went, oh-oh, this isn't gonna work. They had some cash, they still had cash from

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their investors and they went, well, we're not gonna run it into the ground, so they pivoted and became what they are now. And that shows that there's a tremendous amount of entrepreneurial spirit, inventive nature, intelligence at work. But they did it on their own.

- Yeah, absolutely.

- Like there was no government support helping them.

- Yeah, a 100%. Two Networks is actually another example of that. They pivoted three times and then till they got bought out by PayPal a year or two ago for \$200 million and that was all homegrown investor money, not an incredible amount of government help there. And so and then to touch on your point of are we helping to harvest that? It seems to me like there's a branding that we're trying to help but in practice and actuality, we aren't really doing it. And so what I mean by--

- Yeah okay, please explain?

- So what I mean by that, about two years ago we started having the B.C. Tax Summit. There was a lot of conferences here, a lot of kind of hoopla about all these things that we're doing. But then when it kind of gets down to dollars and cents, like how many innovative companies are actually coming out of Vancouver? We mentioned a couple and they all started and passed 15 years, that's a long period of time to have, kind of three, four, five large companies come out. And so now it's very politically popular to talk about helping startups, 'cause it's a very sexy space. Everybody sees Uber reaching \$125 billion valuation. Everybody gets very excited about it but then at the end of the day we're not creating taxes and infrastructures that are helping a lot of these companies out. We're not creating a lot of environments where it's easy for these companies to start up. It's still very expensive. They have a lot of lawyer fees that they have to go through. There's a lot of, in my opinion, overly burdensome investor regulations. So what we've seen happen is 15 years ago and like the Dot-com bubble or I guess 20 years ago and the Dot-com kind of bubble. All of that was in the public sector, so all publicly traded stock companies and anybody could participate in that. So you had Netflix go public. You had Amazon go public. Amazon's the biggest company in the world now and anybody could've participated in that ride. Now, with overly burdensome regulation in these companies, they can't go public earlier so they're staying private forever. There's also low interest rates, which means you have a lot of venture capital because pension funds need to get a yield somewhere. And so what that effectively means is you have kind of the rich and very large institutions being able to invest in these types of companies but the average person cannot invest in these types of companies 'cause they're not accredited investors or they don't have enough capital. And so the innovative companies are actually locked away from the average investor, whereas that's not something that happened 20 years ago. And so all of that innovation that's driven only goes to kind of a select few people.

- Gonna get you to hang on for a second while we take a quick commercial break.

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- Yeah.

- We'll be right back.

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- Okay, that's unfair. Now, mind you, I wasn't investing in Amazon either. I remember I had an opportunity to invest in Microsoft when it was a risk and going, really, I don't know. So I didn't do it, of course.

- There we go. Another great example as well. Microsoft went public at probably a billion dollar valuation.

- Yeah and that was '88, '89 somewhere around there?

- Yeah. Yeah.

- And went, okay, but I didn't have the money and I didn't have the foresight to jump on it.

- Hindsight investing is always easy.

- Right, that's a little bit off topic here but when I look at, okay, so we wanna foster that here in Vancouver. There is an awful lot of talk about it.

- Yeah.

- But how antithetical is it to have that kind of discussion and we go, yeah, there's these ride sharing apps that are available virtually everywhere else in the world but not here. How can we call ourselves an innovation city if we can't embrace the kind of technology that the consumers are asking for?

- Yeah and so I mean, that is a perfect and excellent example. So here we have it where we're trying to brand ourselves as this startup hub of North America, Silicon Valley North, whatever you wanna call it.

- Center of Excellence.

- Yeah, Center of Excellence, all these types of things and then basically the number one startup in the world can't operate here because of overly burdened legislations and I'm sure we can agree, political issues that are happening.

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- Well, Airbnb is another example. It doesn't fit in with the housing policy that the local government wants so they go, no you can't use it. And yet, a whole bunch of people were going, but this is giving me supplemental income in a market where I need supplement income.

- Yeah, when you can't afford your house. You either say that, well, you're getting income so it drives up housing prices. I was like hey, if I'm gone, I'm on the road, I'm travelling or whatever and I can rent my place out so that I can help afford a house in the middle of a housing crisis, I don't see why you'd ever stop doing that. It doesn't actually make any sense.

- Okay, so enough complaining about that. Let's talk about what some of the issues are though that come up. And that is so can these companies, can we give them free reign to do these things without having them trample on citizen's rights? We take a look at some of the issues around privacy associated with Facebook and Google and a variety of other big apps that are data scrapers and gatherers. Can entrepreneurs, can we create that environment that will allow them to develop these innovative products and still respect their customers and users?

- Yeah, so that's a great point. It's a really nuanced argument, I think and it's a really balancing act. So one is an issue of kind of scalability and what I call systemic risk. So with Facebook for instance, when it started it was at Harvard University and so you start at Harvard.

- Mark Zuckerberg was there, right?

- Yeah, so he was at Harvard. He started, I'm sure we've all seen the movie.

- I know, right.

- So he started at Harvard and if he had privacy issues at Harvard, that wouldn't really be so much of a problem and then he expanded to the other Ivy League schools and expanded to universities and then it kind of blew up from there. But so what I'm kind of getting at is it's an issue of scaling. So when you're a smaller company and you make mistakes it doesn't harm too many people. And so the balancing act there is there's a chance you're gonna create something that impacts everybody like Facebook. And so when you're starting out you need to allow these companies to do that. Or Uber as well, right, when Uber started out it just kind of used the motto Move Fast and Break Things, which is kind of the credo.

- That was there motto?

- Yeah, Move Fast and Break Things, who cares about the regulation.

- As long as I'm not

- Airbnb was

- A passenger in their car.

- Exactly. Airbnb was kind of a similar thing. And so if we found out very early that Uber only hire bad drivers we'd put a stop to that or Facebook was misusing data when it's a very small company, you put a stop to it but the impact isn't too big. But if you wait for a long time then you can get into issues and so what fundamentally I think you have to do is allow early companies to basically move fast and break things. Because the risk isn't too big 'cause you can't actually harm that many people, it's very localized. But when companies get a lot larger then you have to put in a lot more regulation around them because now there's a systemic risk that they have. Whether that is Facebook with data breaches or even a more traditional company like BP with their oil spill. When you're drilling your first hole for oil, the risk to the environment is very big. When you're one of the largest oil companies in the world your risk becomes very big.

- There's our second break. We'll be back in a moment.

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- I'm going back to my original question. I sort of hear you say, well, yes entrepreneurs can change the world and we have to give them kind of free reign to a point.

- Yeah.

- It is a, a double edged sword in some ways, isn't it?

- A 100% it is. It's not an easy answer.

- No.

- And it's not easy policy.

- But is it within capacity of entrepreneurs to be able to respect all of that or do they get driven by just the desire to create this thing and with dollar signs in their eyes?

- Yeah, I mean I think that's an interesting question. From the entrepreneur standpoint, generally speaking they're motivated by some desire to impact the world. It's not just they see a bunch of dollar signs. They wanna do something to help people.

- But that's a new concept. You go back, I remember when I was first in school studying the Conversations That Matter is an Oh Boy Productions program.

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art of advertising. And I was told by the instructor, the CEO of General Motors, I stood up and said you know, a lot of people think our job is to make cars, it's not. Our job is to make money. And that was the mantra then.

- That's true, yeah.

- But it's not anymore, is it? If we want to create the kinds of corporations that are going to be sustainable in the future, I think the workforce and society as a whole is saying, no you have to be creating something of value.

- Yeah, a 100%. And part of that is also for the entrepreneur, so from the entrepreneur standpoint, there's generally speaking no way that money is gonna be enough of a motivator for them to take this massive risk that they're doing. So from an intrinsic standpoint they really have to believe in what they're doing, because there's no way they're gonna work a 100 hours a week for 10 years to try to see the light at the end of the tunnel if it's just for a dollar sign. They can probably go, I'll get that elsewhere with an easier job. So it's often from a motivated standpoint about trying to do something and of course it has to make money at the end of the day otherwise it's just not sustainable. It's like some sort of Ponzi scheme, I can make a business that collects quarters and sells for nickels but at the end of the day I'd run out of money.

- So one of the roles of government is, you pointed out, is to be a little bit of an oversight,

- Yeah.

- especially when you get to a certain point. Government has to find that delicate balance between, okay, I'm gonna let you run here, but then I'm gonna start to reign you in a little bit once you get to a certain size. It's in the this size here. You know, Angus Reid once pointed out in a book that he wrote, Everything I Learned About Business I Learned From a Canadian.

- Yeah.

- Fascinating book.

- I'll have to read it.

- And he talks about the level of innovation that we have here but how difficult it is to grow. So what becomes the role in government in being able to create the kind of environment that says, okay, I understand the struggles of small business and I also understand what I need to do to keep you motivated as you grow. What are some of those key elements?

- That's a good question. I think to start out you need to have a regulatory environment that makes it easy to start the business. Step one, obviously. So you need to be able to start the

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business easily. You need to be able to access capital easily. And so whether that is being able to have like in California, you have basically a one page term sheet that allows you to raise money. And Canada it's a 30-page subscription document. It's very difficult.

- It's onerous and becomes expensive.

- It's onerous, it's expensive.

- Because you need help, professional help.

- Yeah, so you almost need to raise money just to raise money. But you have to pay for corporations and all these thing and it gets burdensome. And then as you develop, one thing that other countries do is they help to foster international capital as well. So if you look at an example like Singapore is kind of a weird example, because on one hand it went from basically a Third World country to one of the highest per capita GDP places in about 25 years. But on the other hand it also gets a lot of criticism for being a nanny state. And so it's kind of this balancing act. I think the nanny state is just a fact of its history and had to basically become a communist to exist. But what it did was bring in a lot of multinational companies and a lot of foreign investment. And so they would have people go out to other countries and say, hey, we're a great place to invest in. Give us money, give our companies money. And what that does it it puts you on the map because a lot of people, Canada's a small place. I mean, you got thirty-something million people. It's basically the same as asking a Canadian if they invest in Norway? Probably not. But if Norway delegations come here and you start to support that then it becomes a lot more of an obvious thing to do and it helps to bring in more capital. Because Canada with its limited population has limited capital as well.

- Is the government doing that of your evidence? Because I'm sure that there are people who say, you run trade missions all the time.

- All the time, yeah. They do it to a degree but I don't know how actually successfully that they've been in it. And part of that could be where they're focusing on. So if you're focusing on Silicon Valley, they're probably not gonna do it. There's enough companies, there's enough capital there, like they're fixed. So part of that is about where are you gonna be accessing capital? And then part of that as well is bringing in, and actually the government's probably done a reasonable job of it, bringing incomings like Amazon and larger companies here. Because what that does is after a while those senior level employees, they make a decent clip of cash and after a while they don't wanna work for Amazon anymore, they wanna start their own company. And they actually have funding and they have the skillset to be able to do that and it kind of creates this trickle down that helps.

- Well and hopefully they'll wanna stay here.

- And hopefully they'll wanna stay here which is a risk as well.

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- Well sure, because the cost of bringing in staff for your own startup in a place like Vancouver is exceptionally high.

- It's exceptionally high. You have high taxes. You have an very high standard, or sorry, cost of living. You also have a high standard of living but the cost is very high. And you have a currency that if you're trying to recruit from America, the currency doesn't really work very well.

- Third and final break. We'll be right back.

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- Let's wrap this up by saying what you think the future of innovation is in Canada and in Vancouver in particular under the current regulatory regime?

- I'm optimistic, I think I have to be. I think what we'll see is successful companies have the year of the government which is good. But also there is the consumer side of this, so companies like Uber, consumers got fed up enough and they do vote with their votes, right. So they will eventually boot out people. So if looking at the future of the city and the city of the future, that's kind of a longer timeframe where these issues actually rack up. And eventually you have a governmental change in favor of what the consumers want. And when the consumer demand for something is so high it does change. And then the other piece of that is successful companies, the government does ask them what can I do to help? Whether they actually implement it's different but they certainly do ask. And so as we do have more successful companies, they will be asking what can we do to help? And hopefully these companies are saying we need easy access to capital? We need easier startup costs? We need more freedom to be able to develop innovation without any sort of political involvement like you have with a company like Uber or Airbnb, where they have political issues basically hindering their ability to perform.

- I'm beginning to think that a small business person or a small entrepreneur is the kind of person who figures a way of living within the rules. I don't think most people wanna break the rules but they find another way of realigning the blocks to make it work. Because when you look at the way that it's structured you go, well, why would I bother?

- Small businesses are the number one employer in North America. And these are often the people that are forgotten. I mean, we've spent a lot of the time kind of chatting about very innovative companies and startups but a lot of small businesses, they're not taking on outside capital. They're homegrown, they're employing five, 10 people. And those are actually the guys from an employment standard that matter quite a bit, because they're the ones

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supplying all the jobs. They're paying the majority of taxes and they're high taxes that they have to pay. And they have very stringent hiring policies, firing policies, it's not easy for them to grow and shrink with the whims of the economy which is something that you actually have to be able to do, regulation.

- I know, I think the regulations have actually made it very difficult for a small business person to say, I'm gonna hire someone. Who wins here? I think nobody. People aren't getting hired. Businesses aren't growing. Opportunities go missing and we're forcing more and more people out into a gig economy when we don't need to do that.

- Yeah, I understand.

- I think it's the regulations of the government are putting so many restrictions on a small businesses. 'Cause its as though they don't understand what it takes to run a small business.

- Yeah, well they've never run one before. So they think from this top down side where they're thinking, oh well, I know what's best for you because of whatever I studied and because I'm a politician. But at the end of the day they've never taken those risks before. They don't have any skin in the game where they're actually running these companies and going hey, you know what? It's kind of hard to hire somebody sometimes. Then if I fire them I'm giving them exit interviews. I have to document all this stuff about what they did wrong? I can't just say, hey, I can't afford it anymore, you're gone. It's worse on both ends. One, you have a limitation on economic growth and two, the people you're trying to help are actually pushed out and then they lose benefits.

- But we remain hopeful. We remain hopeful. Thank you very much for coming in and sharing ideas.

- It was a pleasure.

- I don't know that we solved anything here but we're--

- One day at a time.

- We're putting it out there for discussion.