



PEPPERDINE | GRAZIADIO BUSINESS SCHOOL



ON RIGHTSIZING REGULATIONS TO FOSTER KNOWLEDGE AND INNOVATION FOR BUSINESS PERFORMANCE: PERSPECTIVES FROM ELITE EXECUTIVES

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Researchers:

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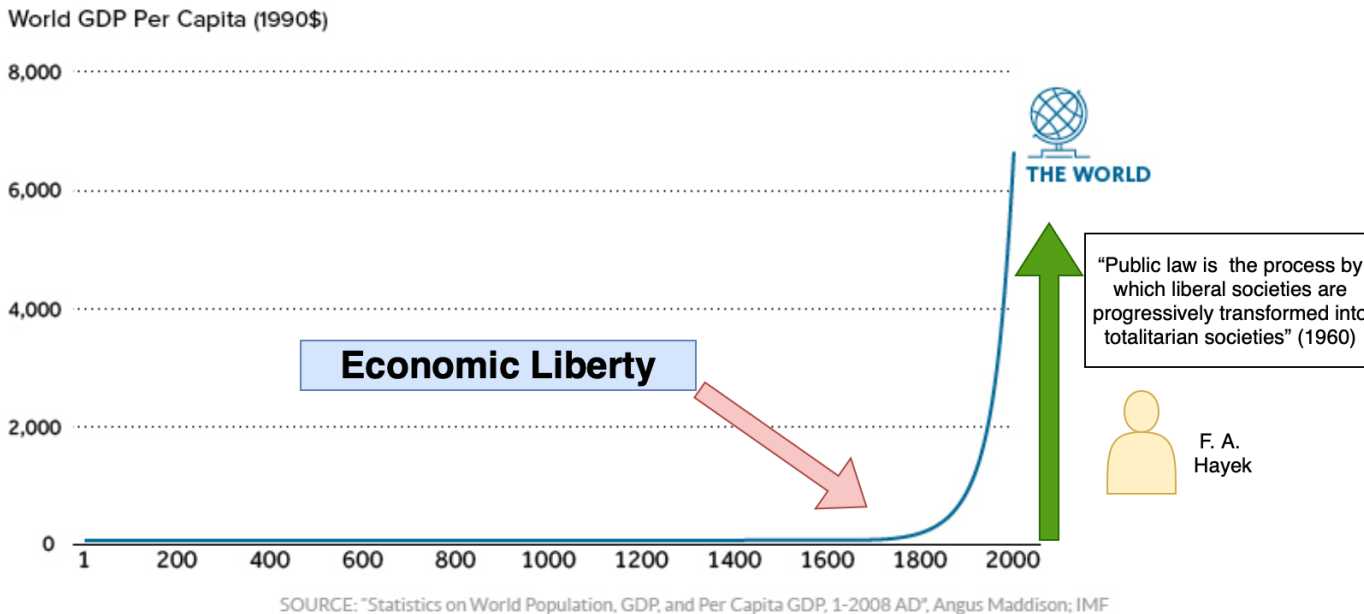
Dr. Nelson Granados

Entrepreneurialism, Consequential Knowledge & Hayek

Economic Liberty, the core of liberty (Smith, 1932), created more economic and civil elevations than all other forms of business governance combined (Boaz, 2015).

Entrepreneurialism: Neutral Regulations ↑ Competitive Free Markets + Equality of Opportunity + Sovereign of the Individual →

Consequential Knowledge → *Entrepreneurial Innovation* ↑ *Economic* ↑ *Societal*



Administrative State Consumes Consequential Knowledge

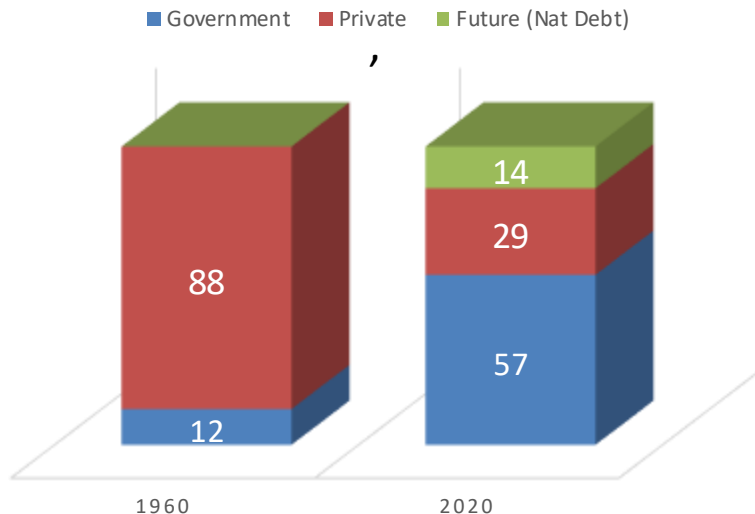
Administrativism: regulations replace entrepreneur, knowledge, and property with financialization

Financialization ↓ **Knowledge** ↓ **Economic** ↓ **Societal**

Since 60's, Regulations ↑ 900%, GDPg ↓ 4.8% to 0%, and Standard of Living ↓ 58%

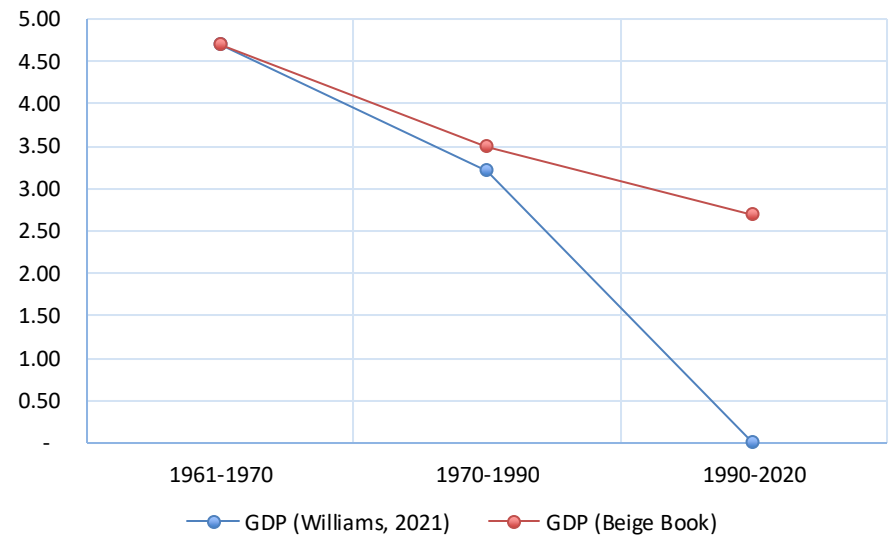
Consumption Side of GDP ↑ 400%, and the Productive Side of GDP ↓ 66%

USA COMPOSITION OF GDP



Source: Macrotrends, 2021; Federal Registry

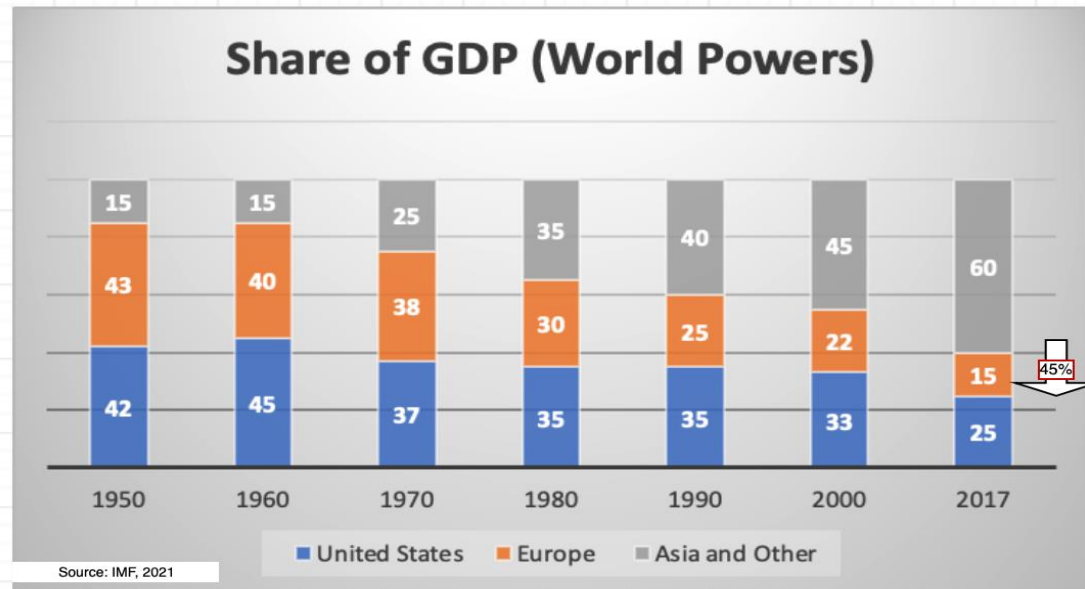
USA NOMINAL GDP GROWTH



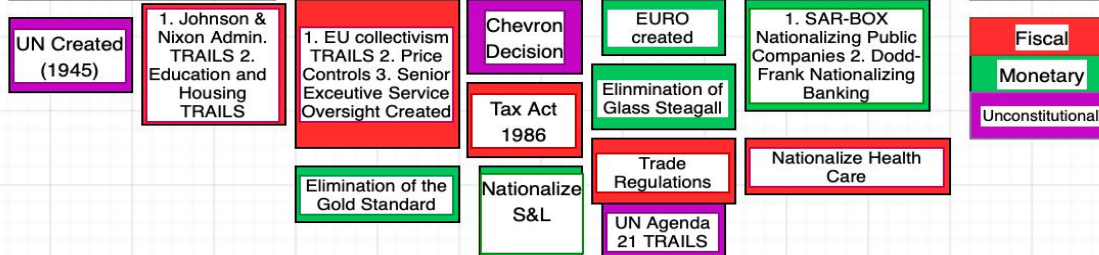
Global Impact

USA most innovative country and best at diffusion.

WSUSGDP 45% ↓ → WGDPg 25%



Exemplars TRAILS by Decade



Purpose & Method

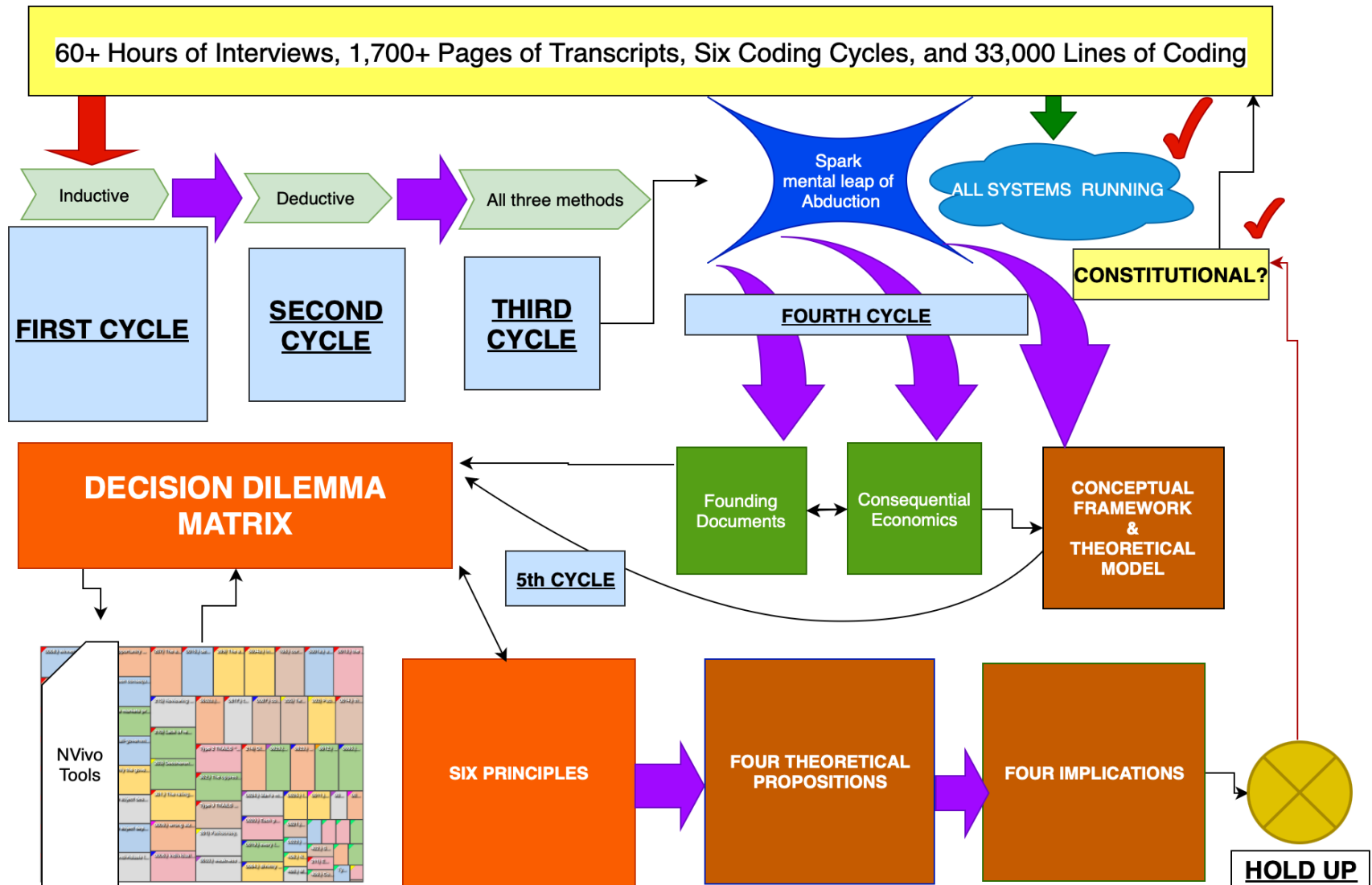
- Purpose
 - Where is the regulatory environment relative to Hayek's portentation?
 - Understand the impact of regulatory phenomena on business performance from the perspectives of elite executives who, due to their position, have unique knowledge.
 - **TRAILS: Tax, Regulation, Assessments, Inflation, Legal, Subsidies**
 - Develop prescriptive guidelines for right-size regulations.
 - Reverse the epistemic polarity of the phenomena.
- Method
 - Grounded Theory research based on **open-ended interviews of elite executives**.
 - Provided flexibility for knowledge creation from qualitative data and vast interdisciplinary literature and sources

Study Population, Sampling & Data Collection

Six centuries of experience, \$4 trillion in assets, 91 % of industries

<i>Details of Elite Executives Interviewed</i>	
<i>Category</i>	<i>Total</i>
Number of elite interviews	17
Collective years worked	Approx. 650
Collective Market Cap	\$ 4 Trillion
Average Age	52
Ave different industries	6
Ave number of degrees	2
VP or higher	All
Industries represented (SEC - SIC codes A - K eleven)	Ten
<i>Companies represented:</i>	
AARAMCO, Activision, Blizzard, CBRE, Charles Schwab, Comcast, Disney, Drexel Burnham Lambert, Ernst & Young, First American Financial, Fortis, FUTU, Goldman Sachs, JLL, Keck Medical, Koll, Kenneth Leventhal, Lehman Brothers, NBC MCA INC., Nestle, UCLA Medical Center, MGM, Mills Corp, Price Waterhouse, Sheppard Mullin, Six Flags, Technicolor, Trammelcrow, Universal Music, Universal Filmed Entertainment, Universal Studios, WWE Zurich. Smaller public and private companies is the pharmaceutical, gaming, gambling, on-line retail, FINRA compliance, health care, real estate, bricks and mortar retail, data centers, broker dealer, private equity and angel equity companies.	

Data Methods & Analysis



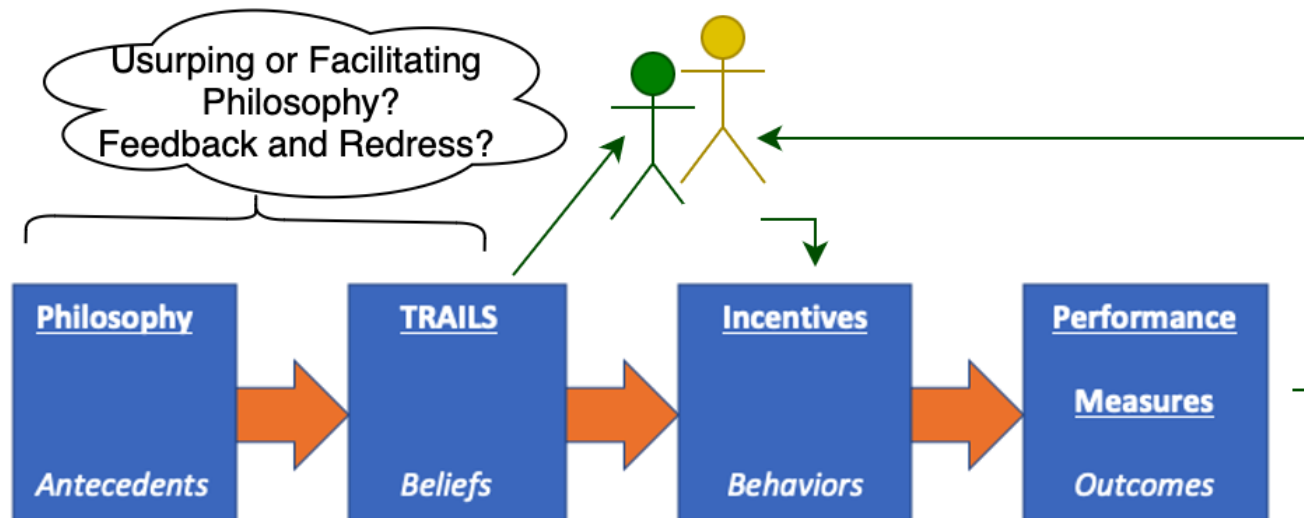
Findings

Theory-based tools, guiding principles, propositions, and implications on right-sizing of regulations for a healthy business environment

Collectively termed “Systemic Entrepreneurialism.”

Conceptual Framework (adapted from Edmondson, 1999)

ABBO: Antecedents-Philosophy > Beliefs-TRAILS > Behaviors-Incentives > Outcomes-performance measures



Executives and entrepreneurs:

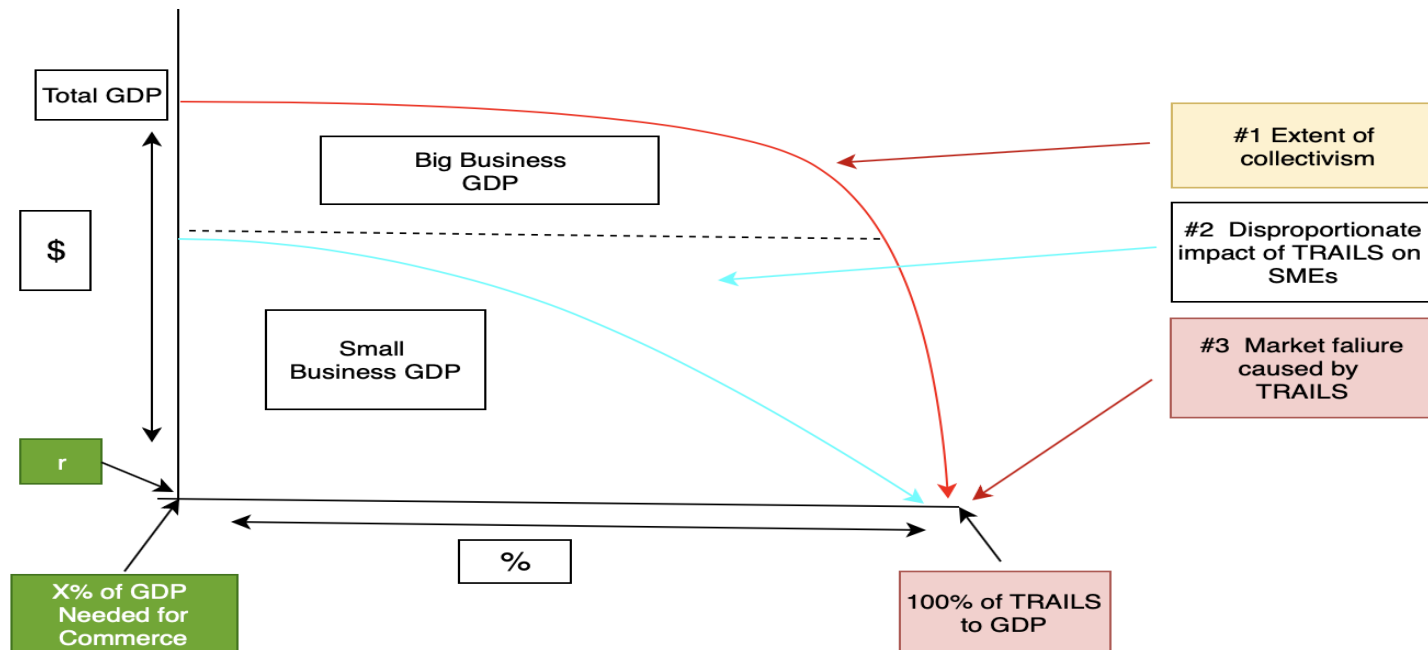
- Provide dynamism to the complex regulatory phenomena.
- Dynamism is indeterminate and temporal

Theoretical Macro Model

The goal of right-sizing TRAILS; the risk of not right-sizing TRAILS

90% of TRIALS are not right-sized for the business environment, per the study.

Only oligarchs, financial elites, and the Government and their agents and agencies can get legislation enacted (50% of the time) or stop legislation by others (100% of the time).



Decision Matrix for Right-Sizing TRAILS

- 1) **Umpire.** Facilitates commerce
- 2) **Cobra.** TRAILS with good intentions have unintended adverse consequences
- 3) **Broken Windows.** Intervention with negative effects on the business environment or bad inaction.
- 4) **Chillax.** A fan in the stands, not a player nor arbiter. Good inaction.

Appropriate?

YES

NO

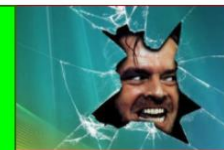
Right-Sized TRAILS in Green; Wrong-Sized in Red

TRAILS Enforced

Uneven Enforcement or Inaction



UMPIRE



Broken Windows



COBRAS



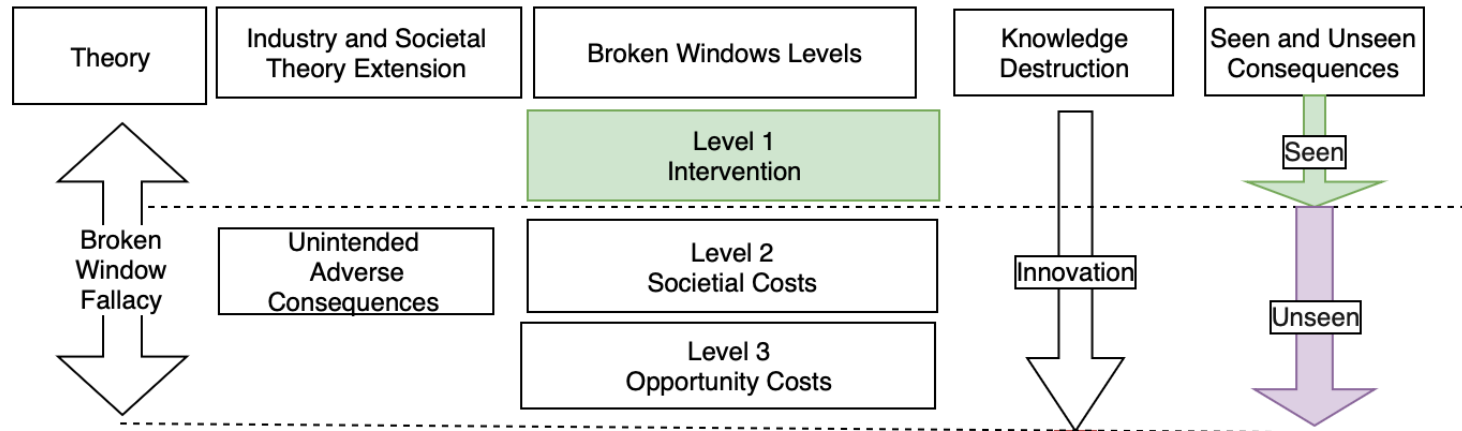
Chillax



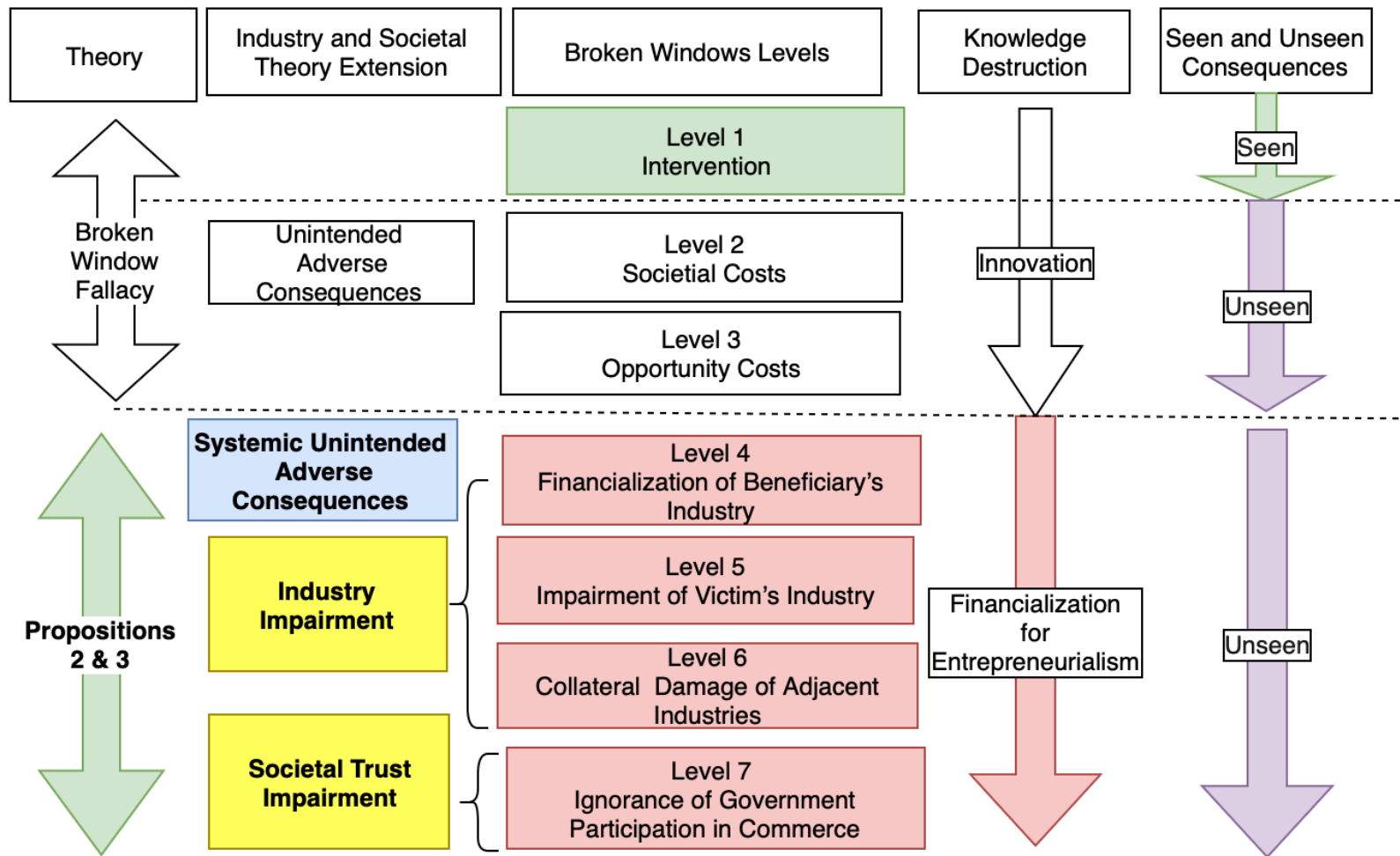
Principles, Propositions and Implications

Principle	Theoretical Proposition	Practical Implications
1. Knowledge Creation	1. The incentives and business performance outcomes generated by TRAILS must be considered for TRAILS right-sizing.	1. Develop polycentric communities for industries for right-sizing TRAILS and Government.
2. Unintended Consequences	2. TRAILS right-sizing can only happen by considering unintended consequences.	
3. Ignorance	3. Unintended consequences from TRAILS can inhibit innovation.	4. The business environment must right-size monetary TRAILS before Fiscal TRAILS can be right-sized completely
4. Market Forces		3. Government should privatize its interest in all noncore charter businesses.
5. Micro-Inaction	4. Government inaction can lead to wrong-sizing	
6. Winner–Loser		2. Eliminate government from picking winners and losers

Systemic Extension of Bastiat's Fallacy (1 of 2)



Systemic Extension of Bastiat's Fallacy (2 of 2)



Future Research & Limitations

Limitations

- Did not include government officials.
- Did not address praxis.

Future Research

- Deepening understanding of how to implement systemic entrepreneurialism.
- Develop guidelines for government and praxis for implementation.



Thank You

Principles, Propositions, Implications & Alignment

